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A tough decade

The South African retail industry has not been a rewarding place to have been invested in over the last few years, with many of the listed retailers having performed poorly over most time periods in the past decade [Figure 1 and 2]. Some shares are trading at similar levels to where they were 15 years ago, and sentiment towards the entire sector is currently very negative. After years of weak consumer growth, valuation compression and self-inflicted mistakes, shares in the sector have been heavily beaten down and we believe that there are some good investment opportunities.

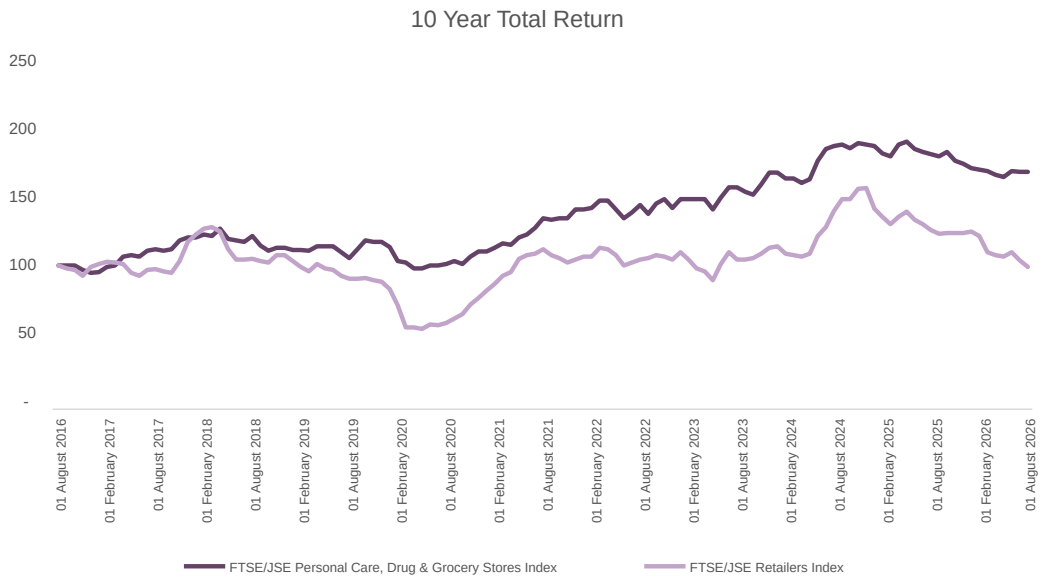
Figure 1 Total return over the last 10 years

Food and Drug Retail							
	Shoprite	Spar	Pick N Pay	Boxer	Woolworths	Clicks	Dis-Chem
1 Yr Total Return	20,7%	-64,0%	-30,6%	13,5%	-13,7%	-45,2%	-15,3%
3 Yr Total Return	26,8%	-62,0%	-35,4%	N/A	-34,3%	-21,8%	24,4%
5 Yr Total Return	93,9%	-79,6%	-57,8%	N/A	-15,2%	-26,1%	2,2%
10 Yr Total Return	113,3%	-73,7%	-60,7%	N/A	-22,5%	102,7%	N/A

Apparel Retail					
	TFG	Mr Price	Truworths	Woolworths	Pepkor
1 Yr Total Return	-51,2%	-17,2%	-16,8%	-13,7%	-20,8%
3 Yr Total Return	-46,3%	40,9%	-20,7%	-34,3%	29,0%
5 Yr Total Return	-57,6%	-2,2%	22,7%	-15,2%	-0,1%
10 Yr Total Return	-38,1%	29,7%	20,6%	-22,5%	N/A

Source: FactSet; Bloomberg, as at 31 August 2026

Figure 2: Price performance



Source: FactSet; Bloomberg, as at 31 August 2026

A fragile consumer recovery

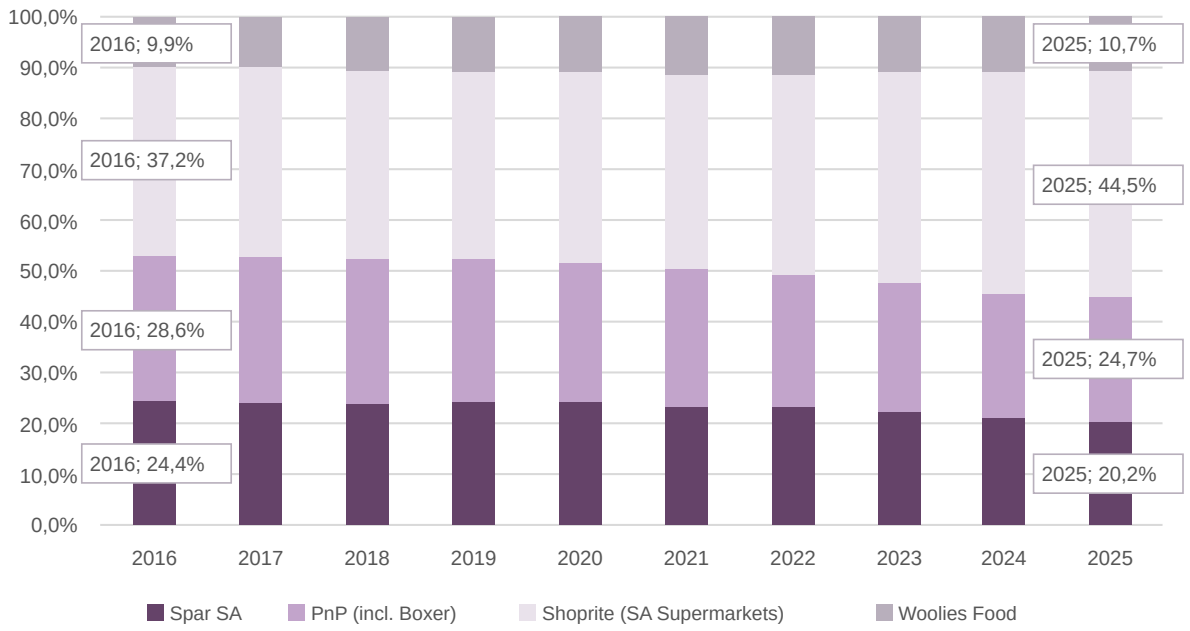
For most of the past decade, South African retailers have operated against an extremely difficult macro backdrop. As the local economy remains constrained by structural issues that restrict growth, the average consumer continues to be under enormous pressure – unemployment remains high (with the official rate at 33.6% in Q2 2026), and real GDP per capita remains below its 2013 peak. As a result, retailers have been forced to compete for share in a largely stagnant market, leaving little room for volume growth whilst margins come under pressure as fixed costs become harder to leverage. More recently, the macro tailwind from lower inflation and rate cuts has started to fade, and the US-Iran conflict has resulted in higher fuel costs and higher inflation. This resulted in the SARB raising rates at the end of May and highlights just how fragile the consumer recovery is. The further squeeze on disposable income is unwelcome news for retailers and investors alike, with share prices coming under further pressure.

Food retail: Shoprite widens the gap against peers

a. Shoprite

Despite the unfavourable economic environment in South Africa, Shoprite has shown how innovation, execution, and the benefits of increasing scale in retail can give one an advantage over competitors. Whilst they may have gotten lucky with the timing of their Sixty60 launch (a couple of months before the start of the pandemic in 2020), Shoprite took full advantage of this fortuitous timing and used this opportunity to take market share, grow their brand presence, and drive their on-demand offering to scale. Sixty60 continues to grow at a rapid clip (34.7% in their latest FY26 results) and now generates c.R25.5bn in revenue (accounting for c.9.4% of Group revenue). In FY26, Sixty60 alone generated more incremental revenue (c.R6.6bn) than any of the peers! Shoprite's execution has been almost flawless, but they have also benefited from the missteps of peers, Pick 'n Pay and Spar. The struggles of Pick 'n Pay and Spar are also great case studies in terms of how incredibly difficult the food retail business is, and how fragile retail moats can turn out to be when execution slips [Figure 3].

Figure 3: SA food retail market share*



**Note the above figure assumes the four companies make up 100% of the market*

Source: Perpetua Research

b. Pick 'n Pay

Pick 'n Pay's underinvestment and lack of strategic clarity led to a rapid decline in business performance and the urgent need to raise capital, which included selling some of its stake in star performing asset, Boxer, to survive. They are now in the middle of an incredibly difficult turnaround, which has seen their breakeven margin target pushed out by another year, as well as a further sale of their stake in Boxer as Pick 'n Pay burns through cash. Turnarounds of this nature are inordinately difficult even in the best of circumstances and become far harder when dominant competitors (Shoprite and Woolworths Food) continue to execute with precision.

c. Spar

Whilst Spar is a wholesaler as opposed to a retailer, their fortunes have also taken a major knock as they have been mired in corporate governance concerns, distractions from poor offshore acquisitions, and a problematic SAP project that has seen management take their eyes off the ball in a very competitive local market where they continue to cede share to the likes of Checkers and Woolworths Food.

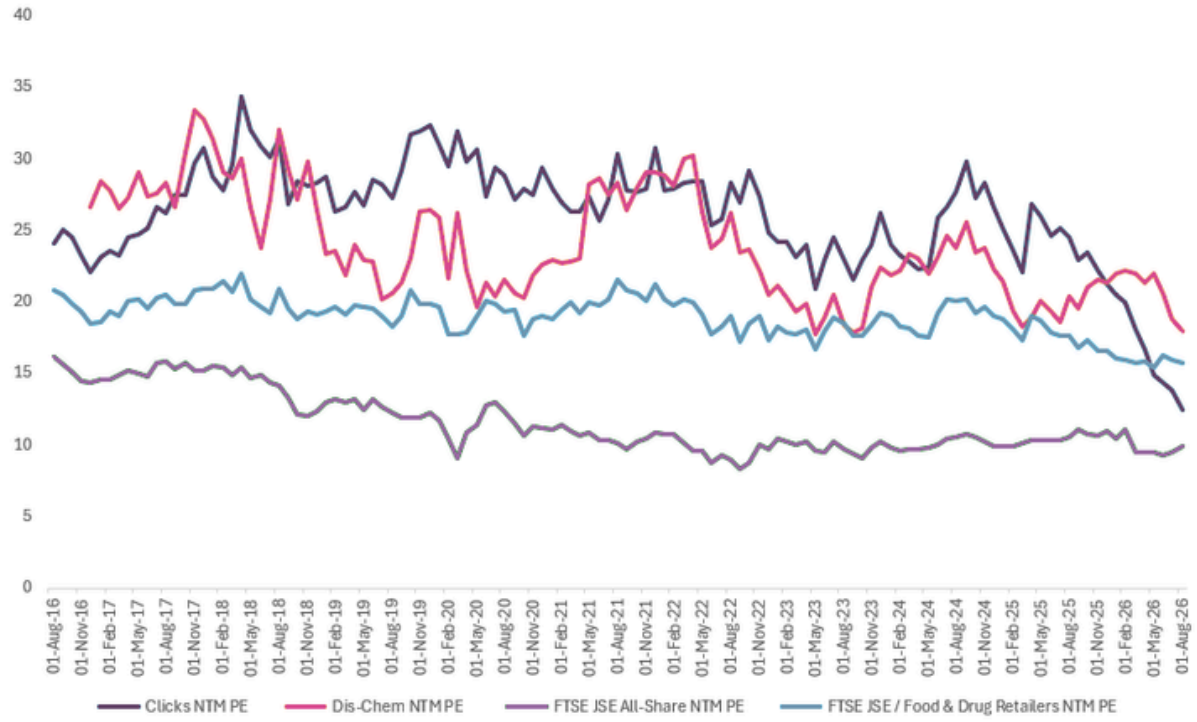
The SAP rollout has impacted the Group's KZN region, where deteriorating service levels to retailers has led to lower loyalty rates, resulting in lost sales and a decline in profitability. Having exited their underperforming businesses in Switzerland and Poland, and with a new management team in place, Spar's focus must return squarely to repairing the core South African business. The upside from this self-help story could be meaningful, but realising it will require disciplined execution, and a more favourable consumer environment.

Drugstore retail: quality under pressure

The drugstore/pharmacy retail sector has historically been one of the more attractive areas of South African retail: defensive business models with high levels of repeat purchase, and a long runway for independent pharmacy consolidation with attractive returns on capital.

This has seen businesses like **Clicks** and **Dis-Chem** trade at significant premiums compared to the rest of the retail sector and the overall market [Figure 4].

Figure 4: Forward P/E multiples of Clicks, Dis-Chem and JSE indices



Source: FastSet, Bloomberg

Recent evidence suggests competitive intensity is increasing. Dis-Chem has overhauled its rewards programme, an area where Clicks has executed so well over the last decade. This has raised concerns that the sector is entering a price war that will likely pressure earnings growth over the next couple of years. Whilst the shorter-term earnings profile may be more uncertain, the long-term structural opportunity has not disappeared: Clicks and Dis-Chem together now account for roughly half of South Africa's pharmacy market, up from c.43.5% in 2017, while the independent channel remains fragmented.

d. Clicks

Despite the increased competitive offering from Dis-Chem, Clicks' moat remains meaningful. ClubCard members accounted for 82.6% of FY25 sales, while private-label and exclusive products made up 30.6% of front-shop sales. Clicks has recognised the threat posed by Dis-Chem's new rewards programme and responded with promotional branding in certain stores, offering customers an instant ClubCard saving of 10%.

e. Dis-Chem

Dis-Chem's Better Rewards offers immediate point-of-sale savings, making its value proposition more tangible and visible to customers. A J.P. Morgan pricing survey in July, which tracked a 33-item branded basket alongside a promotional basket, found Dis-Chem's branded basket to be 5.8% cheaper than Clicks' before rewards. Promotional participation was also higher at Dis-Chem, at 66.7% versus 51.5% at Clicks.

f. Shoprite

Perhaps a bigger long-term threat is increasing competition from Shoprite, which has a growing pharmacy presence through its Medirite brand. As consumers increasingly value convenience, the Sixty60 app has become habitual for many shoppers.

Shoprite is well positioned to use its fast-growing on-demand platform to expand its product offering. Investors are taking a cautious approach to these competitive threats, and Clicks has traded at its lowest forward earnings multiple since 2010. We are also likely to see increased volatility in both Clicks and Dis-Chem's share prices in the near term as the market assesses the sustainability of Dis-Chem's rewards programme and whether Clicks' response is sufficient.

Apparel and homeware retail: fighting for share of a stagnant wallet

The apparel and homeware sector has always been the most competitive retail sector, with much lower barriers to entry compared to the food and drug sector. Over the last few years a number of developments have made the operating environment that much more challenging: the consumer remains constrained, with industry participants fighting for a share of a stagnant pie. There has been increased competition from online retailers such as Temu and Shein, and there has been a significant rise in online gambling and betting that has taken share of wallet away from retailers that sell discretionary products like clothing and shoes. This has resulted in the management teams of these retailers searching for growth via acquisitions, and we have seen an increase in corporate activity over the last few years. Since 2021 TFG, Mr Price and Pepkor have spent approximately R15bn in total on acquisitions (this figure increases to c.R26bn when including Mr Price's final 15% buyout of Studio 88 and their NKD acquisition).

g. Pepkor

Pepkor appears to be well positioned in the current environment given its low-price model that serves the value-conscious consumer, however their credit-driven growth strategy over the last couple of years does introduce a level of fragility to the investment case. As they look to evolve from an apparel retailer into a broader consumer platform with a financial services offering (including the launch a bank), execution risk has also increased.

h. Mr Price

Mr Price remains one of the higher quality apparel retailers – with a strong value proposition and a cash generative business model that has historically earned superior returns on capital. However, the recent acquisition of German value retailer, NKD, has changed the market's perception of the company, increasing both execution and capital allocation risk. Investors remain sceptical of the transaction with the share price falling 20% in the week following the announcement. Management will need to show that this deal can generate adequate returns and avoid the value destruction that has defined many South African retailers' offshore expansion efforts over the past decade.

i. TFG

With perhaps the weakest capital allocation track record of all the SA apparel retailers, the current operating environment has forced TFG's management to re-think their growth strategy (which has come at a substantial cost) and focus on improving profitability and reducing complexity. As per the latest trading update in August, management expect to close around 165 stores in the current financial year, followed by a further 100 stores in each of the following two financial years. This is another self-help story and will require strong execution and disciplined cost management. Given the discretionary nature of their product offering, the macro environment going forward will also play a big role.

j. Truworths

Truworths is a mature business that has taken a more conservative approach to growth over the last few years and therefore has a much more limited growth profile. With the share trading on a dividend yield of 10.4% and forward earnings multiple of just 6.3x, the market is discounting no growth for this business going forward.

In a more competitive apparel market, management needs to prove that the business can remain relevant to a consumer that has become more value conscious.

Portfolio positioning: selective exposure to quality and self-help

We believe the opportunity set in the retail sector is compelling at the moment, with many of the stocks trading at valuations that we haven't seen since Covid, or in some cases for the last 10-15 years. Despite the challenging conditions these companies are facing – some of which are their own doing, and some of which are linked to the operating environment – we think many retailers are now trading at prices which seem to suggest that the current weak consumer environment persists indefinitely. We believe there are some attractive self-help investment stories, but they do carry elevated execution risk, which is reflected in our position sizing. In a weak trading environment that may persist for some time, one would want to be exposed to the most durable companies that can take control of their destiny and whose futures are not determined solely by the external environment.

We have therefore been using the recent weakness over the past few months to increase our exposure to the higher quality names such as Clicks and Shoprite, while retaining exposure to Spar, Woolworths, Mr Price and TFG.