The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

X5 Plans to Open More Stores

By The Moscow Times

November 28, 2010

Domestic grocer X5 Retail Group said Friday that it is ramping up its 2010 store-opening plan amid a continued consumer recovery and is preparing to unveil an even more aggressive strategy for next year.

"X5 ... now expects to exceed its store-opening plan with 250 to 300 discounters, 20 supermarkets and 10 hypermarkets, while maintaining capital expenditure below the 18 billion ruble [$577.1 million] limit for 2010," X5 said in a statement.

The retailer added that it was preparing for a "significant step-up" in plans and was finalizing targets.

The company is currently negotiating the acquisition of a smaller chain, Kopeika, and X5 chief executive Lev Khasis said on a conference call that the 2011 guidance would depend on the outcome of those talks.

The deal for Kopeika, also seen as a potential target for U.S. Wal-Mart, could add more than

600 stores and upward of 50 billion rubles in annual sales.

"We are well on track to deliver on X5's 2010 sales outlook, with a recovery in consumer spending and 'trading up' trends becoming evident as we head into the end of the year," Khasis said.

The company, which posted a higher-than-expected 9 percent rise in third-quarter net profit, had previously said it would open 200 to 250 Pyatyorochka discounters — its biggest and best-performing format.

Consumer sentiment has been on the rise because of broader economic recovery, despite the latter having been slowed by a record summer heatwave. Official data show that Russian retail sales grew 2.9 percent in October compared with the previous month.

The new guidance from X5, part of Mikhail Fridman's Alfa Group, is in line with analyst expectations. Citigroup had forecast 300 Pyatyorochka openings for full-year 2010 and 400 in 2011.

Khasis told the Reuters Russia Summit in September that he would recommend that the supervisory board approve a major increase in capital spending for 2011 to achieve "a significantly higher rate of organic growth than we currently have."

X5's London-listed shares closed 1.76 percent lower in London on Friday, at $38.51, in line with rival Magnit, which fell 1.44 percent to $26.6.

X5's net profit rose 9 percent year on year to $79.6 million for the three months ending with September, above the $71.3 million average forecast in a Reuters poll.

But it missed the average core-profit forecast, reporting earnings before interest, taxation, depreciation and amortization of $194 million, with an EBITDA margin of 7.4 percent — compared with analyst forecasts of $207.2 million and 7.9 percent.

The result was eroded by higher staff costs, including salary indexation and a one-off bonus for in-store employees as motivation during the heatwave in July and August.

It also contrasts with faster-growing Magnit, which sees a 2010 EBITDA margin at no less than 8.2 percent compared with the 8.05 percent it managed in the first nine months.

X5 reiterated a full-year 2010 outlook for net sales growth in the low-20 percent range from $8.7 billion in 2009.