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X5 Retail Sees 2011 Sales Up 40%

By The Moscow Times

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X5 Retail Group said Thursday that it expected 40 percent sales growth in 2011 — twice as much as this year — thanks to its acquisition of rival Kopeika and the recovering economy.

Russia's consumer market is recovering steadily after being hammered by its worst recession in 15 years, with renewed growth potential leading to high-profile merger and acquisition deals such as PepsiCo's acquisition of Wimm-Bill-Dann.

X5, Russia's top food retailer by sales and part of billionaire Mikhail Fridman's Alfa Group, said it expected sales to top 500 billion rubles ($16.3 billion) next year and reiterated that 2010 revenue growth would be in the low 20 percent range.

The guidance came after the world's biggest retailer, Wal-Mart, appeared to have given up attempts to enter the market.

The U.S. company closed its Moscow office this month, shortly after X5 announced its Kopeika deal.

"We are on track to deliver on X5's 2010 outlook ... supported by a recovery in consumer spending and trading-up trends in the fourth quarter," chief executive Lev Khasis said. "This is the right time to further accelerate growth."

Khasis said in September that X5 aimed to invest as much in opening stores as any Russian peer.

"The 2011 outlook announcement has brought much-needed visibility, as a lack of certainty about X5's 2011 organic plans was an investor concern," said Mikhail Terentiev, analyst at Nomura.

X5, which paid $1.65 billion for the near 700-store Kopeika chain, said it would use about 55 percent of its planned 40 billion ruble capital expenditure for new store openings next year.

The rest will be spent on Kopeika integration, maintenance, reconstruction, IT and logistics, X5 said.

"On the one hand, beefing up the operational platform is crucial for X5, and a likely lack of required infrastructure investment next year was one of my worries," Nomura's Terentiev said. "On the other hand, high capex places extra pressure on the balance sheet, meaning that it will take longer than expected for X5 to deleverage itself."

Rating agencies Standard & Poor's and Moody's earlier said they might downgrade X5 because of uncertainty over the company's credit profile following the acquisition that was financed with debt.

"Ideally, it would be better for X5 to do an additional share issue and lower debt," said Troika Dialog managing director Viktoria Sokolova.

Khasis said X5 did not plan to attract equity financing for the capex program — which will increase from around 18 billion rubles in 2010 — but could use this tool if it sees another attractive acquisition target.

X5 will open up to 545 new stores next year, including 500 in its main discounter format — a record pace of organic growth that the company has ever had.

Magnit, controlled by chief executive Sergei Galitskiy, plans capex of $1.3 billion next year.

X5 said it had appointed Mars Inc.'s Kieran Balfe as chief financial officer, effective Jan. 11. Balfe played a major role in merging the Russian operations of Mars and Wrigley.

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