The Moscow Times
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Alcohol License Delays Slow O'Key Growth

By The Moscow Times

September 01, 2013

Food retailer O'Key on Friday cut its 2013 revenue growth guidance for the second time this year, citing a slow pace of store openings and delays in getting alcohol licenses.

Fast-growing Russian grocery chains have won fans in the investment community, but the premium valuations they have come to command have been questioned amid a broader sell-off on emerging stock markets.

And although retailers' sales growth still outpaces their European peers, Russia's economic slowdown has tested the financial health of consumers and raised doubts over whether ambitious sales and profits targets can be met.

O'Key now expects to increase sales by 19 to 22 percent this year, compared with 26 percent in 2012. In April, it had already cut its forecast to 21 to 25 percent from 24 to 28 percent.

The retailer said it had opened three stores so far this year and hoped to open another seven by the end of the year, bringing total new openings to 10 in 2013 after 12 last year.

"New stores are opening later than initially planned, and all Q4 stores are moving closer to December," said Maxim Kravtsov, the company's investor relations director. The company blamed the slow pace of openings on red tape in obtaining the required government permits.

Kravtsov said stores that opened in new premises during 2012 still operated without an alcohol license in the first half of 2013, affecting revenues.

The issue will not affect profitability significantly, he said, confirming a forecast for 2013 core profit margin — an important indicator of retailers' efficiency — of 7.8 to 8 percent.

The margin on the basis of earnings before interest, taxation, depreciation and amortization, or EBITDA, stood at 6.6 percent in the first half, O'Key said earlier Friday, down from 6.8 percent in the first half of 2012.

It also reported a 10 percent rise in first-half net profit to 1.6 billion rubles ($48.2 million), helped by better purchasing terms, on revenue of 65 billion rubles — up 20 percent year on year.

O'Key, Russia's No. 4 food retailer, said profits growth was held back by higher costs related to expanding its chain of hypermarkets and supermarkets, and forex losses.

It also improved its like-for-like sales forecast to 7 to 8 percent from 5.5 to 6.5 percent after they rose 7.5 percent in the first half, anticipating no slowdown in inflation.

The company has so far seen no big changes in consumer behavior, CEO Patrick Longuet said in a conference call.

"The growth of wages decreased slightly during last month so purchasing power is not that [strong] as a year ago, but for the moment we are satisfied with all our turnover figures," he said.