Global Matters Weekly

6 December 2021

Death of the traditional retailer or just poor operators?

by Matt Connor

The last decade or so has seen traditional retail undergo a structural change. Rapid growth of e-commerce, everchanging consumer habits and increasing competition have all been cited as culprits responsible for the 'death of the high street', but the real culprit is bad management.

The onslaught of the pandemic last year witnessed the highest number of store closures in the UK since the global financial crisis[1], taking down household names such as Debenhams and Topshop's parent company Arcadia Group in its wake. The pandemic isn't wholly to blame for the failure of these businesses though, it was more of an accelerant, bringing forward the eventual demise of these badly run businesses.

Debenhams, for example, had already entered a pre-pack administration in 2019 and had been teetering on the edge on insolvency for a while prior to that, shedding its store estate and recording its largest loss in its 240-year history in 2018[2].Philip Green's Arcadia group suffered a similar fate to Debenhams, with the pandemic being the final nail in the coffin. Despite an ill-fated attempt to save the group with a CVA, Arcadia entered administration 8 months after the start of the pandemic, struck by the questionable management practices of Philip Green that BHS suffered a few years prior.

It is not all doom and gloom in the world of traditional retailers. Two of our holdings, Marks and Spencer and Halfords have proved that age is just a number, and it is possible to adapt to the modern age, despite being formed in the 19th Century. Halfords has undergone a massive transformation over the last few years. It's overhauled its website, expanded its services business and most recently pivoted into the Software-as-a-Service (SaaS) market, by launching its Avayler delivery platform with ATD in the US, ATD will use the software to schedule work and delivery of tires across 80,000 garages in the US. The market has seemed to recognise these positive changes, with the Halford's share price rising almost 30% in 2021 so far[3], combined with a full year profit upgrade and strong performance in the first half of Halford's financial year[4].

The turnaround of M&S has been long and arduous and one that has been tough to endure as shareholders since 2014. Action on shrinking its massive store estate, getting the online proposition right and entering into a joint venture with Ocado in 2019 have all helped to change M&S' fortunes, whilst some rivals such as Debenhams and John Lewis have faltered. Exceptional interim results last month accompanied by a 40% profit upgrade on already increased guidance saw the share price soar, contributing to the 75% increase since the start of the year3. Despite the astronomical rise, we still see a lot of potential in M&S, with a simple 'sum-of-the-parts' valuation revealing 75% upside to the current share price of 240p[5].

The market has failed to recognise value elsewhere in our portfolios, such as Ediston Property Investment Company, which specialises in retail parks and still trades on a discount to NAV despite strong performance across their portfolio. Their last quarter witnessed a 99.9% rent collection rate and NAV total return of over 4%. Footfall at retail parks remained resilient through the pandemic, with essential retailers as anchor tenants and the format enabling social distancing, as well as lending itself well to omni-channel retailing such as 'click and collect'.

As contrarian investors, unloved sectors provide us with a great opportunity to uncover undervalued investments that have been tainted by a negative view of a sector. Employing a bottom-up approach to investing allows us to discover quality, underappreciated investments at unjustifiable valuations.

1 House of Commons Briefing Paper – Retail Sector in the UK, 25 May 2021
2 The Times - Debenhams posts biggest loss in its 240-year history, 25 October 2018
3 Bloomberg
4 Halfords Group plc – Interim Results FY 2022, 10 November 2021
5 Sum of the parts valuation – 18 November 2021 Momentum Global Investment Management Ltd

Belvest 研富

For more information, please contact your adviser or alternatively contact:

Belvest Investment Services Limited
研富投資服務有限公司
9th Floor, Centre Mark II
305-313 Queen's Road Central
Sheung Wan, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
belvest@bis.hk
www.bis.hk

Important notes