Better-than-expected results for Kathmandu

Australian Broadcasting Corporation
Broadcast: 18/03/2010
Reporter: Andrew Robertson

Print Email

Newly-listed retailer Kathmandu has exceeded its prospectus forecasts in its first results announcement since being sold by private equity.

Transcript

WHITNEY FITZSIMMONS, PRESENTER: The plight of investors in Myer's high profile float is well-documented.

Those that put money into the much smaller Kathmandu late last year have done much better, with the share price trading more than 10 per cent above the offer price. Most of that share price gain came today after the retailer posted a half year result ahead of prospectus forecasts.

But some analysts are questioning the company's growth prospects and its ability to make an adequate return for shareholders.

Andrew Robertson reports.

ANDREW ROBERTSON, REPORTER: Some companies benefited from the global financial crisis and Kathmandu was one, as nervous consumers changed their holiday plans.

PETER HALKETT, CEO, KATHMANDU: We had a very successful Christmas sale promotion. There's a trend for people staying and holidaying closer to home and that was as a result of the global financial crisis, people were more cautious and had less money to spend.

ANDREW ROBERTSON: And what money many people did have, they spent at Kathmandu on equipment and clothing for trekking and camping vacations.

Sales were up 22 per cent to $86 million. However, the retailer recorded a loss of $9 million because of the costs of listing on the stock market last November.

When the IPO charges were removed, net profit was just over $3.5 million dollars.

ROGER MONTGOMERY, SHARE MARKET ANALYST: It certainly helps that the company is vertically integrated. It's sourcing, wholesaling and retailing all under the one roof and that's been a big help to its gross profit and net profit margins.

ANDREW ROBERTSON: Kathmandu listed on the stock market in November and unlike Myer, which also floated that month; it's now trading well above its listing price of $1.70.

The latest surge in the share price has been helped by a robust outlook for its Australian business in particular and the fact that the half year result was better than prospectus forecasts.

However, Peter Halkett says the full year result will be very much in the hands of nature.

PETER HALKETT: Being a winter-orientated brand, we need a good cold winter. We have had a variety of weather conditions over the past and even if it's a little warmer than average we can still do very well, but we wouldn't like a very warm winter.

ANDREW ROBERTSON: However, a warm winter may not be the only cloud on Kathmandu's horizon.

The company wants to expand to 150 stores in Australia and New Zealand, but retail analyst Rob Lake has serious doubts about whether it can achieve that.

ROB LAKE, RETAIL ANALYST: To get to 150 stores very quickly they'll have to broaden their market and to do that, they're going to have to go down market and get out into the suburbs and compete directly with the likes of Anaconda and BCF.

ANDREW ROBERTSON: And Rob Lake also questions Kathmandu's strategy of driving sales through discounting.

ROB LAKE: They do have good promotions a couple of times a year but they need to even out that performance much more to get the growth that they need.

ANDREW ROBERTSON: Roger Montgomery has studied Kathmandu's balance sheet and for him there are other concerns.

ROGER MONTGOMERY: The issue around this company is that it's producing a fairly mediocre return on its equity. Now that equity, the largest contributor to that equity is goodwill and that comes from the float business, when this particular entity purchased the business.

So the company actually has negative net tangible assets.

ANDREW ROBERTSON: Which could turn out to be a big mountain for Kathmandu to climb, if that goodwill of more than $200 million has to be written down.