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Dufry posts resilient first nine-month results amid difficult market conditions

By **Mary Jane Pittilla** on November, 6 2018 | Retailers

"Given the challenging market conditions being experienced in the wider retail sector and the ongoing volatility in some of the economies in which we operate, I am pleased to report that Dufry, with its strong position in the still growing sub-sector of travel retail, has delivered a resilient performance in the first nine months of 2018"
Julián Díaz, CEO of Dufry Group

Dufry delivered "resilient" results in the first nine months of 2018 despite more difficult recent market conditions in Spain, Brazil and Argentina.

Turnover for the nine-month period ended September 30, 2018 versus the same period last year climbed 4.6% to CHF 6,560.7 million (US$6,532.5 million), with organic growth up by 3.1%.

Organic growth excluding Spain, Brazil and Argentina for the nine-month period was up 6.0%.

EBITDA reached CHF 806.5 million (US$803.3 million), up 8.5%.

Gross profit margin in the first nine months of 2018 improved to 59.9%, compared to 59.4% in the previous year. The improvement came mainly as a result of further renegotiations of terms with local suppliers, supported by a contribution from the acceleration of several brand plan initiatives, resulting either in better terms or higher advertising income.

However, a slowdown in Q3 led organic growth to negative territory. "In Q3 2018, headwinds impacted our trading in Spain, Brazil and Argentina, resulting in a lower-than-anticipated turnover growth of 0.6% and in organic growth declining by 0.7% versus the same quarter last year," the company said.

New Generation Store openings

The operator continued to refurbish operations across the group to improve customer experience and maximize sales. 27,700 square meters were refurbished in the first nine months of the year, including the implementation of its New Generation Store concept with major digital initiatives at London Heathrow T3 (2,500 square meters) and Cancun T3 (1,800 square meters) as well as the main store in Glasgow and several stores at Malaga and Bali airports.

The next New Generation Stores will begin trading in 2019 in Buenos Aires and Amman airports.

18,300 square meters of gross new retail space opened in the nine-month period, including the start of operations aboard 13 cruise ships, totaling close to 4,000 square meters across 41 stores. Important duty free operations opened at the MTR high-speed railway station in Hong Kong (three stores – 1,500 square meters) as well as 36 stores across several operations in North America adding 3,500 square meters.

Contracts have been signed to open a further 16,100 square meters of new space in 2018 and 2019, including operations already opened in October at the new Jazeera terminal at Kuwait Airport and 1,400 square meters of duty free retail space at Perth Airport (a further 1,300 square meters is to come in 2019).

Julián Díaz, CEO of Dufry Group, said: “Given the challenging market conditions being experienced in the wider retail sector and the ongoing volatility in some of the economies in which we operate, I am pleased to report that Dufry, with its strong position in the still growing sub-sector of travel retail, has delivered a resilient performance in the first nine months of 2018.

“In the first semester, we saw a good organic growth performance throughout the first and most of the second quarter in line with our initial expectations. With the beginning of the peak holiday season, we experienced a slowdown in organic growth driven by a shift of tourist flows from Spain to other Mediterranean destinations as well as a currency devaluation in Brazil and Argentina affecting the purchasing power of these important nationalities.

“The positive performance in our other operations could not fully compensate the impact of these geographies, thus resulting in an organic growth decline of 0.7% in Q3 2018 compared to the same period last year. Despite these impacts, we still expect a positive evolution of organic growth for the full year 2018 in the magnitude of between +2% and +3%, supported by the important new openings.”

Díaz said that while Spain, Brazil and Argentina experienced “headwinds linked to specific local issues”, most of its other operations in the UK, Central and Eastern Europe, the Middle East, Asia and North America continued to grow.

PERFORMANCE BY DIVISION

Southern Europe and Africa

In the first nine months of 2018, turnover grew by 1.6% to CHF 1,456.3 million (US$1,450.04 million), with organic growth falling by 2.1%. In Q3, organic growth slowed to -5.2%.

Spain had the weakest performance due to an unfavorable passenger nationality mix affecting spend per passenger and tougher comparatives on the record numbers of international tourists in the previous years, which were substituted with domestic passengers.

While its operations in Turkey and to a lesser extent Greece benefited from the shift of tourists from Spain, the improvement did not fully offset the Spanish impact. Italy, France and Malta all continued with good organic growth.

UK and Central Europe

Turnover amounted to CHF 1,484.0 million (US$1,477.6 million) in the first nine months of 2018, 2.5% higher than the CHF 1,447.6 million (US$1,441.4 million) in the same period last year.

Organic growth, excluding the impact of the closing of Geneva, amounted to an encouraging +3.6%; while including Geneva, organic growth fell by -0.7% for the nine months.

Organic growth was higher in the third quarter at +0.2%, mainly due to an acceleration of growth in the UK.

Eastern Europe, Middle East, Asia and Australia

Turnover increased to CHF 849.5 million (US$845.85) in the first nine months of 2018, versus CHF 746.2 million in the same period in 2017. Organic growth rose to 15.2%. In Q3, organic growth was 4.4%, a good performance against the high comparables of the previous year.

Within the division, Russia performed well. Bulgaria, Serbia and Armenia all experienced good growth.

In the Middle East, most of its operations saw double-digit growth (Jordan, Kuwait and India). Sharjah also continued with its positive performance.

In Asia, where performance has been at strong levels for a number of quarters, growth was lower, although still solid in the main operations, such as Macau, Cambodia and South Korea. Australia continued to perform well, with strong double-digit performance driven by the full renovation of the stores.

Indonesia saw flat growth in Q3.

Latin America

Performance in this segment reflected the ongoing challenging market conditions resulting from extreme currency volatility in the largest markets in the division, namely Brazil and Argentina, where the devaluation of the respective local currencies versus the US Dollar impacted sales. Other operations in South America saw a slowing performance in the third quarter as a knock-on effect from the two key countries.

While turnover for the first nine months fell by -2.8% to CHF 1,212.6 million (US$1,207.4 million), organic growth for Q3 fell by -11.0%.

Performance in Central America, including the Caribbean, continued to be strong, especially in the cruise division, which saw high double-digit growth. Mexico was the exception, being flat in the third quarter after a strong H1 2018.

North America

Turnover climbed by 6.6% to CHF 1,415.1 million (US$1,409.02 million).

Organic growth kept developing strongly, reaching 7.5% in the nine-month period and 7.1% in Q3, with strong like-for-like growth generated by healthy passenger numbers and good contributions from

net new concessions.

Digital initiatives

Among its digital initiatives, Dufry improved the assortment on its Reserve & Collect e-commerce site and expanded its RED by Dufry loyalty program to 36 countries and 150 airports, Diaz said.

In addition, the company is introducing sales tablets to improve customer service in-store.

Trading update and outlook

Based on trading during October, the company expects “some stabilization of the business in the fourth quarter and a potential improvement in the fourth quarter compared to the third”.

In the first four weeks of October, net sales were gradually improving, with organic growth close to +1%. The improvement is due to a number of factors, including lower exposure to Spain, further improved performance in Asia, and the contribution of new openings, namely in Hong Kong and Australia.

Dufry expects to see a full-year outcome for 2018 that will demonstrate continuing year-on-year progress for the overall group. Organic growth is now expected to be in a range of between 2% and 3%.

Speaking at a November 5 conference call with analysts on the Q1 2019 forecast, Diaz said the situation in Brazil had undergone a “significant turnaround” after the recent election and results were improving, while Spain had also improved, but the Q1 2018 result – when turnover rose 7.5% – would be a “tough” comparable for Q1 2019.

Noting generally that there had been a drop in spend per passenger by the Chinese, Diaz explained that although more Chinese were traveling, there was a change of profile compared to two or three years ago. “Now we have mass-market Chinese,” he told analysts.