Retailers experience slow 2Q post-GST

BY **LEVINA LIM**

Retailers have been hard hit by the implementation of the Goods and Services Tax (GST), especially discretionary businesses and those catering for the mass-market segment.

Retail Group Malaysia (RGM) managing director Tan Hai Hsin tells *The Edge* that in the past month, sales for all retail subsectors (grocery, fashion and fashion accessories, electrical and electronics, food and beverage, and overseas travel) have dropped by as much as 50%.

"The cost of living has risen since April 1 and has reduced the spending power of consumers. They are holding back on purchases and observing the price movements of goods and services," he says, adding that consumers are currently waiting to take advantage of promotions by retailers.

In January, RGM revised downwards its 2015 retail sales growth forecast to 5.5% from 6%. Last year, the annual growth was 3.4%.

For retailers in the mass-market segment, the impact of the consumption tax has been more severe. They were caught between a rock and a hard place, as absorbing the higher costs would eat into their profit margins, and raising prices would mean lower sales.

"As much as we tried to offer competitive prices for our products, GST has become an additional deterrent for consumers to spend. On top of that, the economic conditions were tough," says Pat Liew, CEO of British India (Asia) Sdn Bhd.

Indeed, the Malaysian Institute of Economic Research's Consumer Sentiment Index has plummeted to a six-year low of 72.6 points, a level not seen since the global financial crisis in 2008/09.

The Body Shop managing director Datin Mina Cheah-Foong concurs with Liew, pointing out that retailers in shopping malls are additionally impacted by high rents.

"Typically, top malls are able to raise rental rates by 20% to 50% per square foot a year. The more popular the mall, the higher the rent increase, to match the prevailing market rates," she says, adding wage increases have also squeezed net profit margins.

According to H C Chan, adviser to the Malaysia Shopping Malls Association (PPK), retailers in shopping malls are likely to weather the storm instead of giving up their businesses.

"There is a lot of investment involved. Retailers can spend hundreds of thousands to millions of ringgit on store refurbishments alone," he says, pointing out that cases of non-renewal of rental contracts in shopping malls are rare due to the high initial cost involved.

"GST is not a simple matter of charging 6% on the selling price. There are significant record-keeping obligations, and significant costs and time are invested in enhancing systems to cater for GST," British India's Liew says.

According to a tax consultant, smaller retailers who need not register for GST (whose taxable annual revenue falls below RM500,000) were forced to do so to keep their larger customers, who would otherwise shy away from them due to the absence of tax invoices for their GST claims. "However, registering means additional operating expenses and administration work, which can be substantial for these retailers."

RGM's Tan points out that conflicting directives (such as service charges, cellphone top-up cards and eleventh-hour announcement of products to be tax exempted) from the government are one of the main causes for the drop in retail sales as consumers decide to delay purchases.

"All government departments and agencies need to work as a cohesive group to give consistent messages to the public on this new tax structure and consult all related stakeholders before implementing new policies on this new tax system," he says, adding that the government should be firm in its policy-making.

There has been much confusion recently regarding the imposition of GST on various goods and services due to contradictory directives from different government departments, some of which have inconvenienced both retailers and consumers.

"Tourists at airports were made to pay GST on their purchases in the duty-free areas. The Customs Department has since resolved the problem, but it has had its challenges," says Ashvin J Valiram, executive director of Valiram Group, a specialist retailer representing more than 150 brands, including Michael Kors, Victoria's Secret and Dior.

"We saw some softness in April, but business has normalised in May. The recovery has been faster than expected, and sales have been resilient. We expect sales to recover in the next few months."

He says although business is back on track, the group expects challenges ahead due to a softer retail market in Malaysia.

According to CIMB Research, while higher-end retailers selling highly discretionary items, such as watches, handbags and jewellery, have generally experienced weak sales pre and post-GST, business is improving gradually.

"Sales of luxury international brands and F&B businesses were generally not affected. Grocers saw strong sales before the implementation of GST, but sales softened post-GST as consumers had already stocked up on their necessities," it says in a May 10 note.

The research house points out that sales are picking up more quickly than expected, as retail businesses started to improve in the third week following GST implementation.

"Nonetheless, we think business will be slower due to fewer shopping activities in the next few months. However, it should pick up in the run-up to Hari Raya on July 17," it says, adding that the F&B sector should perform better than discretionary retailers.

According to RGM's Tan, traffic in shopping malls has dropped in the past month. Nevertheless, the malls are still crowded during weekends and peak hours.

"At the same time, trendy cafés catering for the young are still popular, especially on weekends," he says, adding that retailers who buy the bulk of their imported goods from third parties will be worse off due to the weaker ringgit.

PPK's Chan says while April has been a bad month for retailers, the slowdown was largely expected. "Discretionary spending has taken a hit, but sales are likely to pick up in two to six months."

CIMB Research maintains a "neutral" recommendation on the consumer sector with QL Resources Bhd (fundamental: 1.1; valuation: 1.1) as its top pick.

However, it has an "add" rating on Berjaya Food Bhd (fundamental: 1.55; valuation: 1.5), Fraser & Neave Holdings Bhd (fundamental: NA; valuation: NA) and 7-Eleven Malaysia Holdings Bhd (fundamental: NA; valuation: NA). E