

Premier to exit stores over rental stoush

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Retailer Premier Investments, which operates chains including Just Jeans, Smiggle and Peter Alexander, will exit four sites in Sydney's MidCity shopping centre as it takes a hardline approach to store-by-store profitability and a steady, tough stance with landlords.

The company, which also operates Portmans and Dotti, said sales for the 26 weeks ending January 29 were expected to be \$769 million, which would represent 0.5 per cent growth on the year-earlier period. It signalled earnings would be solid in a tough environment, rising by about 4 per cent to 5 per cent.

Premier shares gained 2.1 per cent to \$27.10 yesterday, when the broader sharemarket was again heavily sold off.

Premier chief executive Richard Murray said he was pleased with the sales numbers because extended lockdowns in Sydney and Melbourne and government mandates led to the retail group missing out on 42,000 trading days because of forced store closures. Mr Murray was previously CEO of consumer electronics and appliances group JB Hi-Fi for seven years.

Premier said it would exit four stores in the MidCity Centre in Sydney's Pitt Street mall – Peter Alexander, Smiggle and Portmans in March, and Just Jeans by no later than July 2023.

“These closures demonstrate the group's previously announced intention to walk away from stores where landlords seek rents which are unrealistic and which do not reflect the market, particularly in those centres where customer foot traffic has been decimated by the pandemic,” Mr Murray said.

MidCity Centre is owned by Fortius Funds Management, which took legal action last year against Premier over unpaid rent. Premier's business unit Just Group filed a cross-claim.

Solomon Lew, Premier's billionaire major shareholder, has been a high-profile advocate for sales-based rents in the pandemic and secured major concessions from landlords in 2020 and the first half of 2021.

Warren Ebert, chief executive of Sentinel Property Group, said he had negotiated “quite a few” turnover rental agreements with Premier Investments because “you need a retailer like that” in your malls.

He said Premier should “stop whingeing” about unrealistic rents because everyone is in business to make money. “We're trying to get as high a rent as we can, while tenants want to pay as little as they can. What's new?” Mr Ebert said.

He said the landlord was the first to be “kicked in the guts” when a store performed poorly even if that may be due to it simply going out of fashion, doing more sales online, or not being able to find staff.

“Most retailers won’t blame themselves if they are not doing enough in turnover. It’s always the landlords’ fault,” Mr Ebert said.

While Sentinel had agreed turnover rental deals with Premier at some of its malls, Mr Ebert said these were always capped on the upside and did not consider revenue from online sales, despite customers often collecting their goods instore or buying online after seeing an item in the store.

“I understand the basis for variable rents . . . the concept is good . . . but if a business booms, retailers are not going to suddenly be paying \$5000 a square metre when they were paying \$500,” Mr Ebert said. “They only want to capture the downside,” he said.

Premier expects earnings before interest and tax for the 26-week period of between \$209.5 million and \$211.5 million. This would represent a rise of 4.2 per cent to 5.3 per cent on the year-earlier period.

Online sales now account for 25 per cent of the group’s total sales. Online sales climbed 27 per cent in the first half.

Macquarie, which has an “outperform” rating on the stock and a 12-month price target of \$33, said disciplined cost control had helped bolster the results. Macquarie said online sales delivered “substantially higher margins” compared with bricks and mortar stores.

Morgan Stanley said it was a good result and showed “strong execution with no apparent supply chain issues, signs of cost inflation, or issues with staff availability”. Morgan Stanley has a 12-month price target of \$26.75. Premier said the Smiggle business had rebounded globally as restrictions had eased. The Peter Alexander sleepwear business had also been making strong gains, while the Portmans fashion chain had also been delivering solid results.

Mr Murray said Premier had been disciplined on costs and had reached mutual agreements with many landlords over rent abatements.

The company is further reviewing its distribution centre operations and capabilities in both Australia and New Zealand as it scrutinises shifting shopping behaviour in the pandemic’s wake.

The group said store closures were necessary and inevitable when landlords did not accept the shift in consumer behaviour.