



BBVA Research

Peru Outlook for modern retailing, 2018

October 2018

Creating Opportunities

Summary

- Since the second half of last year, sales in the modern retailing sector have been performing better. This comes about in a context of improving conditions in the formal labour market, with consumer finance gathering pace. In terms of formats, the recovery is across the board
- We see sales in the modern retailing sector recovering in 2018 and 2019, which is in line with our projected baseline macroeconomic scenario and consistent with the announced opening of new shopping centres
- Looking further ahead, there is room for sales of the modern retailing sector to continue to grow, thanks to increased household purchasing power and the constant decline in the average number of dependants of each working person, favouring the latter's spending (the so-called "demographic bonus")
- Another factor that will boost sales of the modern retailing sector is the population's access to digital media, which favours online sales. Added to all this is the low current penetration of modern retailing as a proportion of total retail sales, which has only recently begun to gain traction with the development of new formats addressing certain requirements of segments of the population that give priority for example to vendor proximity, opening hours or low prices
- In summary, modern retailing in Peru is still in its infancy, and this gives room for its consolidation in the next few years and makes it one of the most attractive markets to invest in

The retail sector

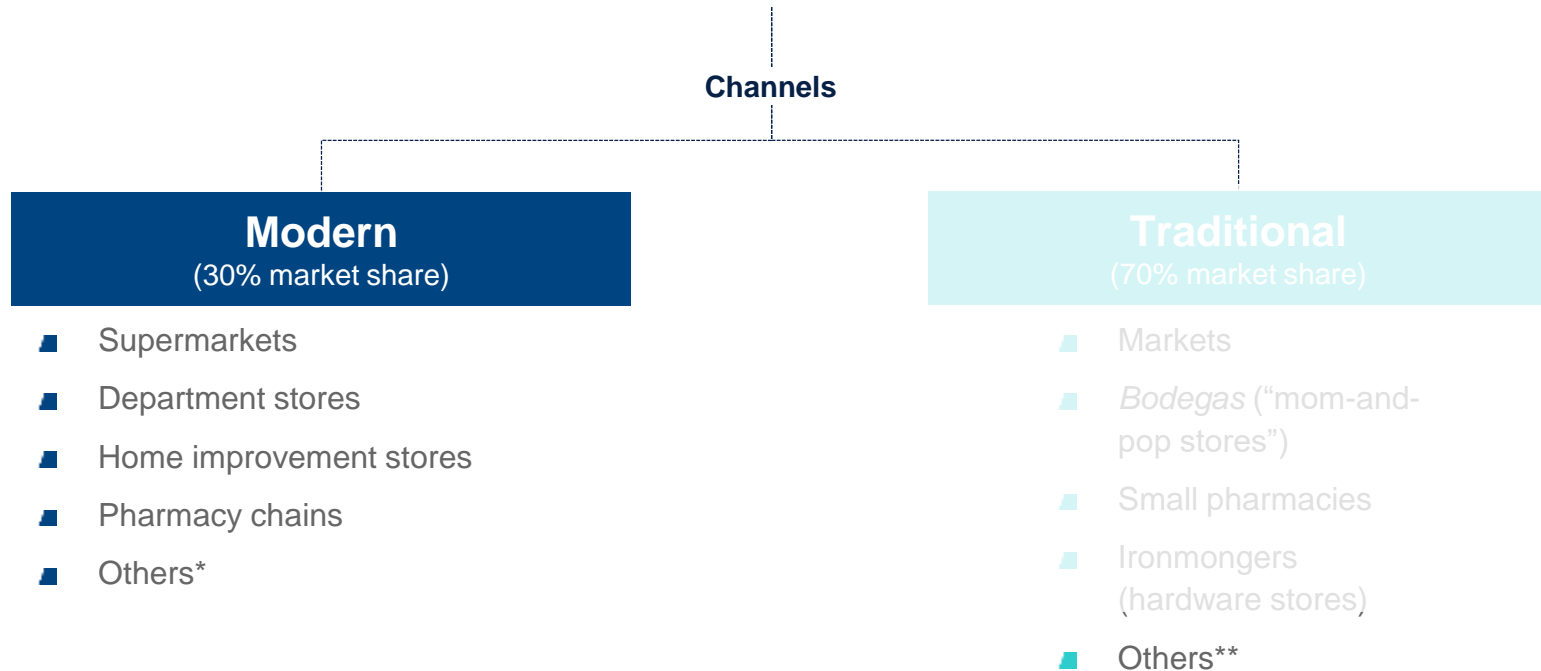


* Convenience stores, discount stores and cinemas, for example.

** Street vendors for example.

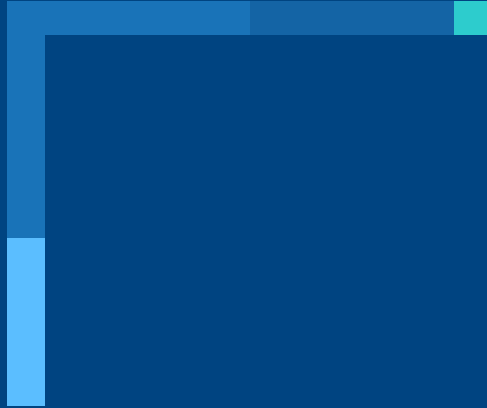
The modern retailing sector

The retail sector



* Convenience stores, discount stores and cinemas, for example.

** Street vendors for example



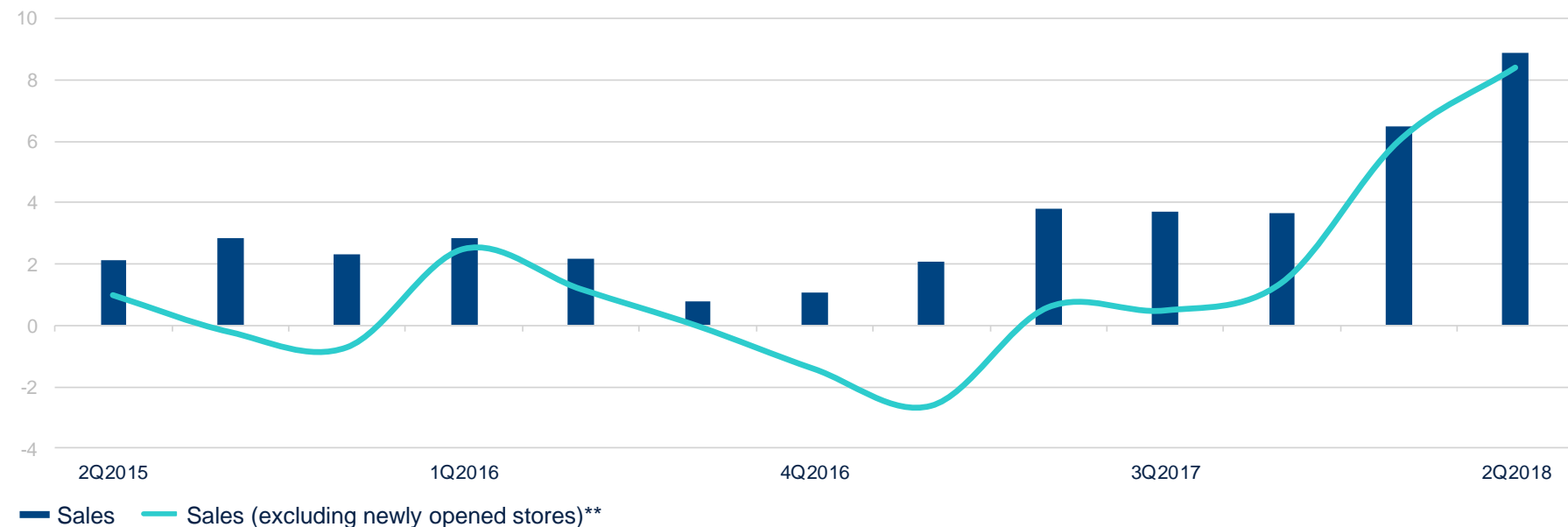
01

Current situation

Since the second half of last year, sales in the modern retailing sector have been performing better

Sales of the modern retailing sector*

(In current sales, chge. % YoY)



* Comprises sales of the eight main operators: Ripley, Saga Falabella, Paris, Tottus, Supermercados Peruanos, Cencosud, Maestro and Sodimac.

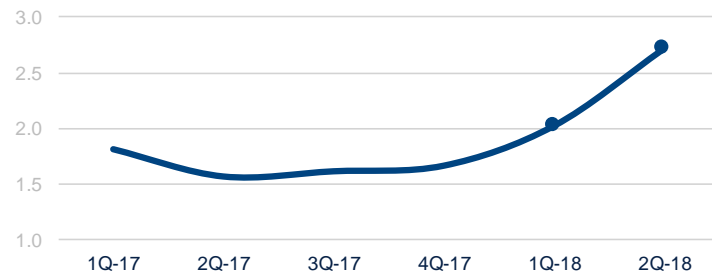
** This indicator is known as "same-store sales".

Source: Apoyo Consultoría

This comes about in a context of improving conditions in the formal labour market, with consumer finance gathering pace

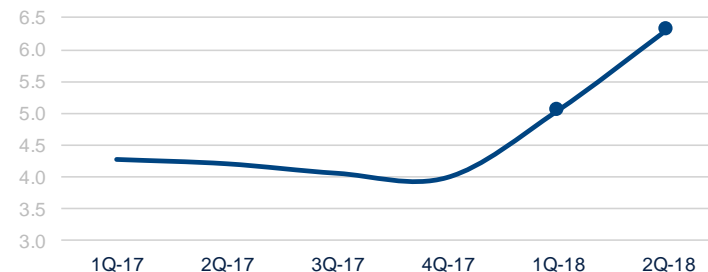
People in formal employment

(Moving average past 12 months, % change YoY)



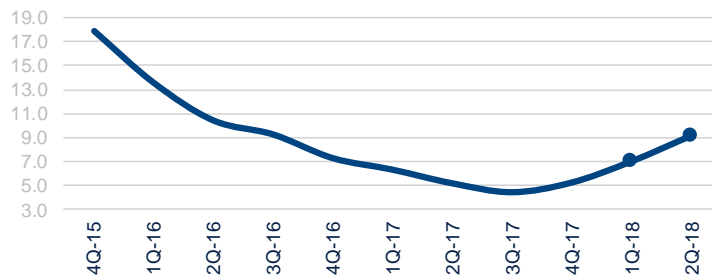
Total payroll of formal workers

(Nominal, average past 12 months, chge. % YoY)



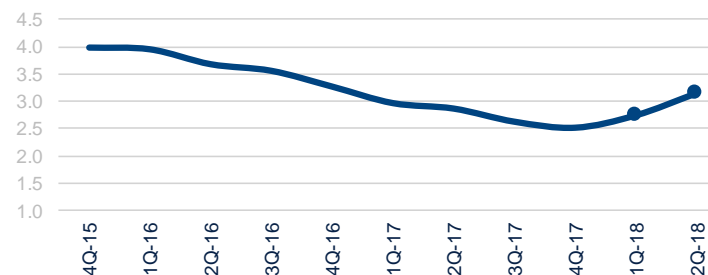
Consumer credit granted by banks

(% change YoY)



Household spending

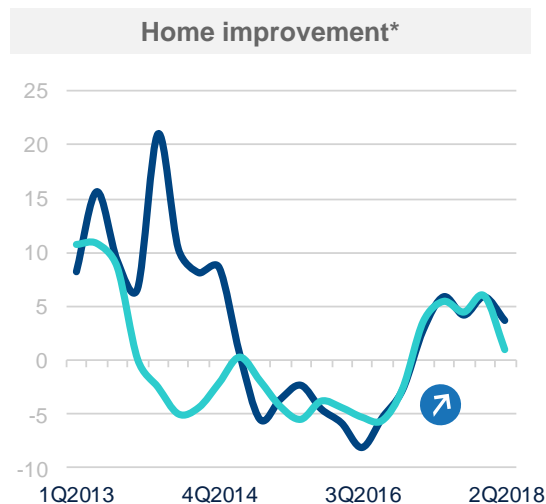
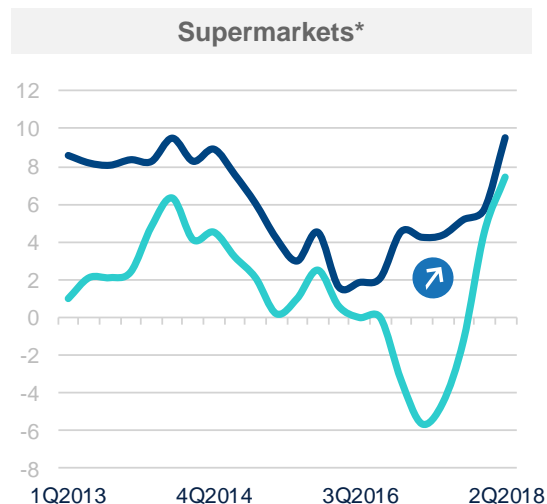
(Approximated by real private consumption, average last four quarters, chge. % YoY)



In terms of formats, the recovery is across the board

Sales of the modern retailing sector by format

(In current sales, chge. % YoY)

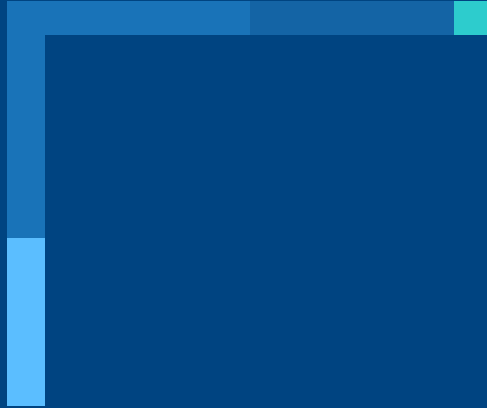


— Sales — Same-store sales

* Comprising: Tottus, Supermercados Peruanos (PlazaVea, Vivanda and Mass) and Cencosud (Metro and Wong)

* Maestro and Sodimac.

* Ripley, Saga and París.



02

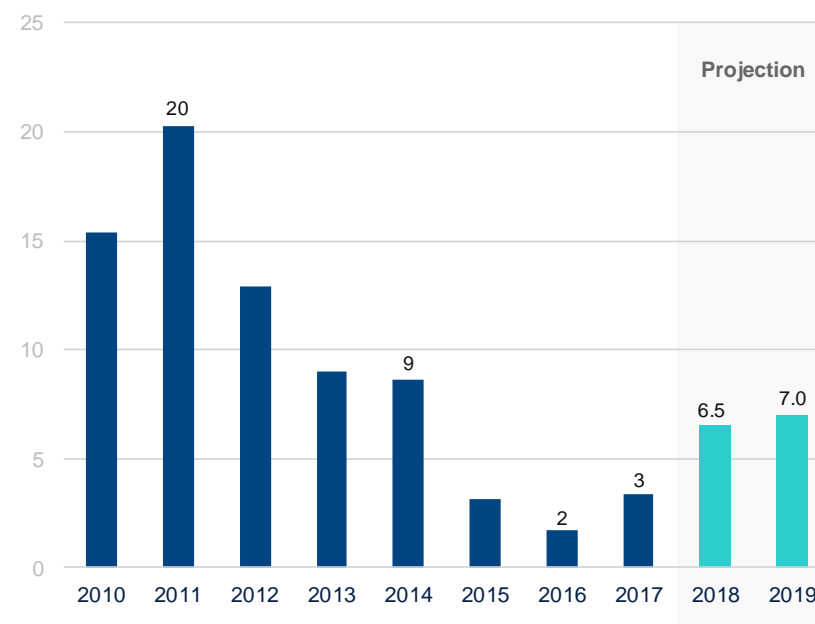
Short-term outlook

We see sales in the modern retailing sector recovering in 2018 and 2019, which is in line with our projected baseline macroeconomic scenario...

Economic variables most affecting modern retailing*

	2017	2018	2019	
GDP (real, chge. %)	2.5	3.6	3.9	↑
Private consumption (real, chge. %)	2.5	3.7	3.5	↑
Private investment (real, chge. %)	0.2	4.0	6.0	↑
Inflation (% YoY, eop)	1.4	2.3	2.1	
Exchange rate (vs. USD, eop)	3.25	3.33	3.30	

Sales of the modern retailing sector (% change YoY)



* For further details, you can download the document [\(here\)](#)
Source: Central Reserve Bank of Peru and BBVA Research

Comprises sales of the main operators.
Source: Apoyo Consultoría and BBVA Research

... and with the announced opening of new shopping centers or the expansion of others

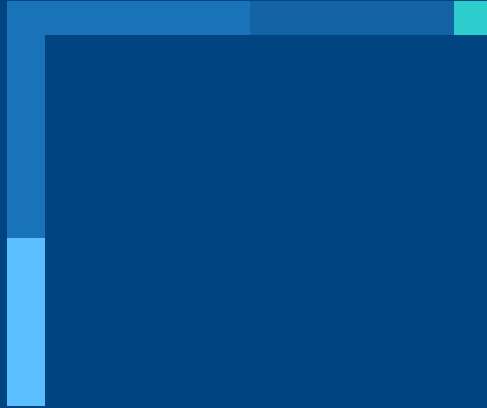
	Opening date	Area (thousands of m ²)	Investment* (millions of USD)
Gamarra Moda Plaza	2S.2018	92	120
Real Plaza Nuevo Chimbote	2S.2018	8	9
Expansion Mall Aventura Arequipa	2S.2018	7	14
Real Plaza Puruchuco	2019	120	145
Expansion de Plaza San Miguel	2019	48	100
Expansion Mall Aventura Santa Anita	2019	38	47
La Molina Lifestyle Center	2019	37	100
Strip Center Santa Catalina	2019	7	9
Investment			544

Some others who will do later

Mall Aventura Chiclayo	2020	50	55
Mall Plaza Cusco	2020	n.d	60
Mall Aventura San Juan de Lurigancho	2021	59	73
Mall Aventura Iquitos	2021	56	71

*Some of the amounts expressed in US dollars consider (for conversion from soles) an exchange rate of PEN 3.30 per USD.

Source: ACCEP, Apoyo Consultoría, BBVA and others press



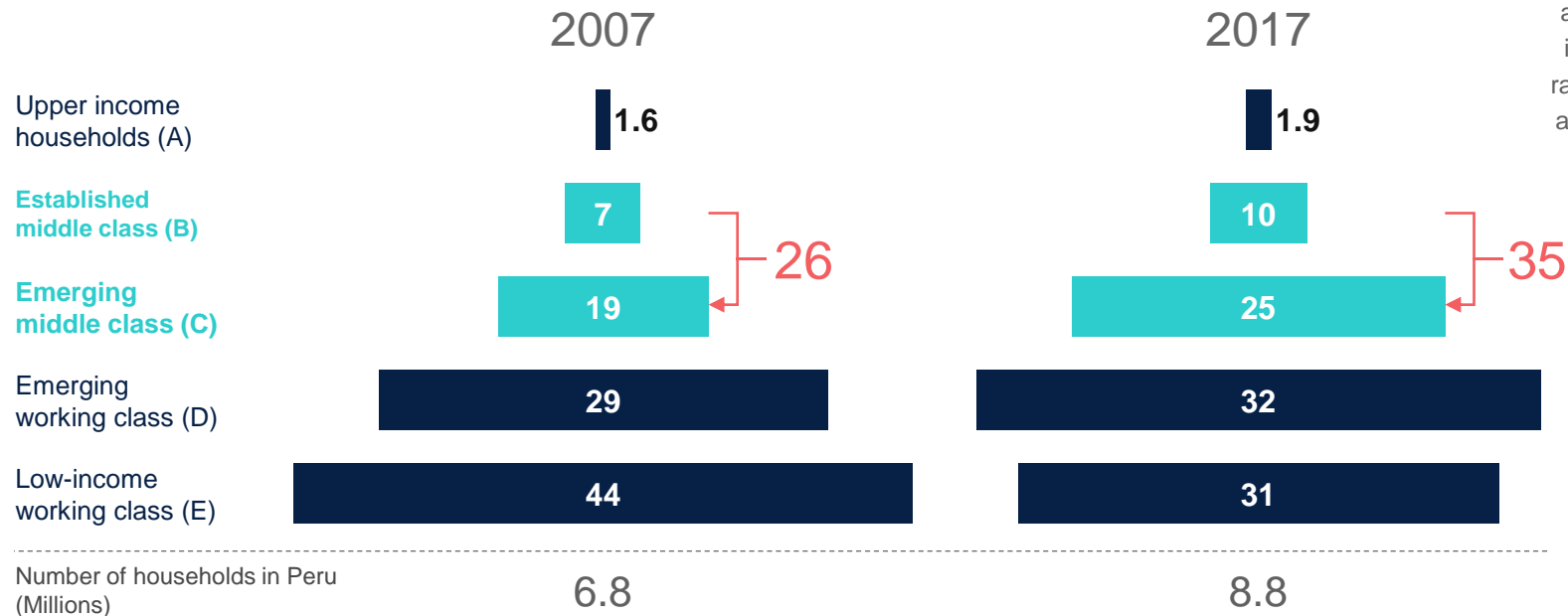
03

Growth potential

Looking further ahead, there is room for sales of the modern retailing sector to continue to grow thanks to households' increased purchasing power...

Structure of households by socio-economic level

(% of total households)

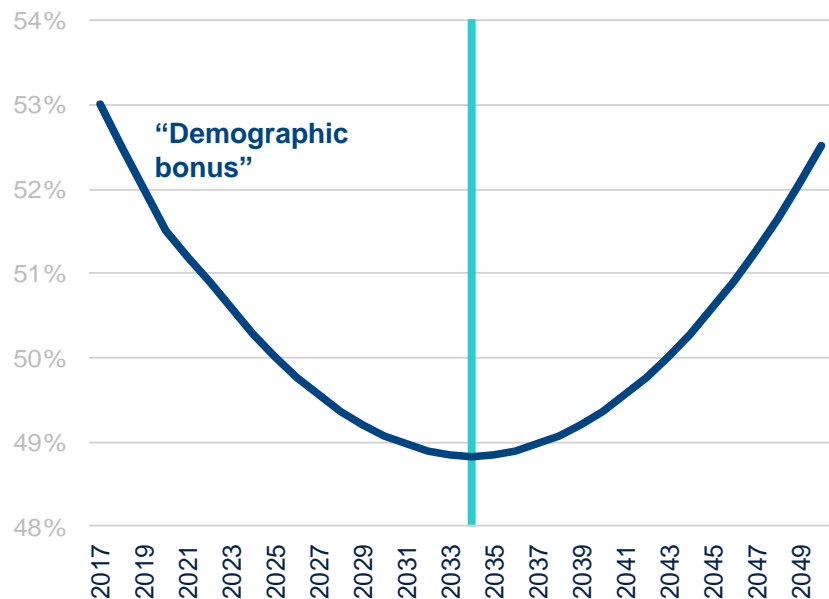


GDP will grow by 3.9% in 2019 and after that by around its potential growth rate of between 3.5% and 4.0%, which will favour further expansion of the middle class

... and to the constant decline in the average number of dependants of each working person, favouring the latter's spending (the so-called "demographic bonus")...

Dependency rate

(Dependant population as a percentage of the working age population)*

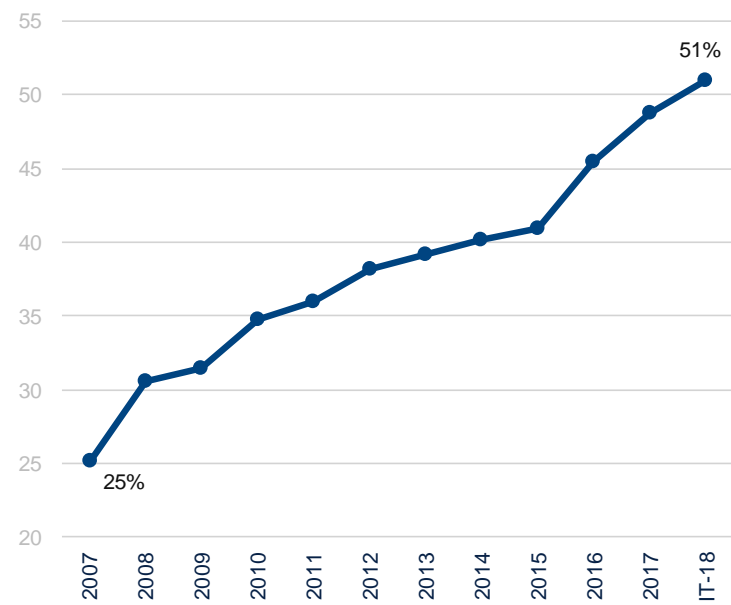


- Retailers will benefit from the increased spending power of these potential consumers

* Dependant population: up to 14 and over 65 years of age. Working age population: from 15 to 64 years of age inclusive. Source: INEI (National Statistics & IT Institute) and BBVA Research

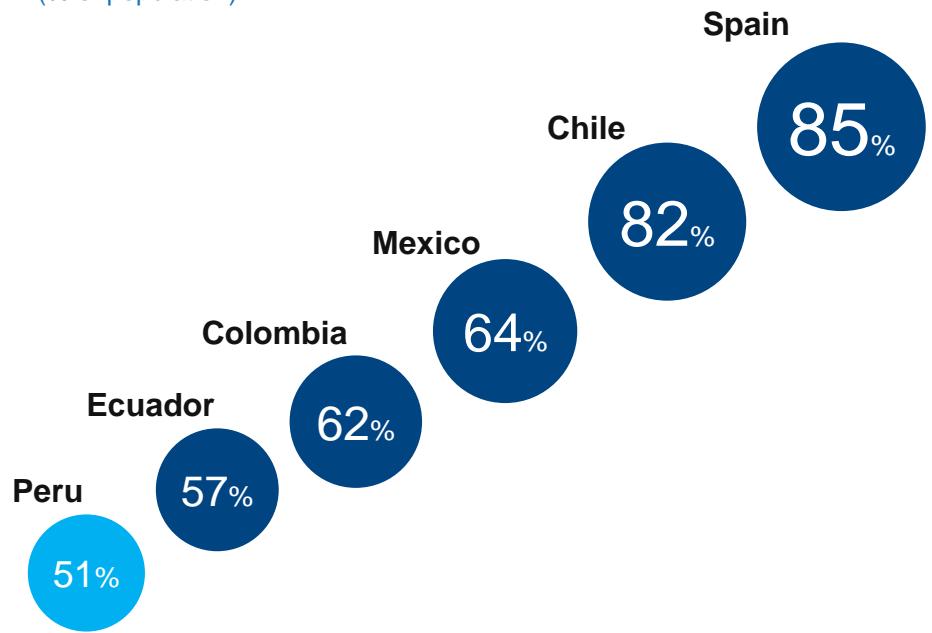
... and the gradual increase in the population's access to digital media, which favours online sales for example

Internet access
(% of population)



Source: INEI

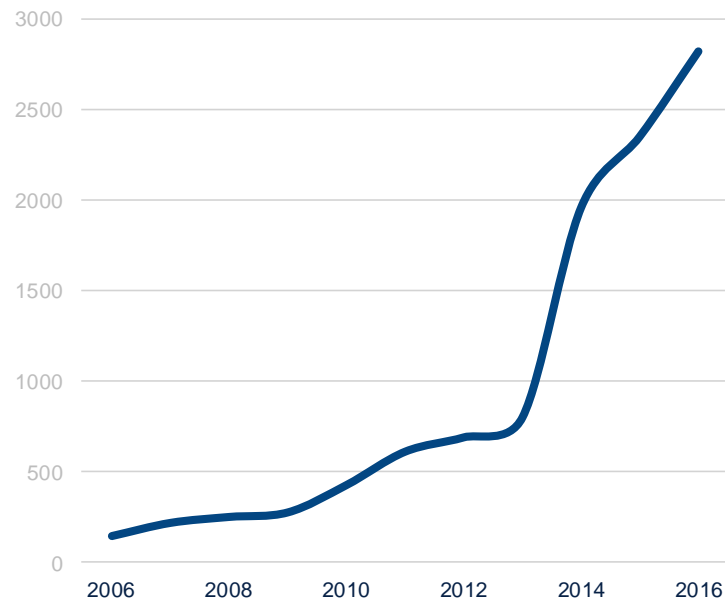
Internet access in 2017
(% of population)



* The figure for Peru corresponds to 1Q18.
Source: International Telecommunication Union (ITU)

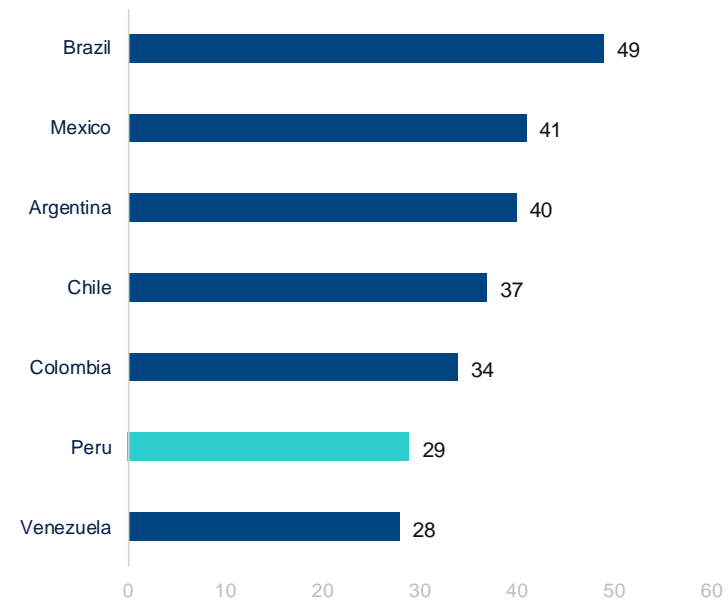
... and the gradual increase in the population's access to digital media, which favours online sales for example

Online sales
(US\$ millions)



Source: Peruvian Chamber of e-Commerce

E-Readiness index*
(Points)

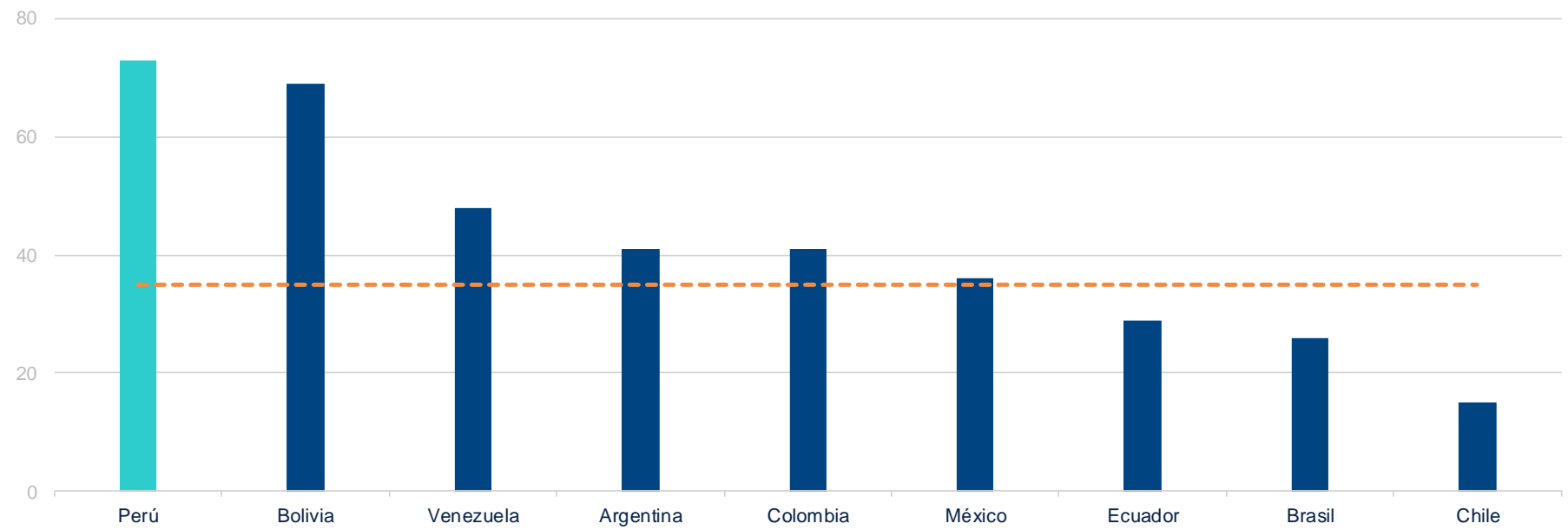


* Corresponds to 2016. The e-Readiness index, which is updated every two years, measures the stage of development of e-commerce in different countries on a scale of 1 to 100. The higher the number, the greater the degree of development of e-commerce. See appendix 2 for details of the index.
Source: VISA

Added to all this is the low current penetration of modern retailing as a proportion of total retail sales

Penetration of the traditional channels*

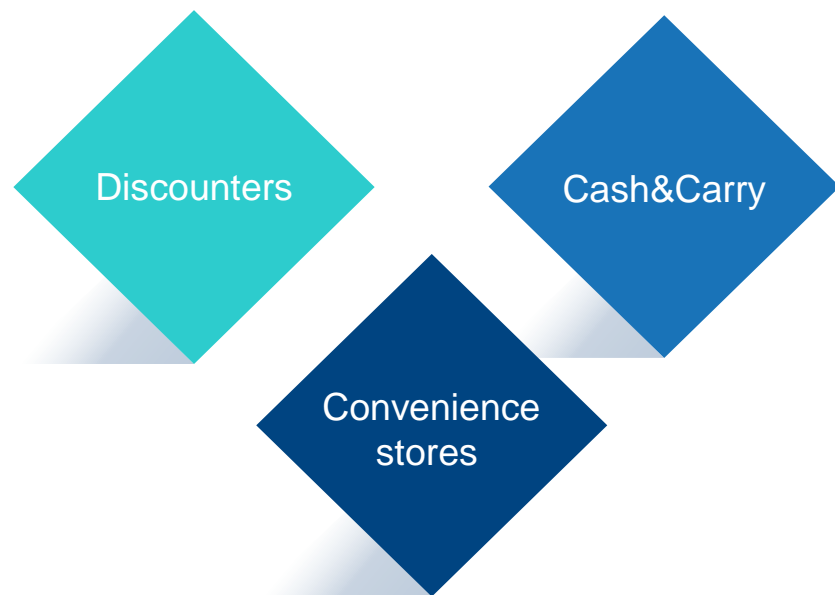
(Sales through traditional channels as % of total retail sales)



* For 2017.
Source: Kantar Worldpanel Latam

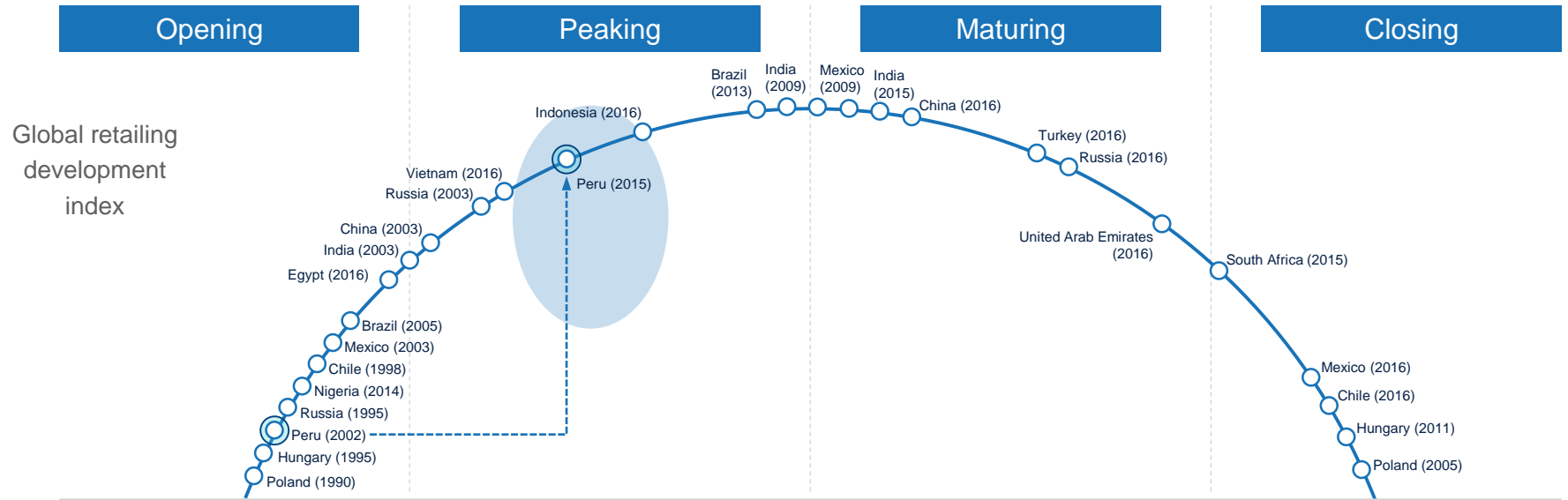
... which has only recently begun to gain traction with, for example, the development of new formats addressing certain specific consumer requirements

New formats have been developed in an effort to meet the needs of certain population segments that give priority to vendor proximity, opening hours or low prices



- In Peru the market share of these formats is still low in comparison with other Latin American countries.
- **Discounters** (proximity and low prices). Prominent among Latin American countries are Colombia (market share 21% and Mexico (19%). In Peru, the figure is less than 1% of the sales of the modern retailing sector
- **Cash & Carry**. This has evolved from traditional wholesaling (low prices for buying in large quantities). In Colombia, Brazil and Argentina it already has an attractive share of the market, in excess of 9% of the modern retailing sector's total sales. In Peru it is less than 3%
- **Convenience stores** The outstanding Latin American country here is Mexico. Particularly prominent is the OXXO chain, with more than 15,000 stores in Mexico. In Peru, the biggest chain, Tambo, has 200 outlets

In summary, modern retailing in Peru is still in its infancy, and this gives room for its consolidation in the next few years...



Definition >

- Middle class growing
- Consumers prepared to explore new formats
- Few government restrictions

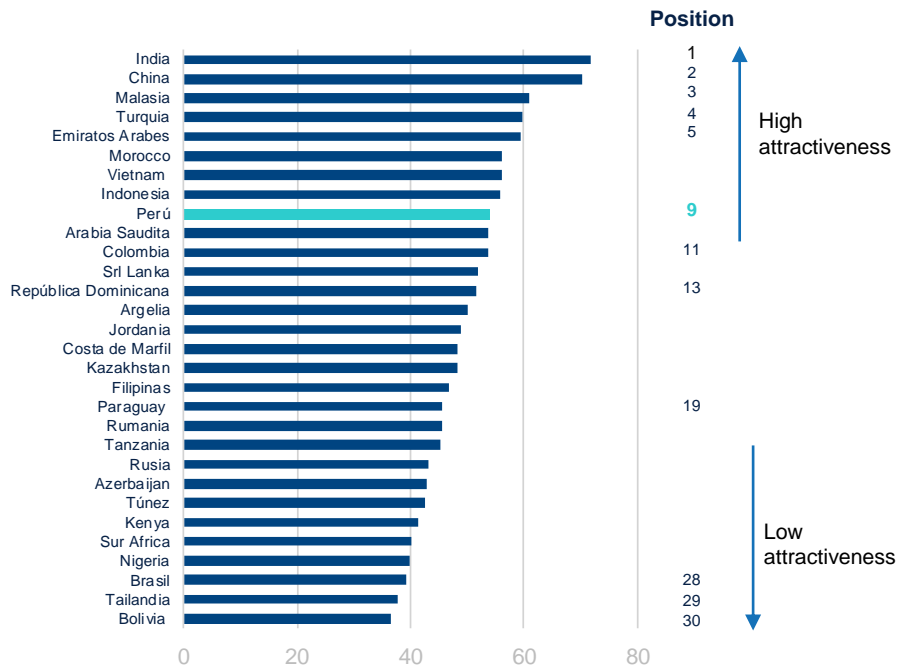
- Consumers seek organised formats and exposure to global brands
- Retail shopping is not organised
- Real estate is affordable and available

- Consumer spending has expanded significantly
- Desirable real estate is more difficult to secure
- Local competition has become more sophisticated

- Consumers are accustomed to high spending
- Fierce competition among local and foreign retailers
- Real estate is expensive and not readily available

... and, in comparison with other countries, it is one of the most attractive markets in which to invest

Where does Peru rank in the index measuring the attractiveness of investing in modern retailing?



Source: A.T. Kearney

Where does Peru rank in each of the components of the index measuring the attractiveness of investing in modern retailing*?



* Each determinant has a weighting of 25%. 1: Takes account of country risk (economic performance, debt indicators, credit ratings, etc.) and business risk (terrorism, crime and corruption). 2: A high score indicates a rapidly advancing retail sector, thus representing high time pressure to enter the country and capture the growth opportunity. 3: Takes account of annual sales of modern retailing enterprises, population, business efficiency (taxation, ease of doing business and infrastructure quality). 4: Share of modern retailing in total retail sales, number of international retailers, modern retailing sales area per urban inhabitant.

Source: A.T. Kearney



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Appendix 1. Information on shopping centres

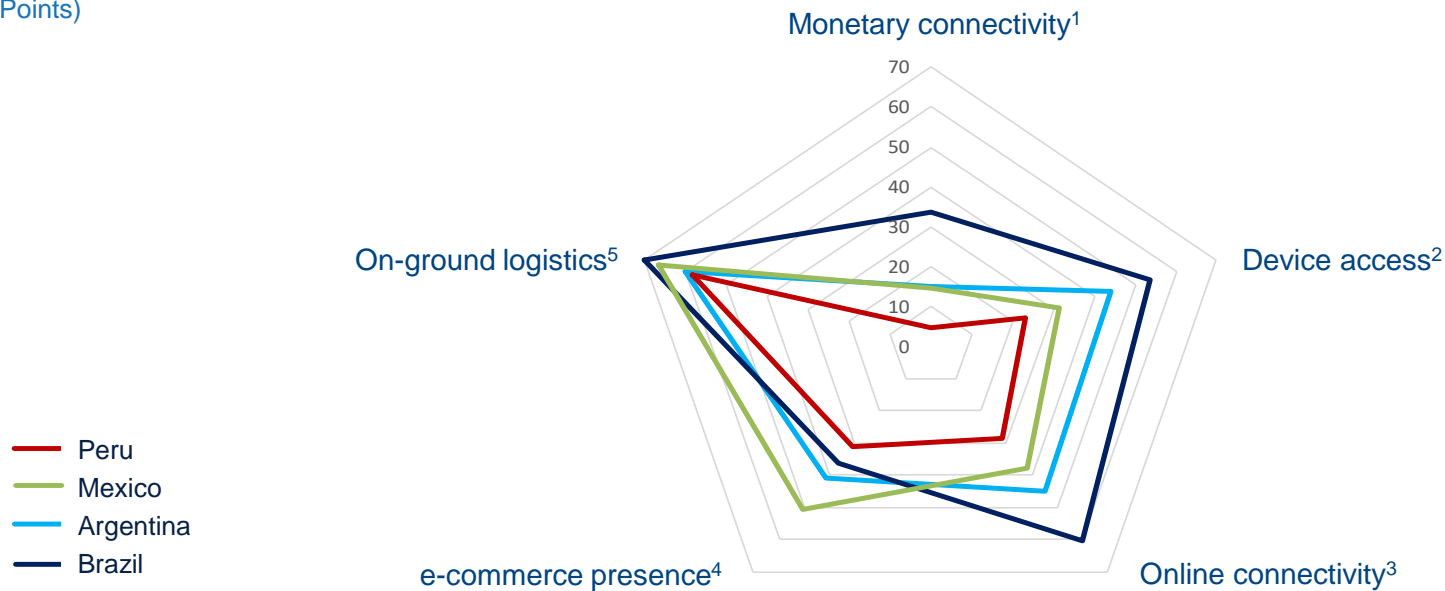
Information on shopping centres

	2013	2014	2015	2016	2017
Sales (millions of soles)	18.219	20.887	22.878	23.894	25.647
Sales (growth rate, %)	15.0	14.6	9.5	4.4	7.3
Average monthly visits (millions of persons)	43.3	50.0	54.7	60.1	61.6
Lettable area (thousands of m ²)	2,021	2378	2469	2696	2764
Vacancy rate (%)	4.9	4.2	3.6	3.3	4.0
Number of shopping centres*	60	68	72	77	79
Number of shops	5.640	6.505	7.049	8.049	8.056

* Takes account of shopping centres belonging to the Peruvian Association of Shopping Centres Of the total number of shopping centres in 2017, 42 were located in Lima.
Source: Peruvian Association of Shopping Centres

Appendix 2. Components of the e-Readiness index

Components of the e-Readiness index (Points)



1/ A measure of consumers' purchasing power and their access to relevant financial products.

2/ Measures consumers' adoption of technology enabling access to the Internet.

3/ Measures the level of access consumers have to the Internet.

4/ A combined measure of consumers' online spend and retailers' strength in the online channel.

5/ This component of the analysis assesses a country's capabilities in shipping and handling goods.

Source: VISA

Appendix 3. New formats: Discounters

Main characteristics

Attributes for the consumer

Proximity and saving (low prices, 10% less than usual)

Location

Residential areas

Size of outlet

Between 200 and 2,000 m²

Purpose of purchase**

Replacement and stocking

Products*

Basic shopping basket items and own brands are usually offered

Means of payment

Cash

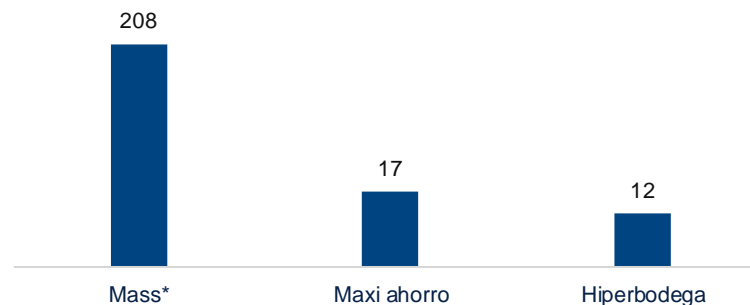
* The average spend is S/13, similar to that in traditional markets

** The products most bought are food and drink. On average six items are purchased on each visit to the establishment

Source: Press

Market participants

(Number of outlets)



- Format competing with *bodegas* (“mom-and-pop stores”) There is greater product variety, including groceries
- Unlike convenience stores, the prices of their products are low (own brands)
- New *Mass* supermarkets will continue to be opened throughout the remainder of 2018 and 2019

* Of Supermercados Peruanos.
Source: Press

Appendix 4. New formats: Cash and Carry

Main characteristics

Attributes for the consumer

Saving

Location

Accessibility (major roads)

Size of outlet

More than 2,500 m²

Purpose of purchase**

Provisions

Products*

All categories and own brands are usually offered

Means of payment

Cash

* The average spend is S/ 137 (SEC AB) and S/ 108 (SEC C).

** The products sold most are personal care products. Characterised in particular by large format purchases, especially of hair products, toilet paper and nappies (diapers).

Source: Press

Market participants

(number of outlets)



- They focus on supplying businesses. However, in the past few years this has become an attractive channel for SEC B (and even SEC A) households seeking to save by buying in large quantities
- Supermercados Peruanos will expand into this format this year. They also expect to open two or three establishments in the next few years

* Forms part of a chain of stores held by the Dutch group SHV Holdings.

Source: Press

Appendix 5. New formats: Convenience stores

Main characteristics

Attributes for the consumer

Proximity and practicality

Location

Highly frequented zones (main roads)

Size of outlet

Less than 500 m²

Purpose of purchase

Impulse and replacement

Products

Alcoholic beverages (30%), non-alcoholic beverages (25%), prepared foods (20%) and others (25%)

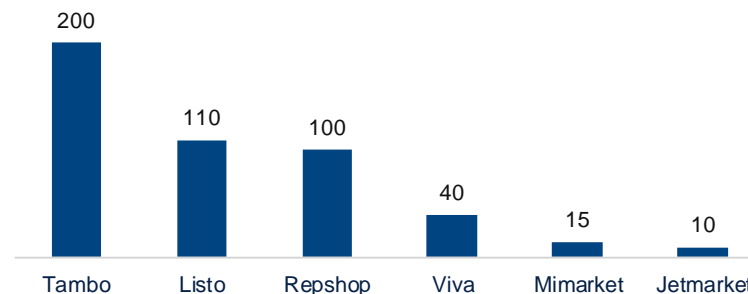
Means of payment

Cash and cards

Source: Press

Market participants

(number of outlets)



- With the aim of expanding its presence in Latin America, the OXXO chain of convenience stores is looking at entering the Peruvian market. Apart from its home market of Mexico, this chain has a presence in Chile, Colombia and the US

Source: Press