Devil is in the detail for Reject Shop shareholders

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The Reject Shop is facing pressure to clarify its long-term sales and profit growth targets following a threefold rise in its share price in the space of four months.

Shares in the discount variety retailer surged from a low of $2.40 in March to a three-year high of $8.28 this month amid expectations of a rebound in earnings under the new management.

The Reject Shop CEO Andre Reich is simplifying the business.
Chief executive Andre Reich, who took the helm in January, plans to reverse a three-year slide in earnings by simplifying the business, shrinking the product range by as much as 75 per cent and cutting inventories by a third.
Mr Reich, a former Kmart and Target executive, is also changing the merchandise mix in favour of essentials such as packaged foods, dishwashing liquid and laundry powder, kitchenware and pet products and exiting categories such as clothing, furniture and bulky goods.
The strategy has started paying off, with same-store sales between January and March rising 5.7 per cent and
Morgan Stanley analyst James Bales says investors will expect The Reject Shop to issue medium-term sales, margin and profit growth targets to get "a sense of the upside potential" when the retailer releases full-year results in August.
"We see the targets management is prepared to set out on post-stabilisation earnings power as driving expectations and sentiment," Mr Bales said in a report this week.
He said Reject Shop shares, trading at50 times forecast 2021 earnings, could re-rate by as much as 20 per cent if the company issued detailed targets for new stores, sales per store, gross margins, labour and rent costs, capex and inventories. But the shares could de-rate by 10 to 15 per cent if the company made no outlook comments beyond 2021 guidance.
Mr Reich said on Monday The Reject Shop would detail its performance in 2020 and discuss its plans for fixing the business in 2021.
In an interview in March, Mr Reich told The Australian Financial Review his long-term goal was to lift earnings before interest and tax margins from around 2.5 per cent to between 5 per cent and 10 per cent and reduce the cost of doing business from about 25 per cent to less than 20 per cent.
He was also aiming to increase stock turn from 4.2 to six by 2022 and to eight in the longer term, and cull the product range from around 12,800 units to between 3000 and 4000 to improve the chain's buying power, and shrink inventories by about $30 million to $65 million.
Morgan Stanley has a $10 share price target, compared with the current share price of $7.00, and says the company, which is currently valued at $265 million, could be worth $3 billion in ten years if it boosts margins, cuts costs and lifts store numbers from about 360 to almost 800.
In the US, there is one 'dollar store' for every 9000 people, but in Australia, dollar store penetration is one for every 38,000 people.
"Leveraging our analysis of the US dollar store market, we forecast that the Australian market can support [about] 1800 stores and The Reject Shop can capture [about] 1000 of those, depending on the level of execution," Morgan Stanley said.
The Reject Shop has been closing unprofitable stores, but if landlords are forced to reduce rents and consumers become more budget-conscious as a result of the pandemic, there may be scope for the company to open greenfield sites and take over sites operated by smaller rivals such as Cheap as Chips, which has about 45 stores, Red Dot, which has 50 stores, and Miniso, which

has 32 stores.

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The future of Miniso in Australia is in doubt following the collapse last week of the master franchisee, Miniso Master Franchisee Pty Ltd, which held the licence to trade the brand here and owned the majority of the leases for the 32 stores as well as head offices in Sydney and Melbourne.

Miniso Master Franchisee appointed Philip Campbell-Wilson and Said Jahani of Grant Thornton as voluntary administrators.

Mr Campbell-Wilson believes that if head office costs and leases can be restructured in line with current trading conditions, most of the stores should survive.

The first creditors meeting is on Thursday and the second is on August 17, when a likely plan to recapitalise the business will be put to creditors.