

The Malta Business OBSERVER

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ANALYSIS

The European Union's proposal to end the practice of switching between summer and winter-time has found support from the business community in Malta.
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PG Group CEO says company sees further scope for growth in shopping village model

Maltese retail giant PG Group sees further scope for growth in the supermarket space and would consider a similar investment to PAMA and PAVI if the opportunity were to arise.

In an interview with this newspaper, Charles Borg, CEO of PG Group said that if an opportunity were to present itself for a third supermarket, the board would be open to investing in it, provided that it was a sustainable and responsible investment that matched the level of the Group's existing establishments, and would allow the Group to continue providing adequate returns to its shareholders.

Mr Borg also said that the company had invested significantly in the PAVI supermarket village this year to bring it up to the level of PAMA, an investment programme which is expected to continue in 2019.

Mr Borg spoke about the Group's recent purchase of the defunct Macaroni Factory in Marsa, saying that while it was a sensible prop-

erty investment, the Group was happy to hold on to it until the right moment presented itself, adding that the purchase was being financed easily through PG's day-to-day cash flow.

Besides its thriving supermarket business, PG Group holds the franchise to the Inditex-owned Zara and Zara Home brands in Malta, and Mr Borg discussed the expansion and refurbishment of the Zara flagship store in Sliema, which is set to become the largest and most modern store of its kind in Europe. The goal for the store to re-open, after closing in mid-July, has been set for 28th November. Mr Borg said the investment had been undertaken with the full support of the board, and that the company expects to quickly offset the impacts of the store's temporary closure through the store's improved returns.

Mr Borg also brought up the local popularity and success of the Zara e-commerce platform, which, in Malta, is also owned by PG Group,

stating that it complements the physical outlets, and was similar to having another brick-and-mortar shop. He stressed the importance of e-commerce for retail outlets, saying that even major established retailers around the world would be facing difficulties if they did not cater to the growing demographic that preferred to shop online.

While noting that the Maltese economy is going through a boom period, which was likely to remain strong for at least the next three years, Mr Borg remarked that any cycle had ups and downs, with retail being the first sector to bear the brunt of an economic downturn.

However, he confidently stated that the Group, with its supermarket offering, was diversified, sustainable, and responsible enough to withstand any economic turnaround.

Read the full interview on pages 3 and 4



NEWS

With iGaming proving to be such an essential component of Malta's economy, the annual Malta Gaming Week has become integral to the sector.
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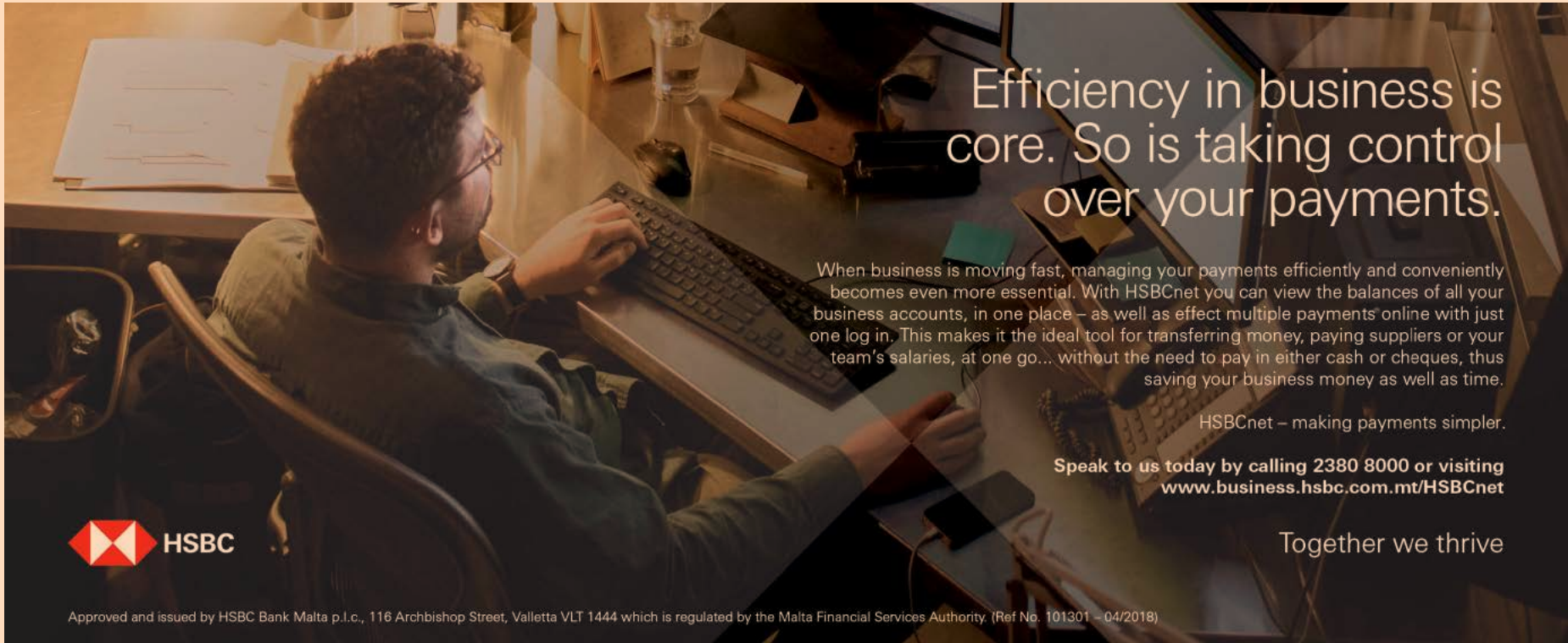
CASE STUDY

RE/MAX Malta is working hard to change the public's perception of estate agents through training and staff development.
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STOCK MARKET REVIEW

Have the recent MiFID II rules created an uneven playing field for small retail investors?
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NEWS

Board would consider third shopping village investment if opportunity knocks – PG Group CEO

Marie-Claire Grima

PG Group, which owns the PAMA shopping village in Mosta, and the PAVI shopping village in Qormi, sees further scope for growth in the supermarket space and would consider a similar investment if the opportunity were to arise, but never at the expense of its existing business. “The business model has been a success and we believe that there is continued scope for further growth,” said Charles Borg, CEO of PG Group. “If an opportunity presents itself for a third supermarket, we will evaluate it, make our costings and then take an informed decision on whether to go for it or otherwise.”

Speaking to this newspaper, Mr Borg said that the model the company has taken on is different to the norm. “We have created destinations. Our customers do not only come to us for their daily needs, but also because we provide a more holistic offering, including retail and catering services. This year, we have invested significantly in the PAVI supermarket to bring it to the level of the more modern PAMA, and this investment programme is expected to continue next year too. However, I must again reiterate our philosophy. Every investment has to be sustainable and responsible. The board remains committed to the promise made to our shareholders that any future investment has to be made responsibly, and it has to be sustainable. This effectively means that we are not prepared to invest at the ex-

pense of not distributing an adequate return to our shareholders.”

One such investment is the Group’s recent purchase of the defunct Macaroni Factory in Marsa, which seems like prime office property. But Mr Borg insisted that the Group is in no hurry to turn it into a money-spinner, and is happy to hold on to it until the opportune moment presents itself. “We bought it at a very good price. Paul Gauci – the founder of the Group and the main shareholder – has an eye for such deals. Whenever he sees an opportunity, he’ll consult the board, and if we agree on the funding model, we’ll go for it. In fact, the purchase of the Macaroni Factory is being financed easily through our day-to-day cash flow. However, it is not in our plans to build this property and then look for tenants. The board decided that we shall consider this as a strategic investment and if an anchor tenant is interested in the property, then we will develop it. We can sell it tomorrow at a profit. It is not our core business, it is a peripheral – but it is a peripheral that will eventually yield handsome returns.”

PG Group also holds the franchise to the Inditex-owned Zara and Zara Home brands in Malta, and has been investing very heavily in growing it locally. In the past two years, the Group opened two new Zara Home outlets, and the flagship clothes shop in Sliema has been undergoing a full-scale refurbishment and expansion, which Mr Borg says will make it the largest and most modern store in Europe.

“Inditex’s new policy is to go for large stores, and to move away from the smaller ones. We were ‘encouraged’ to grow our sales – even though our sales growth figures were in the first quartile. After some serious and detailed discussions both internally as well as with the top executives of Inditex, we decided to embark on a significant investment programme within the Alhambra Complex. Now, expanding in Sliema is no joke – you can hardly just buy up a few shops next to you – but the advantage we had is that we owned the Alhambra, and the back was still empty.”

“In January, we started building five new floors, which are almost finished. Then, we had to close in mid-July, to finalise works on the remaining two floors, the ground floor and the first floor. There will be seven floors in all, consisting of ladieswear, menswear, childrenswear, and Zara Home, as well as two floors of storage. We have had a lot of input from engineers and architects at Inditex. All the technology in store will be new, with visuals beamed in directly from Spain. It will be a very modern store. I must also compliment our project team which worked tirelessly and within very tight deadlines to ensure that we open the new store before the Christmas season.”

Mr Borg said that the million-dollar question is the exact date when the shop will open, although the goal has been set for 28th November. “The challenges when it comes to working in Sliema have been significant – finding contrac-



CHARLES BORG, CEO, PG GROUP.
PHOTOS: ALAN CARVILLE

“We are not prepared to invest at the expense of not distributing an adequate return to our shareholders.”

tors, abiding by authorities, regulations and restrictions, having to work during set hours because it’s a residential area, finding a place for the cranes, and so on. How-

ever, thank God, we are very near to the end and we should be meeting our targets.”

Continued on page 4



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NEWS

Sliema Zara complex to be largest and most modern store of its kind in Europe



Continued from page 3

The Group also noted in its Annual Report that the closure of the shop for nearly five months would have an impact on its turnover and results in the current financial year. However, Mr Borg said that the company has full support from the board, and fully expects to reap the returns from its investment, quickly offsetting the impacts of the store's temporary closure.

"In the long-term this is going to yield a positive return on investment, pay off the debts we incurred, and render a profit. It's a win-win situation for us, for our clients, and for Inditex. The projections are in line with our investment. We're jealously protective of our margins, because that is the way business remains profitable." When asked for specific figures and projections, Mr Borg said he was not in a position to divulge them – "we are a listed company and these are price-sensitive matters" – but affirmed his confidence in profitable returns, justifying the investment.

While the brick-and-mortar Zara shop has been closed since mid-summer, Maltese fans of the clothing brand have still been able to buy from the retailer through the local online shop. Mr Borg said the growing popularity of the online platform supports the physical outlet, rather than posing a threat to it. "Inditex weren't early adopters of online shopping. We introduced the local e-commerce platform two years ago and we were one of the first franchisees worldwide to do so. It has been very successful, with a growth rate of over 75 per cent per year. Since we own the e-commerce platform, it complements the physical outlets. So whether you buy in store

or online makes no difference to us – while the transport costs nibble into our margins somewhat, essentially, it's like we opened another shop."

The CEO observed that worldwide, "former sacred cows" on the high street such as New Look in the UK and Sears in the US were having to restructure and re-organise their business operations, and in some cases – such as BHS's – shutting down completely because they had failed to flourish in the new competitive environment fostered by online retail. "There will always be people who will

want to try on a dress before they buy it, but nowadays, many people lead such busy lives that they just don't have the time, so they revert to online. This demographic is growing, and the shops that don't cater to them are likely to suffer." This does not only apply to clothes or accessories – indeed, the Group has invested in a new e-commerce platform for the supermarket, which Mr Borg said "would tap into the market of people who don't like supermarkets. Slowly but surely, this line of work will increase our footfall."

As the interview drew to a close, Mr Borg observed that the Maltese economy is going through a boom period. "And long may it last – everybody benefits in an economic boom. Consumption goes significantly up, and I think this will remain strong, at least for the next three years. That is why we have invested significantly in our new Zara store, because we believe it will continue to be profitable. If the economy is growing, we have to grow with it."

But like any cycle, Mr Borg remarked, there are ups and downs. "The danger is that the higher you go, the harder the recession will be. It's natural. The role of the authorities is to limit the cycle, so that the drop is not so steep. In an economic downturn, retail is the first sector to suffer, but since food is a big part of our line of business, we should be well protected. Food is safe. Maybe you'll eat less in quantity, or choose less-expensive foods, but one still needs to eat. Since we have this balance, we believe our Group is diversified enough for any economic turnaround. And as I said at the beginning, we always make sure to grow sustainably and responsibly, never at the expense of our existing business."

"In the long-term this is going to yield a positive return on investment, pay off the debts we incurred, and render a profit. It's a win-win situation for us, for our clients, and for Inditex."

