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Earnings Outlook: Investors await outlooks from Wal-Mart, Home Depot

By Andria Cheng

NEW YORK (MarketWatch) -- Against a broad pickup in consumer demand, Dow components Wal-Mart Stores Inc. and Home Depot Inc. both are expected to report an increase in first-quarter profits on Tuesday.

Investor attention, however, is likely to focus on the companies' outlooks for the second quarter and for the rest of the year after retailers such as Lowe's Cos., J.C. Penney Co. and Kohl's Corp. gave profit outlooks that either fell short or may miss Wall Street expectations.

On Tuesday, Home Depot's (NYSE:HD) smaller rival Lowe's (NYSE:LOW) said it doesn't expect "significant growth" until 2011 as it cautioned the timeline of the economic recovery may be pushed out. See story on Lowe's warning recovery may be pushed out.

Investors also were concerned that retailers are starting to increase capital and other spending again while the pace of their sales growth is still uneven, analysts said. Meanwhile, product costs are increasing. For instance, Lowe's cited increasing lumber costs that it wasn't able to pass on to consumers immediately.

"We are going to see a lot more [cautious remarks] this week," said Telsey Advisory Group analyst Joe Feldman in an interview. "Expectations have been pretty high heading into earnings. Some of the commodity costs are starting to pick up. All these guys [also] are facing tougher comparisons."

Bentonville, Ark.-based Wal-Mart (NYSE:WMT), the world's largest retailer, is expected to report that first-quarter profit excluding items rose to 84 cents a share on sales of \$98.3 billion, according to the average estimate of analysts surveyed by FactSet. That compares with earnings of 77 cents a share a year ago, FactSet data showed.

The FactSet poll showed Atlanta-based Home Depot will likely see profit increasing to 40 cents a share from 35 cents a share on sales of \$16.4 billion.

Wal-Mart

In February, Wal-Mart had projected adjusted profit of 81 cents to 85 cents a share in the first quarter and \$3.90 to \$4 a share for the year. It said at the time that first-quarter U.S. sales would be "more challenging" as they faced strong year-earlier comparisons and deflation. It projected comparable store sales without fuel to be flat, plus or minus 1%. That compared against a 3.6% increase during the same period a year ago.

Wal-Mart, the world's largest retailer, has counted on international growth, from the U.K. to China, to help further its gains. However, the dollar's rise against currencies such as the euro and the pound may limit some of the translated overseas growth, analysts said.

Meanwhile, in the U.S., Wal-Mart is remodeling stores to make aisles wider and sightlines lower to make it easier to shop. The company also has added more name-brand merchandise such as LG electronics as part of its strategy to keep higher-income customers that it won over in the recession.

Wal-Mart also plans to introduce 3-D televisions before the crucial holiday season this year to be considered a serious player in the electronics space. See full story on Wal-Mart planning 3-D TV this year.

It also has cut prices on thousands of consumables items in its so-called "rollbacks" as it seeks to stay competitive against increased competition from rivals from Target Corp. (NYSE:TGT) to Family Dollar Stores Inc. (NYSE:FDO), analysts said.

For its Sam's Club chain, Wal-Mart has said it plans to shut 10 underperforming locations, cutting about 1,500 jobs as a result. The company has said it plans to cut more than 11,000 jobs at the wholesale club chain to outsource its product sampling and demonstration jobs and eliminate the positions that help drive new business memberships.

Home Depot

No. 1 U.S. home-improvement retailer Home Depot in February projected profit of \$1.79 a share for the year with comparable sales increasing about 2.5%.

Like Lowe's, analysts said Home Depot likely will report a pickup in demand for bigger-ticket items. The company also should benefit from warmer weather that boosted demand for landscaping and other outdoor merchandise, analysts say. The government's first-time homebuyer credit program and rebates for energy efficient appliances that have benefited Lowe's also should show up in Home Depot's results, analysts said.

"The concern with Lowe's is they got some of the benefit that is one time in nature," Feldman said. "There are some concerns that Home Depot will say something similar."

Other retailers also scheduled to report Tuesday include luxury retailer Saks Inc. (NYSE:SKS), off-price retailer TJX Cos. (NYSE:TJX) and teen retailer Abercrombie & Fitch Co. (NYSE:ANF).