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Wal-Mart beats expectations

By Andria Cheng

NEW YORK (MarketWatch) -- Wal-Mart Stores Inc. on Thursday topped analyst expectations with its fiscal second-quarter results, and offered a slightly more upbeat forecast for the rest of the year.

Net income came in at \$3.44 billion, or 88 cents a share, vs. \$3.45 billion, or 87 cents a share, in the same period a year earlier. Revenue including membership income in the quarter ended July 31 fell 1.4% to \$100.9 billion from \$102.3 billion.

The company said currency exchange rates hurt its profit by 4 cents a share and dented international sales by about \$4.2 billion alone.

Analysts surveyed by Thomson Reuters had estimated that the Bentonville, Ark., company would make 86 cents a share on sales of \$103.1 billion. Wal-Mart in May forecast per-share profit of 83 cents to 88 cents a share.

Walmart U.S. same-store sales fell 1.5%, missing the company's projection of their being flat to up 3%.

Wal-Mart raised the bottom end of its full-year profit forecast to \$3.50 to \$3.60 a share from \$3.45 to \$3.60.

Per-share profit for the third quarter is forecast to be 78 cents to 82 cents a share, including a three-cent-a-share negative impact from currency exchange rates. Analysts surveyed by Thomson have been estimating a profit of 80 cents a share in the third quarter and \$3.56 for the year.

The company said it will be "accelerating" its cost-cutting efforts.

The recession has made Wal-Mart a winner with increasingly budget-conscious shoppers -- helping the retailer outperform rival Target Corp. and winning new customers trading down on groceries and consumables, analysts said.

"Wal-Mart is still poised to capture market share," said David Abella of Rochdale Investment Management, whose \$2.4 billion in assets under management include Wal-Mart shares.

But the company also faced some of the same headwinds that were hurting its rivals, analysts said. For one, Wal-Mart has said results would be hurt by the lack of last year's stimulus checks, which helped bolster its results at the time.

Chief Executive Mike Duke said on a pre-recorded call that a stronger dollar year over year also ate into Wal-Mart's currency-adjusted overseas sales, while year-over-over declines in the prices of gasoline and moderating food costs also didn't help.

Sam's Club comparable sales rose 0.6% excluding fuel, within the range of the company's earlier forecast. Wal-Mart said on a pre-recorded call Thursday that Sam's Club, which has been hurt by the fuel price, continued to see the negative impact in the third quarter before it anticipates an improvement in the fourth quarter.

Wal-Mart rivals Costco Wholesale Corp. and BJ's Wholesale Club Inc. reported sharper-than-expected July same-store sales declines last week, hurt by lower food costs and gasoline prices and weakness in big-ticket purchases.

The rate of cost increases for commodity food products, including eggs and milk, has slowed to a year-to-date increase of about 4%, compared with the full-year growth rate of 5.5% in 2008, said analyst Joe Feldman of Telsey Advisory Group.

With about two-fifths of the company's business in grocery and other consumable products, moderating cost increases translate to lower selling prices, which in turn mean lower sales, analysts said.

Industrywide second-quarter retail earnings probably declined an average of 10.3%, a record ninth straight quarterly profit decline, Retail Metrics estimates. That compares with declines of 27% in the fourth quarter and 12% in the first quarter.

The improvement was attributed to retailers' efforts to control costs and inventory as they face easier comparisons from last year, analysts said.

Still, as the prospects for the economy improve, Wal-Mart shares, a top performer last year, have lagged the industry average. Wal-Mart shares declined 9.9% this year through Wednesday, compared with the S&P Retail Index, which has risen 31%.

To keep the new customers it's won in the recession, Wal-Mart has been remodeling its stores with wider aisles and more color-coordinated signs and assortments.

Its revamped lineup includes relaunching its Great Value private-label food and consumables products and adding exclusive Miley Cyrus & Max Azria clothing for teens.

The company also has updated its electronics merchandise, including for the first time selling a branded laptop with 3 gigabytes of memory for under \$300.