



Wal-Mart holiday sales dip

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By Nicole Maestri

SAN FRANCISCO (Reuters) - Wal-Mart Stores Inc <WMT.N> posted a drop in holiday sales at U.S. stores and gave a disappointing profit outlook, casting doubt on its ability to keep shoppers won in the recession.

The world's largest retailer enjoyed sales growth and higher traffic in the depth of the U.S. downturn as consumers sought bargains. But as confidence picks up slightly, shoppers may be heading back to Wal-Mart rivals.

"The fact that their discretionary sales remained under pressure while improving at other retailers lately, investors are likely to question if people are trading back up," said Telsey Advisory Group analyst Joseph Feldman.

Wal-Mart shares fell 1.6 percent on Thursday.

The company acknowledged that its U.S. operations still face weak sales. Excluding fuel, it forecast flat sales at stores open at least a year, within a range of up 1 percent to down 1 percent, in the current quarter.

"U.S. sales will be more challenging in the first quarter, as Walmart U.S. cycles through strong year-over-year comparisons and deflation," Chief Executive Officer Mike Duke said. "We remain focused on growing top-line sales and expect improvement in the United States as the year progresses."

Despite starting its holiday campaign in October and cutting prices every week until Christmas, Wal-Mart said traffic fell in its U.S. stores during the quarter, and sales of discretionary items like home goods were soft. Falling prices for food and electronics also weighed on revenue.

Many other retailers, including TJX Cos Inc <TJX.N> and Kohl's Corp <KSS.N>, have raised their earnings forecasts recently, citing better-than-expected holiday sales.

Shawn Narancich, vice president of research for Ferguson Wellman Capital Management, said he was disappointed with Wal-Mart's U.S. same-store sales.

"There's a question as to when disposable income improves, whether Wal-Mart loses the traffic that is so important to their sales over time," said Narancich, whose firm owns Wal-Mart shares.

PROFIT BEATS, SALES FALL SHORT

Eduardo Castro-Wright, head of the company's U.S. operations, said Walmart customers remained focused on high unemployment levels, a factor that could be weighing on sales.

The number of U.S. workers filing new applications for unemployment insurance unexpectedly surged last week, dealing a setback to hopes that the economy was on the verge of job growth, according to data released on Thursday.

Wal-Mart's program to overhaul stores hurt sales during the quarter as shoppers adjusted to new store layouts and product selections, Chief Financial Officer Tom Schoewe told reporters.

Profit for the fourth quarter that ended January 31 rose to \$4.63 billion, or \$1.21 per share, from \$3.79 billion, or 96 cents per share, a year earlier.

Earnings per share, excluding a restructuring charge and a tax benefit, were \$1.17, ahead of a Wall Street forecast of \$1.12.

Sales rose 4.6 percent to \$112.82 billion, below analysts' expectations of \$114.36 billion.

U.S. same-store sales fell 1.6 percent, rising 0.7 percent at the Sam's Club warehouse division, but declining 2 percent at Walmart stores. The company had forecast U.S. same-store sales to be flat, plus-or-minus 1 percent.

Total industry sales rose 1.1 percent in November-December, according to the National Retail Federation.

LAGGING OTHER RETAIL STOCKS

Wal-Mart stock was one of only two components in the Dow Jones Industrial Average <.DJI> to rise in 2008 as investors sought a safe haven from the weakening economy.

But at Wednesday's close, the company's shares had fallen 3.6 percent since the start of 2009 on investor concerns about Wal-Mart's prospects in an improved economy, while the S&P Retail Index <.RLX> was up 47 percent.

Ferguson Wellman's Narancich said he would keep a close eye on Wal-Mart's sales for signs of shopper retention, particularly as the dampening effect of a sharp drop in food and electronics prices abates.

By the end of the fourth quarter, the retailer had renovated 1,200 of its 3,550 U.S. stores under its "Project Impact" program. It expects to revamp about 600 more by the end of the third quarter.

For the first quarter, Wal-Mart expects earnings per share of 81 cents to 85 cents from continuing operations. Analysts were expecting 85 cents.

For this fiscal year, Wal-Mart forecast earnings per share of \$3.90 to \$4.00. Analysts expected \$3.97.

Separately, Wal-Mart's Asda chain posted its lowest quarterly sales growth in about two years, citing a heavy focus on limited-time price promotions. Asda is the No. 2 grocer in Britain.