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Costco and Family Dollar beat expectations

SAN FRANCISCO (Reuters) - Family Dollar Stores Inc and Costco Wholesale Corp both reported better-than-expected quarterly profits on Wednesday and said sales improved in September from preceding months, boosting investor confidence in the discount retail sector.

Shares of Costco rose 2.6 percent in early trading, while Family Dollar gained 2.7 percent.

"We're not out of the woods yet," said Telsey Advisory Group analyst Joseph Feldman, but "sequentially (sales) continue to get gradually better."

Quarterly profit fell at Costco, the No 1 U.S. warehouse club operator, as shoppers continue to cut back on purchases of discretionary merchandise, like jewelry.

But the decline was not as steep as Wall Street expected.

For the fourth quarter ended August 30, Costco said earnings fell to $374 million, or 85 cents a share, from $398 million, or 90 cents a share, a year earlier. Analysts on average were expecting 77 cents per share, according to Thomson Reuters I/B/E/S.

Robert W. Baird & Co analyst Peter Benedict said Costco benefited from better cost controls as well as declines in interest expense and its tax rate.

Costco said sales at its clubs opened at least a year rose 1 percent in September, while analysts were expecting a decline of 0.7 percent, according to Thomson Reuters data. The results marked an improvement from August, when its same-store sales fell 2 percent.

Family Dollar reported a 13 percent rise in quarterly profit as frugal shoppers sought low prices at its stores.

The company, which sells most of its merchandise for $10 and below, estimated that same-store sales in September increased approximately 5 percent. In its just-completed fourth quarter, same-store sales rose 1 percent.

"We believe that the current consumer focus on saving money will remain strong in 2010," Chief Executive Officer Howard Levine said in a statement.

For its current fiscal year, Family Dollar said it expected net sales to rise 5 percent to 7 percent, with same-store sales up 3 percent to 5 percent. It plans to open about 200 new stores.

The company forecast full-year earnings of $2.15 to $2.35 per share on stronger sales of food and other consumable items, and more private-label offerings. Analysts on average expect $2.25.