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Wal-Mart profit rises, but holiday view light

By Nicole Maestri

SAN FRANCISCO, Nov 12 (Reuters) - Wal-Mart Stores Inc posted a higher-than-expected quarterly profit on Thursday, but forecast earnings during the key holiday quarter that could miss Wall Street estimates as its customers face rising unemployment.

Wal-Mart, whose shares rose 1 percent, is defending its title as the low-price leader ahead of the holidays, a strategy that could also weigh on results. It has repeatedly sparred with rivals from Amazon.com to Target Corp in slashing prices for items ranging from toys to books.

Executives at the world's largest retailer said on Thursday that its shoppers were still worried about the U.S. economy, including double-digit unemployment levels, despite signs the country was returning to growth.

"Customers continue to tell us they're concerned about their own finances and unemployment," Wal-Mart U.S. chief Eduardo Castro-Wright said on a prerecorded call. "We recognize that some customers may be more cautious in their holiday spending."

A report by the U.S. government on Thursday showed the number of U.S. workers filing new claims for jobless insurance fell to the lowest since January, pointing to improvements in the labor market.

Wal-Mart Treasurer Charles Holley told reporters that consumers would need to see a sustainable drop in the unemployment rate before they would feel more optimistic.

For the fourth quarter, which ends Jan. 31 and includes the holiday shopping rush, Wal-Mart forecast earnings per share of \$1.08 to \$1.12 from continuing operations. Analysts on average expected \$1.12 a share, according to Thomson Reuters I/B/E/S.

It expects U.S. comparable-store sales for the 13 weeks that will end Jan. 29, 2010, to be flat to plus-or-minus 1 percent. A year ago, sales on that basis rose 2.4 percent.

While the sales forecast appeared weak, Telsey Advisory Group analyst Joseph Feldman said much of it was due to falling food prices -- a significant drag for Walmart, the largest food retailer in the United States.

"Stripping out deflation... sales were actually pretty decent and they are taking market share," he said.

Wal-Mart shares rose 1 percent to \$53.50 in early afternoon New York Stock Exchange trading. Target fell 2 percent, while Amazon gained 0.8 percent.

LOWER INVENTORY HELPS FUEL PROFIT RISE

Profit for the third quarter that ended Oct. 31 rose to \$3.23 billion, or 84 cents per share, from \$3.14 billion, or 80 cents per share, a year earlier. Analysts expected 81 cents a share, while Wal-Mart had forecast earnings from continuing operations of 78 cents to 82 cents per share.

Chief Executive Officer Mike Duke cited increased productivity and improved inventory management for the better-than-forecast result. Castro-Wright said inventory in its U.S. Walmart stores was down 6.2 percent -- or the equivalent of reducing inventory by \$1.8 billion in its stores and distribution centers in the last 12 months.

Walmart has been stocking less merchandise as part of its Project Impact initiative -- trying to make stores easier to navigate by reducing clutter and widening aisles.

Sales rose 1.1 percent to \$98.67 billion, while analysts were expecting \$99.88 billion.

Total U.S. comparable-store sales slipped 0.4 percent, with sales rising 0.1 percent at its Sam's Club warehouse division but falling 0.5 percent in its Walmart stores. It had forecast U.S. same-store sales to be flat to up 2 percent.

Castro-Wright said price deflation was "well beyond" what Walmart expected in many categories, including electronics. Sam's Club CEO Brian Cornell said his division had to contend with falling prices in key categories such as dairy, produce and electronics.

The retailer expects food deflation to abate by the end of its fiscal first quarter.

Duke said the company was encouraged by shopper traffic in its stores and market-share gains, while Holley said it is retaining the new customers it attracted in the recession.

The company also posted a 9 percent rise in quarterly underlying profit at its international businesses, outperforming its U.S. operations with strong growth in Britain, Mexico and Brazil.

Sanford Bernstein analyst Colin McGranahan said Wal-Mart's earnings forecast was probably conservative, and it could yet deliver results that exceed those numbers.

"They are kind of in the driver's seat, and they've made it very clear they will be aggressive," he said.

"They will be driving down prices ... We may see a little less gross margin expansion going forward."

(Reporting by Nicole Maestri in San Francisco and Michele Gershberg in New York; Editing by John Wallace, Maureen Bavdek, Tim Dobbyn)