

Wal-Mart's Sales Slowdown May End of Best-of-Dow Run (Update1)
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(Updates share price in fifth paragraph.)

By Chris Burritt

Aug. 8 (Bloomberg) -- Wal-Mart Stores Inc.'s run as this year's best-performing Dow Jones Industrial Average company may end after the world's largest retailer said sales growth will slow this month.

Wal-Mart declined 6.3 percent yesterday, the steepest drop since 2002, after it said sales in stores open at least a year may rise as little as 1 percent, which would be the smallest gain in five months. The company said most shoppers had spent the U.S.

tax rebates that spurred sales.

``The stock has risen a lot, and the probability is pretty low that it keeps growing at that rate,'' Don Yacktman, who oversees \$900 million at Yacktman Asset Management Co., said in an interview. The Austin, Texas-based firm sold 80,000 Wal-Mart shares, or half of its holding in that stock, since April.

Wal-Mart had climbed 28 percent this year before yesterday, compared with the 30-company Dow's 14 percent drop. After yesterday's decline, Bentonville, Arkansas-based Wal-Mart had a gain of 20 percent, just ahead of International Business Machines Corp.'s 19 percent increase.

Wal-Mart advanced 45 cents to \$57.41 at 9:44 a.m. in New York Stock Exchange trading.

Chief Executive Officer H. Lee Scott and Eduardo Castro-Wright, the U.S. stores chief, weren't available for interviews before quarterly earnings Aug. 14, Wal-Mart spokesman John Simley said yesterday.

Spending of tax rebate checks, part of the government's attempt to rejuvenate the economy, helped produce Wal-Mart's biggest same-store sales gains of the year in May, with a 3.9 percent increase, and June, with a 5.8 percent jump.

Steep Discounts

The company lured shoppers battered by soaring gasoline and food costs with \$4 prescriptions and discounts on groceries and flat-screen televisions as steep as 30 percent.

Total sales in the first half of the fiscal year that started Feb. 1 climbed 9.6 percent. Total sales in July increased 9.4 percent.

``We are seeing the end of a catalyst,'' Lauri Brunner, a Minneapolis-based analyst for Thrivent Asset Management, said yesterday in a Bloomberg Radio interview. Thrivent manages \$73.2 billion in assets, with 1.5 million Wal-Mart shares through June.

``August represents even further deceleration,'' Mark Miller, an analyst with William Blair & Co., wrote yesterday in a note to clients. Wal-Mart's forecast of same-store sales growth of 1 percent to 2 percent this month trails his third-quarter estimate of 2.5 percent.

Miller cut Wal-Mart to ``market perform'' from ``outperform'' yesterday on the view that the retailer's sales and profit growth will slow.

Off Course

Investors had put the shares on course for their biggest annual gain in nine years. The stock, still headed for its best performance since 1999, is unlikely to duplicate its first-half gains, said Jeffrey Malcom, a portfolio manager at Horan Capital Management.

Reflecting the skepticism about the shares, more stock had been sold short last month than at any time this decade. Short sellers borrow stock to sell in the hopes of buying the shares back later at a cheaper price.

Wal-Mart may advance 12 percent in 12 months, based on the average of analyst target prices compiled by Bloomberg. That compares with the 20 percent average share-price gain predicted for the companies traded on the Standard & Poor's 500 Retailing Index.

``As they get bigger in the U.S., they're going to have to look elsewhere for growth, which is no easy feat,'' Yacktman said in the Aug. 6 interview.

Domestic Dependence

Wal-Mart generates 24 percent of sales overseas, leaving it reliant on the U.S. while it slows construction of supercenters that sell groceries and general merchandise. The retailer said in June it plans to increase square footage of stores by 5 percent to 6 percent this fiscal year, down from 7.7 percent growth last year.

Yesterday's decline may present a chance to invest in a stock that is still valued at less than Costco Wholesale Corp., whose shares trade at 23 times earnings, compared with Wal-Mart's 16 times.

``I would be a buyer on this weakness,'' David Abella, a portfolio manager at Rochdale Investment Management LLC in New York, said yesterday in a Bloomberg Television interview. The firm manages \$2.5 billion, including Wal-Mart shares.

Wal-Mart is positioned to grab ``frugal consumers'' with discounts, better stores and improvements in merchandising of clothing and home fashions, said Bill Dreher, a Deutsche Bank Securities Inc. analyst in New York. He is one of 19 analysts who recommend buying the stock. Seven rate the shares ``hold,'' and one says ``sell.''

Retrenching

``Wal-Mart was in the right place when the consumer started retrenching, and some consumers are still switching to its stores,'' said Rick Jones, an analyst at Durham, North Carolina-based NCM Capital Management Group Inc. ``But the valuation of the stock reflects that.''

NCM, which has \$3 billion under management, sold 335,826 Wal-Mart shares in the second quarter, leaving it with 631,600 shares.

Towson, Maryland-based Horan, with assets of \$450 million, has sold all but 50,000 of its 370,000 Wal-Mart shares since the fourth quarter. It's buying shares of Home Depot Inc. and Lowe's Inc., the two biggest home improvement chains, which have reported lower profit since last year because of the U.S. housing slump.

``As Wal-Mart took off, others fell down around it,'' Malcom said. Home Depot and Lowe's ``are much more beaten up and a better home for the money.''

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