

Warehouse proves recession-proof as margins grow

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Warehouse proves recession-proof with margin growth, special div; stock jumps

By Jonathan Underhill

Sept. 11 – Warehouse Group Ltd. shares jumped more than 5% after the biggest retailer on the NZX 50 Index reported its first margin growth in four years and announced a special dividend, underlining its ability to maintain profitability in the midst of recession.

Profit before unusual items rose to \$85.2 million in the 53 weeks ended August 2, from \$80.9 million a year earlier, Auckland-based Warehouse said in a statement. That beat Forsyth Barr analyst Guy Hallwright's \$83.5 million estimate. The profit margin at its Red Sheds widened to 7.9% from 7.4%, while sales fell 0.8% to \$1.72 billion.

The shares rose 5.2% to \$4.25 and have gained 15% this year. Chief executive Ian Morrice said that given the "very difficult trading environment" the company is focusing on lifting gross margins, managing inventory and keeping a rein on costs. It will pay a special dividend of 10 cents a share together with an unchanged 5.5 cents final dividend.

Warehouse "offers the very attractive prospect of being able to turn its intrinsic advantages of scale and market share into highly defensible, ongoing incremental earnings growth," said Nick Dravitzki, manager of NZ Funds Management's Dividend Yield Portfolio.

"Management seems to be clearly focused on using the company's hard-won market power to provide investors with great returns," he said in a note today.

Chairman Keith Smith gave no guidance for the current year, saying "consumer spending is expected to gradually improve over the next 12 months but uncertainty remains as to whether the present upturn will be sustained."

Warehouse will give a sales update for the first quarter of 2010 on Nov. 1, he said.

In the year through June, net profit fell 15% to \$76.8 million, reflecting a \$7.4 million charge to exit fresh food and liquor.

Figures yesterday showed New Zealand consumers increased spending on debit cards last month, with a pick-up in sales of big ticket items such as furniture and hardware. Figures from Paymark, which processes more than 75% of the nation's electronic transactions, show a 0.7% increase in last 28 days of August, the second monthly advance of that size.

The Treasury this week predicted the economy is climbing out of recession this quarter, reviving from the worst slump in more than 30 years.

Warehouse's overall profit margin narrowed by 70 basis points to 4.5% on a slump in profitability at its Warehouse Stationery outlets.

At Warehouse Stationery, full-year operating profit tumbled 69% to \$1.6 million, reflecting the impact of the

recession on big-ticket items such as office furniture and technology products, it said. Sales fell 6.2% to \$187 million.

Operating profit at the Red Sheds gained 6.6% to \$120 million, as sales slipped 0.2%.

Warehouse strengthened its balance sheet in the latest year. Net debt dropped to \$47.2 million from \$139.6 million and gearing reduced to 12.8% from 29.4%.

The shares are rated a 'hold,' according to the consensus of 10 analyst recommendations compiled by Reuters.

NZ Funds' Davitzki said that with low debt levels, its adjusted price-to-earnings ratio is less than 15 times, "cheap for a business with such market power."

(BusinessWire)

Warehouse shares jump on 'recession-proof' profit result

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12:00PM Friday Sep 11, 2009

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