



Poor Weather Hurts Rona

Description

No one has been a fan of the frigid Canadian temperatures this winter. But **Rona Inc.** (TSX:RON) investors are feeling especially bitter about the cold after the company reported disappointing earnings numbers today.

The company lost one cent per share in the fourth quarter of 2013, with sales being held back by poor weather. On an adjusted basis, Rona earned four cents per share, well below the general analyst estimate of 10 cents. The company's shares fell by as much as 8.2% on the news.

Terrible weather is only the latest issue for a company that has had a series of problems. Rona has had a poor macroeconomic environment, especially in Quebec, its largest market. The company has also had to face fierce competition from American competitors such as **Home Depot** ([NYSE:HD](#)) and **Lowes** ([NYSE:LOW](#)), as well as more established Canadian retailers like **Canadian Tire** ([TSX:CTC.A](#)).

Today's results represent the 14th straight quarter of declines in same-store sales. The stock, which at one point traded at \$25 in 2007, has now fallen below \$12 after the most recent earnings disappointment.

If there is any good news for Rona and its investors, it revolves around CEO Robert Sawyer's turnaround strategy. He has already shut down underperforming stores, scaled down the head office, and closed the professional business unit. Hundreds of employees have been laid off. Mr. Sawyer is credited with turning around **Metro Inc** ([TSX:MRU](#)), and thus may be the perfect candidate to turn around Rona as well.

Mr. Sawyer's goal has been to achieve \$110 million in cost savings. He said that he is pleased with Rona's progress, and that the \$110 million number was achieved in Q4 (on an annualized basis). But judging by Rona's stock price, his comments fell on deaf ears.

Foolish bottom line

The problem for Rona is that even with all of its restructuring efforts, many fundamental problems will

remain. Growth will be difficult to come by, and competition will remain fierce. Rona also will not be an acquisition target after the Quebec government blocked a Lowes takeover attempt back in 2012.

The shares have certainly fallen severely, creating a great opportunity for anyone who believes in Mr. Sawyer and his turnaround plan. But much like Canadian winters, Rona's troubles will not end as quickly as everyone would like them too.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:HD (The Home Depot Inc.)
2. NYSE:LOW (Lowe's Companies, Inc.)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)
4. TSX:MRU (Metro Inc.)

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