Lowe’s Companies, Inc. Misses Another Round of Projections: Investors Concerned

Description

Lowe’s Companies, Inc. (NYSE:LOW), owner of Canadian hardware retailer Rona, has announced lower projections for fiscal year 2016 after two prior forecasts which showed rosier 2016 projections. The company has struggled in hitting its guidance estimates in contrast to its major competitors, such as **Home Depot**, which recently beat expectations with its Q3 earnings release and increased forward guidance for 2016.

Here’s why.

Store traffic remains slower than expected in Q3

Lowe’s notes in its third-quarter financial statements that the company “expected moderation in the second half of the year, [but] traffic slowed more than we anticipated in August and September before improving in October, which put pressure on our profitability in the quarter.” This slower than anticipated in-store traffic was offset partially by an increase in the average sale of 2.2%.

The company is operating in a mature industry with slowing sales, and this softening of traffic has been partially responsible for the company’s recent decline in stock price. The stock price of Lowe’s has dipped over 20% from its peak this past summer.

Overseas partnerships continue to be a drag on Lowe’s earnings

In the recent financial statements release, CEO Robert Niblock noted, “While we have made progress in driving productivity in recent years, we are in the process of evaluating meaningful incremental opportunities to drive shareholder value while continuing to meet customers’ needs in an omni-channel environment.”

This quote is a direct reference to the failed opportunities pursued in recent years, most notably a partnership in Australia, which resulted in a $290 million write-down in this most recent quarter. The partnership was with Hydrox, a company which operated a chain of hardware and home improvement stores throughout Australia, for which the company owned a one-third interest. The other party to the deal has similarly written down its ownership interest, initiating the winding down of the joint venture.

Where the company is going from here

Despite the recent negative news and forward earnings downgrade, Lowe's continues to remain committed to returning value to shareholders–something I view as a long-term positive.

The company has announced that it has repurchased approximately $550 million of its stock during its repurchase program this past quarter; it also noted the $309 million in dividends it distributed to investors as well. For the fiscal year-to-date, Lowe's has repurchased almost $3 billion of stock and delivered $815 million of dividends to investors. The payout ratio of the company is healthy, and the company returns the majority of its earnings to shareholders.

How the company performs over the coming quarters will be worth watching. I view the current policy of returning value to shareholders very positively, but it remains to be seen if the company can maintain earnings growth moving forward–the largest risk I see in the near future.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:LOW (Lowe's Companies, Inc.)

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chrismacdonald