Price-cutting plan keeps squeeze on Loblaw profit

Susan Taylor, Reuters
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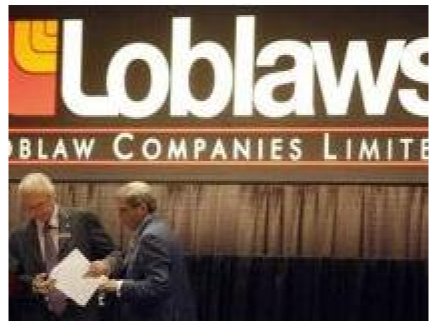
OTTAWA (Reuters) - Fourth-quarter adjusted profit at Loblaw Cos Ltd fell nearly 16 percent, Canada's biggest grocer said on Thursday, as it continued slashing prices to keep customers amid tougher competition.



CREDIT:

Former Loblaw's Chairman Galen Weston (L) gathers his notes as former President John A. Lederer (R) walks to the podium to address the annual general meeting of the grocer's shareholders in Toronto, May 4, 2006. REUTERS/J.P. Moczulski

Company executives said they shared in the disappointment of a second consecutive quarter of lower earnings, but defended their strategy as a sustainable and effective way to drive sales growth.

Price-chopping will continue to pressure earnings in 2008, but cost-cutting and efficiency gains are seen removing some of that sting, the company said without giving a detailed forecast.

"Turnarounds like this are not easy," Chief Executive Galen Weston said on a conference call. "The plan is working and we remain confident of delivering in the three- to five-year time frame.

Adjusted for one-time items, fourth-quarter earnings fell to 43 Canadian cents a share from 58 Canadian cents a share. On average, analysts had expected a profit of 55 Canadian cents a share, according to Reuters Estimates.

"There is light here -- but getting people into the stores is only half the battle. Selling the stuff at a profit is the other and they're not able to do that yet," said ***Peter Holden***, an analyst at ***Veritas Investment Research.***

"The proof of the pudding is in the eating, so I'll really believe in management when they can show me growth and improved margins."

Without last year's huge writedown from its Provigo grocery chain acquisition, net earnings swung to a profit of C$40 million, or 14 Canadian cents a share. In the same period last year, Loblaw lost C$756 million, or C$2.76 a share.

Controlled by food distributor and processor George Weston Ltd , Loblaw has been slashing prices as Wal-Mart expands food sales in Canada.

"The company views its commitment to lower prices as sustainable and necessary," Weston said. "Cost remains a critical focus for management in moving forward ... we've made some progress in that area, but we need to make a lot more."

MARGINS SLIDE

Loblaw said revenue rose 2.7 percent in the quarter to C$6.9 billion as same-store sales increased 2.6 percent.

But gross margin declined by about C$60 million, representing 0.9 percent of sales, largely due to price reductions and changes in the sales mix.

Food and pharmacy sales were higher, while general merchandise sales fell as the company developed inventory control, product mix and discount strategies.

Loblaw is overhauling its supply chain, closing some stores, slashing prices, and cutting 1,000 jobs in an effort to improve results.

The company recorded a string of related quarterly charges, including C$19 million for job cuts and severance, about C$12 million in consulting fees and C$7 million for supply chain restructuring.

Wal-Mart, which is opening a growing number of Canadian supercenters that sell food, is also seen hurting Empire Co's Sobeys grocery chain and the Metro chain.

"Let's not get too carried away about Wal-Mart. Wal-Mart is now something like 3.5 percent of grocery sales in Canada and the general consensus seems to be it can double over the next 5 years, which would move to 7 percent," said ***Holden.***

"It's not as if Wal-Mart is coming in and going to use up all the oxygen and stop anybody else from growing."

After early declines, Loblaw stock rallied 1 percent higher to C$31.13 on the Toronto Stock Exchange. The shares have fallen about 40 percent in the last 12 months.

($1=$1.01 Canadian)

(Reporting by Susan Taylor; Editing by Rob Wilson)