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H&M Slides Most in Almost Two Years as Profit Misses Estimates
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By Armorel Kenna

Sept. 29 (Bloomberg) -- Hennes & Mauritz AB, Europe's second-largest clothing retailer, fell the most in almost two years in Stockholm trading after third-quarter profitability missed analysts' estimates.

The shares dropped as much as 6.5 percent, the steepest intraday decline since Dec. 5, 2008.

A 23 percent increase in third-quarter profit was below estimates as the gross margin narrowed. H&M said it increased investment in improving the "customer offering," without being more specific. The retailer may be spending more on production without passing the full cost on to customers, or cutting prices, said Simon Irwin, an analyst at Liberum Capital.

"In some markets, retailers are succeeding in raising prices," Anne Critchlow, an analyst at Societe Generale in London, said in an e-mail. "H&M trades lower down the price scale than most and it is harder to increase prices at the lower end than further up the scale."

Net income climbed to 4.24 billion kronor in the three months through August, from 3.46 billion kronor a year earlier, Stockholm-based H&M said today. That missed the 4.54 billion-kronor average of 17 analyst estimates compiled by Bloomberg.

Gross margin narrowed to 60.5 percent from 61.6 percent a year earlier, H&M said. The consensus estimate was for the margin to widen by 70 basis points, according to Critchlow.

H&M's price investment in the quarter was "much" more than expected, said Liberum Capital's Irwin, adding that the results were 10 percent below his estimates.

Reduced Target

Margin benefits earlier this year from exchange rates, spare capacity at suppliers, transport costs and raw material prices are diminishing, the retailer said.

H&M also cut its store-opening target for the year to 220 from 240, saying the development of some shopping malls had been halted because of the weak economy, mainly in southern Europe.

"The space growth reduction is not something I would lose sleep on," Luca Solca, an analyst at Sanford C. Bernstein, said by e-mail. "I don't see a risk that H&M should reduce its space growth guidance long term."

Third-quarter revenue was 26.89 billion kronor, excluding value-added tax, up 14 percent from a year earlier, H&M said.

August sales at stores and home-shopping units open at least a year rose 14 percent, the biggest increase since May 2008, the retailer also said today. Sales at local-currency rates climbed 24 percent last month and gained 15 percent in the month through Sept. 27, H&M said.

H&M shares were down 15.4 kronor, or 6 percent, to 243.6 kronor at 11:45 a.m. in Stockholm trading. They have risen 23 percent this year,

compared with the 33 percent gain in Madrid of larger Spanish competitor Inditex SA, the owner of the Zara and Massimo Dutti chains. The Spanish retailer last week said net income rose 68 percent, beating estimates.

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