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(Updates with analysts' price estimates in seventh paragraph.)

By Matt Townsend

March 22 (Bloomberg) -- Nike Inc., the world's largest sporting-goods company, surged the most in more than 20 months after easing investors' concerns that its profitability and business in China were weakening.

The shares rose 9.5 percent to \$58.69 at 9:40 a.m. in New York for the largest intraday gain since June 28, 2011. Nike had advanced 3.9 percent this year through yesterday, compared with an 8.4 percent gain in the Standard & Poor's 500 Index.

Price increases enacted last year finally paid off for the Beaverton, Oregon-based company as its gross margin widened for the first time in nine quarters. Meanwhile, the company reported that orders for the Nike brand in China, excluding changes in currency exchange rates, gained after sales there sank 10 percent last quarter for a second straight decline.

"Nike is firing on all cylinders right now," said Brian Yarbrough, an analyst for Edward Jones & Co. in St. Louis, who has a hold rating on the shares. "They've been talking about, for several years now, expecting gross margins to eventually turn. And now it looks like that has played out."

The gain in gross margin came in the fiscal third quarter ended Feb. 28, when earnings from continuing operations rose 16 percent to \$662 million, or 73 cents a share, from \$569 million, or 61 cents, a year earlier, Nike said yesterday in a statement.

Analysts projected 67 cents a share, the average of 20 estimates compiled by Bloomberg.

2014 Forecast

The company gave an initial forecast for fiscal 2014 that was in line with analysts' estimates. Sales will increase in the mid-single-digit percentage range, and adjusted earnings per share will advance a mid-teen percentage. Analysts projected gains on average of 7 percent for revenue and 14 percent for earnings per share.

Several analysts raised their price estimates for Nike following the results. Those included Citigroup Inc.'s Kate McShane, who raised her estimate from \$65 to \$62. Nike is showing earlier signs of improvement in gross margin and China than expected, McShane said yesterday in a note to clients. She has a buy rating on Nike shares.

Orders for the Nike brand in all regions from March to July, excluding currency exchange-rate changes, advanced 7 percent. Analysts projected a gain of 4.7 percent, the average of seven estimates compiled by Bloomberg. A year ago, orders surged 18 percent. The 3 percent gain in orders from China topped estimates for a decline of 4.3 percent, which would have been the third straight drop.

While the increase in China orders is a sign the company is on the right track, sales growth in that region in the current quarter will be slower than growth in orders, Chief Financial Officer Don Blair said on a call with analysts.

Inventory Clearing

The company has blamed its declining sales in China on a glut of apparel and a slowing economy. To revive growth, Nike has been clearing old items with discounts and designing new wares for the market. Because the clearing of inventory will continue and it plans to reduce the amount of clothes shipped into the country, orders won't reflect sales, Blair said.

"While we're making progress, we're not done yet," Blair said. "It's going to take a couple of quarters to work this out."

Revenue last quarter rose 9.4 percent to \$6.2 billion, meeting estimates. While sales declined in China and Japan, Nike's largest market of North America remained a strength, with revenue gaining 18 percent.

Sales in this quarter will increase at a mid-single-digit percentage rate. Analysts projected a gain of 2 percent.

Nike's plan to improve profitability, which included raising prices to counter higher costs for labor and materials, worked as gross margin, or the percentage of sales left after subtracting the cost of goods sold, widened to 44.2 percent from 43.9 percent a year earlier. It forecast an expansion of 0.5 percentage points in this quarter.

Net income in the quarter of \$866 million included a gain of \$204 million from the sale of Cole Haan to Apax Partners.

(Nike held a conference call yesterday to discuss the results. To listen, visit [NKE US <Equity> EVT <GO>](#).)

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