Kingfisher decidedly under the weather as B&Q's LFL sales slump

Kingfisher PLC (LON:KGF) reported a 1.9% drop in like-for-like sales in the second quarter as the DIY stores owner continued to be hit by weak trading in France.

The home improvement retailer, which owns the B&Q and Screwfix stores in the UK and the Castorama and Brico Depot stores in France, said like-for-like sales in France fell 3.3% in the three months to 31 July and fell 1.0% in the UK and Ireland.

Shares decreased 3.57% to 296.44p in morning trading.

Total group sales edged down 1.7%, with declines at B&Q, Castorama and Brico Depot offsetting another quarter of growth at Screwfix, which was boosted by online sales, extended ranges and new outlets.

At B&Q, the company blamed the poor sales performance on tough comparatives in the same period a year earlier when favourable weather helped to lift sales.

ONE Kingfisher turnaround causes disruption
The group's overall performance was also disrupted by its so-called 'ONE Kingfisher' strategy to overhaul the business. Chief executive Véronique Laury said the company remains on track to deliver strategic milestones in the second year of the restructuring.

“Having been very aware that this year would be challenging given the step up in transformation activity, we already have self-help plans in place to support our overall Year 2 performance, though we remain cautious on the H2 outlook for the UK and France as previously guided,” she said.

Kingfisher said it was comfortable with the 2017/18 full year consensus forecast of underlying earnings per share of 26p, compared to 28.8p the previous year.

Kingfisher could be well advised to spin-off French arm, says analyst
Neil Wilson, senior market analyst at ETX Capital, said it was "more of the same" from Kingfisher in the second quarter with an outperformance at Screwfix trying to mask an otherwise "pretty ropey" set of figures across the rest of the group.

"As previously suggested, Kingfisher could be well advised to spin-off its French division," he said. "But as plenty of others have talked about, it may also be time to start considering whether Screwfix is better off going it alone. Common sourcing savings (targeted at £500mln a year by 2021) may be the reason not to go down this route."

Russ Mould, AJ Bell's investment director, was prepared to cut the new management some slack.

"It is still relatively early days for the five-year turnaround programme outlined by chief executive Véronique Laury in..."
January 2016 and investors should resist the temptation to be too hasty in their judgement of the plan," Moiuld said.

"The second half should be a good test, however, of the progress being made, once Kingfisher irons out its product availability problems, especially as France’s economy seems to be finally showing some positive momentum," he added.

Helal Miah, investment research analyst at The Share Centre, said a stellar performance at Screwfix could not offset the 4.7% year-on-year decline in like-for-like sales at B&Q.

"The key disappointment was the group’s French businesses, Castorama and Brico Depot, which collectively saw sales decline by 3.8%. The weaknesses in the French operations is a longstanding theme, the hope was that we could have seen some improvement here as economic sentiment slowly picks up in Europe. Investors may want to note that performance in other international regions was overall flat on sales but Russia was notably weak," Miah said.

"With new management on board, it appears that not much has really changed for Kingfisher. B&Q seems to still be suffering from the trend of consumers moving away from DIY and using professionals, only to be partially rescued by Screwfix, whilst as noted, French operations are persistently weak. Weather related factors will always be an issue that cannot be mitigated but it seems that regular business is being disrupted by restructuring programmes. These disruptions are set to affect the business into the second year of the restructuring plans, but will hopefully fade away. Interested investors should note however, that Kingfisher's management still expect weakness in the second half in both the UK and France.

"There are a few dynamics affecting the prospects of Kingfisher, but one of the key issues will be the pressures faced by the UK consumer of falling real incomes. The retail environment will be increasingly tough to operate in due to price pressures, competition and the transition to online shopping. We remain wary of the sector and would at best recommend Kingfisher as a 'hold' for investors willing to accept a medium level of risk," the analyst concluded.

The shares fell 5.8% in the morning session.

--- adds commentary and share price ---