



[Register](#) [Sign In](#)

Market Views July 11, 2007, 6:49PM EST

Stocks: Housing Woes Cast a Wider Net

It's not just homebuilders. Now, retailers and home-goods manufacturers are feeling the pain as consumers pull in their horns

From [Standard & Poor's Equity Research](#) Cracks that started showing up in the housing market last year are growing wider and deeper. On June 10, two homebuilders and two retailers blamed the housing market's unraveling for worsening outlooks, which led Standard & Poor's Equity Research to lower earnings estimates for the four companies.

On that day, some retailers reported that sales were suffering, as consumers were having a harder time turning their home equity into disposable cash. To date, July-quarter same-store sales, a closely followed retail indicator measuring sales at stores open a year or more,

are down 4% at Sears and 3.9% at Kmart, according to a report from both chains' parent, Sears Holding ([SHLD](#); 3 STARS, hold; \$154) on July 10. The retailer that seeks to "become more relevant to consumers" said that it is losing market share in appliances and electronics—categories linked primarily to the weakening housing market.

S&P equity analyst Jason Asaeda maintained his hold opinion on the shares, but cut his profit forecast and 12-month target price. He lowered his operating earnings estimate for fiscal 2008 ending in January by 40¢, to \$10, and his 12-month target price by \$5, to \$180. "Declines in most categories at both chains were partly offset by gains in women's apparel and footwear at Sears, driven, by what we see as more focused assortments than a year ago," he explained, adding that he believes remerchandising efforts need more time to gain traction. "We expect heavy markdowns this summer. But share buybacks should offer some earnings support," Asaeda said.

Weaker Prospects for Furniture

Meanwhile, S&P equity analyst Tom Smith made similar adjustments to his model for Furniture Brands ([FBN](#); 2 STARS, sell; \$14), the name behind the Thomasville and Broyhill labels, without changing his opinion on the shares. He lowered his 2007 per-share earnings estimate from 25¢ to 20¢, and his 2008 earnings estimate from 75¢ to 65¢. He also reduced his 12-month target price from \$14 to \$13. He applied a bit lower target price-to-book multiple of 1.1 times, toward the low end

of an historical range for Furniture Brands' stock, to his forward book-value estimate near \$12 and reiterated his sell opinion on the shares on July 10.

Smith cited "further weakening of demand for homes" by homebuilders for his lowered 12-month expectations of profits and performance. On June 13, Furniture Brands warned that June-quarter sales would be down 12%, but his outlook for this large furniture maker has "dimmed a bit further."

In fact, the largest U.S. homebuilder forecast a third-quarter loss on July 10 and said there are many signs that new home buyers are becoming more skittish. D.R. Horton ([DHI](#); 2 STARS; \$19) reported June-quarter orders were well below S&P's estimate of \$2.5 billion, totaling just \$2 billion, vs. \$3.8 billion a year earlier. Average selling price per home fell about 12%, which will likely contribute to what the company describes as "significant asset impairments."

Tougher Price Competition

"We view a 38% order cancellation rate as weak even within the context of a multi-year housing industry slowdown," Smith said on July 10. Although he kept his sell opinion on the shares, he lowered his per-share earnings estimates for fiscal 2007 and fiscal 2008, and trimmed his 12-month target price from \$18 to \$17, based on an updated price-to-book analysis.

But Smith went two steps—or STARS—further with his view on another major homebuilder on July 10, lowering his recommendation on Centex ([CTX](#); \$40) from 4 STARS (buy) to 2 STARS (sell). He also took down his earnings estimates for Centex from \$2 to \$1 for fiscal 2008 ending in March and from \$3.35 to \$2 for fiscal 2009. He also cut his 12-month target price from \$60 to \$35. "We are taking a dimmer view of prospects for Centex as peer reports describe intensifying price competition amid a housing industry slowdown we project will last into 2008. Lower average selling prices for homes increase the potential for inventory writedowns, in our view," Smith explained.

Xerox Color. It makes business sense. [Advertising](#) | [Special Sections](#) | [MarketPlace](#) | [Knowledge Centers](#) | [Terms of Use](#) | [Disclaimer](#) |

[Privacy Notice](#) | [Ethics Code](#) | [Contact Us](#)

Copyright 2000-2007 by The McGraw-Hill Companies Inc. All rights reserved.

The McGraw-Hill Companies