Home Retail: world's worst share buy-back?

Nils Pratley on Finance – The Guardian.com

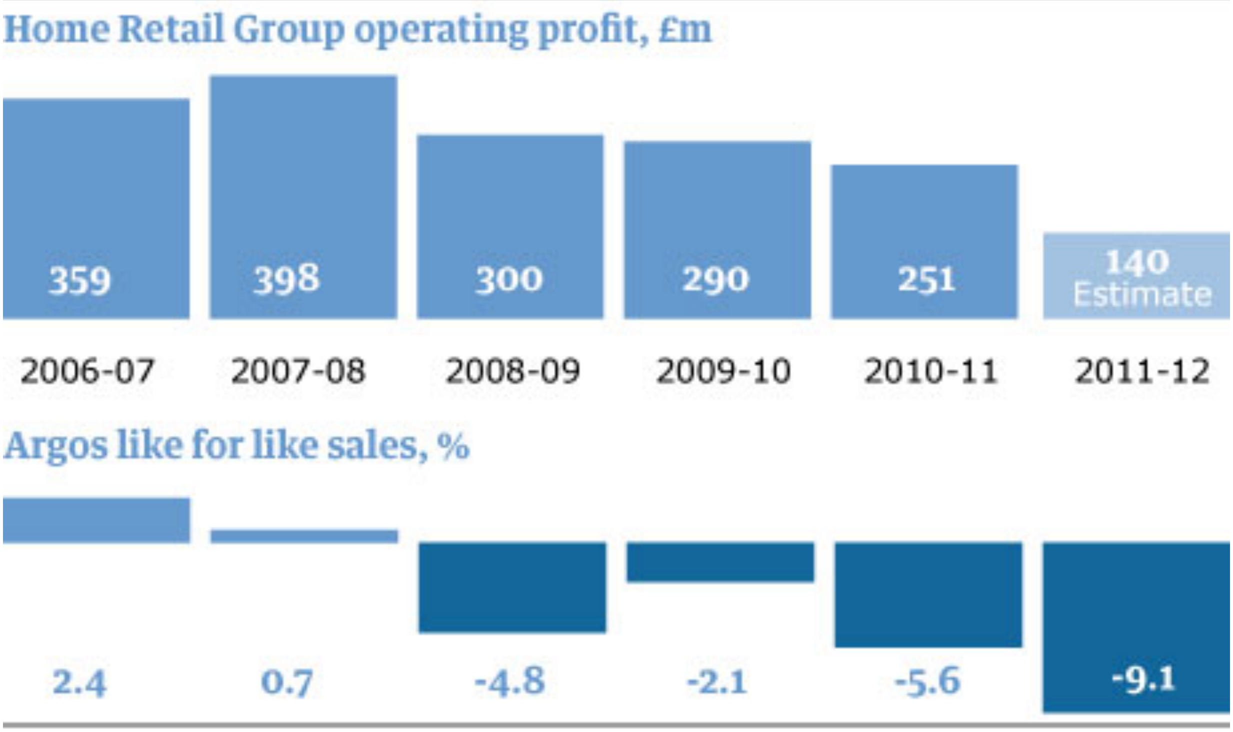
Profits down – yet again. Why did Argos and Homebase group spend £150m on its own shares last year?

There's a new contender today for the title of worst share buy-back. It comes from Home Retail Group, owner of Argos and Homebase, which made this little boast in this year's annual report:

A total of 64,000,000 shares were purchased, for cancellation, at an average price of 233p and a cash cost, including expenses, of £150.2m.

The share price today? 103p, down almost 14%. So 64m shares today would cost £66m. What a waste of shareholders' money.

One can only assume that embarrassment over the buy-back is the reason why Home Retail, after a terrible first-half in which pre-tax profits fell 70% to £28m, has maintained its interim dividend at 4.7p.



Analysts at Liberum call the decision "absurd" and it's hard to disagree since earnings per share at the half-year are just 2.5p. The theoretical dividend yield is 14%, a statistic that says a cut at the full-year stage is virtually guaranteed.

It's not as if Home Retail can dismiss current trading as a blip. The same annual report shows group profit and return on capital falling for three years in a row –- and a fourth year is now on the cards.

As for Argos, today's interim decline in like-for-like sales of 9.1% follows annual falls of 5.6%, 2.1% and 4.8%. The last time the measure was positive was 2007-08 when a mighty +0.7% was achieved. Home Retail was not a company in a position a year ago to declare that its shares were so cheap they could be bought safely.

Update:

Terry Duddy, Home Retail's chief executive, is good enough to say that "if we knew then what we know now, we wouldn't have taken the same type of view" about a share buy-back. The rationale at the time, he says, was that the company had £400m in cash and institutional shareholders were screaming for some of it to be returned to investors. Yes, fund managers always take that line, and in Home Retail's case there was probably a fair argument that £400m was too much to carry around.

But, come on, a special dividend would surely have been a more sensible method of distribution. Unless companies have a high level of confidence about future earnings, and can be certain that their shares are fundamentally cheap, buy-backs will almost always be a riskier option than special dividends.

It is hard to see how any mainstream UK retailer in 2010 could have been confident about what the next few years would bring.