

Publication: Patriot News (Harrisburg, Pennsylvania)

Date: Monday, June 8 2009

Stock ascent doesn't sway analysts

Despite an upward run of Rite Aid's stock price in recent weeks, analysts remain cautious about the East Pennsboro Twp.-based retailer.

It was mostly good news last week for the company, with increased pharmacy sales in core stores being credited for a 0.6 percent increase in May sales. Analysts Raymond James also upgraded the company from underperforming to outperforming. That Rite Aid stock is closing in on the \$2 per share mark is a marked contrast from last fall, when shares were trading near the 20-cent mark and the company warned it might be de-listed from the New York Stock Exchange.

The NYSE requires companies' stock to trade at least \$1 over 30 consecutive trading days.

Rite Aid officials said the company does not comment on the fluctuations of its stock prices, but they did say they are continuing to better position themselves in the competitive marketplace.

Late last month, the company sought a \$400 million loan, the first step in a comprehensive refinancing plan for debt due in September 2010, said Ashley Flower, spokeswoman for the company.

"We are confident we will get the loan in current market conditions," Flower said.

E. Jeffrey Roof, president of the Roof Advisory Group, said that the loan could provide additional flexibility, but cautioned the company is still highly leveraged.

Rite Aid has about \$6 billion in debts, according to the company's annually reported federal filings. "[Being highly leveraged] is obviously not a good thing in a credit environment that is focused on quality," Roof said. "But, the new financing would provide breathing room."

Roof said the company may also be seeing a lift from price-conscious consumers, who are still spending, but just not in amounts seen previously -- a bottle of nail polish and a manicure set from Rite Aid instead of a salon manicure, for example.

In a May letter to shareholders, Rite Aid President Mary Sammons reiterated the company's commitment to reduce its debt and return value to shareholders.

It has taken a number of cost-savings moves, including reducing 2010 capital expenditures to \$250 million, which includes opening 55 relocated and 25 new stores, and a wage freeze.

"Our progress in the second half of fiscal 2009 demonstrated that we can improve our results in a severe economic downturn and with limited resources," Sammons wrote.

Joseph Agnese, a senior equity analyst with Standard & Poor's, said the company is benefiting from a rebound in risk-taking investors and low-priced stock speculators.

However, he said, they remain a significantly weaker company than their main competitors -- CVS and Walgreens -- due to the number of recent acquisitions and other issues.

The company's decision to cut underperforming stores and scale back its construction and relocation efforts is also likely working in its favor, said Bob Gorland, vice president of Matthew P. Casey & Associates, a supermarket and pharmacy feasibility consultant in Harrisburg.

Those actions, Gorland said, show Wall Street that "you're taking a more conservative approach, getting rid of high risk stores, getting rid of debt."

The Associated Press contributed to this report.

INFOBOX:

GOING UP

The stock price of Rite Aid (RAD) has steadily increased since the beginning of the year.

January: 28 cents February: 28 cents March: 36 cents April: 90 cents May: \$1.16 Friday: \$1.74

* Monthly prices reflect the adjusted closing price.