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X5 Fall May Be a Sign for the Economy

By The Moscow Times

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X5 Retail Group posted its first drop in quarterly underlying sales since its creation in 2006, suggesting that the consumer chill affecting other parts of Europe may be sweeping into Russia .

Russia 's biggest retailer by sales, part of oligarch Mikhail Fridman's Alfa empire, said Friday same-store sales fell 2 percent in the three months to end December, compared with a 6 percent rise for 2011 as a whole.

"These are awful results — historical lows," said UBS analyst Svetlana Sukhanova , adding that X5 was also suffering from company-specific problems, such as a cannibalization of sales following its $1.65 billion purchase of Kopeika in 2010.

The slowdown was particularly severe at X5 's hypermarkets, where sales at outlets open at least a year fell 6 percent, mirroring a picture seen elsewhere in Europe as cash-strapped shoppers cut back purchases of discretionary goods.

Top European retailers including Britain's Tesco and Germany 's Metro have reported deteriorating trading conditions in recent weeks, while France 's Carrefour on Thursday posted heavy sales falls at its hypermarkets.

Disposable incomes across much of Europe are being squeezed by rising prices, muted wages growth and austerity measures, while shoppers are fearful the euro-zone debt crisis could drag the world back into recession.

Official Russian retail data have yet to paint a picture of worsening consumer spending. November sales rose 8.6 percent year on year after a 9 percent rise in October.

X5 's shares shed 50 percent of their value last year after the group cut growth forecasts, blaming worsening economic conditions and problems integrating Kopeika.

"The tougher market environment, a strong comparative base effect and consolidation of Kopeika from December 2010 are reflected in X5 's Q4 2011 trading results," X5 chief executive Andrei Gusev said in a statement.

"Whereas X5 's results in 2010 and the first half of 2011 benefited from stronger consumer spending and trading-up trends bolstered by economic recovery, the picture has reversed in the third and fourth quarters of this year," he added.

Gusev took over from veteran CEO Lev Khasis nine months ago. Khasis left to join Walmart in the United States , which has long hoped to enter the Russian market.

Russian retailers have all struggled in the second half of 2011 as customer numbers dipped and food inflation slowed, restricting the companies' ability to raise the prices of supermarket shelf products.

Food inflation was just 4.9 percent in the fourth quarter, down from 14.4 percent in Q2, according to UBS.

Magnit said earlier this month that like-for-like sales fell to 3.1 percent in the final quarter from 7.6 percent in the third. No. 4 retailer O'Key only outperformed after luring customers with promotions.

X5 and Magnit have been opening stores at a rapid pace in a bid to build share in a fragmented market with fewer modern stores than mature Western European markets.

Total X5 sales growth slowed to 16 percent in the fourth quarter from 32 percent in the third, while full-year sales rose 32 percent to 452.5 billion rubles ($14.44 billion), compared with a revised forecast of "close to 35 percent."

X5 opened 577 stores on a net basis last year.

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