Taking Stock: More improvements needed at Home Depot

by Malcolm Berko

Dear Mr. Berko: What do you think of Citigroup, which yields 3.9 percent? I am thinking of buying 50 shares because its dividend growth has been excellent while its stock performance has been poor. And I think the stock could now begin to move. Your opinion would be appreciated. I'm also looking at Home Depot that hasn't moved much in the past 4 years either. Now that Mr. Nardelli (whom you said should lose his job) is gone, the stock could also move up. Home Depot's revenues and earnings have been quite good and maybe the stock will reflect that too. So what do you think about this one also?

W.T.

Wilmington, N.C.

Dear W.T.: I met Robert "Bobby" Nardelli a few years ago and I was totally underwhelmed. He believes in his infallibility, that his pronouncements are inerrant. It really takes a unique man to possess that astonishing degree of confidence. Well Nardelli believed he was anointed as chief executive officer of HD rather than appointed. Under his reign, Home Depot Inc. (HD-$38.39) revenues grew by 35 percent, net income increased 80 percent, senior management suffered recurring laundry problems, tens of thousand of store employees stopped caring about customers and while the Dow rose to record levels, HD shares were flat as window glass. But few people noticed that despite rising revenues, profits and margins, HD's lifeblood, free cash flow, just flat lined.

After Nardelli was passed over to become chief executive officer of General Electric and hired by HD, he refused to have his $39 million annual salary tied to the performance of HD's stock. That was an impressive negotiation move and HD's inutile board of directors fell for it hook, line and "stinker." And even though the new CEO Frank Blake (whose salary is $1.5 million) is one of the sharpest tools in the shed, I'm still not comfortable with the stock. I know that A.G. Edwards, J.P. Morgan, Standard & Poor's and Lehman Brother have a "buy" rating on Home Depot and I know that Nardelli no longer terrorizes the rank and file. However, I think Frank Blake's' new broom does not sweep clean enough.

Nardelli's henchmen, who replaced some 20-plus senior Home Depot executives, still forage the corridors at HD's Atlanta headquarters. Sadly, these Nardelli clones continue to intimidate the loyal HD people, so those guys gotta go. And while it's convenient to blame Nardelli for HD's poor stock performance the buck really stops at HD's feckless board of directors who allowed themselves to be bullyragged by Nardelli. Bobby sat on this throne for years and HD's limpsy, anile board basically rubber-stamped his decrees. So the board's gotta go, too.

Nardelli's departure has removed the main source of poison but the remaining clones and the abiding board of directors still foul the company's water. When Frank Blake's broom really sweeps clean I may feel comfortable recommending the stock. Until then, I think the stock will remain in its narrow range.

Citigroup (C-$51.44) is a dandy company with a Jim-dandy management problem. Revenues have grown 60 percent in the past five years, dividends have tripled but according to Standard & Poor's, C's earnings seem to change direction like Mexican jumping beans.

Citibank includes Smith Barney, Travelers Property & Casualty, Primerica Financial Services, Banamex and Egg Banking, the world's largest pure online bank with 3.2 million customers and 3 million credit card customers in England. Ever since Sandy Weil retired, C has suffered from a management vacuum. But CEO Charles Prince, who is a swell, knowledgeable and experienced lad, lacks Sandy Weil's people-picking and communication skills.

It seems that Prince enjoys playing musical chairs in the executive suite, which doesn't play well on Wall Street. Prince's decision to invest more assets overseas (C's purchase of Central America's largest credit card issuer, its huge stake in Turkey's largest bank, plus its interest in an Asian insurance company, to name a few examples) has caused some disaffection among investors. Sandy Weil may not have chosen wisely.

There are many on the Street who believe C's management consists primarily of B players who are not up to the job of running an A-class bank. And this is the genesis of C's poor stock performance since 2002, when it traded at $52 a share. Earnings for 2007 are unimpressive and so is the stock's performance. The stock could move up a few points but not enough to make it an attractive purchase. Stay away.

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