

✓ Buy Gottschalks, analyst advises

DEPARTMENT STORE

First 'buy' recommendation by Sutro and Co.

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After watching Gottschalks Inc. for the last three years, San Francisco-based Sutro and Co. is offering its first "buy" recommendation on the retailer's stock.

Jonathan Ziegler, Sutro's senior investment analyst who follows retailing, said the Fresno-based chain is on the threshold of "significant sales and earnings gains."

Ziegler issued a brief "action report" on Gottschalks earlier this week and will follow it up with a thorough analysis after visiting some of the chain's stores on Friday.

Previously, he had expressed favorable opinions on Gottschalks and suggested that investors who already had the stock hold onto it.

"I just feel it's a very opportune time" to buy the stock, Ziegler said in a telephone interview. "Gottschalks is well-positioned, contrary to most other retailers."

Gottschalks operates 21 department stores and 26 specialty retail stores in the San Joaquin and Sacramento valleys and the central coast area, including three in the Santa Cruz County.

The Sutro report comes as good news to Gottschalks, said Robert E. Lawson, executive vice president and chief financial officer.

The chain had excellent Christmas sales but suffered earnings losses in the second and third quarters of last year. December 1989 sales rose 24.9 percent to \$54.1 million, compared with \$43.3 million the previous December. Sales in stores open a year or more rose 13.7 percent, a figure Ziegler calls "remarkable." Most of the nation's big retailers had only a moderate holiday season.

Gottschalks lost \$1.4 million in the second quarter and \$413,000 during the third quarter of 1989, but is expected to finish the year comfortably in the black.

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The Sutro report reinforces the position that Donna Hostettler, manager of research for Crowell Weedon & Co. in Los Angeles, expressed last month when she said 1990 "should be their (Gottschalks) year."

Ziegler said investors can take advantage of the fact that the number of Gottschalks stores has more than doubled since the end of 1986 and the end of "negative psychology" in the department store apparel sector.

"We believe Gottschalks has the potential to be a stand-out performer in a lackluster industry."

Another factor in Gottschalks' favor, he said, is the San Joaquin Valley's healthy economy and growth.

"Because Gottschalks has concentrated its base of operations in the San Joaquin Valley ... the shares also represent a participation in the rapid growth projected for this area," Ziegler said in the report.

Retail sales are projected to grow by 47 percent between 1987 and 1995, and home prices are affordable, he said.

Gottschalks stock, which is traded on the New York Stock Exchange, closed Thursday at 10½.