

J Sainsbury PLC

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Sainsbury's failed Asda merger has put it on the road to becoming an income stock, says analyst

The failure of the planned merger last year between J Sainsbury PLC (LON:SBRY) and Walmart Inc (NYSE:WMT)-owned Asda may have kicked off a transition process that will see the FTSE 100 grocery giant become an income rather than a growth stock.

Sainsbury's attempts to merge with Asda were torpedoed by regulators in April last year and sent shares in the FTSE 100 group tumbling while also raising questions about the future of its chief executive, Mike Coupe.

READ: Sainsbury's sales slide in 'golden quarter', however online growth offers silver lining

Shore Capital's Clive Black told Proactive that Sainsbury's future strategy in the wake of the botched tie-up appears to be "constrained and realistic" and will involve "sweating" their existing assets as opposed to embarking on a process of opening new stores or expanding its estate by other means.

This will likely involve refurbishments of existing stores and investments into the product range, an approach he says is "a sensible thing to do in a mature industry".

This restrained approach to expansion seems to have been borne out in the group's third quarter trading update on Wednesday, which showed that over the period Sainsbury's had opened only two new supermarkets and six new convenience stores while at the same time investing to improve 127 of the former and 93 of the latter within its existing estate.

"Sainsbury's is a cash generative business that is going to use the free cash that it creates to pay down debt and pay a dividend", Black says, adding that while the company will be low growth it will make its dividend more secure going forward.

"On the one hand this is unexciting, however, a 5% dividend yield paid for by free cash is, to some people, worth having", he says.

Analogous to utility stocks

With this new strategy in mind, Black says that Sainsbury's should be considered as analogous to stocks in utility companies, firms that offer attractive dividend yields but are not seen as viable for investors looking for growth stocks.

"After the failure of the Asda merger, the business refocused and has come up with a sensible strategy focused on income", he concludes.

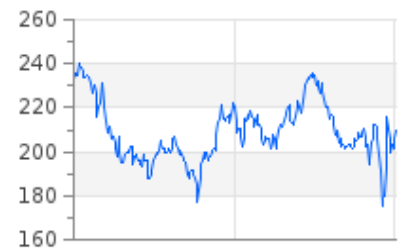
Other supermarkets following suit?

With Sainsbury's scaling back on its growth ambitions in favour of a more income and dividend focused strategy, could its peers among the 'big four' grocers be looking to follow suit?

Price: 210

Market Cap: £4.65 billion

1 Year Share Price Graph



March 2019 September 2019 March 2020

Share Information

Code: SBRY

Listing: LSE

52 week High Low
20130 171.189

Sector: Retail

Website: www.sainsburys.co.uk

Company Synopsis:

J Sainsbury PLC is a United Kingdom-based company principally engaged in grocery and related retailing, and financial services.

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Black says that the two other LSE-listed supermarkets WM Morrison Supermarkets PLC (LON:MRW) and Tesco PLC (LON:TSCO) had "more growth ambitions" than Sainsbury's, however, there were "considerable similarities" to the extent that both were looking to conserve cash by balancing capital expenditure with depreciation.

"They (Tesco and Morrisons) are focusing on costs and being very realistic about the growth opportunities that could be realised...[they] have more overt growth ambitions but they are demonstrably income stocks too", he says.

Shares in Sainsbury's were 0.6% lower at 229.7p in lunchtime trading on Wednesday.

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