

# Tesco PLC

07:06 13 May 2020

## Buy Tesco and Sainsbury's over Ocado, says UBS

The UK food retail sector's 8% valuation discount suggests the market has structural concerns, but UBS sees value in the likes of Tesco PLC (LON:TSCO) and J Sainsbury's PLC (LON:SBRY) as the threat from discounters recedes and coronavirus pandemic leads to new consumer spending patterns.

"The food retail sector's strong cash flow, balance sheets, and greater focus on shareholder returns make the sector, we believe, more attractive now," analysts at the Swiss bank said in a note to clients on Wednesday.

Market research by the bank's Evidence Lab suggested that the threat from discounters Aldi and Lidl "is past its peak in the UK...competitive incidence from Aldi/Lidl is maturing in the UK as they face rising cannibalisation and greater competition among themselves, posing a question on long-term expansion".

In terms of online delivery, the analysts see the online grocery now driving greater penetration with better profitability.

"We believe the near-term risks in non-food/wholesale segments are captured in our estimates; we note potential mid-term upside risks from a sustained shift to eating at home and away from discounters.

"The structural challenges are in the price, in our view: the UK sector is at an 8% discount to the market as the debate is now nuanced."

UBS downgraded Wm Morrisons Supermarkets PLC (LON:MRW) to 'neutral' from 'buy', cutting the price target to 190p from 250p, saying a lack of a meaningful online presence, multi-channel operation and loyalty card operation mean that it lags rivals.

Ocado was initiated at 'neutral' as its massive potential is felt to be already reflected in the current price, so getting a share price target of 1,900p.

Marks & Spencer Group PLC (LON:MKS) was kept at 'neutral' and the target price was slashed to 100p from 205p.

UBS reiterated 'buy' recommendations for Tesco for its sector-leading margins and sector-leading cash returns, and Sainsbury's where the strong cash flow and "inexpensive" shares that "should re-rate as it delivers stable margins over the next year", also getting its price target lifted to 250p from 240p.

**Price:** 214

**Market Cap:** £20.96 billion

### 1 Year Share Price Graph



### Share Information

**Code:** TSCO

**Listing:** LSE

52 week	High	Low
	260.4	203.7

**Sector:** Retail

**Website:** [www.tesco.com](http://www.tesco.com)

### Company Synopsis:

*Tesco - the leading supermarket in Britain With small grocery stores under the Tesco Metro brand name, big supermarkets outside cities (Tesco Extra) and 24-hour stores.*

[action@proactiveinvestors.com](mailto:action@proactiveinvestors.com)

Proactive Investors facilitate the largest global investor network across 4 continents in 4 languages. With a team of analysts, journalists & professional investors Proactive produce independent coverage on 1000's of companies across every sector for private investors, private client brokers, fund managers and international investor communities.

Contact us +44 (0)207 989 0813 [action@proactiveinvestors.com](mailto:action@proactiveinvestors.com)

### No investment advice

The Company is a publisher. You understand and agree that no content published on the Site constitutes a recommendation that any particular security, portfolio of securities, transaction, or investment strategy is suitable or advisable for any specific person. You understand that the Content on the Site is provided for information purposes only, and none of the information contained on the Site constitutes an offer, solicitation or recommendation to buy or sell a security. You understand that the Company receives either monetary or securities compensation for our services. We stand to benefit from any volume which any Content on the Site may generate.

You further understand that none of the information providers or their affiliates will advise you personally concerning the nature, potential, advisability, value, suitability or profitability of any particular security, portfolio of securities, transaction, investment, investment strategy, or other matter.

You understand that the Site may contain opinions from time to time with regard to securities mentioned in other products, including Company-related products, and that those opinions may be different from those obtained by using another product related to the Company. You understand and agree that contributors may write about securities in which they or their firms have a position, and that they may trade such securities for their own account. In cases where the position is held at the time of publication and such position is known to the Company, appropriate disclosure is made. However, you understand and agree that at the time of any transaction that you make, one or more contributors may have a position in the securities written about. You understand that price and other data is supplied by sources believed to be reliable, that the calculations herein are made using such data, and that neither such data nor such calculations are guaranteed by these sources, the Company, the information providers or any other person or entity, and may not be complete or accurate.

From time to time, reference may be made in our marketing materials to prior articles and opinions we have published. These references may be selective, may reference only a portion of an article or recommendation, and are likely not to be current. As markets change continuously, previously published information and data may not be current and should not be relied upon.

The Site does not, and is not intended to, provide investment, tax, accounting, legal or insurance advice, and is not and should not be construed as providing any of the foregoing. You should consult an attorney or other relevant professional regarding your specific legal, tax, investment or other needs as tailored to your specific situation.