

Tesco PLC

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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: 213.974

Market Cap: £209.58 m

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

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.

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