

Analysis of Representative Stocks in the UK Supermarket Industry

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Abstract. This essay provides a comprehensive analysis of three major supermarket stocks: Marks & Spencer (M&S), Sainsbury's, and Tesco. The analysis focuses on evaluating the risks, profitability, market ratios, and suitability for different types of investors. M&S exhibits the highest level of risk, while Tesco and Sainsbury's appear to be more stable. M&S is the most profitable stock, followed by Tesco and Sainsbury's. In terms of market ratios, M&S shows potential undervaluation and growth opportunities, Sainsbury's offers a high dividend yield, and both Sainsbury's and Tesco display positive momentum. The preferred stock choices for different types of investors are Sainsbury's for value investors, M&S for growth investors, Tesco for index investors, and Sainsbury's for income investors. These results are used for different investors to analyze and decide which company they will invest to earn more profit in its operation.

Keywords: Risks; investment; supermarkets, profitability, market ratios.

1. Introduction and Profiles of the Companies

Investing in stocks involves buying ownership shares of a company in the hopes of earning a return through capital appreciation (increased stock value) or dividends (share of company profits).

This essay analyzes the financial indicators of three major supermarket stocks in the United Kingdom: Marks & Spencer, Sainsbury's, and Tesco.

Marks & Spencer, the original British retailer, was established in 1884 by Michael Marks in Leeds, England. Initially, the store operated as a small stall selling goods priced at one penny. The motto "Ask no price, just a penny" embodied the store's commitment to offering affordable and quality products. On September 28, 1894, Michael invited Tom Spencer to join him, and this partnership marked the birth of the renowned Marks & Spencer Company, which later went public in 1926 [1].

Sainsbury's Supermarket Ltd, commonly known as Sainsbury's, holds the distinction of being the oldest retail chain in the United Kingdom. It was founded in London in 1869 and currently commands a 16.5% market share in the UK supermarket sector. In recognition of its excellence, Sainsbury's was awarded in the SUPERMEAT and fish award category in 2011. The company prides itself on offering a diverse range of over 700 affordable food and grocery items for its esteemed customers [2].

Tesco, a British multinational retailer with a focus on general products and groceries, is one of the biggest and most well-known supermarket chains in the world. Jack Cohen founded it in 1919, and since then, Tesco has grown exponentially to become a global retail giant with a significant presence in multiple countries.

All three companies mentioned, Marks & Spencer, Sainsbury's, and Tesco, are prominent players in the UK supermarket industry and are known for their well-established and mature supply chains. These companies have developed robust and efficient systems for sourcing, distributing, and managing inventory, allowing them to meet the demands of their customers effectively. Overall, the mature supply chains of Marks & Spencer, Sainsbury's, and Tesco contribute significantly to their success and competitive advantage in the UK supermarket industry. Thus, the investment choice among the three companies turn to be an interesting question.

2. Financial Indicators of the Companies

Most of these financial indicators are collected from for companies are collected from the yahoo finance website within 12 months. They used by companies to assess the financial performance of the companies and several key financial indicators were analyzed. Datas will be evaluated from the risk, profitability and market ratios perspectives.

2.1. Risk

In terms of risk, it is important to consider factors such as beta and debt to equity ratio. Beta estimates are often severely biased when shares are traded [3]. Beta risk is used as “normal” risk measure when utilizing daily data, the standard index, which reflects the traded data on the exchange market, is used to compute the stock's beta in relation to it [4]. Debt to equity ratio (DER) measures how much equity capital was used to pay down the debt and represents the company's capacity to meet all of its obligations. In other words, this ratio is used to measure the amount of debt a firm is employing or to calculate the percentage of equity capital that is utilized as a guarantee for total corporate debt [5].

Marks & Spencer (M&S) exhibits the highest beta among the three companies, indicating a higher level of volatility in its stock price. Moreover, M&S also possesses the highest debt to equity ratio, implying a greater degree of financial leverage and potential risks associated with increased indebtedness. On the other hand, Sainsbury’s demonstrates the lowest debt to equity ratio, which is less than 100%. In terms of market capitalization which is determined by the stock price of the firm [6-7], Tesco stands out with the highest market value, signifying its larger size and potentially greater stability compared to the other two companies. In summary, the analysis suggests that M&S presents the highest level of risk, while Tesco and Sainsbury’s appear to be more stable with fewer fluctuations (See Table 1).

Table 1. Indicators of risk of the companies.

	M&S	Sainsbury	Tesco
Beta	1.58	0.62	0.65
Debt to equity ratio	128.90%	99.50%	123.30%
Market Cap	5.20B	8.60B	24.07B

2.2. Profitability

The assessment of profitability examines various metrics including profit margin, return on assets (ROA) - which indicates the average profit generated per unit of assets, return on equity (ROE) - calculated by dividing net profit after taxes by equity capital, and total asset turnover - a ratio used to evaluate the efficiency of asset utilization across a company. In this context, the company that has recorded the highest profits is Marks & Spencer [8]. Marks & Spencer demonstrates the highest profit margin (with formulae $\text{net profit/revenue} \times 100$), indicating its ability to generate higher profits per unit of sales. When considering ROA, M&S outperforms the other companies with a rate of 4.59%, suggesting that M&S is more efficient at generating profits from its assets. Similarly, in terms of ROE, M&S has the highest percentage, indicating its ability to generate higher returns for its shareholders. However, when examining total asset turnover, Tesco has the highest ratio, suggesting that Tesco is more efficient at utilizing its assets to generate sales. Overall, M&S appears to be the most profitable stock, while Sainsbury’s generates the lowest return among the three (See Table 2).

Table 2. Indicators of profitability of the companies

Profit	M&S	Sainsbury	Tesco
TAT/O	1.31	1.19	1.38
ROA	4.59%	2.41%	3.57%
ROE	12.72%	2.64%	5.40%
PM	3.05%	0.66%	1.13%

2.3. Market Ratios

Valuation measures, such as the price-to-earnings (P/E) ratio and price-to-earnings growth (PEG) ratio, are commonly employed in financial analysis to assess the worth of a company. The P/E ratio is computed by dividing the prevailing share price by the earnings per share, thereby offering insight into the market's perception of the company's present earnings performance. Conversely, the PEG ratio incorporates not only the P/E ratio but also considers the company's earnings growth rate, providing a more comprehensive evaluation of its valuation. These ratios serve as valuable tools in evaluating a company's relative value within the market. The price to earnings ratio, or PE ratio, divides the current share price by the earnings per share [9]. A price-to-book (P/B) ratio of roughly one is regarded as a sound investment because it compares the share price to the book value per share. These valuation ratios provide insights into the relative valuation of the stocks. Marks & Spencer exhibits the lowest P/E and PEG ratios, implying potential undervaluation and growth opportunities.

Sainsbury's, on the other hand, demonstrates the lowest P/B ratio, indicating a potentially undervalued stock price. When considering dividend-related ratios, dividend yield is the quantum that paid to its shareholders divided by the current share value. Sainsbury's offers the highest dividend yield at 4.64%, suggesting that its shareholders receive a higher percentage of revenue in the form of dividends.

One of the most potent and perplexing irregularities in asset pricing is momentum. 1993's Jegadeesh and Titman [10]. It is used to compare between the current stock prices and decide whether the stock is valuable. Regarding momentum ratios, both Sainsbury's and Tesco exhibit 200-day moving averages (MAs) that are greater than the stock price, which could indicate positive momentum and potential upward price trends.

The discounted cash flow (DCF) approach, which is a popular financial tool, evaluates a company by utilizing a sizable amount of its anticipated future cash flows [11]. It is based on data that is projected into the future. To reduce inaccuracy when valuing a corporation, the insider purchase and stock buyback are verified (See Table 3).

Table 3. Indicators of market ratios of the companies.

MR	M&S	Sainsbury	Tesco
PE	11.5	32.11	25.93
P/B	1.44	0.92	1.53
Dividend Y	0	4.64%	4.17%
PEG	0.2	1.45	3.38
Mom200MA	248.68	253.03	248.68
Stock Price	205.9	277.6	258
DCF	898.13	391.17	332.69
InsiderBuying	N	N	N
StockBuyback	5.33%	3.70%	3.30%

3. Results of Asset Selection

Based on the evaluations provided, the stock choices for each type of investor would be as follows in Table 4:

1. Value investors (Investors prefer to use the value ratios to determine whether the company is over or undervalued): Sainsbury's would be the preferred choice for value investors due to its high dividend yield and P/B ratio less than 1. These factors indicate that the company may be undervalued and could offer potential for future growth.

2. Growth investors (Any investor is not looking at short term gains but also the long term returns for his investment [12]. They prefer companies that will perform above the average in the market.): Marks & Spencer would appeal to growth investors as it has the highest ROE and ROA among the three companies. Additionally, M&S also has the lowest P/E and PEG ratios, suggesting that it may have strong growth prospects.

3. Index investors (A passive investment method that suitable for long term investors. Index investing involves a portfolio of stocks and check their performance then pick stable stocks according to the index or the trend from the sample) [13]. Tesco would be a more suitable choice for index investors as it is the largest company among the three in terms of market capitalization. Index investors typically focus on metrics such as market capitalization and liquidity, and Tesco's larger size makes it a more prominent component of market indexes.

4. Income investors (Income investors are prudent that prioritizes investments that offer regular income stream): Sainsbury’s would be preferred by income investors due to its high dividend yield and stable dividend payment history. These investors prioritize dividend income and seek companies that offer consistent and reliable dividend payments.

5. DCF investors (The investors pay attention to DCF to see whether stocks will grow in the future according to their expected cash flow): Marks & Spencer would be of interest to investors who utilize discounted cash flow (DCF) analysis. With its strong profitability indicators, including high ROE and ROA, M&S may present attractive growth prospects when considering future cash flows.

6. Insider investor (focuses on the insider trading and ownership): They may find value in Marks & Spencer. The company recently announced a stock buyback program, which could signal confidence from insiders and potentially drive up the stock price.

Table 4. Asset selection.

	M&S	Sainsbury	Tesco
Value Investors		√	
Growth Investors	√		
Index Investor			√
Income Investor		√	
DCF Investor	√	√	√
Insider Investor	√		

4. Conclusion

In conclusion, this research offers a thorough examination of three of the most significant supermarket stocks available on the UK market, taking into account a number of financial indicators including risk considerations, profitability metrics, and market ratios. According to the data, Tesco and Sainsbury's look to be more stable, whereas Tesco and Marks & Spencer show the highest amount of risk. Marks & Spencer turns out to be the most profitable investment, while Sainsbury produces the lowest return. Marks & Spencer shows possible undervaluation and growth chances when comparing market ratios, but Sainsbury's price-to-book ratio implies that it may be undervalued. Based on these conclusions, the preferences of different investor types are established.

As a conclusion, it is important to highlight that while this study offers investors useful advice on choosing supermarket stocks, it is not a thorough analysis and should be complemented by more investigation and thought. Before making any investing selections, investors should also speak with specialists or financial counselors. Additionally, some of the data on yahoo finance might not be updated, so investors should look for more up-to-date information on more reputable insider channels.

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