

press release

5 October 2011

Tesco and Sainsbury's see half year sales grow despite difficult economy

- Foreign markets drive Tesco's sales growth
- Sainsbury's figures exceed expectations
- Tesco remains The Share Centre's sector pick

As retailers Tesco and Sainsbury's report half year results Graham Spooner, investment adviser at The Share Centre, explains what these means for investors.

"Retail giant Tesco released half year results as sales grew by 8.8%. Growth seeking investors attracted by the company's international earnings and potential for sustainable growth will be pleased to hear the majority of the company's growth came from foreign markets. Sales in Asia were up by 11.9% with profits increasing by 18.7%. European sales also increased, up 7.8% and profits rose to £237m – up 11.8%.

"The on-going economic pressures have impacted consumer spending and the UK market has struggled the most. This was highlighted by like-for-like sales which fell by 0.5%. The retailer has launched a price-discount campaign in an effort to increase these levels.

"Investors will be encouraged with performance in the US as sales rose by 32% and the loss was significantly reduced. Tesco is on track to break even in the US by 2012/13. If successful this, coupled with the ongoing international growth story and the expansion of its retail banking business, should see long term shareholders benefit further from an opportunity of growth away from its core UK operations.

"Tesco remains our preferred play in the sector largely due to its international arm. We recommend investors 'buy' for the longer-term, however as there is an increasing chance the situation could worsen for consumers we suggest not chasing the stock higher."

Commenting on Sainsbury's, Spooner added: "Sainsbury's reported half year figures ahead of expectations as like-for-like sales grew by 1.9%. This boost was fuelled by warmer weather and the Royal Wedding, which helped offset the impact of consumers facing reduced disposable income. However, the group remains cautious about the ongoing economic pressures.

"The company has upped the number of non food products and can now compete with the likes of Tesco and Asda. Sainsbury's is focusing on promoting its own brands offering quality at a lower price. Back-to-school sales also helped accelerate growth increasing by 40%.

"The share price has been underperforming others in the sector so far this year, falling by around 30%. For a share that provides an essential product some may think this is an over-reaction and there is a chance the retailer could hold its position in a difficult market.

"At current levels Sainsbury's could be perceived as a safer haven over the coming months as the troubled economic climate continues. Investors may be enticed by Sainsbury's attractive yield of 5%. However, uncertainty for 2012 remains and the retailer is swimming against the tide, so we continue to recommend investors 'hold' Sainsbury's for now."

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