

# Accounting



The graph above shows the movements in stock price of Sainsbury's Corporation between April and April 22, One of the possible reasons for changes in price of the stock could be associated with market movements. A metric that shows how susceptible the stock price is in relation to the market is beta. The beta of Sainsbury's is 0.64 (Telegraph, 2010). This means they are not too susceptible since for every \$1 movement in price of the market the stock moves \$0.64. Other possible reasons for change in the price of the company during the days of April are qualitative news related to the company that came out during that period. On April 16, 2010 the company release a news story that showcase one of its new innovative products called milk bags. The news release may have influenced the price of the common stock.

#### Recommendation

J Sainsbury plc is the United Kingdom's biggest player in the food industry with a market share of 16%. In 2009 the company achieved total revenues of 18,911 million pounds. The revenue total was 6% higher than in 2008. Normally greater revenues lead to better bottom line results. In the case of Sainsbury the greater revenues did not help the company improve its performance since its net profits decreased between 2009 and 2008. In 2009 the firm had net income of 289 million pounds, a figure that is 40 million pounds lower than the previous year. The net margin of the company was 1.53%, while the industry norm is 1.4% (Dun & Bradstreet, 2010). The return on equity and return on assets of the company were 6.88% and 2.88%. Both figures were lower than the industry average of 11.9% and 5.5% (Dun & Bradstreet, 2010). The current ratio of the company which shows that ability of the firm to pay its short term debt was 0.55. The current ratio

industry norm is 1.9 (Dun & Bradstreet, 2010). The results means the firm is underperforming in comparison with the industry and that the firm is at risk of having cash flow problems. The stock price of the company during April faced upwards tendencies. These types of movement are short term fluctuations. Based on the fact that the company is facing liquidity problems and the bad profitability results in terms in relation to its assets and equity I would not invest in the common stock of Sainsbury's.

#### References

Dun & Bradstreet (2010). Food Stores Business Ratios. Retrieved April 22, 2010 from Dun & Bradstreet database.

Telegraph. co. uk (2010). Quote for J Sainsbury plc. Retrieved April 22, 2010 from <http://shares.telegraph.co.uk/quote/?epic=SBRY>