

Is now a good time to
buy shares in marks
and spencer plc
(500words)



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Introduction Equities are considered as the most risky investments due to the fact that shareholders get the residual value of the assets left after paying off all other creditors in case a company goes into liquidation. Thus investors often take into account different factors such as financial performance of the firm, historical dividend payout patterns, general economic conditions as well as the current performance of the industry within which the firm operates before making an investment decision to buy any shares. (Brett, 2003).

This paper will discuss whether it is a right time to invest into shares of Marks & Spencer PLC, one of the largest organizations in UK.

Marks & Spencer

Marks & Spencer is considered as the retail icon of Britain as it operates more than 320 department stores as well as almost 300 food shops across the UK. Apart from UK, it also operates many stores and franchises in South Korea, India, and Turkey etc however; most of its sales are generated within UK.

A historical review of the financial performance of the firm would suggest that its performance during last five years have remained consistent i. e. the overall revenue of the firm increased from \$14. 726Billion, in 2004, to \$17. 990 Billion in 2008- a growth of more than 22%. It is also critical to note however that the firm recorded negative growth in revenue during 2005 & 2006. (Hoovers. com, 2008). Operating Profit of the company showed an improved performance by recording a growth of over 65% during the same period i. e. Operating Income was \$1. 461 Billion in 2004, whereas in March 2008, it was 2. 415Billion. The Net Operating Cash flows during last five years have been positive and have shown considerable growth from 2004 to <https://assignbuster.com/is-now-a-good-time-to-buy-shares-in-marks-spencer-plc-500words/>

2008. Net Operating Cash Flows were \$633.5 Million in 2004, whereas during 2008, Marks & Spencer recorded net positive cash flows of \$2.133 Billion. Return on equity remained consistent during last five years i. e. 0.6% in 2004 & 1.2% in 2008. The low return on equity seems to be one of the key reasons behind the continuous decline of Marks & Spencer's share price as it dipped from \$23 per share in Dec 2007 to almost \$6 in November 2008. 1

Economic Performance of UK

The current economic performance of most of the developed countries is not considered as satisfactory as most of the critics believe that due to current financial meltdown, it would be highly risky to invest into equities as most of the stock exchange indices have shown considerable decline in the recent past.

The collapse of financial system as well as high level of default rates is further weakening the economic performance of the country as UK government along with EU has initiated efforts to bail out the country from current economic crisis.

Conclusion

Marks & Spencer works into retail industry and the current trends are suggesting decreasing consumer purchasing activity therefore considering the current performance of the share on stock exchange coupled with low economic activity, this may not be the good time to purchase Marks & Spencer Share for investors having short term investment horizon however, for an investor with long term investment horizon, this may be the best times to buy the share as it is at its historical low and with efforts made by the EU to pump more money into financial system, there may be a general <https://assignbuster.com/is-now-a-good-time-to-buy-shares-in-marks-spencer-plc-500words/>

increase in the prices of all shares.

References

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