

# Evaluation of investment opportunities focusing on tesco and sainsburys

[Business](#), [Company](#)



You are employed as a financial analyst and your company has over the few years recovered from adverse trading conditions and has now geared itself towards expansion. As a member of an executive team, your objective is to evaluate investment opportunities in other UK plcs whose recent published reports are available. This essay will financially analyze and discuss Tesco supermarket's performance over the last two accounting periods using appropriate accounting ratios including profitability, liquidity, gearing, and investment potential. Also a comparative analysis of the financial performance, position, and investment potential of J. Sainsbury's organization with J. Sainsbury's supermarkets. Tesco plc today owns Tesco supermarkets across Europe and Asia. These stores are located in the UK, Republic of Ireland, France, Hungary, Poland, Czech Republic, Slovakia, South Korea, and Thailand. Today Tesco plc is specialized in retailing, property investment, insurance, distribution, property development, and purchasing. Also, the group's joint ventures are property investment, personal finance, and mail-order retail.

Tesco supermarkets have 15.5% market share in retailing in the UK. "It is fifty years since Jack Cohen opened his first self-service shop, and we expect Tesco stores in fifty years' time to be as different from those we know today as our current stores are to the stores of fifty years ago". Says Terry Leahy the chief executive of Tesco plc. And Tesco supermarkets have 659 stores including 38 newly opened stores in the UK. Retail sales of Tesco supermarkets were up by 7.4% to 17,070 million to 18,331 million and operating profit was up 8.1% from 919 million. 993 million. Tesco supermarkets in the rest of Europe have 167 stores including 11 newly

opened stores and the sales of the supermarkets rose by 18.8% to 1,527 million from 1,285 million and operating profits were up 6.3% to 51 million from 48 million. Tesco supermarkets have 19 stores in Asia these are located in Thailand and South Korea the sales of these stores rose by 192% to 497 million from 170 million and the operating profit was also up by 50% to (1) from (2) last year. And the company is considering opening new stores in Taiwan, Malaysia, China, and Japan.

Tesco plc's group sales (inclusive of VAT) was 20,358 million with a 9.8% increase in sales compared to 1999 of 18,546 million of sales. Tesco plc's operating profit was also increased to 1,043 million with an increase of 8.1% compared to the year before 965 million. Tesco plc's per-share price was 169 pence in February 2000 since then it has increased to 276 pence this is an increase of 63.3% per share also at the last fiscal year earnings per share was paid as 10.18 pence per share and the dividend is 4.48 pence. The reason why J. Sainsbury's plc was chosen for the comparison is because J. Sainsbury's are the second-largest supermarket in the UK behind Tesco supermarkets and has 11.9% market share. J. Sainsbury's today owns Shaw's Supermarkets Inc. has been owned by J. Sainsbury's plc since 1983 Shaw's supermarkets have 168 in the six New England states of the USA and serve over 4 million customers a week. Homebase DIY stores, Homebase was founded in 1979 and opened its first store in 1981, since then the company bought Texas Homecare and converted to Homebase store format and acquired with Hampden Group plc. Homebase now serves over 1.5 million customers a week at 297 stores throughout the UK.

The company also opened Sainsbury's bank in February 1997, it was the first bank to be opened by a British supermarket. It is a joint venture and owned 55 percent by J. Sainsbury's plc and 45 percent by Bank of Scotland PLC, offering telephone banking 24 hours a day to date it has attracted over 1.25 million customers. And offer instant access savings accounts; bonds; ISAs; investment products; loans; mortgages; credit cards; a car purchase plan and a number of insurance plans, including travel cover; pet insurance; and home and contents insurance. Sainsbury's supermarkets were established in 1869 by John James and Mary Ann Sainsbury and are Britain's longest-standing major food retailing chain. As well as the world's first supermarket, it is said that their aim is to be the customers' first choice for food shopping by providing high quality, value for money, excellent service to detail. Today Sainsbury employs over 138,000 people 70 percent of those are part-time and 30 percent are full-time employees 58 percent are also women employees. J. Sainsbury's supermarkets serve nearly 10 million customers at 432 stores throughout the UK each week.

In 1999-2000 the company opened 24 stores including Sainsbury's locals and in the same year the company extended and refurbished 38 stores. In the years 2000-2001, the company plans to open 38 new stores 25 of them to be Sainsbury's locals and planning to refurbish and extend 50 stores in the same year. J. Sainsbury's supermarkets have increased their sales by 1.8% to 13,266.7 million from 5 million however operating profit has dropped by over a quarter of 27.2% to 541.5 million from 743.8 million. The last four years' percentage change figures can be also seen in the diagram below.

The ratio analysis of Tesco supermarkets will be in four parts these are profitability, liquidity, gearing, and investment potential of the company. For Tesco supermarkets rate of return to net profit on capital, employed is 79% ( $\text{net profit/capital employed} * 100$ ) the rate of return to net profit on capital employment ratio illustrating that how much profit has Tesco supermarkets made but also how well the capital has been employed. It is obvious that Tesco supermarkets have used their capital very well, achieving a return of 79% net profit for every 100 invested. In addition, in a comparison with J. Sainsbury's rate of return to net profit on capital employed is much lower at a rate of 23.5% so these figures are showing how well every capital 100 invested has been employed. Tesco supermarkets have made far better use of its capital, achieving a return of 79 net profit for every 100 invested whereas J. Sainsbury's has received only a net profit of 23.50 per 100. Moreover, The gross profit as a percentage of sales for Tesco supermarkets is 5.42% compared to J. Sainsbury's gross profit of sales is lower at a rate of 4.08%, this is showing that Tesco supermarkets are receiving greater gross profit than J.

Sainsbury's supermarkets. Also J. Sainsbury plc's; in chairman's statement Sir George Bull insists that " last year was a difficult year for the Sainsbury group, in which strong performances at Shaw's and Homebase were unable to compensate for the significant decline in profit at Sainsbury's Supermarkets". It could also be said that even though J. Sainsbury's supermarket sales have been increasing on an average of 6.5% for the last four years, the profits of the company has been decreasing in 1997 profits

were down by -11% following year it was increased to 10.7, however in 1999 and 2000 the company's profits has been decreasing in 1999 it was -4.4% and this year it was dropped dramatically to -28.7%. On the other hand, Tesco supermarkets have been having both sales and profits figures rising for the last four years, percentage change figures can be also seen in the diagram below. The profits have increased by an average of 6.5% during the last two years this number is also 8.6% for the last four years. The sales of Tesco supermarkets have also increased to 6.4% during the last two years, for the last four years this figure has been increased on an average of 10.1% of sales.