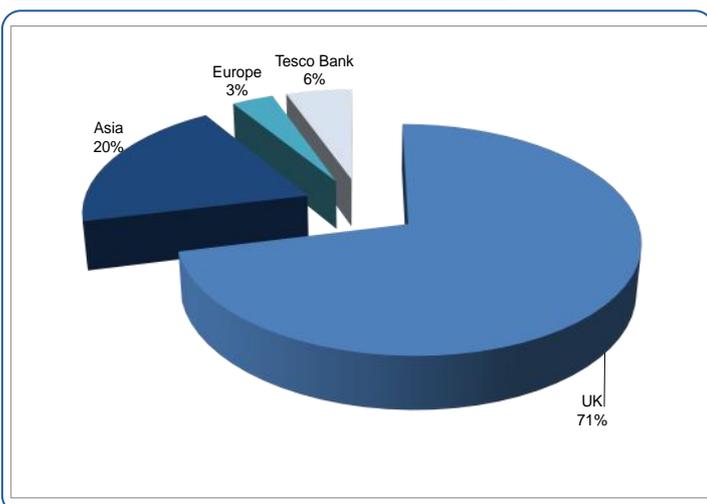


### Tesco 1H2013/14 results

Tesco released results this morning (2 October) which showed flat UK sales, as GBP1bn of investment failed to boost the company's fortunes. Tesco, the UK's biggest retailer and the third-largest retailer globally, said sales at UK stores open over a year, excluding fuel and VAT sales tax, showed zero growth in 2Q14. 1H14 trading profit was down 7.6% to GBP1.59bn (in line with consensus analysts' forecasts). Net profit came in at GBP820mn, down from GBP1.24bn largely on the back of lower profit from property sales while sales rose to GBP31.91bn from GBP31.31bn in the year-ago period. The company maintained its interim dividend at GBp4.63.

#### Tesco 1H13/14 trading profit by region:



Source: Company data, Anchor Capital

Tesco was impacted by an especially poor performance in Europe (where it operates grocery chains in Ireland, Central Europe and Turkey). Trading profit in 1H was down 68% to GBP55mn as the challenging economic conditions there held back consumer confidence and spending, leading to a lower level of sales than expected. Sales in the first half fell 5.5%. In Asia sales dropped 3.5% on a same-store sales basis while trading profit slipped to GBP314mn from GBP339mn. In the UK the group was hit hard by the economic downturn because compared with its rivals, Tesco sells a higher proportion of non-food items (items that consumers cut back on most in times of economic hardship).

Years of underinvestment has also resulted in it losing ground to Wal-Mart's Asda (the number 2 retailer) and J Sainsbury (number three).

Although the company has invested heavily in store upgrades, product ranges, more staff and its online offering (which contributes over two-thirds of group revenue), its overall market share is still showing a YoY decline according to monthly industry data released last week.

Tesco has also been facing serious challenges in its international markets, although it has recently struck deals to exit its loss-making business in the US and fold its unprofitable Chinese operation into a state-run company (China Resource Enterprises [CRE]).

Tesco also saw its margins being squeezed, with group profit margins falling from 5.4% to 4.9%. CEO Philip Clarke said that the worse-than-expected sales and profits in Europe in the first half will offset some of the improvements made to UK profitability in the full year. Tesco's share price is down around 3.8% today following the release of these results.

**Marco de Matos**



Global Ideas is a newsletter published three times a week (Monday, Wednesday and Friday) and available only to clients of Investor Campus and Anchor Capital. The key objective of this newsletter is to provide ideas for investment in the global investment universe.

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#### Contacts

**Anchor Capital reception**      011 591 0677  
Investment/ Sales                  mnyoung@anchorcapital.co.za  
Brokerage/ Trading                fswart@anchorcapital.co.za

**Trading Desk**                      012 665 3461  
General Enquiries                  info@anchorcapital.co.za  
Newsletter Enquiries               newsletters@anchorcapital.co.za



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