Upbeat Christmas trading news continues for UK supermarkets, but German-owned discounters still strong

The ‘Big Four’ UK supermarkets look to be slowly reviving after a tortuous few years, with J Sainsbury plc (LON:SBRY) joining William Morrison Supermarkets PLC (LON:MRW) in beating Christmas sale expectations, helped by the return of food price inflation.

UK supermarket groups have been locked in a price war as they battle to combat the advance of German-owned discount chains, Aldi and Lidl, which have also seen strong Christmas performances.

Lidl said today that its British arm enjoyed its most successful Christmas trading period ever, with sales up 10% on a year-on-year basis in December.

Lidl UK, which alongside Aldi has shaken up the market in recent years due to its ultra low prices, said in 2017 it would remain “absolutely focused” on saving customers more money, and would stick to its ongoing expansion plan.

Aldi reported its own Christmas trading news on Monday, saying sales at its UK business rose over 15% in December compared to the same month in 2015.

But despite the big jump in the German discounters sales over Christmas, the updates from the traditional supermarket players, Sainsbury’s and Morrisons suggest that all Britain’s food retailers still enjoyed solid trading over the festive period.

Beating forecasts …

Sainsbury, Britain’s second biggest supermarket chain today reported like-for-like sales growth of 0.1%, excluding fuel, in the 15 weeks to January 7, better than consensus forecasts for a 0.8% decline, and an improvement on a fall of 1.1% in its fiscal second quarter.

However, the better than expected Christmas trading was helped by a strong contribution from last year’s acquisition of Argos-owner Home Retail Group.

The catalogue-based high street chain saw its like-for-like sales increase by 4.0% over the period.

Laith Khalaf, senior analyst at Hargreaves Lansdown, said: “Argos pulled Sainsbury’s up by its bootstraps over the Christmas trading period, as the supermarket business failed to generate any sales growth on its own.

"However against a backdrop of food deflation, flat sales are a pyrrhic victory for the supermarket, and represent an improvement on performance so far this financial year."

READ: Sainsbury's Christmas update …

Analysts at Shore Capital said the Sainsbury’s update “is sound overall, very good from Argos, leading us not to sense a need to adjust our FY2017 PTP forecasts”.

Company Synopsis:
J Sainsbury PLC is a United Kingdom-based company principally engaged in grocery and related retailing, and financial services.
But, in a note to clients, they added that "we expect the market to be concerned about the sales performance of Sainsbury Supermarkets today."

They added: "However, in the big scheme of things we are content to see a slightly better than anticipated core chain sales outcome and a beat from Argos."

Sainsbury's shares continued to top the FTSE 100 leader board in late morning trading, up 4% or 10.4p at 269.2p.

Stockbroker TD Direct said, from the end of 2015 to the end of 2016, there had been a 6% increase in the number of its customers holding Sainsbury's shares.

The broker said Sainsbury was the third most bought share amongst TD customers over the period, after Tesco and M&S - with Morrisons ranking fourth.

More for Morrisons …
Morrison's shares were also higher again today, having been the top blue chip gainer yesterday, adding around 1% or 2.7p at 248.7p.

On Tuesday, Morrisons - Britain's No. 4 supermarket group - raised its current year profit guidance after seeing its strongest underlying Christmas sales since 2009.

Building on a year of growth under a new management team, the Yorkshire-based grocer also said it now expects its 2016-17 underlying pretax to be in the range £330-340mln, ahead of consensus forecasts.

READ: Morrisons' trading news …
Market leader Tesco PLC (LON:TSCO) is expected to continue that trend when it reports tomorrow, having recorded the fastest sales growth sales of the UK ‘Big Four’ in the last quarter according to industry data released yesterday.

Market research group Kantar Worldpanel said Tesco's sales grew by 1.3% over the 12 weeks to January 1, outperforming Morrisons' 1.2% growth, while J Sainsbury plc (LON:SBRY) saw its sales fall 0.1%, and Asda - owned by US retail giant Wal-Mart Inc (NYSE:WMRT) - recorded a 2.4% decline.

Food prices rising …
Kantar said Tesco’s advance came as food price inflation returned after more than two years of falling costs, with its data showing underlying grocery prices rose by 0.2 percentage points during the period, the first increase since 2014 driven by sterling's plunge since the Brexit vote in June.

Strong December food sales were also evident in a British Retail Consortium survey, released on Monday night, which showed a buoyant Christmas week boosted overall spending growth in the month to a year-on-year rate of 1.7%, up from 1.3% in November.

The BRC report said, over the three-months to December, food sales increased by 1.1% on a like-for-like basis and were up 2.4% on a total basis, well ahead of the 12-month total average growth of 1.0%.
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