Goldman Sachs cuts rating for Saga Group to 'neutral' from 'buy' after recent profit warning

Goldman Sachs has downgraded its rating for Saga Group PLC (LON:SAGA) to 'neutral' from 'buy' following the over-50's travel and insurance group's recent profit warning.

In a note to clients, Goldman's analysts said they believe the fall in Saga's profit guidance is "primarily the result of structural rather than cyclical factors", and therefore they expect the firm to "face ongoing challenges".

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They said the structural issues facing Saga include competition, for instance in home broking where the growth aspirations of new players, such as Admiral PLC (LON:ADM) and Hastings Group Holdings PLC (LON:HSTG), look likely to remain an ongoing feature of the market.

The analysts also highlighted Saga's price sensitivity, noting that its brand strength "does not appear sufficient to insulate it from competitive pressures in the broking channel, where it is having to cut prices/margins to retain customers".

Saga’s shares plunged by over 20% in value last Wednesday after the FTSE 250 listed firm said it now expects its full year growth in underlying profit before tax to be in the region of 1-2%, compared to the 5.5% achieved at the half year.

The group said the profit fall reflects more challenging trading in its insurance broking business and the impact of the collapse of Monarch Airlines on its tour operating arm.

In mid-morning trading today, Saga shares held steady at 129.4p.
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