

Compass Group

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Compass heads south as Barclays downgrades for first time in a decade

Compass Group PLC (LON:CPG) shares dropped in late-afternoon after Barclays downgraded the group to 'equal weight' from 'overweight' for the first time in a decade.

The investment bank said the valuation of the FTSE 100 caterer had now reached levels that made "upside feel more limited" and that they were now more cautious in the medium-term.

READ: Compass Group ups full-year growth expectations as contract caterer reports "excellent" start to the year

The company's shares have had a strong run over the last six months, rising around 15% after a cost-cutting drive helped offset lower volumes, flat margins, and higher costs at its UK business in the latest full year.

"While we expect another excellent quarter of organic growth when the company reports on 15th May ... we are more negative about margins, even if management has already flagged it expects a softer [first half]," the bank said.

Barclays added that one of the key bearish points for caterers was rising capital expenditure and a view that the industry was "becoming more capital intensive" with a deterioration in the return on capital employed (ROCE), the measure of how efficiently a company generates profits from its capital.

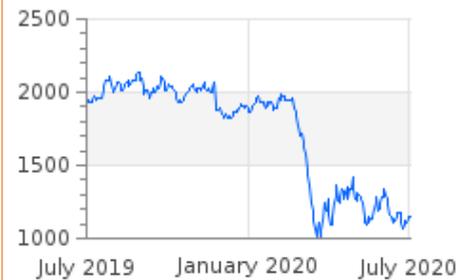
Analysts said while they didn't see this derailing the company for the next 1-2 years, the trend was "concerning", particularly given free cash flow yields (i.e. the amount of return a shareholder earns on their investment) was at an all-time low of 3.6%.

Shares were down 1.4% at 1,768.5p.

Price: 1152.5

Market Cap: £20.56 billion

1 Year Share Price Graph



Share Information

Code: CPG

Listing: LSE

52 week High Low
2150 20.62

Sector: Leisure, gaming and gambling

Website: www.compass-group.com

Company Synopsis:

Compass Group is a market leader in providing food and a range of selected support services to customers in the workplace, in schools and colleges, in hospitals, at leisure or in remote environments.

action@proactiveinvestors.com

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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