

Marks and Spencer Group PLC

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Will M&S be too late to the online party? Liberum thinks so...

Marks and Spencer Group PLC (LON:MKS) shares were down again on Friday as analysts started to weigh up the potential impact of Waitroses' ambitious online plans.

Yesterday, Waitrose announced it would be replacing grocery delivery specialist Ocado Group plc (LON:OCDO) with Today Development Partners - set-up by one of Ocado's co-founders.

READ: M&S's 'cultural change' sparks upgrade from Citi

The tie-up is part of plans from bosses at the upmarket supermarket group to grow the online business to £1bn annually once its current deal with Ocado runs out next September.

At that point, Waitrose will be replaced by Marks, which recently forked out £750m for a 50% stake in Ocado's retail division, which will start to use M&S food in its deliveries.

The bold move was seen as an expensive but necessary one, with analysts commenting that Marks had to get online by any means.

Competition to squeeze margins

But is it too late to the party? Tesco PLC (LON:TSCO), J Sainsbury PLC (LON:SBRY) and Amazon.com Inc (NASDAQ:AMZN) have been pouring money into their delivery services for years, while even Waitrose has a decent share of the online market, which it hopes to treble in the coming years.

City broker Liberum thinks M&S will have to play catch-up, which, to its mind, almost certainly means having to undercut rivals or invest huge sums to win the market share it needs.

"At a time when M&S is set to begin its online journey with Ocado, we think the fierce competition it will face from the likes of Waitrose, Amazon Pantry, Farmdrop, and Tesco to name just a few means that margins will be pressured as customers are acquired in any way possible (perhaps through reduced prices, or delivery proposition investments) to grab share in a growing market," read a note to clients.

£70m of synergies far from guaranteed

M&S reckons it can achieve synergies of up to £70m a year through its partnership with Ocado - increased buying scale, joint marketing, conversion of existing M&S customers - which Liberum said "are a must", if the 10% margin target is to be achieved.

But the analysts cautioned that these "may yet prove to be easier dreamt up than delivered".

Liberum has M&S as a 'sell', with a 225p price target.

Price: 181.5

Market Cap: £3.54 billion

1 Year Share Price Graph



November 2018 May 2019 November 20

Share Information

Code: MKS

Listing: LSE

52 week **High** **Low**
298.594 161.35

Sector: Retail

Website: www.marksandspencer.com

Company Synopsis:

Marks and Spencer Group is a retailer of clothing, food and home products in the United Kingdom. The Company has 622 stores, including Simply Food franchise stores, as well as an international business.

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In mid-morning trading on Friday, Marks' shares were down 1.4% to 262.6p. Since Waitrose unveiled its plans on Thursday morning, the stock is down almost 5%.

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