

Marks and Spencer Group PLC

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M&S expected to narrowly avoid FTSE 100 relegation after rights issue

Marks and Spencer Group PLC (LON:MKS) looks set to narrowly avoid relegation from the FTSE 100 index after the impact of its £601m rights issue proved less than feared.

Last week M&S confirmed the terms of the massive cash call to underwrite its joint venture with online grocer Ocado Group plc (LON:OCDO) which see the high street retailer launch a grocery home delivery service.

The fully-underwritten rights issue was priced at 185p per share, a hefty discount to the 271p the shares closed at the day before the terms of the capital raising were announced.

READ: M&S confirms £600m rights issue and dividend cut to fund Ocado joint venture

On Wednesday, M&S shares fell 5.9% to 235.80p as trading in the rights to the upcoming share issue hit the secondary market.

The share price decline was largely due to the fact that investors can now pocket the right issue discount and sell their M&S shares if they decide. Existing investors who are entitled to participate in the cash call can now sell their 'nil paid rights' for 47p per share.

The decline left M&S with a market cap of about £3.9bn, which currently would put it in line for relegation from the FTSE 100 index at next week's quarterly review.

Rights issue to save M&S from FTSE 100 relegation

However, the money raised from the rights issue is likely to save M&S from falling out of the top tier index even though it does not close until June 12, a week after the FTSE 100 reshuffle.

"While the fresh capital won't actually be available until after the FTSE reshuffle calculation, we expect the index provider to give M&S the nod, on the basis the money's in the post," said Laith Khalaf, senior analyst at Hargreaves Lansdown.

"This makes sense to minimise changes to the blue chip index, and means tracker funds which follow the FTSE 100 don't have to sell the stock, only to have to buy it back a couple of months later."

Options for M&S shareholders

Meanwhile, AJ Bell investment director, Russ Mould pointed out that shareholders have a few options with regards to the rights issue.

He said they can either: buy one new share for every five they already own; sell all of their rights that began trading on the London Stock Exchange on Wednesday; sell some of their rights and use the cash to buy some of the new shares; or do nothing at all and let their rights lapse.

Price: 185.45

Market Cap: £3.6 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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"Which is the right path to take will depend upon both the investor's view of M&S strategy and its turnaround plan, as well as their personal financial circumstances," he said.

"They may not have enough ready cash to hand and may be reluctant to sell other holdings to raise the funds, for example. And anyone who is becoming tired of the seemingly never-ending stream of exceptional charges and promises of better times ahead may wonder whether they are throwing good money after bad, especially as Ocado has yet to consistently turn a profit itself from food delivery."

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