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Marks and Spencer Group PLC

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M&S well-positioned to deal with challenges, says Barclays

Marks and Spencer Group PLC's (LON:MKS) restructuring plan leaves it well-placed to deal with the challenge of launching its online grocery business, according to Barclays.

M&S announced in February that it had entered into a joint venture with Ocado, which will give the British retailer a home delivery service for its groceries for the first time.

READ: M&S confirms £600mln rights issue and dividend cut to fund Ocado joint venture
As part the deal, M&S agreed to buy a 50% stake in Ocado's UK retail business. It launched a £600mln rights issue and cut its full-year dividend to fund the acquisition.

M&S has been carrying out a wider restructuring of the business that includes closing stores, reducing food promotions and reinvigorating its struggling clothing and home business. The group has also exited overseas markets, including China.

"We think the new M&S management has outlined a sensible plan with respect to its UK store estate, its clothing and home proposition and the loss-making elements of its owned international business," Barclays said.

"This leaves M&S relatively well-positioned to deal with the challenges of foreign exchange headwinds and online growth."

Barclays cuts target price for M&S shares
Barclays maintained an 'overweight' rating on M&S but lowered its target price to 290p from 320p as reduced its profit forecasts for the next three years.

The bank said M&S has seen limited headlines sales in the food business due to two opposing trends - robust full-price sales growth, offset by weaker sales on promotion.

Price: 223.6

Market Cap: £4.36 billion

1 Year Share Price Graph

Share Information

Code:		MKS
Listing:		LSE
52 week	**High**	**Low**
	292.856	**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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"This potentially bodes well for profitability and also indicates that headline sales growth may pick up markedly from late summer as last year's promotional changes are annualised," Barclays said.

The bank took a more cautious view on near-term clothing and home sales given last year's tough comparatives. Sales this time last year were helped by the UK heatwave whereas this year's weather has been "unhelpful," Barclays pointed out.

"The average impact on our pre-tax profit forecasts for the next three years is circa - 2.5% --whereas the impact on our earnings per share forecast is circa -6.5% (higher because of the rights issue impact," it said.

Free cash flow yield 'hard to ignore'

Barclays said cash generation has always been a core part of its investment thesis on M&S and the free cash flow yield remains hard to ignore, even after the rights issue.

The bank estimates M&S will generate about £1.5bn of free cash flow over the next three years against a £4bn market capitalisation.

"One might imagine that rebasing the dividend by 40% would have ended the dividend yield angle, but the weakness of the share price means that shares today yield close to 5.5%."

M&S shares rose by 1.6% to 207.6p around noon.