11:51 22 Jul 2016

Brokers: 'Painful transition' for M&S

Barclays took opposing views on the futures of high street stalwarts compared with younger online retailers on Friday, claiming that it prefers "growth stories with significant exposure outside of the UK".

The bank upgraded its price targets for both ASOS PLC (LON:ASC), as well as Boohoo.com PLC (LON:BOO) as it took positive view on the internet retail sector.

The bank reiterated ASOS as its top pick in the sector, moving its share price target up to 5200p from 5000p, while it moved Boohoo's target to 68p from 60p.

By contrast, it didn't predict such a rosy future for traditional high street firms, downgrading Marks & Spencer Group PLC (LON:MKS) to 'underweight' from 'equal weight' and slashing its price target for the stock to 290p from 410p.

Although Barclays conceded that Marks' new strategy of focusing on customers and products "may be the start of a turnaround story", it added that "things can get worse before they get better".

The bank concluded: "We find the current low visibility on EPS (earnings per share) unappealing and without signs of stabilisation in consumer confidence we see any rerating as unlikely."

Likewise, Next Plc (LON:NXT) also had its price target cut to 6000p from 7500p as the London-based bank continued its bearish outlook on the more traditional high street firms.

Barclays cut its EPS estimates for the clothes retailer by 8%, citing "weak clothing volumes", although it did praise the growth of online sales.

JP Morgan Cazenove released a note detailing its views on UK power and utilities companies.

It was broadly positive about the sector, describing it as a "relative safe-haven" in the current volatile market conditions, adding that stocks were trading "at or close to all-time highs".

Centrica PLC (LON:CAN) received an upgrade to 'overweight' from 'neutral' and had its price target upped to 250p, with "gas and electricity prices stabilising at much higher levels".

Both SSE plc (LON:SSE) and Severn Trent PLC (LON:SVT) were moved the other way from 'overweight' to 'neutral', although JP Morgan Cazenove did make clear that this was because the stocks were trading in-line with its upgraded price targets.

The bank said "near term expectations for higher inflation and depressed sovereign bond yields" led it to bump up price targets "across the board".

SSE's target was increased to 1625p, while Severn's share price forecast was raised to 2450p.

Elsewhere, airlines continue to take a hit from brokers, with Citigroup trimming its price forecast for Easyjet PLC (LON:EZJ) to 1500p from 1600p.

The bank lowered its profit before tax estimates for 2016 to £523mln from £642mln, explaining that external events are currently hampering the business.

"The recent attack in Nice (a significant Easyjet location), the attempted coup in Turkey and the UK's deicison to leave the EU have all damaged consumer confidence in the travel sector."

Citi added that the strengthening of the euro versus sterling has increased the firm's euro-denominated costs this summer.

Broker Liberum also cautioned that there may be turbulence ahead for the budget airline as it repeated its 'hold' recommendation and target price of 1050p.

Cantor Fitzgerald was another broker that believes the outlook for Easyjet is "downbeat" and repeated its 'hold' rating for the stock, while setting a target price of 1200p.

Into the small caps, and Northland Capital Partners maintained its 'buy' recommendation for telco AdEPT Telecom plc (LON:ADT) as well as its target price of 310p.

In AdEPT's recently published FY16 results, the company posted earnings before interest, tax, depreciation and amortisation (EBITDA) of £6.15mln which was in-line with Northland's expectations.

However, the broker was impressed with reported net debt of £6mln, which was better than expected.

Northland added that the recent acquisition of Comms Group and the appointment of Richard Burbage to communications director have "underline the [company's] commitment to a unified communications strategy".