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Ocado gets another pasting over margin warning

Fresh from a City drubbing over its margin warning earlier this week, Ocado Group PLC (LON:OCDO) got another pasting on Wednesday from Exane BNP Paribas.

Exane downgraded the online grocer to 'underperform', saying it believed rises in the group's earnings in the next couple of years will fall short of market hopes due to new distribution centre costs.

The French broker said Ocado needed big basket shoppers with good gross margin to make a profit, despite having the world's most efficient food-picking technology.

But Exane noted that gross margin was dictated by "painful industry forces" and supplier Waitrose's pricing policy - and could be dragged back more by investment costs.

"We expect little net profit growth over the next three to four years," the broker said.

On Tuesday, Ocado shares fell more than 10% after it warned of margin pressure from rivals.

Analysts also noted the firm's continued failure to do a deal with overseas retailers to use its retail technology.

Exane analysts said: "Weak earnings development may cause a potential new partner to return to their spreadsheet and think again.

"With expectations too high, we cut our rating to 'underperform', holding our target price at 215p."

Ocado's shares fell another 5.8%, or 16p, to 262p in morning London trading.

Exane was also on the warpath in the drug industry, downgrading AstraZeneca PLC (LON:AZN) and GlaxoSmithKline PLC (LON:GSK) to 'neutral' and 'underperform' respectively.

The broker said the "three Bs" - 'Brexit', bid speculation and better perception - had driven AstraZeneca close to a decade-high sector relative valuation.

But it added: "We see the stock now close to our target price and downgrade from 'outperform' to 'neutral'.

"The appeal of the investment case remains, but we see more value elsewhere, most notably Novo Nordisk A/S (CPH:NOVO-B) and Shire Plc (LON:SHP)."

Exane noted that an improving business performance after a particularly weak 2015, combined with the benefit of the lower pound after the EU referendum, had driven up Glaxo's shares.

But it added: "From here, we see few reasons for this relative outperformance to continue.

"We downgrade to 'underperform' with a new target price of 1520p, offering 5% downside."

Elsewhere, financial and investment services provider Brooks Macdonald was out of favour with Liberum Capital, which cut the stock to 'hold' ahead of annual results next week.

Liberum said 12% growth in funds under management in 2016 relative to its peers was impressive.

But the broker added: "We see cause for concern in its non-core divisions which have been operating at close to break-even.

"This and revenue yield pressure in asset management are the main reasons we forecast stagnant earnings per share growth year-on-year and we consequently see short-term downside risk."

Meanwhile, HSBC Holdings Plc (LON:HSBA) downgraded insurer and pension group Standard Life Plc (LON:SL.) to 'hold' from 'buy', saying there were more attractive stocks in the sector such as Prudential PLC (LON:PRU).