

Tesco PLC

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Tesco left in decent order for new boss but coronavirus crisis, Brexit loom

Tesco PLC (LON:TSCO) started a new chapter on Thursday with incoming chief executive Ken Murphy starting his tenure at the grocer.

He replaces Dave Lewis, who announced his shock departure a year ago.

READ: Tesco joins Morrisons in rationing popular items

Lewis said the decision to step down was "a personal one" and that he believed "the tenure of the CEO should be finite".

The idea had already been floated behind closed doors, and in fact, the board immediately announced the appointment of Murphy, poached from the role of chief commercial officer and president of global brands at Walgreens Boots Alliance.

Murphy has big shoes to fill after Lewis turned Tesco around, led a corporate restructuring and rebuilt the balance sheet.

External woes

"Whereas Mr Lewis faced into a tsunami of internal challenge, he passes a leadership 'ball' onto his successor at the right pace, direction and height," noted analysts at Shore Capital.

"Whilst this is so, it would be incorrect to suggest that Mr Murphy does not face challenges.

"His issues, however, are largely external, now that Tesco is a well-oiled operating machine and considerably more solvent, something that should be notably enhanced assuming that the Asia disposal completes before Christmas 2020".

If anything, what Murphy is about to face is not unique to Tesco but a case of shared woes across the retail sector notable the economic recession, the coronavirus crisis and fragile UK-EU relations.

Internal strategy

Looking at the internal strategy, the market has been wondering when Tesco Bank can be offloaded, whether the Aldi price match is sustainable and how retail underlying margins can be protected with the move to online.

Shareholders are not keen on the bank, which is expected to swing to a full-year loss of between £175-200m from last year's profit of £193m due to potentially higher bad debts amid a drop in global GDP.

"There's a lot of capital tied up in the bank and it only delivers modest upstream benefits to the parent company," fund manager Richard Buxton, of Tesco shareholder Jupiter, told the Evening Standard.

Price: 227.3

Market Cap: £22.26 billion

1 Year Share Price Graph



Share Information

Code: TSCO

Listing: LSE

52 week High Low
260.4 202

Sector: Retail

Website: www.tesco.com

Company Synopsis:

Tesco - the leading supermarket in Britain With small grocery stores under the Tesco Metro brand name, big supermarkets outside cities (Tesco Extra) and 24-hour stores.

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"The regulatory burden and oversight that's needed with owning a bank is huge. It would be better that a traditional bank owned it and Tesco supplied the customers."

As for the coronavirus, the 'Big 4' supermarkets are benefitting from the increase in online penetration in the UK market accelerated by the COVID-19 crisis, which is leaving discounters behind due to the operational challenges of establishing an e-commerce platform.

"In the short-term, the strong customer metrics, sustained sales growth and substantially lower COVID-19 costs point to upside risks to full-year estimates, while the approval of the Asian deal in October or November should return £5bn to investors in the second half," UBS analysts said.

A new board

Murphy will also be leading the FTSE 100 company in the absence of Charles Wilson, managing director of Booker and "one of the industry's true leaders", according to Shore Capital, who is set to leave Tesco by the end of February 2021 and will be replaced by Andrew Yaxley.

Chief financial officer Alan Stewart is also due to leave no later than April 2021 but no successor has been selected yet.

"Mr Lewis has left the business with it in good shape, with a 51p special dividend and enhanced solvency, particularly around the pension responsibilities, to come," Shore Capital concluded.

"The grocery retail sector market opportunity is enhanced by social change, notably working from home, and Tesco has seized the online food opportunity well; doubling capacity in a capital-light manner and seeing the channel turn to profit."

Shares in Tesco were trading 1% lower at 211.19p on Thursday afternoon, the same level of March lows after a rollercoaster few months, including a peak of 248p in May.

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