



(LSE: OCDO) 3Q16 SALES: STRONG TOP LINE BUT COMPETITION PRESSURES MARGINS

- UK grocery pure play Ocado Group posted 3Q16 group sales up 15.4%. Its own retail sales were up 13.6%.
- The company noted the competitive UK grocery market maintains margin pressure.
- Analysts expect Ocado to post revenue growth of 15.2% for the full year that ends in November.

3Q16 RESULTS

Like most UK companies, Ocado reports sales growth each quarter, but only updates on profits at the half-year and full-year.

In the quarter ended August 7, Ocado reported it grew its total group revenues by 15.4% to £314 million. This figure includes revenues from its agreement to provide online services for brick-and-mortar grocery retailer, Morrisons. Ocado grew its own retail sales by 13.6% to £286 million, or 91% of the group's total sales.

The average number of orders per week climbed 18.9% to 226,000, but this was partially offset by a 3.4% decline in the average order size to £108. Sector-wide deflation that stems principally from strong price competition is likely driving this decline in the average basket size.

Ocado CEO Tim Steiner's statement reflects the current competitive pressures in UK grocery. He said, "[W]e are seeing sustained and continuing margin pressure and there is nothing to suggest that this will change in the short term." This sent Ocado shares down more than 10% in the first hour of trading on September 13.

OUTLOOK

Steiner said he expects Ocado to continue to grow faster than the total UK online grocery market.

For FY16, which ends in November, the consensus among analysts is for Ocado to grow its top line by 15.2%, EBIT by 35.8% and net profit by 13.8%. Consensus is for normalized earnings per share (EPS) of 2 pence, which, due to rounding, is the same as that reported for FY15.



FLASH REPORT

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