



TESCO Tesco (LSE: TSCO) 3Q17 and Christmas Update: Solid End to the Year

- The UK's largest retailer, Tesco, reported 3Q17 group comps of 1.5%, slightly ahead of the consensus estimate of 1.3%. In the UK, 3Q17 comps came in at a robust 1.8%.
- In the subsequent six-week Christmas trading period ended January 7, UK comps came in at 0.7% against more demanding comparatives.
- The company's 3Q17 performance marked its eighth consecutive quarter of positive comparable volume growth in the UK.

3Q17 Update

Tesco reported a solid end to the year, with robust comparable sales growth in its core UK market. It joins other big UK names, such as Marks & Spencer, Morrisons and Sainsbury's, in reporting good Christmas trading.

In 3Q17, which ended November 26, group comps came in at 1.5%, versus the consensus of 1.3% recorded by S&P Capital IQ. UK comps were a solid 1.8%, marking a sequential improvement from 0.9% comparable sales growth in the prior quarter.

Total group sales in 3Q17 rose by 1.5% at constant currencies, or 6.5% as reported, helped by a strong performance in Asia. Tesco grew total UK sales by 1.4% in the quarter.

Christmas Period Update

Tesco also provided an update on the subsequent Christmas trading period, when growth was more modest. For the six weeks ended January 7, group comps nudged up 0.3% while UK comps rose by 0.7%. The company's Christmas trading period comparatives were more demanding than its 3Q17 comparatives.

Tesco grew total group sales by 0.2% at constant currencies, or 4.3% as reported, in the six-week period. Tesco's total UK sales increased by just 0.1% in the period.

CEO Dave Lewis said he was "very encouraged by the sustained strong progress." He noted that Tesco had seen its eighth consecutive quarter of volume growth and pointed to a strong performance in fresh food ranges, party food ranges and its Free From intolerance-friendly foods.

Tesco saw its clothing sales rise by 4% over the Christmas period (rival Sainsbury's reported a 10% jump in its clothing sales earlier this week). Tesco said it saw a "17% market outperformance" in toys, following an aggressive push on sharper pricing in the category.

The company noted its UK comparable sales in the six-week Christmas period were "heavily impacted" by its decision to not repeat a Clubcard Boost loyalty program that it ran in the prior year.



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Outlook

The company said it is on track to deliver at least £1.2 billion in operating profit before exceptionals. It reports FY17 results on April 12.

For the year, analysts expect Tesco to grow revenues by 2.1%, to £55.6 billion. The consensus is for EBIT to jump 30%, to £1.2 billion, and for GAAP EPS to more than triple, to 7.2 pence.



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