

Introduction

J Sainsbury plc, which is trading as Sainsbury's is one of the largest chain of supermarkets, say second largest in United Kingdom. Last reported the, though the sales of J Sainsbury plc has increased by 1.9%, however its market share has shrunk to 15.8 % to 16% last quarter. The company has a rich history in the sense that, it had become the largest grocery retailer in 1922. The company was also an early adopter of self-servicing retail model in United Kingdom. It enjoyed its market leadership till 1995 when Tesco overtook Sainsbury's in terms of market leadership.

The company is split into three divisions namely Sainsbury's Supermarkets Ltd which include the convenience store, Sainsbury's Bank and Sainsbury's Argos. The group also has exhibited its interest in property. Largest shareholder of J Sainsbury plc is Qatar Investment Authority which is sovereign wealth fund of Qatar with approximately 26% stake. The company is listed in London Stock Exchange and one of the constituents of FTSE 100 Index.

The super market sector of United Kingdom is moderately concentrated. Some important players in the supermarket sub segment in United Kingdom are Tesco with 27.9%, J Sainsbury plc with market share of 15.8%, Asda with 15.4% and Morrison's with 10.3%. These four are considered as big four in super market space. However approximately 70% of market share is being captured by big four. Rise of Aldi and Lidl has eroded the market share of big four and reduced the concentration of the industry. For example both of them collectively added £390 million in last quarter which is half of entire industry's growth during same period. However, in terms of Herfindahl- Hirschman Index (HHI) index, the supermarket industry is still moderately concentrated as HHI score is more than 1000 but less than 2000 (Corfe S. and Gicheva N. , 2017).

Updates about Sainsbury's

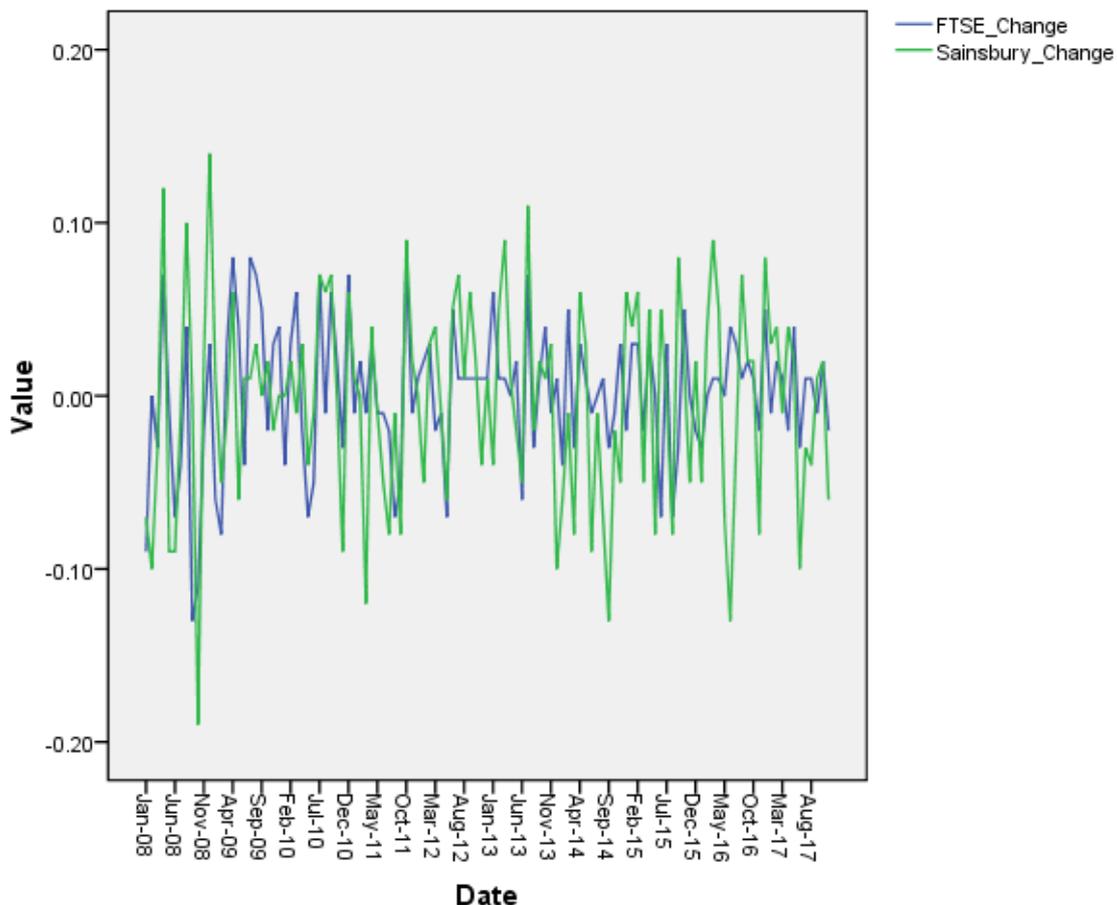
Some of the factors which investors might consider before investing in **Sainsbury's** stock:

- **Improvement in product line:** There is constant focus on improving the product lines at Sainsbury's. Some of the product sub segment which get popular are slow cook segment etc. Further the company is trying the strike a balance between emotional and functional quality across sub service lines

- Diversification: The company has also ventured into banking sector and exhibited a good performance
- Acquisition: The Company is also looking to acquire assets for expansion. In 2016, The Home retail acquisition was completed. It was done for the purpose of improving its online presence and compete with e-commerce based grocery stores. In 2017 also, the group announced for its move for a convenience stores group named Nisa however owing to market competition, the deal was for a hold.
- Stable balance sheet: Though, in November, company reported a fall in expected profit and there is an expected cut in dividend, the net debt of the firm has reduced and the company continued its integration with Argos. Further the cost savings are running ahead of schedule and full year market profit is in line with market expectations.

Statistical Analysis

The monthly run chart for the stock return Vis a Vis FTSE 100 is shown below:



Further the descriptive statistical parameters such as sample size, mean, standard deviation, and range is calculated for Sainsbury's, Sainsbury's stock return, FTSE 100 price and FTSE 100 returns. The results are tabulated in the table given below:

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
FTSE_Price	119	3689.86	3830.09	7519.95	6.0351E3	77.29992	843.24254	7.111E5
FTSE_Change	119	.21	-.13	.08	.0016	.00375	.04088	.002
Sainsbury	119	183.10	224.30	407.40	3.0956E2	4.35562	47.51422	2.258E3
Sainsbury_Change	119	.33	-.19	.14	-.0033	.00544	.05936	.004
Valid N (listwise)	119							

The table indicates that average monthly return for last 10 years for FTSE100 is 0.16% while for Sainsbury's it is -0.33%. The monthly standard deviation for last 10 years for FTSE100 is 4.08% while for Sainsbury's it is 5.94%.

Further the correlation between the return of FTSE100 and Sainsbury's is 0.461 which is shown in table below.

Correlations

		FTSE_Change	Sainsbury_Change
FTSE_Change	Pearson Correlation	1	.461**
	Sig. (2-tailed)		.000
	N	119	119
Sainsbury_Change	Pearson Correlation	.461**	1
	Sig. (2-tailed)	.000	
	N	119	119

** . Correlation is significant at the 0.01 level (2-tailed).

Further, a regression analysis is done while considering the Sainsbury's stock return a dependent variable and returns on FTSE 100 as independent variable. The output of the regression has been shown in appendix. However, it can be inferred that R-square of the regression is 0.212 which means 21.2% changes in dependent variable may be explained with the changes in independent variable.

Further the coefficient of returns on FTSE 100 is 0.669 which may also be considered as the beta of the stock.

The return equation could be represented as

$$\text{Return on Sainsbury's stock} = -0.004 + 0.669 (\text{Returns on FTSE 100}).$$

Conclusion

Fundamentally, the balance sheet of Sainsbury's is good and there are signs of growth primarily because of rapid integration with Argos which would increase its exposure to non-food markets. Further company is making sizeable effort in reducing the cost, and also focussing on diversification. Hence profits expected to boost in coming quarters, hence investors may invest and stay for 2 quarters to reap the benefits. However, the industry as whole is witnessing more competition and price wars which may reduce the profits in long run.

Appendix

SPSS output for regression of returns of Sainsbury stocks with respect to FTSE100 .

Variables Entered/Removed^b

Model	Variables Entered	Variables Removed	Method
1	FTSE_Change ^a		. Enter

a. All requested variables entered.

b. Dependent Variable: Sainsbury_Change

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.461 ^a	.212	.206	.05291

a. Predictors: (Constant), FTSE_Change

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.088	1	.088	31.523	.000 ^a
	Residual	.328	117	.003		
	Total	.416	118			

a. Predictors: (Constant), FTSE_Change

b. Dependent Variable: Sainsbury_Change

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.004	.005		-.895	.373
	FTSE_Change	.669	.119	.461	5.615	.000

a. Dependent Variable: Sainsbury_Change

References

Investors Presentation, 2017, available online

<https://www.about.sainsburys.co.uk/~media/Files/S/Sainsburys/documents/result-centre/interim-results-slides-09-11-2017.pdf>, accessed on December 12, 2017

Corfe S. and Gicheva N. 2017 ,Concentration not competition: the state of UK consumer

market, available online <http://www.smf.co.uk/wp-content/uploads/2017/10/Concentration-not-competition.pdf>, accessed on December 12, 2017