**Company analysis report**

**Retail Industry**

**J Sainsbury Plc and Tesco Plc**

**Portfolio Task 4: Financial Ratio Analysis**

**Financial Ratio Analysis of Tesco and J Sainsbury**

This paper evaluates the financial position and productivity of Tesco and J Sainsbury by applying financial ratios. These ratios give information on liquidity, profitability, gearing, efficiency and investment of the business. **Liquidity Ratios**



**Current Ratio:** Analyzing current ratios for the five years, it can be concluded that both J. Sainsbury and Tesco have relatively stable figures, which demonstrates the companies’ solvency to pay the short-term liabilities. As for the current ratio it was changed only slightly it ranged between 61% and 68%. However, the case of Tesco stood out by recording a slight improvement from 60% in 2019 and a high of 75.53% in 2022 and then reduced to 71% in 2023. This means that Tesco’s liquidity position improves in the later years hence has a stronger liquidity position than Sainsburry (Sari et al., 2022).

**Operating Cash Flow Ratio:** J. Sainsbury’s operating cash flow ratio was not a stable figure but it had certain remarkably varying features and it was 8.9% in 2019, reached its highs in 2021 at 20% and then fell to approximately 18.82% in 2023. Tesco has also fluctuated frequently, hit a low of 4% in 2021 and went up to 23.49% in 2022 than again reduced to 21.61% in 2023. Based on this it could be deduced that the two firms had at one time or the other come under pressure to manage their cash flows well with Tesco showing better performance in the most recent periods.

**Cash Ratio:** The cash ratio of Tesco is much higher than that of J. Sainsbury throughout the year as illustrated in the figure below. Tesco’s ratio slightly raised from 16% in 2019 to 29% in 2022 then lowered down to 25% in 2023. In the case of cash ratio, J.Sainsbury had a relatively low figure that ranged from 9 to 16%. Tesco has a higher cash ratio that means Tesco has a better immediate liquidity than Carrefour.

**Quick Ratio:** In the quick ratio that measures the ability of the firm to meet short-term obligations without resorting to inventory, Tesco had a relatively higher figure than J. Sainsbury. Tesco’s quick ratio was ranging from 20% in the year 2019 to 33% in both the years 2020 and 2022, in 2023 it was 29%. The quick ratio of the company was ranging from 10% to 17% which indicates that J. Sainsbury was having a more conservative liquidity position. (Sari et al., 2022).

**Profitability Ratios**

 **Net Profit Margin:**

Another aspect that quite unpredictable is a net profit margin of J. Sainsbury that was 226% in 2022 and 66% in 2023. Tesco’s margin was more stable but significantly lower, which reached the maximum value of 10.29% in 2021 and then falling to 1.13% in 2023. This situation shows that J. Sainsbury occasionally reported high levels of profitability which could be attributed to extra-ordinary gains and cost controls in some periods as opposed to Tesco’s fairly low but fairly consistent profit margins.

**EBITDA Margin:** Both firms had a mid-range EBITDA margin and Tesco is relatively in a better position in this area compared to CMA. The specific margins of J. Sainsbury varied around 4.84% to 7.95% while Tesco’s from high 7.51% to low ending at 4.76% in 2023. This indicates that Tesco’s higher margins in most years are an index of efficiency in operation than Sainsburry (Husain and sunardi, 2020).

**Return on Equity (ROE):** A high fluctuation in ROE was observed in the case of Tesco, and it marginally changes to 46.76 in the year 2021 and it reduced to 5.28% in 2023. J. Sainsbury’s ROE was lower and was fluctuating throughout the years with the highest value at 9.10% in 2022. Tesco has a higher and more fluctuating ROE, which points out the periods of good financial results, while J. Sainsbury’s more stable but lower ROE reveals moderate equity returns.

**Gross Profit Margin:** Gross profit margin of Tesco was slightly higher than that of J. Sainsbury in the said period of five years. Tesco’s margin varied from 6.79% to 7.77%, ending at 7.41% in 2023, while the operating margin of J. Sainsbury was ranged between 6.35% and 7.96%. This implies that Tesco was a little better placed in handling their cost of goods sold than their sales. (Husain and sunardi, 2020).

**Gearing Ratios**

 **Debt to Equity Ratio:** Currently, both firms have high gearing levels but Tesco has slightly higher debt to equity ratio than the former. Tesco’s ratio was moving within the range of 90% to as high as 116% in the year 2022. Down from 26% in 2019, but still 22% in 2021, thus signifying the high use of debt to fund activities. J. Sainsbury’s ratio ranged from 77% in 2023 to 90.40% in 2021, however, this is quite more conservative compared to Tesco’s approach to leveraging.

**Borrowing Ratio:** The borrowing ratio of Tesco was always higher to that of J. Sainsbury from the above time period. Tesco’s ratio was oscillating between 52.67% to 61.5% while J. Sainsbury’s borrowing ratio ranged between 47% to 51%. This shows that Tesco relies on borrowing for its operations than Sainsbury.

**Gearing Ratio:** Tesco also had a higher gearing ratio than J. Sainsbury but both the firms were decreasing their gearing ratio. The gearing ratio of Tesco was 62.61% in 2019 and 56.73% in 2023, meanwhile the ratio of J. Sainsbury remained almost constant at 50%.

**Interest Cover (GAAP):** Here, J. Sainsbury had better interest cover as compared to the industry with specifically in the year 2023 the figure of 105.48%. For interest cover, Tesco’s was lower, ranged from 0.96% only to 3.32% in 2022. This means that J. Sainsbury has the capacity to recover its interest cost from operating income than Tesco which indicates that the company has better operating solvency than Tesco(Harris and Mawardi, 2023).  
  
**Efficiency Ratios**



 **Fixed Asset Turnover:** Fixed asset turnover ratios of both J. Sainsbury and Tesco were higher in the current year which shows that both the companies are using their fixed assets more effectively to generate sales. J. Sainsbury also increased the times relevant ratio from 2.05, while in the previous year it was 2.32 in 2023, whereas the ratio of Tesco enhanced more remarkably from 2.38 to 2.92 over the same period to research the possible reasons for the increased rate of crowding (Patin et al., 2020).

**Total Sales Turnover:** Total sales turnover ratios of both the companies were also found to have increased. J. Sainsbury’s ratio also improved and became 1.04 in 2019 to 1.20 in 2023, which means that the relation between sales and assets is constantly increasing. Tesco’s ratio rose from 1.12 to 1.42, illustrating even a higher sales growth (Iqbal and Anwar, 2022).

**Sale of capital used:** Tesco's ratio increased from 2.21% in 2019 to 2.62% in 2023. J Sainsbury's ratio strengthened from 2.08% in 2019 to 2.46% in 2023. Both companies show that capital a utilization has improved, with Tesco slightly ahead.

# **Investment Ratio**



**Dividend yield:** Tesco's dividend yield has remained at 4-6%, while J Sainsbury's has been more diversified, increased to 6.59% in 2019 and falling to 5.33% in 2023. J Sainsbury's dividend is high as compared to Tesco.

**Dividend-Payout Ratio:** Tesco's payout ratio has changed, increasing to 116.55% by 2023. J Sainsbury's ratio is much lower 1.54%, indicating a more conservative payout policy (Hasanuddin et al., 2021).

**Price-earnings ratio:** Tesco's P/E ratio was significantly different, increasing at 23% by 2023. J Sainsbury's P/E ratio increased, reaching 27.11% by 2023. J Sainsbury seems expensive compared tesco.

**Market to book ratio:** Tesco’s ratio remained low, around 1.39 - 2%. J Sainsbury’s ratio increased to 85.74% by 2023, indicating an increase in market value.

Both Tesco and J Sainsbury show strength and weakness in financial metrics. This analysis provides a comprehensive view of the financial health and performance of both companies, helping stakeholders make informed decisions**.**Top of Form

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# **References**

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