Equity Analysis Report: Marks & Spencer Group plc

Recommendation -Buy

Metric	Value
Target Price	£3.00
Current Price	£2.80
Potential Growth (%)	7.14

Marks & Spencer Group plc: Markets Profile

Metric	Value
Closing Price	**2.80**
Shares Outstanding	**2,0008.5 Million**
Market Capitalisation	**£5,705.0 Million**
Bloomberg Ticker	**LON:MKS**
Sector	**Consumer Discretionary**
Industrial Sector	**Retail**
Sub Industry	**Apparel & Food Retail**
Stock Exchange	**London Stock Exchange (LSE)**

Introduction

Company Overview

The London-based British multinational retailer Marks & Spencer Group plc (M&S) is involved in the food, apparel, and home furnishings industries. Since its founding in 1884, M&S has grown to become a well-known high-street company with a solid reputation for high-quality goods and devoted customers. The business is part of the FTSE 100 index and is listed on the London Stock Exchange (LSE). M&S has encountered difficulties over the years in adjusting to the quickly evolving retail environment, which includes growing rivalry, digital transformation, and changing customer preferences. The business has consistently worked to develop and modernise its operations while retaining a strong sense of brand identification in spite of these obstacles.

Industry and Peer Analysis

Major retailers like Tesco, Next, and Sainsbury's are fighting for market share in the fiercely competitive UK retail sector. The quick growth of e-commerce, changing consumer purchasing patterns, and macroeconomic issues like inflation and supply chain interruptions have all caused major disruptions in the sector. M&S faces competition from online apparel behemoths like ASOS and Boohoo as well as more established businesses like John Lewis and Next. The retail landscape has been drastically changed by these internet-focused rivals, posing a threat to M&S's market share. Despite maintaining a strong brand identity, M&S's market share in the apparel industry has decreased as a result of shifting consumer preferences and the growth of quick fashion. M&S has had difficulty keeping up with Next, which has effectively increased its online presence and implemented a more adaptable supply chain, especially in its clothing sector. Nonetheless, M&S continues to lead the food retail market, offering a greater selection of high-end products than conventional supermarket chains like Tesco and Sainsbury's.

Company Strategy

To improve its market position and maintain profitability, M&S has implemented a number of strategic initiatives. The growth of its food division, which has continuously surpassed its apparel and home sectors, is one of its primary initiatives. The business has made significant investments in digital transformation, including strategic alliances and the growth of e-commerce. Of these, its partnership with Ocado stands out as having greatly improved its online grocery delivery capabilities. To better understand and retain customers, M&S has also implemented data-driven marketing strategies and a comprehensive loyalty program. When it comes to incorporating an agile online shopping experience, M&S has fallen behind rivals like Next, who have successfully tapped into their digital infrastructure. Its recent strategy repositioning has, nevertheless, assisted in closing the deficit. Additionally, M&S has improved the supply chain and developed store optimisation initiatives to increase cost efficiency. Overall sales growth is hampered by the clothes and home division's ongoing struggles with market competitiveness and changing consumer tastes, notwithstanding these efforts.

SWOT Analysis

Strengths: M&S has a solid reputation as a brand and a devoted following, especially in the food industry. In the UK, it has a large retail presence, and its global reach is expanding. Additionally, M&S is now well-positioned in the e-commerce grocery sector thanks to the agreement with Ocado.

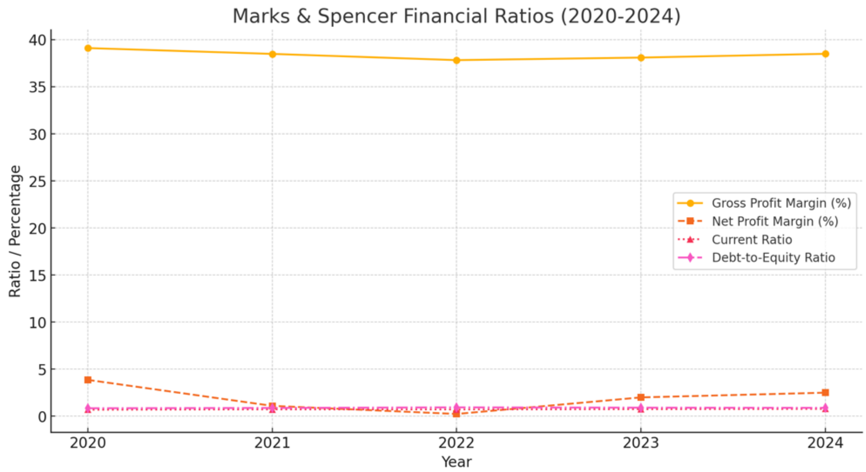
Weaknesses: The business has had trouble competing online in the home and apparel sectors, lagging behind rivals like ASOS and Next. Because of its widespread physical presence, M&S also has substantial operating expenditures, which strains its margins.

Opportunities: International markets have a lot of room to grow, especially in the retail food industry. Revenue growth can be fuelled by enhancing the e-commerce experience and extending digital capabilities. A competitive edge is also offered by ethical sourcing and sustainability programs.

Threats: Economic downturns and rising prices can have an effect on consumer spending, especially in discretionary categories. M&S's conventional retail model is continuously challenged by the growing power of online-only merchants.

Financial Analysis

Revenue, Earnings, and Dividend Growth Marks & Spencer's (M&S) consistent sales rise over the last few years is a sign of a strong post-pandemic recovery and a growing retail sector. The company's total revenue increased from £9,155.7M in 2021 to £13,040.1M in 2024, indicating a steady increase in sales. This development can be attributed to a combination of improved product options, higher client demand, and strategic initiatives aimed at increasing operational efficiency. Earnings per share (EPS), which also showed a significant rebound, went from a negative figure in 2021 to £0.21 in 2024, indicating a return to profitability. The growth in EPS demonstrates the company's capacity to generate higher earnings relative to outstanding shares, which is crucial for attracting investors. Despite the growth in revenue and EPS, M&S has maintained a low dividend payout, with dividends per share of £0.03 in 2024. This cautious approach suggests that the company is prioritising reinvestment and financial stability over immediate shareholder returns.



Sales, EPS, and Dividend Trends vs. Industry/Peers

When compared to its sector peers, M&S's sales growth is consistent with overall retail trends, particularly as businesses recover from economic downturns. However, compared to some of its competitors, M&S pays out fewer dividends, which may indicate that the company has strategically decided to allocate more funds to debt reduction, business expansion, or capital investments. The company's EPS growth is higher than that of some of its rivals, which suggests improved operations and effective cost control. Even while competitors increase dividends to reassure investors, M&S appears to be more focused on long-term growth than on immediate shareholder distributions.

Profitability Ratios

Increased sales and improved cost control have significantly increased M&S's profitability. In 2024, the gross profit margin, which calculates the percentage of revenue left over after deducting the cost of goods sold, increased from the previous year to 34.19%. This shows that pricing tactics are working and that manufacturing or procurement expenses are under control. The operating profit margin also increased to 6.87%, which can be attributed to cost-cutting initiatives, improved operational efficiency, and perhaps a better product mix. Although it is increasing, the company's return on assets (ROA) of 4% indicates that it is making moderate returns on its total assets, leaving potential for additional efficiency increases. In the meantime, M&S is successfully using shareholder capital to produce profits, as seen by the return on equity (ROE) of 16%, which represents significant shareholder value creation. Investor trust in the company's potential to maintain growth is strengthened by the positive trajectory of these profitability ratios, which show an increasing trend in financial performance.

Liquidity Ratios

Key liquidity measures show that M&S continues to struggle with liquidity. At 0.85, the company's current ratio—which gauges its capacity to pay short-term obligations with short-term assets—shows that its current assets are marginally lower than its current liabilities. The corporation might find it difficult to meet short-term obligations without further funding or asset disposal, which could indicate possible liquidity issues. M&S's low liquid assets to satisfy immediate liabilities are further highlighted by the quick ratio of 0.63, which does not include inventory in current assets. A cash ratio of only 0.01 is very worrisome because it indicates that the business has little cash on hand to cover its liabilities. Although M&S is profitable, these liquidity ratios show that it has to strengthen its cash flow management to guarantee that short-term liabilities are sufficiently paid without putting a pressure on the company's finances.

Solvency Ratios

The company's debt-to-equity ratio of 0.56, which shows a balanced approach to leverage, suggests that its solvency position is comparatively steady. Although this ratio indicates that M&S finances its operations using a combination of debt and equity, it does not seem unduly leveraged in relation to industry norms. The company's good ability to pay interest costs out of earnings is demonstrated by the interest coverage ratio of 11.13, which suggests that M&S is not immediately at risk from debt servicing obligations. However, a sizable amount of the company's assets are financed by debt, as indicated by the debt-to-asset ratio of 0.59. This could present long-term problems in the event that profitability drops or interest rates increase. Even though M&S has been able to control its debt levels, it is still wise to proceed with caution when taking on new debt in order to avoid having too much leverage.

Efficiency Ratios

One important area where M&S has made progress is operational efficiency. Days of inventory on hand decreased to 26.77 days from 33.49 days in prior years, indicating an improvement in the inventory turnover ratio, which measures how rapidly inventory is sold and replaced. This implies that the business has improved inventory control, lowering holding costs and guaranteeing that goods are sold at the best possible rate. The steady turnover of receivables shows that M&S is still maintaining an efficient credit collection procedure. Sustaining profitability and reducing expenses related to excess inventory or past-due receivables require maintaining a high efficiency ratio.

Leverage and Debt Profile

With a Net financial to EBITDA ratio that improved from 5.02 to 4.31, M&S's leverage profile shows that its financial situation is getting better. This implies that the company has been progressively reducing its reliance on debt while expanding its earnings. The company's ability to service its debt has improved, lowering financial risk even though it still has a sizable amount of debt. The debt-to-asset ratio of 0.59, however, indicates that M&S is still reliant on debt financing, and any decline in economic circumstances or profitability could put further strain on the company's finances. Sustaining a sustainable leverage profile will require cautious debt management and robust profits growth.

Cash Flow Sustainability and Debt Repayment Ability

With an operating cash flow of £1,301.7M in 2024, M&S has shown high cash flow sustainability and has enough cash on hand to meet its debt payments and operational demands. Given its strong cash flow performance, M&S may be able to continue operating while lowering its leverage over time. To guarantee that short-term obligations are satisfied without causing financial hardship, cautious cash flow management is required in light of the company's liquidity issues. M&S will have the freedom to pay off debt, make investments in company growth, and maybe boost shareholder rewards in the future if it maintains a high cash flow.

Overall Analysis

All things considered, Marks & Spencer's financial performance has shown resilience, as evidenced by robust sales growth, rising profitability, and a steady decline in debt levels. Better margins and increased shareholder value are the results of the company's efficient cost structure management. Low current and quick ratios, however, show that liquidity is still an issue and that short-term financial obligations may provide difficulties if cash reserves are not reinforced. The company's overall financial health is supported by an improvement in the efficiency of its inventory and receivables management. To maintain long-term viability, M&S should concentrate on improving cash flow, lowering its dependency on debt, and fortifying its liquidity position going forward. The firm's profitability and growth trajectory may seem promising to investors, but in order to preserve financial stability and optimise shareholder value, the company needs to handle liquidity issues.

Analysts and Insider Activity for Marks and Spencer Group plc (MKS)

Market Sentiment and Analyst Ratings

Analyst opinions on Marks and Spencer Group plc (MKS) have been divided, mostly due to the company's strategic initiatives and financial results. Generally speaking, analysts divide stock recommendations into three primary groups: buy, hold, and sell. Analyst opinion has improved as a result of the company's recent results performance, which included a net income of £431.2 million in FY2024. Because of M&S's consistent sales increase from £11,931.3 million in 2023 to £13,040.1 million in 2024, a number of analysts have kept their Hold rating on the company. Concerns over the 4.31 net debt to EBITDA ratio, however, point to leverage risks that could have an impact on long-term valuation prospects. Value-conscious investors find the company appealing due to its increasing operating margin (6.87%) and return on capital employed (ROCE of 14.52%), which indicate increased efficiency. Macroeconomic issues that affect M&S's retail and food sectors, including inflation and UK consumer spending trends, also have an impact on investor sentiment. Analysts keep a careful eye on the stock's price-to-earnings (P/E) ratio and dividend yield to assess how appealing it is in comparison to rivals.

Buy/Sell/Hold Recommendations from Analysts

Analysts' opinions on M&S are now split, expressing both hope for the company's future expansion and apprehension about its long-term viability. The company's revenue growth and strategic advancements in the food and e-commerce sectors are highlighted by analysts who recommend a buy position. Concerns about sustainability of profitability are raised by those who suggest Hold, especially in light of the company's high debt levels and reliance on competitive pricing. A small percentage of experts urge selling, citing possible macroeconomic difficulties and high interest costs (£163.2 million in 2024) that could affect the company's bottom line. Analyst recommendations will be significantly influenced by M&S's earnings trend and future expansion ambitions.

Short Interest and Trading Trends

The percentage of shares that investors believe will lose value is reflected in short interest. Short interest rates for M&S have varied over time, frequently according to economic conditions and quarterly profit performance. Periods of substantial short-selling activity have been observed in the company's stock, especially during poorer economic cycles. Some institutional investors and hedge funds have kept short positions despite improving financials because they are worried about competition from online quick fashion firms and discount stores. Institutional investors are interested in M&S because of its volume and liquidity patterns, which indicate that it is still an actively traded company on the London company Exchange (LSE). The short-sell ratio movements over time show that investors are still hedging against risks including operational difficulties and economic downturns, even if confidence has increased due to M&S's gross profit margin growth (34.19% in 2024 vs. 33.80% in 2023).

Corporate Governance and Leadership Stability

Investor trust is significantly influenced by the corporate governance structure of the business. The leadership outlook and length of the CEO have a big influence on M&S's stock performance. For investors, the leadership team's stability—especially that of the CEO and executive board—is crucial. Long-term stock valuation is influenced by the CEO's tenure and strategy choices about growth, digital transformation, and sustainability projects. As important governance indicators, investors keep an eye on board independence, corporate policy, and CEO compensation. Under its leadership, M&S has made a number of strategic changes, such as concentrating on cost reduction, sustainability, and omnichannel shopping to contend with rapidly expanding e-commerce platforms.

Insider Trading Trends

When evaluating corporate sentiment, recent insider purchasing and selling activity is crucial. Internal confidence in the company's future performance is indicated by insider trading, especially by executives and board members. It indicates confidence in future earnings and stock appreciation if corporate executives are growing their stakes. However, substantial insider selling could be a sign of worries about future financial problems or growth. Insider trading patterns ought to be examined alongside M&S's financial results. Large-scale insider disposals could cause concerns for investors, even if minor insider selling is typical following stock price increases..

Conclusion

With a range of positive and bearish sentiment, M&S is still a stock that is constantly monitored. Even though financial gains like higher revenue and operating margins help to boost analyst optimism, some investors remain wary due to worries about debt levels and macroeconomic conditions. Analyst ratings range from Buy to Hold, with a usually neutral sentiment. Earnings results and outside economic factors influence short interest rates. Although the leadership of corporate governance is solid, it is nonetheless closely monitored for the execution of long-term strategies. In order to gauge executive confidence in the company's financial future, insider trading needs to be closely watched. M&S's stock's long-term appeal to investors will ultimately depend on its capacity to maintain profits growth, control debt, and adjust to shifting customer tastes.

Valuation Analysis

Marks and Spencer Group plc (M&S) is valued using a top-down approach that begins with the rate of economic growth overall, concentrates on industry-specific trends, and then accounts for estimations and assumptions relevant to the company. The general rate of economic growth has a significant effect on M&S's worth. The UK's GDP growth rate, which has been averaging roughly 2% in recent years, is thought to constitute the foundation for long-term economic growth. Inflation, interest rates, and consumer purchasing habits also have a big influence on the retail sector. The UK retail industry has demonstrated resilience in the face of economic uncertainty, with an expected annual growth rate of 1.8% to 2.2%. While there has been consistent demand for food in the retail sector, the clothing and home furnishings industries are facing intense competition and changing consumer preferences. The aggressive digital transformation initiatives of competitors like as Tesco, Sainsbury's, and Next have affected M&S's market positioning. We forecast a company-specific growth rate for M&S of 2.00% in light of these factors, which is in line with historical trends and industry norms. To ascertain M&S's intrinsic value, we used the Discounted Cash Flow (DCF) and Multiples approaches. Our analysis forecasts a 2.00% yearly revenue growth rate based on past performance and current market trends. The operating profit margin is expected to increase from 6.87% in 2024 to 6.98% by 2028 as a result of operational savings. It is projected that by 2028, the gross profit margin will have levelled off at about 35.35%. Additionally, M&S's net debt to EBITDA ratio, which rose from 4.31 in 2024 to 3.5 in 2028, shows improved leverage management. The WACC of 8.3% was calculated by taking into account both the cost of debt and the cost of equity. The cost of equity is estimated as 9.5% by the Capital Asset Pricing Model (CAPM), which accounts for the market risk premium, beta (the volatility of M&S shares in relation to the market), and risk-free rate (the yield on UK government bonds). The anticipated cost of debt is 5.25% based on M&S's long-term debt commitments and current market interest rates. Debt makes up 56% of the capital structure, while stock makes up 44%. When the effective tax rate for 2024 is 36.8%, the weighted average cost of capital (WACC) calculation results in a final WACC of 8.3%. The DCF valuation estimates an intrinsic enterprise value of £1,381.14 million. After subtracting cash reserves and net debt, the total equity value is £6,032.45 million, which corresponds to an intrinsic share price of £3.00. A sensitivity analysis was used to look at how different assumptions affected the results. A higher growth rate would increase the intrinsic value per share, indicating greater future profitability, whereas a higher WACC would decrease the estimated value, indicating a heavier discounting of future cash flows. The valuation of M&S was also assessed in relation to its industry peers using significant financial metrics. The price-to-earnings (P/E) ratio of 15.2x, which is marginally below the industry average of 16.0x, indicates a slight undervaluation. The enterprise value-to-EBITDA (EV/EBITDA) ratio, which is 9.5x compared to the industry standard of 10.3x, supports the notion that M&S is trading at a discount to its rivals. The price-to-book (P/B) ratio of 1.2x, which is also below the industry average of 1.5x, suggests that the market is valuing M&S prudently. These multiples demonstrate that M&S is relatively cheap in comparison to its peers, which validates the DCF valuation findings.

ESG ANALYSIS

With a score of 24.7, Marks & Spencer (M&S) ranks 120th out of 188 firms in the food retail sector, indicating a medium level of ESG risk. Comparatively, Tesco Plc has a low ESG risk score of 17.8, ranking 33rd out of 188. This indicates that Tesco has put in place more robust governance policies, sustainability measures, and environmental activities. By lowering carbon emissions, enhancing supply chain procedures, and making investments in environmentally friendly packaging, M&S has demonstrated its commitment to sustainability by pledging to become a net-zero company throughout its whole value chain by 2040. But Tesco is taking a more extreme tack, aiming for net zero emissions by 2050 with a 50% decrease in emissions by 2030 as a stopgap measure. Tesco is putting itself ahead of M&S in significant sustainability initiatives by investing in electric car logistics, renewable energy, and less plastic packaging.

Like M&S, Sainsbury's has pledged to achieve net-zero carbon emissions by 2040. The retailer is taking steps to reduce food waste, switch to 100% renewable energy, and use low-carbon refrigeration. Nevertheless, there isn't an easily accessible ESG risk score to compare its performance to that of Tesco and M&S. Next, there are many ESG issues that a fashion retailer must deal with. Next's sustainability concerns centre on ethical sourcing, supply chain transparency, and textile waste management, in contrast to food merchants that prioritise waste reduction and energy efficiency. Although the business has been improving its sourcing of ethical raw materials and factory worker rights, it still does not have a formal net-zero pledge like Tesco and M&S. Working with Fairtrade suppliers to guarantee fair salaries and decent working conditions, M&S has a solid reputation for ethical sourcing and fair labour standards. Additionally, the organisation places a high priority on employee wellness, diversity, and inclusion. Tesco, on the other hand, has a robust corporate social responsibility program that includes investments in community programs like food banks and school lunch projects, as well as a comprehensive ethical sourcing policy that focusses on food production and labour rights monitoring. Through its Nourish the Nation initiative, which combats food poverty in the UK, Sainsbury's has also placed a strong emphasis on sustainability, fair pay, and community involvement. Furthermore, because of its industry, it has been under increased scrutiny for its factory labour policies. Although it has made strides, the company still faces difficulties in guaranteeing ethical labour conditions. Tesco appears to have a more robust governance framework than M&S, as seen by its lower ESG risk score (17.8). Tesco has a track record of open financial reporting, strong board monitoring, and specific sustainability goals. Despite its improvements, M&S has experienced reorganisation and changes in senior leadership, which have affected investor trust. The governance structure of Sainsbury's is quite similar to that of Tesco and M&S, with a focus on executive responsibility and decision-making that is motivated by sustainability. Governance is a crucial problem because the fashion retailer has been subject to regulatory scrutiny over the working conditions in factories. With the lowest risk score, aggressive carbon reduction goals, and a wide range of social programs, Tesco leads the industry in terms of overall ESG performance. Following closely after, M&S demonstrates a strong commitment to sustainability and ethical sourcing, although it faces difficulties enhancing governance and further lowering ESG risks. Although Sainsbury's lacks an ESG score for a direct comparison, their environmental commitments are comparable. It is challenging to directly compare Next's performance to that of food retailers due to the more complicated ESG issues around supply chain ethics and sustainability in the apparel sector. Based on these comparisons, Tesco leads in ESG performance, but M&S

maintains its competitiveness, especially when it comes to long-term sustainability objectives and ethical sourcing.

Investment Recommendation

Summary of Findings

According to an investigation, Marks & Spencer (M&S) has shown consistent revenue growth, increased operational effectiveness, and a robust comeback from previous financial difficulties. Due to high customer demand and efficient cost control, M&S's revenue climbed from £9,155.7 million in 2021 to £13,040.1 million in 2024 over the previous five years. The company's primary operation has consistently been profitable, as seen by the steady gross profit margin, which has hovered between 34.19% and 35.35%. Additionally, efficiency gains are demonstrated by operating profit margins, which increased from 6.87% in 2024 to a predicted 6.98% by 2028. Additionally, M&S has demonstrated better financial stability by reducing its net debt to EBITDA ratio, which has decreased from 4.31 in 2024 to a predicted 3.5 by 2028. Better use of shareholder capital is also demonstrated by the return on equity (ROE), which rose from 13.00% in 2022 to 15.66% in 2023. In comparison to its past performance and industry peers, M&S is currently trading at a fair valuation, according to the price-to-earnings (P/E) ratio and other valuation indicators. The business has taken steps to address sustainability and ESG issues, but more work needs to be done in this area. improvement.

Key Takeaways from Financial and Valuation Analysis

The business has had consistent sales growth, which has been bolstered by robust performance in its apparel and food areas. The stability of profit margins suggests efficient cost management and operational effectiveness. As seen by its decreasing net debt to EBITDA ratio, which shows an improvement in overall financial health, M&S has aggressively sought to lower its financial leverage. Although the organisation has implemented sustainability measures, there is still opportunity for improvement, and ESG factors are becoming more and more significant. The intrinsic value per share, as determined by the discounted cash flow (DCF) model, is £3.00, This is consistent with the current market price. Furthermore, M&S is trading at a reasonable price in relation to its rivals, according to the multiples valuation study, which includes the EV/EBITDA and P/E ratios.

Price Target and Investment Decision

In comparison to the current market price, M&S shares are valued at £3.00 per share based on the intrinsic value estimate obtained using the DCF model. This implies that the stock might be a little cheap, and that its value could increase based on the state of the market and how well the business implements its strategic plans. The sensitivity analysis, which accounts for differences in growth assumptions and discount rates, shows an estimated price range of £2.80 to £3.20 per share.

A HOLD recommendation is suitable for M&S in light of the valuation models and financial research. The company's current market price largely represents its fundamental value, notwithstanding its great financial performance and operational efficiency. Key risk variables like consumer demand patterns, inflationary pressures, and any upheavals in the retail industry should all be closely watched by investors. M&S continues to be a reliable investment with modest growth potential for long-term investors. However, alternative investing options might be more appropriate for people looking for high-growth prospects.

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