Tesco profits to come under pressure amid soaring food inflation

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esco is expected to reveal a dip in profits for the past year as the supermarket group grappled with rampant food and drink inflation.

The UK’s largest retailer will update investors and analysts over its financial performance for the year to February in an update on Thursday April 13.

A consensus of analysts has said Tesco is due to reveal a strong rise in sales but lower profits due to the challenging backdrop for costs.

It is predicted to unveil a group adjusted operating profit of £2.6 billion for the year, which would be down from £2.8 billion a year earlier.

Profitability has been dented by rocketing energy prices and higher labour costs over the past year.

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UK Consumer Price Index (CPI) inflation saw a shock increase to 10.4% in February due to increased pressure on food prices, which worsened as a result of recent fruit and vegetable shortages.

Food and non-alcoholic drinks prices rose by 18% year on year in February, according to the Office for National Statistics (ONS).

Tesco's buying power will have shielded the group from inflation quite this high but chief executive officer Ken Murphy said at the firm's previous update in January that it expected more inflation to hit the retailer.

Shareholders will be eager for the company to outline whether its cost inflation is starting to ease back yet or if profits are likely to remain constricted for longer.

Profitability has also been dented by the retailer's investment in prices to keep customers coming through the door in the face of the continued growth of German discounter rivals Aldi and Lidl.

As the market leader, the group has market share of over 27% but, because of tough conditions, supermarkets like Aldi are enticing new customers

The efforts on value have helped support significant sales growth, with revenues expected to have risen to £65.7 billion over the past year from £54.8 billion.

Analysts have suggested that shareholders will be looking for efforts from the company to continue to support its market share amid the volatile economic backdrop.

"As the market leader, the group has market share of over 27% but, because of tough conditions, supermarkets like Aldi are enticing new customers," said Sophie Lund-Yates, lead equity analyst at Hargreaves Lansdown.

“We don’t expect the league tables to be upended. But it will be important to assess if Tesco’s share has been nibbled away at, which would suggest consumer pressure is higher than previously thought.”

Bosses at Tesco will also have an opportunity to keep shareholders updated regarding its current strategy, which has seen the company cut further costs, such as through a management overhaul announced in January which cut around 2,100 jobs.

Sky News reported in February that the group was also reviewing the future of its banking arm.