Tesco hails supply chain ‘resilience’ as half-year profits double

The UK’s largest retailer has reported a doubling of first-half profits and raised its full-year outlook – shrugging off the challenges posed by supply chain disruption in the industry.

Tesco said it had grown sales during the first six months of its financial year and weathered headwinds including “high” levels of enforced COVID-19 isolation among staff.

The company declared its supply chain had demonstrated “resilience” despite a hit from lorry driver shortages and said product availability was currently good across its ranges.

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Labour shortage squeezes food supply chain

Its chief executive Ken Murphy also moved to soothe worries about rising prices ahead by insisting till costs for consumers also remained down on a year ago following comments from chairman John Allan just last month that food prices were facing a rise of around 5% over the winter.

Tesco said it was shoring up its own supply chain through the hiring of 30,000 workers for the looming Christmas season – with 15,000 already recruited despite the much-publicised dearth of available labour.

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It reported that bottom line profit before tax over the six months to August rose above £1.1bn from £551m in the same period last year – aided by a dive in pandemic related costs and delivered against tough comparisons given the reliance on supermarkets at the start of the crisis.

Group revenue was 2.6% higher at £27.3bn with UK like-for-like sales rising 1.2% – building on a 0.5% increase in the first quarter of the financial year – though Tesco expected some of that recent growth would "fall away" in the coming months.

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Tesco, which has a 27% share of the UK grocery market, said it had “outperformed” rivals and was now expecting operating profits for the year of between £2.5bn and £2.6bn – up from an earlier forecast of £2.3bn.

However, the company also confirmed a story by Sky News that it had taken a £193m hit from settling claims by shareholders relating to its misstatement of profits in 2014.

It revealed an interim dividend of 3.2p-per-share – in line with the same period in 2020 – and said it was to launch a £500m share buyback programme next year in a further boost for investors.

Mr Murphy denied the buyback was in any way a defensive strategy to guard against the prospect of takeover interest in the wake of rival Morrisons’ deal to be bought by a private equity firm.

He told shareholders: “We’ve had a strong six months; sales and profit have grown ahead of expectations and we’ve outperformed the market.

Image:
Supermarkets have enjoyed strong sales during the pandemic
“I’m really pleased with our progress as we increased customer satisfaction and grew market share leading to a strong financial performance.

“With various different challenges currently affecting the industry, the resilience of our supply chain and the depth of our supplier partnerships has once again been shown to be a key asset.”

The company had admitted in June that it was [exposed to the shortage of HGV drivers] that has plagued deliveries UK-wide and said on Wednesday it had “worked hard” to minimise the impact.

However, industry experts suggest that strong competition in the sector would be likely to limit the pace of price increases.

Tesco said it would move to grow its customer base through a strategy focus on rewarding loyalty and investment.

Shares – 10% up in the year to date – rose by 4.5% at the open.

Freetrade analyst David Kimberley commented: “After 10 years of accounting scandals, failed ventures abroad, and record losses, it feels strange to say that Tesco is actually starting to look like an attractive prospect for investors again.

“The sale of its stores in South-East Asia seems to have been something of a turning point for the supermarket chain.

“Able to pay out a handsome dividend to shareholders, Tesco followed that disposal up with solid results and showed it’s capable of fighting off competition from the German discounters.”