

# Tesco's CDS tightens ahead of index inclusion

Embattled UK supermarket, Tesco has joined the Markit iTraxx Crossover index in the semi-annual roll, having seen its credit worthiness improve; shrugging off January's concerns.

- Tesco 5-Year CDS spreads are over 60bps tighter than the high seen in January
- The iTraxx Europe Crossover has tightened by nearly a quarter since the start of the year
- Rival J Sainsbury has also seen its spread tighten

UK grocer Tesco lost its investment grade status in the opening week of [January](#). The downgrade capped a tumultuous 12 months for the retailer which ceded market share and became embroiled in an accounting scandal, which led to the ousting of its chief executive.

The company has since announced plans to shutter underperforming stores and close its corporate headquarters. These steps have been well received by the market and the company's CDS spread is now much lower than at the start of the year.

## Spreads tighten since downgrade

The days leading up to Tesco's downgrade marked a low water mark for the market's assessment of Tesco debt, when its 5 year CDS spread briefly surpassed 210bps. This occurred on January 8<sup>th</sup>, the day Moody's revoked the firm's investment grade status.



While the ratings agencies cited the long term nature of Tesco's turnaround strategy as a rationale for the downgrade, credit investors look be increasingly bullish about the company's prospects. CDS spreads have

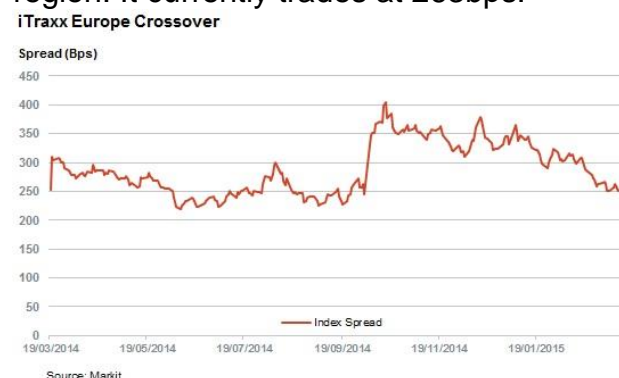
tightened steadily since January and are now trading 30% off the early January highs.

The latest spreads are still nearly twice the levels seen in June last year, however the tightening indicates that the market is putting increased faith in the company's recent actions.

Equity investors have also rallied behind the company and Tesco shares are up sharply from their lows at the start of the year.

## iTraxx tightens

Despite the company's roller-coaster quarter, Tesco has joined the constituents of the Markit iTraxx Europe Crossover index. The index has also tightened by almost a quarter since the start of the year as European QE continues to boost risk assets across the region. It currently trades at 263bps.



## J Sainsbury

Tesco's recent operating headwinds were largely mirrored by peer, J Sainsbury. The grocer which also joins the iTraxx Crossover index in the current roll, has seen its spreads tighten in over the last three months after a

spike in the closing weeks of last year. This indicates that at least some of Tesco's recent tightening could be attributed to the [improving](#) consumer sentiment across the UK.

#### J Sainsbury Plc



#### Simon Colvin

##### Analyst

Markit

Tel: +44 207 260 7614

Email: [simon.colvin@markit.com](mailto:simon.colvin@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.