Short Interest in Compass Group shares declined by a massive 75.9% in less than two weeks.

In addition to the huge short-interest decline, Compass Group (LSE: CPG) grew its net income a staggering 168.42% from £133m in 2020 to £357m in 2021.

During times of high uncertainty, as we've experienced recently, I believe it's essential to value businesses providing necessities more than those providing luxuries. In the case of Compass Group, the necessity is food as humans will always need to eat; therefore, there will always be a need for the services it provides.

Compass Group is now the world's largest contract caterer operating in around 45 countries. The locations Compass Group offers its services include schools, offices, and factories.

The company also runs an impressive variety of bakery outlets, coffee shops, and vending machines. The company was founded in 1941 and has a market cap of over $30bn.

Compass pointing in the right direction

Compass Group saw a significant decrease in short interest during January. On 15th January, the total short interest was 376,800 shares; however, as of 31st January the total short interest was 90,900 shares. The short interest decline was 75.9% in less than two weeks, and Credit Suisse Group raised its target price on Compass Group from $26.37 to $28.40 on 7th February. The company also recently disclosed a dividend yield of 0.71%, which will be paid to shareholders on 10th March.

Compass Group operates with considerable diversification geographically, as it is in many countries around North America, Europe, and Asia. It is now increasing operations in high-growth countries such as India, Brazil, and Indonesia as it sees more significant growth potential in these countries over the decade ahead.

In addition to geographic diversification, Compass Group also offers wide sector diversification. Sector revenue was well-diversified for 2021, healthcare was 33%, education was 18%, defence was 10%, business & industry was 31%, and leisure was 8%. Compass Group has many large B2B partnerships within these sectors, including companies such as Canteen, ESFM, Eurest, and Bon Appetit.

Sustainable contributions

On top of the progress of boosting profits, Compass Group is also progressing with its sustainability goals for 2022. A ban on air freight of fresh fruit and vegetable products will see a focus more on increasing the use of local and seasonal products. With fruit and vegetable produce being its second biggest buying category, it will significantly reduce its carbon footprint.

Reasons for concern

Even though the compass is pointing in the right direction, there are still some reasons for concern. Firstly, its price-to-earnings ratio is currently 85.82, up from 76.16 in 2021, and its price-to-cash-flow ratio was up to 25.45 from 22.59 in 2021. Additionally, Deutsche Bank downgraded Compass Group from a "buy" rating to a "hold" rating in a research note on 20th January.

The stock price currently seems to be in neutral “hold” territory for many Wall Street analysts. I’m watching this stock closely as it offers diversification across many high-growth economies in various industries.