

## Carrefour

Price EUR25.30

Q4 2015 trading statement (first take): in line with expectations and guidance confirmed

Fair Value EUR31 (+23%)

BUY

Bloomberg	CA FP
Reuters	CARR.PA
12-month High / Low (EUR)	32.8 / 24.8
Market Cap (EURm)	18,683
Ev (BG Estimates) (EURm)	24,284
Avg. 6m daily volume (000)	2 860
3y EPS CAGR	10.4%

The Q4 2015 trading statement is another illustration of how resilient Carrefour is. Indeed Q4 2015 sales rose 4.1% ex petrol and at constant exchange rates to EUR22.4bn, and +2.4% on an organic basis. Among other factors, we would highlight Italy, which is obviously recovering (many observers agree that consumption is restarting in the country), Spain (which remains Carrefour's spearhead in terms of operating leverage) and Brazil (which despite strong comps, came in above expectations at +8.5%!). For circumstantial reasons (attacks and weather conditions), Belgium and France were less impressive than usual, while China has clearly become the harsh fact... On the whole, a very decent publication with guidance confirmed (Carrefour has been able to maintain guidance throughout 2015...).

	1 M	3 M	6 M	31/12/14
Absolute perf.	-3.3%	-8.4%	-15.3%	0.0%
Food Retailing	1.0%	-4.2%	-10.0%	7.1%
DJ Stoxx 600	-3.1%	-3.9%	-13.1%	0.6%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	74,706	77,020	78,398	81,494
% change		3.1%	1.8%	3.9%
EBITDA	3,768	3,938	4,174	4,448
EBIT	2,536	2,411	2,637	2,850
% change		-4.9%	9.4%	8.1%
Net income	1,040	1,127	1,258	1,405
% change		8.3%	11.7%	11.7%

	2014	2015e	2016e	2017e
Operating margin	3.2	3.2	3.4	3.5
Net margin	1.4	1.5	1.6	1.7
ROE	NM	NM	NM	NM
ROCE	9.2	9.0	9.4	9.9
Gearing	48.4	40.3	37.7	32.6

(EUR)	2014	2015e	2016e	2017e
EPS	1.47	1.59	1.77	1.98
% change	-	7.8%	11.7%	11.7%
P/E	17.2x	16.0x	14.3x	12.8x
FCF yield (%)	NM	1.7%	3.6%	5.7%
Dividends (EUR)	0.80	0.89	0.97	1.06
Div yield (%)	3.1%	3.5%	3.8%	4.2%
EV/Sales	0.3x	0.3x	0.3x	0.3x
EV/EBITDA	6.4x	6.2x	5.9x	5.5x
EV/EBIT	9.6x	10.1x	9.3x	8.5x

On the one hand, Spain (+2.5% vs +2.5%e and +4.6% in Q3 15), Belgium (-0.4% vs -0.1%e and +2.7% in Q3 15) and Italy (+3.5% vs +2.6%e and +5.9% in Q3 on favourable comps) underpinned very resilient momentum in Europe. On the other, the trend was unsurprisingly harshly penalised by Asia (-12.9% vs -9.3%e and -7.5% in Q3 15). In China (-16.7% LFL vs -11.3%e and -11.2% in Q3), Carrefour continues to develop in an environment which remains marked by frugal consumption (the savings rate has never been so high in China). This poor performance was offset by a strong one in Taiwan (+2.6%). In Latam, Carrefour is still showing very strong performances in Brazil (+8.5% vs +6.8%e) thanks to a favourable store mix (Cash & Carry).

In France, the trend was down slightly on a sequential basis in a backdrop of terrorist attacks in Paris and disadvantageous weather conditions (which obviously impacted non-food sales). As such, LFL sales excl. fuel excl. calendar notched down 0.7% at Carrefour Hypermarkets (vs -0.4%e and +0.7% in Q3, +0.5% in Q2 15 and +2.1% in Q1), while LFL growth stood at +1.5% for supermarkets (vs +1.5%e and +2.5% in Q3, +1.2% in Q2 15 and +2.5% in Q1). In general, Carrefour is operating in a pricing environment that remains opaque and out of control. Despite the optimism showed by Casino's management in this respect (0-1% in 2016 could be a decent assumption according to the CFO), we remain somewhat cautious.

## ANALYSIS

**We have been developing the following investment case for months: 1/** underpinned especially by the LME, Carrefour has entered a cycle of market share growth in its domestic market ([Hypermarkets are dead, long live hypermarkets!](#)). **2/** In the rest of Europe, Carrefour has managed to trim its fixed cost base and should be able to tap into operating leverage (especially in Spain). **3/** In emerging countries, a favourable format mix in Brazil should allow Carrefour to weather the storm (potential margin widening remains significant in this area). Once again, Carrefour delivered commercial performances in line with this investment case in Q4 2015.

**In terms of risks/momentum, we have also been saying for a while that: 1/** for as long as China makes money, it remains a "secondary issue" (so far, ~3-5% of earnings); but the day it starts losing money, it could become a question mark (the operating deleverage can be very painful / re. Géant Casino in another register). Indeed, following a series of hugely negative LFLs, the retailer is probably in negative territory. This concern accompanies those regarding **2/** financial services in Brazil. While there is no concern regarding 2015 FY EBIT, these elements will have to be monitored closely in 2016.

From a more fundamental point of view, we are witnessing a change in paradigm ([SECTOR REPORT – Anorexic growth... the bigger the better!](#)), which for a large number of mature retailers has meant that solid and recurring growth has sunk to a sinusoidal pace limited to just a few points (a disruptive factor in a fixed-cost industry). Yet in hindsight, this challenge for Georges Plassat (and his future successor) has already come up tangentially, especially when the current CEO spoke of an engine that had to be repaired so that it can accelerate in terms of growth going forward.

## VALUATION

- Carrefour is showing a 2016 P/E ratio of 14.3x (vs 15x for the panel excl. Tesco)

## NEXT CATALYSTS

- In terms of newsflow: Carrefour will release its 2015 results beginning of March



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