14th January 2016

Food retailing

Casino Guichard

Price EUR40.08

Q4 (first take): H2 15 EBITDA should be significantly higher than in H2 14 thanks to the retail activities

Fair Value EUR54 (+35%) **BUY**

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	87.3 / 39.8
Market Cap (EURm)	4,536
Ev (BG Estimates) (EURm)	14,992
Avg. 6m daily volume (000)	675.5
3y EPS CAGR	-11.9%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-12.1%	-27.9%	-40.4%	-47.6%
Food Retailing	0.1%	-7.0%	-8.1%	6.1%
DJ Stoxx 600	-3.5%	-5.1%	-11.7%	0.2%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	48,492	45,943	44,879	47,304
% change		*-5.3%*	*-2.3%*	*5.4%*
EBITDA	3,191	2,481	2,521	2,727
EBIT	1,737	1,587	1,518	1,609
% change		*-8.6%*	*-4.3%*	*6.0%*
Net income	556.0	319.6	362.7	402.1
% change		*-42.5%*	*13.5%*	*10.9%*

	2014	2015e	2016e	2017e
Operating margin	4.6	3.3	3.4	3.4
Net margin	1.1	0.7	0.8	0.9
ROE	NM	NM	NM	NM
ROCE	7.1	4.7	4.6	4.8
Gearing	37.3	38.6	40.7	40.5

(EUR)	2014	2015e	2016e	2017e
EPS	4.43	2.30	2.68	3.03
% change	-	*-48.2%*	*16.6%*	*13.0%*
P/E	9.0x	17.5x	15.0x	13.2x
FCF yield (%)	15.3%	0.0%	3.1%	11.4%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	7.8%	7.8%	7.8%	7.8%
EV/Sales	0.4x	0.3x	0.3x	0.3x
EV/EBITDA	5.4x	6.0x	5.9x	5.6x
EV/EBIT	10.0x	9.4x	9.8x	9.5x

Let's try a moment to forget Muddy Waters (which, again, has demonstrated a crual sense of timing…) to focus on today's figures. GPA and Cnova had already released their trading statements and hence today's focus is mostly on France (which remains reassuring). At this early stage, in the light of today's publication, we remain reasonably optimistic when it comes to the key guidance which is for a 2016 FCF after financial expenses and dividends of "above EUR200m" in France. Management stipulates that "the Group has a good visibility for profitability in France. H2 2015 EBITDA should be significantly higher than H2 2014 EBITDA thanks to retail activities (ed: and not thanks to massive property development revenues?), with a clear trend of margin improvement starting from 2016"

As far as the domestic market is concerned (+1.4% LFL excl. fuel and calendar effects vs+1.0%e and +2.4% in Q3), this statement is solid. Although Q4 2015 was penalised by **1/** the events in Paris and **2/** unfavourable weather conditions for clothing items notably, the figures remain, at this stage, fairly reassuring as to Casino's commercial recovery and FCF prospects in France. Both Hypermarkets (+2.8% vs +2.5e and +3.5% in Q3) and FP/LP (+1.9% vs +0.0%e and +1.7% in Q3) show rather flattering figures, while Monoprix (+0.1% vs +0.5%e and +2.2% in Q3) and Supermarché Casino (+0.0% vs +0.0%e and +0.7% in Q3) proved relatively resilient. To be honest, we expected no less from Casino, following its price repositioning campaign however, the work that has been accomplished in that context cannot be ignored. Regarding the rapid refocusing on France (A few comments following our RS with CEO (JC Naouri) and CFO (A Giscard d'Estaing) in Paris), Casino delivered in Q4.

Unsurpisingly, the picture is not as rosy when it comes to the international BU. Latam Retail turned out to be fairly resilient (+1.3% vs +1.5%e and +2.4% in Q3) while Latam electronics remains a nightmare (-15.2%e vs -20%e and -24.7% in Q3). So far, no great shakes. Asia, is where it gets tricky. Given price investment, the LFL came in at –5.3% (vs -5.5%e), a sequential deterioration over a disappointing Q3 (-4.7%). This performance is unlikely to reassure scalded investors even if volumes are positive. Note that, in our SOTP, Asia now represents ~40%e of Casino's EV (as a result of the "dwarfed" Latam region). Of course Thaïland is not Brazil and we have good reasons to believe that Big C's cash margin potential is fairly resilient (with real estate notably). However, it is very important that potential worries about Asian growth are not overweighted due to this rebalancing. Lastly, Cnova is not encouraging with -8.1% LFL (vs -6%e and +7.7% in Q3).

How to approach this new publication?

Casino was strongly impacted by Muddy Waters' two reports. Numbers can be made to say anything... We finally noticed that the majority of their content raised known issues that have been discussed over and over again (including the geographical averaging of debt and cash flows, the sustainability of the dividend, property development revenues etc...). But in the end, once again, one has to remember that these reports only reflect investors' latent exasperation (indebtness and complexity of the group). To break this vicious circle and win back the favors of the market, we believe that there are milestones to achieve:

1/ Management must reassure that it is truly willing to pursue a clear strategy of deleveraging (a minimum of EUR2bn has been announced from asset disposals) through outright disposals (and not financial engineering) on good multiples (we await the exit terms from Vietnam);

2/ The market is no longer deluding itself about Brazil and the stock barely reacted following the latest broker EPS adjustments linked to Brazil (indeed, such adjustments are already reflected in the share price via the SOTP). Hence, as a result, domestic FCF has become the main KPI;

3/ Although the market has not reacted to the latest adjustments, we do not see the stock recovering before all the earning revisions are behind us. The current underlying BBG EBIT consensus is for EUR1,727m (vs EUR1,513m for us) and seems inadequate considering the latest publications from GPA and Cnova.

While the first two points are, at this stage, rather well engaged (**1/** forecast given about asset disposals and **2/** momentum building in France) this is not the case for the third as we expect further EBIT/EPS downgrades. Therefore, more patience is needed for the momentum to reverse. *Click here to download*

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