

Casino Guichard

Price EUR38.19

Disposal of Big C (very first take): at the stage we have reached, let's try and rave!

Fair Value EUR54 (+41%)

BUY

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	87.3 / 38.2
Market Cap (EURm)	4,322
Ev (BG Estimates) (EURm)	14,778
Avg. 6m daily volume (000)	693.0
3y EPS CAGR	-11.9%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-15.0%	-27.5%	-44.3%	-50.1%
Food Retailing	1.1%	-3.9%	-11.4%	6.2%
DJ Stoxx 600	-2.9%	-4.6%	-14.8%	-0.9%

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	8.6x	16.6x	14.3x	12.6x
FCF yield (%)	16.0%	0.0%	3.3%	12.0%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	8.2%	8.2%	8.2%	8.2%
EV/Sales	0.4x	0.3x	0.3x	0.3x
EV/EBITDA	5.4x	6.0x	5.8x	5.5x
EV/EBIT	9.8x	9.3x	9.6x	9.3x



Could the final goal be to take full control of GPA? or collapse the holding?

In the context of the ongoing process for the sale of Vietnam, Casino has obviously received expressions of interest for Big C. The Thai retailer is 58.6% equity owned by Casino whose equity stake is worth EUR2.5 bn. Big C is currently trading on an EV/sales multiple of 1.3x. While the valuation ratio has always been above average, we would stress that **1/** Big C's real estate represents half of the retailer's profitability and **2/** that there were recent speculations as to a potential disposal of the asset by Casino ([December 18 th: Bangkok Post](#)). This may have underpinned the current valuation level.

We could probably assume that a potential control premium (~25%e) on top of the current high valuation level would be offset to a large extent by a tax leakage (~15%e). In this case and at first sight, we therefore estimate the impact on SOTP at around ~EUR2.5 per share (our SOTP currently stands at EUR41). On the other hand, holdco's indebtedness could dramatically decrease, and this would theoretically allow Casino to definitely secure its Investment Grade status (we estimate Vietnam + Thailand could be worth EUR3.7bn).

"Asset disposals are not ruled out" [...] "we will react, as usual, in real time to market expectations" said Mr Naouri during our latest RS in Paris ([comments following our RS with CEO and CFO](#)). Yet, in all evidence, Casino's indebtedness has become such a question mark that management may have no choice but to take drastic measures through outright disposals of non-core assets. However today, Casino has stated its intention to sell Big C which, along with Monoprix, finds a pro-eminent place amongst the crown jewels! This announcement could illustrate the degree of the company's distress.

We have to confess that we are struggling somewhat to understand the chain of events. We continue to believe that Muddy Waters mainly raised known issues that have been discussed over and over again. We also estimate that the EUR2bn (minimum) deleveraging programme would have been sufficient to secure Casino's financial equation. So, why sell Big C? First and foremost, the projected disposal of Vietnam may have awakened interest from some purchasers for all of the Asian assets. On this basis, we have the following remarks:

1/ In our SOTP, Asia now represents more than 50% of of Casino's equity value (as a result of the "dwarfed" Latam region). Of course Thailand is not Brazil and we have good reason to believe that Big C's cash margin potential is fairly resilient (thanks to real estate notably) in the medium term; **2/** However, it is very important that potential worries about Asian growth (-5.3%LFL in Q4) are not overweighted due to this rebalancing. Hence, Casino might be seeking to avoid a new "GPA episode" with a collapse in the share price that would be extremely painful from a MtM SOTP perspective; **3/** In the end, Casino is perhaps tempted by a disposal of Thailand on very high multiples before the situation deteriorates further in this region (concerns could focus on a potential spread of the Chinese situation to the rest of Asia and on the political environment in Thailand which remains fragile); **4/** Casino would therefore favour a circumstantial strategy to the detriment of long-term growth potential. This is the kind of sacrifice that Carrefour made when it sold its Colombian business as well as Tesco when it sold its South Korean business; **5/** Otherwise, we could see this news from a crazy angle. JC Naouri is a gambler (taking a bet on Brazil in 1997, during the BRL crisis, might have been viewed as madness! But with hindsight...). Today, why not sell Big C for EV/sales of around 1.3x and strengthen Casino's stake in GPA on a ~0.25x EV/sales ratio? **6/** GPA's market cap is worth ~EUR2.1bn and Casino directly and indirectly owns a 32.8% EI in its Brazilian subsidiary. Casino's EI in Big C is worth ~EUR2.5bn excluding a premium for control.... In terms of simplifying the structure (i.e. minorities buyback?), it would not be such madness (insofar as the growth potential in Brazil remains intact, beyond the current crisis it is going through); **7/** An even crazier scenario would consist of buying back Casino's floating shares, worth EUR2.2bn at the spot price (i.e. collapsing the structure?).

Stay tuned!

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