

Casino Guichard

Price EUR40.04

S&P update: a sledgehammer blow / self-fulfilling phenomenon**Fair Value EUR54 (+35%)****BUY**

| | |
|----------------------------|-------------|
| Bloomberg | CO FP |
| Reuters | CASP.PA |
| 12-month High / Low (EUR) | 87.3 / 38.2 |
| Market Cap (EURm) | 4,532 |
| Ev (BG Estimates) (EURm) | 14,988 |
| Avg. 6m daily volume (000) | 699.9 |
| 3y EPS CAGR | -11.9% |

| | 1 M | 3 M | 6 M | 31/12/14 |
|----------------|--------|--------|--------|----------|
| Absolute perf. | -13.0% | -28.3% | -42.0% | -47.6% |
| Food Retailing | -5.3% | -7.2% | -14.2% | 3.4% |
| DJ Stoxx 600 | -8.3% | -8.6% | -17.5% | -3.7% |

| 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 | 17.4x | 15.0x | 13.2x |
| FCF yield (%) | 15.3% | 0.0% | 3.2% | 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 |

According to the latest information, against the backdrop of a challenging macroeconomic environment in emerging markets, and more especially Brazil, S&P placed Casino Group's BBB- under negative creditwatch on 15th January. Following Muddy Waters' report, one of the biggest challenges for Casino was to maintain the confidence of the market (shareholders and rating agencies) and to avoid of a self-fulfilling phenomenon. We believe that this is precisely what is happening (insofar as S&P does not seem to bring new very elements). The market now has to rely on Casino's strong track record in terms of asset disposals.

"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, as evidenced by Muddy Waters, that management may have no choice but to take drastic measures through outright disposals of non-core assets. However, 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. Today, S&P's announcement is likely to bring further pressure.

According to the latest information, against the backdrop of a challenging macroeconomic environment in emerging markets, and more especially Brazil, S&P placed Casino Group's BBB- under negative creditwatch on 15th January. At this stage, S&P anticipates that it may lower the rating by "not more than two notches". This announcement came after the group's CFO guided for 2015 underlying EBIT of around EUR1.5bn (vs EUR1.7bn expected by the consensus the day of this statement).

The rating agency emphasises the group's high indebtedness and the deterioration of the situation in Latin America, Asia and e-commerce operations, performances from which were below S&P's estimates. As a result, S&P expects rather weak financial metrics over 2016 and 2017 that could prevent Casino from improving its proportional leverage to 3.5x in 2016, in contrast to its prior expectations. The rating agency will soon conduct, in collaboration with Casino's management, a review of the Group's credit rating. As a reminder, in late 2015, Casino launched a disposal plan, initially of EUR2bn, which was increased to approximately EUR4bn with the planned sale of its Big C subsidiary listed in Thailand, following indications of interest from potential buyers.

ANALYSIS

- The group is now threatened by a potential downgrade to non investment grade (i.e. a category of investment which cannot be owned by large institutional investors). This announcement may come as a surprise (it comes after the reiteration of Casino's outlook on 15th December and after the announcement by management that it will divest its operations in Thailand).
- S&P needs 90 days to assess the evolution of Casino's results and financial position (i.e. Casino probably has this deadline to undertake convincing asset disposals). At first sight, if Casino were to lose its investment grade status, its interest charge in France would increase by around EUR100m, amputating the domestic FCF (as a reminder, guidance for this is for 2016 FCF after financial expenses and dividends "above EUR200m" in France).
- Management must reassure that it is able to quickly put in place a clear strategy of deleveraging through outright disposals (and not financial engineering) on very good multiples (we are waiting to see the exit terms from Vietnam and Big C). The market now has to rely on Casino's track record in terms of asset disposals (see page 2).

VALUATION

- Our own Fair Value is the average between an SOTP (EUR 41) and a DCF (EUR 68). Following our latest adjustments, it therefore works out to EUR54 vs EUR69.



Asset disposal programme of Casino over the last years

| €2bn disposal programme announced in March 2006, for completion by | Amount |
|---|---------------|
| Disposal of 11 warehouses | 188 |
| Disposal of treasury stock | 48 |
| Mercialys | 240 |
| Disposal of Saint Etienne head office | 86 |
| Unwinding Cora equity swap | 253 |
| 38% of Feu Vert | 90 |
| Poland | 827 |
| Taiwan (50%) | 50 |
| Smart & Final (55%) | 351 |
| Disposal of real estate in France and La Réunion | 635 |
| Total programme 2006 | 2 768 |

| €1bn disposal programme announced in March 2009, for completion by | Amount |
|---|---------------|
| Super de Boer (Netherlands) /Laurus | 400 |
| Mature real estate | 100 |
| Venezuela indemnification (60%) | 276 |
| Exito capital increase/end of Carulla Vivero put | 195 |
| Total programme 2009 | 971 |

| €700m disposal programme announced in November10, extended to €1bn | Amount |
|---|---------------|
| Exito capital increase | 430 |
| Mature real estate / other real estate (Venezuela indemnification 40%) | 370 |
| GPA equity swap (3% of capital) | 200 |
| Total programme 2010/2011 | 1 000 |

| €1.5bn programme announced in March 2012 and to be completed over one | Amount |
|--|---------------|
| Mercialys | 700 |
| Capital increase and disposals of treasury stocks | 400 |
| Disposal of financial and real estate assets | 200 |
| Others | 100 |
| Total programme 2012 | 1 500 |

Source: Company Data; Bryan, Garnier & Co ests.

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| | |
|---------|--|
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