

Delhaize

Price EUR84.80

Q4 2015 trading statement (first take): so far so good

Fair Value EUR107 (+26%)

BUY

Bloomberg	DELBB
Reuters	DELBT.BR
12-month High / Low (EUR)	95.4 / 66.6
Market Cap (EURm)	8,820
Ev (BG Estimates) (EURm)	9,482
Avg. 6m daily volume (000)	311.5
3y EPS CAGR	10.9%

1/ Delhaize's Q4 sales came in at EUR6.320bn (vs EUR6.287bn expected by the consensus), up 14.2% excluding the 53rd week (+4.9% at constant currency). 2/ Comparable sales grew 2.3% in the US (vs +2.4% e), 5.1% in Belgium (vs +3.0% e) and 7.8% in south-eastern Europe (vs +3.3% e). 3/ Based on preliminary figures, Delhaize expects 2015 Group underlying operating profit to be approximately EUR870 million (vs EUR861m expected by the consensus). 3/ In terms of outlook, management is confident that Delhaize can maintain its sales trends in all markets in 2016, driven by LFL sales growth and expansion mainly in south-eastern Europe. So far so good, we stick to our Buy Rating.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.3%	6.7%	5.9%	-5.6%
Food Retailing	-8.3%	-12.1%	-19.2%	-8.9%
DJ Stoxx 600	-10.8%	-11.1%	-20.8%	-11.9%

In the US (64% of the group's sales in Q3), against the backdrop of deflation (-1.0%), Delhaize's performances remained resilient with a LFL sales growth working out at +2.3% (vs +2.4% expected by the consensus), driven by planned price investments and mild weather. Both Food Lion and Hannaford keep reporting positive real sales growth of above 3%. Belgium (21% of the group's sales in Q3), which has long been a sensitive issue of the equity story, is definitely gaining strong commercial momentum (+5.1% LFL adjusted for a positive calendar effect of 0.3% vs +3.0% expected by consensus), on top of a return to positive retail inflation (+1.8% internal inflation) since Q3. In south eastern Europe (15% of the group's sales in Q3), LFL sales rose is 7.8% adjusted for a positive calendar impact of 1% (vs +3.3%e).

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	21,361	24,595	25,217	25,795
% change		15.1%	2.5%	2.3%
EBITDA	1,355	1,545	1,625	1,685
EBIT	424.1	746.7	911.9	941.9
% change		76.1%	22.1%	3.3%
Net income	445.5	490.1	563.8	608.2
% change		10.0%	15.0%	7.9%

Based on preliminary figures, Delhaize expects 2015 Group underlying operating profit to be around EUR870m (vs EUR861m expected by the consensus). In addition, management expects FCF for 2015 to be approximately EUR645m, excluding one-time elements. Including these elements, FCF reached €516m (vs EUR 475m in our own estimates).

	2014	2015e	2016e	2017e
Operating margin	3.6	3.5	3.6	3.7
Net margin	2.1	2.0	2.2	2.4
ROE	NM	NM	NM	NM
ROCE	7.5	8.5	8.9	9.2
Gearing	18.3	11.6	5.4	-0.8

ANALYSIS

- Again Q4 proved Delhaize's commercial resilience within a sector suffering from a lack of growth. As a reminder, we are witnessing a change in paradigm ([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).
- In this backdrop, size provides a key asset for large players who can dilute fixed costs over a far denser store network and obtain additional ammunition for nurturing their price and non-price competitiveness. Hence the flirting between Delhaize and Ahold.
- On the whole, strong commercial performances at both Ahold and Delhaize, along with the prospect of a merger mid-2016, reinforce our Buy conviction (not to mention the fact that the two groups have virtually no exposure to unwell emerging markets).

(EUR)	2014	2015e	2016e	2017e
EPS	4.37	4.81	5.53	5.97
% change	-	10.0%	15.0%	7.9%
P/E	19.4x	17.6x	15.3x	14.2x
FCF yield (%)	6.1%	5.5%	5.8%	6.4%
Dividends (EUR)	1.17	1.23	1.29	1.35
Div yield (%)	1.4%	1.4%	1.5%	1.6%
EV/Sales	0.5x	0.4x	0.4x	0.3x
EV/EBITDA	7.2x	6.1x	5.6x	5.2x
EV/EBIT	23.1x	12.7x	10.0x	9.3x

VALUATION

- Delhaize is showing a 2016 P/E ratio of 15.3x (vs 15.7x for the panel / 14.5x excl. Tesco) which, in our view, is pretty justified given higher-than-average profit-to-cash conversion (2015 FCF yield of 5.5% vs ~3% on average for the panel).

NEXT CATALYSTS

- At this stage, we see no reason why Delhaize could not complete the proposed merger with Ahold mid-2016 (no antitrust issue).

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