

12th January 2016

Food retailing

Metro AG

Price EUR26.85

Trading statement (first take): halfway satisfactory result

Fair Value EUR24 (-11%)

SELL

Bloomberg	MEO GY
Reuters	MEOG.DE
12-month High / Low (EUR)	34.6 / 23.4
Market Cap (EURm)	8,701
Ev (BG Estimates) (EURm)	12,222
Avg. 6m daily volume (000)	972.0
3y EPS CAGR	4.5%

Preliminary sales in Q1 2015/16, grew +0.1% in LFL terms. As a whole, the Christmas business seems to have been positive in Germany with a +2.1% LFL sales growth. On the other hand the picture is a mixed one at the international level (there are actually quite a few details provided) especially with Russia, which was penalised by strong comps. As a reminder, the calendar Q4 (Q1 for Metro) is key for Metro, because it represents the majority of its annual results. Given halfway satisfactory results, at this stage, we maintain our Sell rating.

	1 M	3 M	6 M	31/12/14
Absolute perf.	-5.9%	0.1%	-2.4%	6.1%
Food Retailing	-5.5%	-9.0%	-5.9%	4.6%
DJ Stoxx 600	-6.7%	-5.6%	-8.5%	-0.3%

1/ Metro C&C / +0.2% LFL (vs +1.2% in Q4 15 and +1.1% in 2015) / -2.4% reported on account of a negative perimeter effect of around 2%: The C&C business posted its tenth successive quarter of positive LFL development. Sales in the main countries such as Spain, Italy, Czech Republic and Romania seem to have developed positively (no more detail). In Russia, sales declined based on a high benchmark from the LY that benefited from a pull forward effect at the peak of the rouble crisis.

YEnd Sept. (EURm)	09/14	09/15e	09/16e	09/17e
Sales	63,035	59,087	60,077	61,440
% change		-6.3%	1.7%	2.3%
EBITDA	2,838	2,409	2,493	2,551
EBIT	1,273	1,370	1,532	1,568
% change		7.6%	11.8%	2.3%
Net income	585.8	578.6	646.7	668.0
% change		-1.2%	11.8%	3.3%

2/ Media-Saturn / +0.4% LFL (vs +2.9% in Q4 15 and +3.2% in 2015) / +0.2% reported on account of a 0.9% negative forex effect: this marks the sixth consecutive quarter of rising LFL sales. Revenue seem to have developed very positively in Germany, quite well in western Europe, but declined quite strongly in Russia against the backdrop of strong comps.

3/ Real / 1.6% LFL decline (vs -1.6% in Q4 15 and -0.7% in 2015) / -3.8% reported on account of store closures: sales development remained relatively stable within an environment that is penalised by a strong competition and price deflation in the food business, while sales in the non-food sector declined.

	09/14	09/15e	09/16e	09/17e
Operating margin	2.7	2.5	2.6	2.6
Net margin	0.9	1.0	1.1	1.1
ROE	NM	NM	NM	NM
ROCE	9.4	9.4	9.4	9.1
Gearing	93.3	51.3	48.7	47.4

Other details: **1/** Metro completed the sales of its C&C business in Vietnam at the end of December 2015. There will be an EBIT effect of more than EUR400m which will be included in the Q1 2015/16 accounts. **2/** Despite a difficult environment, management expects development and retains its original forecast (as a reminder: Metro foresees another slight LFL sales growth in 2015/16 vs 1.5% in 2014/15 and expects EBIT before special items to rise slightly above the EUR1,511m achieved in financial year 2014/15, including income from real estate sales).

(EUR)	09/14	09/15e	09/16e	09/17e
EPS	1.79	1.77	1.98	2.04
% change	-	-1.2%	11.8%	3.3%
P/E	15.0x	15.2x	13.6x	13.1x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.90	0.90	0.98	1.02
Div yield (%)	3.4%	3.4%	3.7%	3.8%
EV/Sales	0.2x	0.2x	0.2x	0.2x
EV/EBITDA	4.9x	5.1x	5.0x	4.9x
EV/EBIT	11.0x	8.9x	8.1x	8.0x

Our investment case

So far, in view of the EBIT margin at around 10% (!), and despite the depreciation in the rouble, Russia accounts for ~25/30% of EBIT whereas its share of sales only stands at less than 10%. In a restricted consumer spending environment, and with the market stigmatising and harshly punishing margin rate policies, a margin rate at this level leaves us somewhat perplexed. Hence, uncertainty weighing on Russia wipes out somewhat the value characteristics. Moreover, we are drawn by the situation of Media Saturn outside Russia (~34% of group sales) given that it is in the front row concerning the ramp-up of e-commerce. At this stage, we maintain our Sell rating and our Fair Value of EUR24.

VALUATION

- 2016 P/E of 13.6x vs 16x for the panel (15x excluding Tesco)

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Analyst :
Antoine Parison
33(0) 1 70 36 57 03
aparison@bryangarnier.com

Sector Team :
Nikolaas Faes
Loïc Morvan
Cédric Rossi

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London	Paris	New York	Geneva	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
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