8th February 2016

Food retailing

Casino Guichard

Price EUR41.55

Hoping that the rapid disposal of Casino's stake in Big C can favourably influence S&P!

Fair Value EUR54 (+30%) **BUY**

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	87.3 / 35.2
Market Cap (EURm)	4,703
Ev (BG Estimates) (EURm)	15,159
Avg. 6m daily volume (000)	739.2
3y EPS CAGR	-11.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.7%	-25.0%	-39.2%	-2.1%
Food Retailing	-0.1%	-10.3%	-12.7%	-2.4%
DJ Stoxx 600	-7.8%	-13.5%	-17.6%	-10.1%

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	9.4x	18.1x	15.5x	13.7x
FCF yield (%)	14.7%	0.0%	3.0%	11.0%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	7.5%	7.5%	7.5%	7.5%
EV/Sales	0.4x	0.3x	0.3x	0.3x
EV/EBITDA	5.5x	6.1x	6.0x	5.6x
EV/EBIT	10.1x	9.6x	9.9x	9.6x

Casino has announced the disposal of the 58.6% equity stake owned in its listed Thai susbsidiary Big C (700 stores including 125 hypermarkets with 2015 sales of EUR3.4bn) to the TCC group for EUR3.1bn excluding debt vs EUR2.8bn currently in our SOTP (impact of EUR2.8 per share).

FIRST TAKE. This transaction values Big C at THB252.88 per share (i.e. a 28% premium to the undisturbed share price on 14th January). It implies a 2015 EV/sales multiple of ~1.65x (LTM EBITDA multiple as of end-September 2015 of c.16x). This compares favourably to recent transaction multiples as shown in the table below). The disposal should allow Casino to slash its debt by EUR3.3bn (i.e. EUR3.1bn proceed + deconsolidation of Big C's net debt). The transaction is not subject to any condition precedent and is expected to be completed by 31st March 2016.

Recent transaction multiples in Thailand and Vietnam

Year	Area	Nature of the deal	Transaction multiple
2011	Thailand	Carrefour's Thai BU sold to BIG C	1.2x EV/Sales
2013	Thailand	CP All increased its stake in Siam Makro	1.6x EV/Sales
2016	Vietnam	Loss-making Metro Vietnam sold to TCC	1.3x EV/Sales
2016	Thailand	Casino is to sell is 58.6% equity stake in Big C to TCC	1.7x EV/Sales

ANALYSIS

- Based on S&P's methodology, and according to our estimates, Casino's 2015 adjusted proportional net debt/EBITDA ratio should decrease from ~4.0x to around 2.7x following this disposal. As such, its credit situation should improve dramatically, even to beyond the level initially hoped for by S&P (3.3/3.6x estimated for 2016) when it reiterated its rating in December. As such, we hope this good news should influence S&P favourably when it makes its decision on a potential downgrade.
- If Casino were able to sell off its Vietnamese activities on such good conditions as Thailand (Vietnam could be worth around EUR760m based on recent transaction multiples), the retailer would come close to the EUR4bn target for asset disposals with its Asian assets only. So far, market noise has left very little room for investors to explore all the potential strategic options that Casino could consider in order to maintain the necessary conditions for long term growth.
- **We think investors could notably consider the following (non exhaustive):**

  1/ The transfer of the rest of its GPA voting shares to Exito (Casino would collect 100% of the proceeds, while S&P would retain 54.8% of the acquisition debt through Exito, thus improving the proportional credit ratio). This convoluted move would however simplify the structure and, *ceteris paribus*, have a favourable impact on the SOTP (the market traditionally using the spot price of less valuable non-voting preferred shares to compute Casino's equity stake in GPA).

  2/ From the start, the group's Achilles' heel has been the listing of all EM assets which worked well when GEM was driving growth but which is the cause of most evils today. Today JC Naouri may do what is generally expected from a portfolio manager: sell high at 1.65x sales and buy low at ~0.2x sales, which would involve buying out minorities in Latam (GPA and VV) and taking the said assets private.

  3/ Otherwise, any proceeds beyond the initial target could be used to buy back Casino shares and thereby increase Rallye's equity stake (50.01% currently). As the case may be, Casino would not only benefit from a major squeeze on short positions but, on unchanged dividend liabilities (i.e. EUR350m), Rallye would also benefit from an increased source of cash to help balance its financial equation that has been a source of concerns for years.

VALUATION

- The priced announced for Big C should have an impact of EUR2.8 on our spot SOTP currently standing at EUR39.6 (i.e. +7%). Our FV is the average between the current SOTP and a DCF.

NEXT CATALYSTS

- Disposal of Big C Vietnam

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