# DIA

Price EUR5.00

## Q4 2015 (first take): fairly reassuring, both in Iberia and emerging markets

**Fair Value EUR7.5 (+50%)** **NEUTRAL**

| | |
|---|---|
| Bloomberg | DIA.SM |
| Reuters | DIA MC |
| 12-month High / Low (EUR) | 7.7 / 4.6 |
| Market Cap (EURm) | 3,115 |
| Ev (BG Estimates) (EURm) | 3,942 |
| Avg. 6m daily volume (000) | 4,272 |
| 3y EPS CAGR | 9.3% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | 4.4% | -16.3% | -10.6% | -8.1% |
| Food Retailing | 6.5% | -7.7% | -8.0% | -0.6% |
| DJ Stoxx 600 | 0.1% | -13.3% | -15.3% | -10.1% |

| YEnd Dec. (EURm) | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| Sales | 8,011 | 9,203 | 9,821 | 10,486 |
| *% change* | | *14.9%* | *6.7%* | *6.8%* |
| EBITDA | 585 | 619 | 665 | 730 |
| EBIT | 323.9 | 288.9 | 384.4 | 436.9 |
| *% change* | | *-10.8%* | *33.0%* | *13.7%* |
| Net income | 262.4 | 247.8 | 283.3 | 326.6 |
| *% change* | | *-5.5%* | *14.3%* | *15.3%* |

| | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| Operating margin | 5.0 | 4.4 | 4.4 | 4.6 |
| Net margin | 3.3 | 2.7 | 2.9 | 3.1 |
| ROE | NM | NM | NM | NM |
| ROCE | 32.2 | 26.3 | 25.8 | 26.6 |
| Gearing | 141.3 | 295.5 | 154.4 | 88.8 |

| (EUR) | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| EPS | 0.41 | 0.39 | 0.46 | 0.53 |
| *% change* | - | *-3.3%* | *17.1%* | *15.3%* |
| P/E | 12.3x | 12.7x | 10.8x | 9.4x |
| FCF yield (%) | 1.7% | 9.0% | 8.4% | 9.5% |
| Dividends (EUR) | 0.18 | 0.19 | 0.20 | 0.21 |
| Div yield (%) | 3.6% | 3.8% | 4.0% | 4.2% |
| EV/Sales | 0.5x | 0.4x | 0.4x | 0.4x |
| EV/EBITDA | 6.2x | 6.4x | 5.8x | 5.1x |
| EV/EBIT | 11.3x | 13.6x | 10.0x | 8.5x |


**We have to admit the Q4 publication was rather reassuring: 1/ management provided the market with strong guidance (7% CAGR in organic sales and EUR750m in cumulated cash from operations for the 2015-2018 period / adjusted EBITDA margin in 2016 is expected to be stable vs 2015); 2/ the dividend is solid (EUR0.20 per share or a 48% payout ratio), 3/ LFL figures improved sequentially in Iberia (-1.4% in Q4 vs -2.3% in Q3) while margins declined to a lesser extent than initially expected by the consensus (-130bp vs -175bp), 4/ emerging markets turned out to be very resilient (i.e. +9.3% LFL along with a +90bp improvement in margin).**

Dia Q4 gross sales under banner grew by 5.1% (+10.7% cc) to EUR 2704m (vs EUR2792m expected by the consensus). This represented 3.1% LFL growth (vs +1.5%e) or +3.5% excluding the calendar effect. The group's EBITDA margin was down 45bp to 8.0% (vs 7.8%e) notably as a consequence, we think, of the progressive dilution of upfront procurement synergies. In Iberia, LFL sales fell 1.4% (vs -1.2%e), given a negative calendar effect of -0.5% and a still significant cannibalisation impact from the new integration of El Arbol and Eroski stores. According to the group, adjusting both negative effects for reported LFL sales growth, clean LFL sales growth in Q4 would have been +0.2%. Overall, the Iberian margin was down 130bp to 9.7%, declining to a lesser extent than initially expected by the consensus (i.e. -175bpe). In emerging markets, given the very difficult macro-economic context in LatAm, Dia's performances turned out to be vey resilient (+9,3% LFL and +90bp margin appreciation vs +7,7%e and +11bp expected respectively).

### ANALYSIS

- As a reminder, part of the market is persuaded that Dia is unwisely implementing a margin rate policy. This type of strategy resulted in a "margin restatement" for Tesco (i.e. radical price cuts at the expense of the margin rate, in order to restore customer flows). As such, it seems easy to think the Spanish group has the same fate. In our view, the situation at Dia is far different to that at Tesco and we believe the restatement is not the right issue to focus on. Here's why:
- **1/** Firstly, the fragmented Spanish market does not have the characteristics of an oligopoly in which players could be tempted to nurture their margin rates, **2/** Dia, the franchiser, has a specific margin equation (without really focusing on the margin rate, the change in the mix in favour of franchises guarantees an annual improvement of 15-20bp), **3/** Tesco's restatement stemmed from an inappropriate price positioning which is not Dia's case.
- While these concerns will probably remain for some investors, we consider the publication as reassuring in this respect. **1/** Management provided the market with reassuring guidance (7% CAGR in organic sales and EUR750m of cumulated cash from operation for the 2015-2018 period), **2/** the dividend is solid (EUR0.20 per share or a 48% payout ratio), **3/** LFL figures are improving sequentially in Iberia (-1.4% in Q4 vs -2.3% in Q3) while the margin declined to a lesser extent than initially expected by the consensus (-138bp vs -175bp), **4/** emerging markets turned out to be very resilient (i.e. +9.3% LFL along with a +90bp improvement in margin).

### VALUATION

- Dia is currently the value stock in a sector that is not really attractive.
- The Spanish retailer is showing a 2016 P/E of 11x vs 15x for the sector excl. Tesco

### NEXT CATALYSTS

- Obviously positive LFL sales growth in Iberia

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