

## Metro AG

Price EUR24.56

Q1 2016 results (first take): not stimulating

Fair Value EUR24 (-2%)

SELL

Bloomberg	MEO GY
Reuters	MEOG.DE
12-month High / Low (EUR)	34.6 / 23.4
Market Cap (EURm)	7,958
Ev (BG Estimates) (EURm)	10,793
Avg. 6m daily volume (000)	1 085
3y EPS CAGR	16.0%

**Q1 2015/16 bottom line was pretty much in line with the topline already released, i.e. not stimulating. Margin narrowed 17bp at Metro C&C (55% of EBIT BSI) and fell 59bp at Media Saturn (37% of EBIT BSI), while the 11pb margin improvement at Real (10% of EBIT BSI) did not compensate. Apart from a fairly attractive valuation (2016 P/E of 13x vs 15x for the sector), we struggle to identify a strong operating catalyst (no obvious operating "low hanging fruits") for an equity story that finally mainly relies on Metro's capacity to optimise tax.**

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.5%	-12.2%	-15.3%	-16.9%
Food Retailing	-1.4%	-11.6%	-15.3%	-5.3%
DJ Stoxx 600	-9.4%	-17.7%	-22.1%	-15.4%

As a reminder, preliminary Q1 2015/16 sales (released on January 17th), grew 0.1% in LFL terms (Metro C&C at +0.2% LFL / Media-Saturn at +0.4% LFL / Real at minus 1.6% LFL). As a whole, the Christmas period seemed to have been positive in Germany with a 2.1% LFL sales growth. On the other hand, the picture was a mixed one at the international level especially with Russia, which was penalised by strong comps. As a reminder, calendar Q4 (Q1 for Metro) is key for Metro, since it represents the majority of its annual results.

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	59,220	59,060	60,610	62,205
% change		-0.3%	2.6%	2.6%
EBITDA	2,457	2,494	2,625	2,762
EBIT	711.0	1,519	1,625	1,735
% change		113.7%	7.0%	6.8%
Net income	502.3	609.9	693.2	783.4
% change		21.4%	13.7%	13.0%

Today the group released a bottom line slightly below consensus expectations, given rather disappointing operating performances at Media Saturn (-6.4% vs consensus expectations). EBIT before special items (EBIT BSI) worked out at EUR828m vs EUR843m expected by the consensus (i.e. -30bp decline in margin). In detail, EBIT BSI came out at EUR458m at Metro C&C vs EUR455m e (i.e. -17bp margin decline), EUR309m at Media Saturn vs EUR330m e (i.e. -59bp margin decline), EUR83m at Real vs EUR78m at Real (i.e. +11bp improvement in margin).

	09/15	09/16e	09/17e	09/18e
Operating margin	2.6	2.6	2.7	2.8
Net margin	0.8	1.0	1.1	1.3
ROE	NM	NM	NM	NM
ROCE	10.5	10.4	10.3	10.3
Gearing	48.9	43.4	44.2	43.2

On the whole, Q1 2015/16 EPS BSI works out at EUR1.12 (vs EUR1.16 expected by the consensus), on account of a 42.4% tax rate BSI (vs 46.8% in Q1 2014/15). For financial year 2015/16, Metro continues to expect a slight increase in overall sales, in a persistently challenging environment. In LFL terms, management foresees a slight increase (vs +1.5% in the previous year). It expects EBIT before special items to rise slightly above the EUR1,511m (vs EUR 1,519m in our own estimates) achieved in financial year 2014/15, including income from real estate sales.

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	1.54	1.87	2.12	2.40
% change	-	21.4%	13.7%	13.0%
P/E	16.0x	13.2x	11.6x	10.2x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	1.00	0.98	1.02	1.05
Div yield (%)	4.1%	4.0%	4.2%	4.3%
EV/Sales	0.2x	0.2x	0.2x	0.2x
EV/EBITDA	4.4x	4.3x	4.2x	4.1x
EV/EBIT	15.3x	7.1x	6.8x	6.5x

## ANALYSIS / INVESTMENT CASE

- The favorable tax lever (shifting of costs out of Germany, in a bid to boost the domestic operating result at Metro C&C notably and thus activate the loss carry forward) should not eclipse commercial trends that are notably characterised by a deceleration in Russia (probably down mid-single digit LFL in Q1). For the FY 2015, Metro beat the consensus thanks to property development revenues (~EUR150m) that are incorporated in EBITDA (something for which Casino is routinely heavily criticised). In the end, it is not so much Metro's operating potential which seems to be acclaimed by the consensus (49% of Buy ratings, 37% Hold and 14% Sell), but rather the tax engineering potential. Yet, in a fixed cost industry, the commercial potential should be the priority.
- So far, in view of EBIT margin at around 10% (!), and despite the depreciation in the rouble, Russia accounts for ~25/30% of EBIT whereas its share of sales 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. As such, the uncertainty hanging over Russia somewhat wipes out value characteristics. Moreover, we are concerned by the situation of Media Saturn outside Russia given that it is in the front row concerning the ramp-up of e-commerce.

## VALUATION

- Metro is currently showing a 13x 2016 P/E vs 15x for the panel excl. Tesco

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- NS

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