

## Carrefour

Price EUR25.73

FY Carrefour (first take): mixed performances

Fair Value EUR31 (+21%)

BUY

Bloomberg	CA FP
Reuters	CARR.PA
12-month High / Low (EUR)	32.8 / 22.3
Market Cap (EURm)	18,997
Ev (BG Estimates) (EURm)	24,597
Avg. 6m daily volume (000)	3 180
3y EPS CAGR	10.4%

Carrefour has released its H2 trading profit. H2 underlying EBIT worked out to EUR1.72bn (in line with expectations) thanks to western Europe notably, offsetting a lower than expected performance in Asia (note that global functions were also lower than expected). On a FY basis, trading profit reached EUR2.45bn (in line), fully in line with guidance, while net profit rose 7.1%. The 2015 dividend stands at EUR0.70 (in cash or share) vs EUR0.82 expected by the consensus and 0.73 BG estimate. **1/** Carrefour has been able to keep the same guidance all along the year despite headwinds (Forex, China...); **2/** in an industry suffering an obvious lack of growth, it's size is a comparative edge; **3/** its valuation remains quite attractive. Nevertheless, Asia is beginning to lose money while the equity story misses catalysts somewhat. We hope management will be more specific during the call regarding certain market focuses (e-commerce, Dia, Caravelle).

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.1%	-5.6%	-8.6%	-3.5%
Food Retailing	7.4%	1.1%	1.0%	2.7%
DJ Stoxx 600	7.4%	-7.7%	-6.0%	-7.7%

In detail for H2, we would highlight the following: **1/** a 6bp decline in operating margin in France (52% of ROI) vs +9bp e (on a FY basis the margin was up after adjusting for the integration of Dia, the increase in tax on sales space and the transfer of rental incomes to Carmila from shopping malls); **2/** a 41bp margin appreciation in western Europe (26% of ROI) vs +25bpe, given huge operating leverage we think in Spain (the country where Carrefour has always and consistently done its homework in terms of revamping, pricing etc...); **3/** in Latam (24% of ROI) margin was up ~25bp (vs +40 bp e); **4/** unsurprisingly, the main problem area was Asia (-164 bp vs -25bp e), due to poor LFL performances in China, which was in negative territory in H2. FCF worked out to EUR687m vs EUR306m in 2014 and NFD was reduced by EUR408m to EUR4.5bn.

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	74,706	77,020	78,398	81,494
% change		3.1%	1.8%	3.9%
EBITDA	3,768	3,938	4,174	4,448
EBIT	2,536	2,411	2,637	2,850
% change		-4.9%	9.4%	8.1%
Net income	1,040	1,127	1,258	1,405
% change		8.3%	11.7%	11.7%

During the analysts' meeting, we hope management will be more specific regarding : **1/** the group's strategy in terms of e-commerce (a subject on which management remains somewhat evasive); **2/** progress in the Caravelle project; **3/** the integration of Dia stores. We believe these kinds of details could provide some impetus to the equity story. Moreover, we guess that management could elaborate about the **4/** prospect of an IPO for Carmila (in an historically low interest rate environment, an IPO of Carmila could come sooner rather than later, as investors are currently chasing high dividend yields, something REITs can offer. The idea is all the more attractive in that performances by REITs are almost perfectly inversely correlated with the yield curve for long-term rates...).

	2014	2015e	2016e	2017e
Operating margin	3.2	3.2	3.4	3.5
Net margin	1.4	1.5	1.6	1.7
ROE	NM	NM	NM	NM
ROCE	9.2	9.0	9.4	9.9
Gearing	48.4	40.3	37.7	32.6

(EUR)	2014	2015e	2016e	2017e
EPS	1.47	1.59	1.77	1.98
% change	-	7.8%	11.7%	11.7%
P/E	17.5x	16.2x	14.5x	13.0x
FCF yield (%)	NM	1.7%	3.5%	5.6%
Dividends (EUR)	0.80	0.89	0.97	1.06
Div yield (%)	3.1%	3.5%	3.8%	4.1%
EV/Sales	0.3x	0.3x	0.3x	0.3x
EV/EBITDA	6.5x	6.2x	5.9x	5.5x
EV/EBIT	9.7x	10.2x	9.4x	8.6x

## ANALYSIS

We have been developing the following investment case for months: **1/** underpinned especially by the LME, Carrefour has entered a cycle of market share growth in its domestic market ([Hypermarkets are dead, long live hypermarkets!](#)). **2/** In the rest of Europe, Carrefour has managed to trim its fixed cost base and should be able to tap into operating leverage (especially in Spain). **3/** In emerging countries, a favourable format mix in Brazil should allow Carrefour to weather the storm (potential margin widening remains significant in this area). Carrefour delivered cperformances in line with this investment case.

In terms of risks/momentum, we have also been saying for a while that: **1/** for as long as China makes money, it remains a "secondary issue" (so far, ~3-5% of earnings); but the day it starts losing money, it could become a question mark (operating deleverage can be very painful / re. Géant Casino in another register). Indeed, following a series of hugely negative LFLs, the retailer is certainly in negative territory. This concern accompanies those regarding **2/** financial services in Brazil. These elements will have to be monitored closely in 2016.

From a more fundamental point of view, 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). Yet in hindsight, this challenge for Georges Plassat (and his future successor) has already come up tangentially, especially when the current CEO spoke of an engine that had to be repaired so that it can accelerate in terms of growth going forward.

## VALUATION

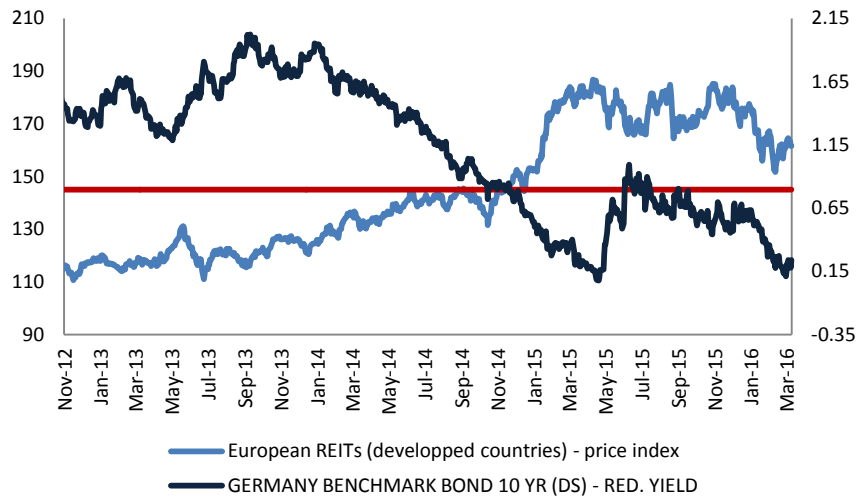
- Carrefour is currently showing a 2016 P/E of 14.5x vs 16x on average for the sector

## NEXT CATALYSTS



- An IPO of Carmila (even with a limited impact on the SOTP) would feed momentum

### European REITs vs long term 10 YR bond



Source: Datastream

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