

Casino Guichard

Price EUR48.57

H2 2015 (first take): Figures in France in line; What next in terms of the asset optimization?

Fair Value EUR57 (+17%)

BUY

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	87.3 / 35.2
Market Cap (EURm)	5,497
Ev (BG Estimates) (EURm)	15,851
Avg. 6m daily volume (000)	804.4
3y EPS CAGR	-12.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	13.9%	0.2%	-9.9%	14.5%
Food Retailing	5.5%	0.5%	3.2%	3.4%
DJ Stoxx 600	4.6%	-8.5%	-3.9%	-6.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	48,492	46,145	43,171	45,457
% change		-4.8%	-6.4%	5.3%
EBITDA	3,191	2,418	2,332	2,552
EBIT	1,737	1,578	1,477	1,594
% change		-9.2%	-6.4%	8.0%
Net income	556.0	327.0	335.2	393.6
% change		-41.2%	2.5%	17.4%

	2014	2015e	2016e	2017e
Operating margin	4.6	3.3	3.4	3.5
Net margin	1.1	0.7	0.8	0.9
ROE	NM	NM	NM	NM
ROCE	7.1	4.7	4.6	5.0
Gearing	37.3	36.1	35.5	33.6

(EUR)	2014	2015e	2016e	2017e
EPS	4.43	2.36	2.43	2.95
% change		-46.7%	3.1%	21.2%
P/E	11.0x	20.6x	19.9x	16.5x
FCF yield (%)	12.6%	8.1%	10.8%	14.5%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	6.4%	6.4%	6.4%	6.4%
EV/Sales	0.4x	0.3x	0.4x	0.3x
EV/EBITDA	5.7x	6.6x	6.5x	6.0x
EV/EBIT	10.5x	10.0x	10.3x	9.7x

H2 2015 current operating profit came slightly below consensus estimates, i.e. EUR926m vs EUR 950m expected by the consensus (or EUR1,446m on a FY basis vs EUR1470m estimate). Unsurprisingly, this translated into a 147bp margin contraction (vs -141bp e). Net result (EUR412m) works out above expectation (EUR318m) thanks to financial costs notably. During the conference call, the focus of the market should be about: **1/** the magnitude of revenues from real estate promotion going forward (EUR167m in 2015 vs EUR162m in 2014 / should be flat in 2016 we understand); **2/** outlook in terms of inflation (it seems, according to the latest Data from O. Dauvers, that Casino increased its prices in February and that Leclerc did the same in March); **3/** the use of the cash proceeds post disposals of Asian assets (upcoming buyback of minorities?). Buy.

The main subsidiaries had already released their own results statement. Hence, in H2, **1/** the -710bp collapse (vs -750bp e) in Latam Electronics and the -610bp decrease (vs -570bp e) in E-commerce margins, as well as the 97bp decline (vs -90bp e) in Latam Retail's one, are not surprising. **2/** It may just be an anecdote, given that Big C is to be sold to TCC, but Asia (-5% LFL in H2) posted a -78bp decline in margin (vs -48 bp e and +33bp in H1...). Yet, it is worth remembering that against this backdrop of declining performances, Casino was nonetheless able to sell Big C on a 1.7x sales multiple!

Hence, today's focus is rather about France (~65/70% e of the estimated 2016 proportionate EBITDA post disposal of Asia) whose underlying operating margin is up +100bp (vs +110bp e), resulting in an operating profit of EUR390m (vs EUR393m in H2; amount deducted from the EUR340 FY guidance provided during the latest call). From now on, we hope the convalescent momentum in France to be a focus of the market. Along with the full benefit of the procurement agreement with Intermarché, this helps Casino to emphasise a brighter French outlook for 2016. In terms of other financials, 2015 NFD for France works out at EUR6.1bn (EUR6.0bn e). Dividend proposed at the Annual General Meeting is unchanged at €3.12.

In terms of the outlook, management indicates that **1/** the proceeds for disposals will be allocated to debt reduction while reminding that **2/** the Group has been implementing a policy involving the ongoing purchase of key assets and disposal of mature assets for the past 10 years [...]. **3/** In France, the intends to improve its profitability in 2016, based on a LFL assumption above +1.5% and target annual increases of over 100bp in its commercial margin, and of over 30bp in its costs which of c. 10bp of carry-over effect. **4/** Management also has an objective of of a better trading profit for Cdiscount in 2016 vs 2015 and an ambition to get Cnova Brazil EBITDA close to breakeven in 2016. On the whole, the key guidance for France remains for 2016 EBITDA of around EUR900m (and EBIT of more than EUR500m) and a FCF of at least EUR200m after financial expenses and payment of the dividend.

ANALYSIS & INVESTMENT CASE (See our latest report (19/02/2016): With hindsight, a real Catch-22!)

- Admittedly, the current psychosis does contain elements of truth and maintaining the investment grade is evidently key to us (the investor base would be largely reduced if Casino is downgraded, while the potential return to the sacrosanct rating would come at a very high price). But what is most regretful in such a situation is that the current market's "credit noise" leaves little room for management to explore all the potential strategic options, which it could otherwise consider in order to maintain the necessary conditions for long-term growth.
- Among other scenario, Casino may also do what is generally expected from a wise asset manager: sell high at 1.7x sales (Big C Thailand already done) and buy low at 0.2x sales (minorities in Latam in a bid to reinforce the long term growth and FCF profile of the group post disposal of Big C). In another scenario, by announcing a post-disposals return of cash (~EUR700m e buy-back), Casino would not only benefit from a squeeze of short positions but, on unchanged dividend liabilities, Rallye would also benefit from an increased source of cash to help balance its financial equation.

VALUATION

- The sacrosanct spot SOTP currently stands at EUR48.

NEXT CATALYSTS

- S&P decision regarding a potential downgrade to non investment grade (by mid-April)



	H1	H2	2015
France Retail sales	9 135	9 754	18 889
(1) LFL excl. fuel and calendar	-0,8%	1,9%	0,6%
(2) Expansion	0,3%	0,6%	0,4%
(3) Calendar	-0,1%	0,0%	-0,1%
(4) Fuel	-1,0%	-1,0%	-1,0%
(5) Acquisitions	0,4%	0,0%	0,2%
(1)+(2)+(3)+(4)+(5) = Total	-1,2%	1,5%	0,2%
Underlying EBIT pf	-53	390	337
As a % of sales	-0,6%	4,0%	1,8%
bps var.	-175 bp	100 bp	-32 bp
Latam Retail sales	7 803	6 911	14 714
(1) LFL excl. fuel and calendar	2,5%	1,8%	2,1%
(2) Expansion	3,6%	3,7%	3,6%
(3) Calendar	0,2%	0,4%	0,3%
(4) Acquisitions	4,6%	4,8%	4,7%
(5) Forex	-4,0%	-25,4%	-15,3%
(1)+(2)+(3)+(4)+(5) = Total	6,8%	-14,8%	-4,6%
Underlying EBIT	299	404	703
As a % of sales	3,8%	5,8%	4,8%
bps var.	-85 bp	-97 bp	-103 bp
Latam Electronics sales	2 924	2 264	5 188
(1) LFL excl. fuel and calendar	-13,5%	-19,6%	-16,7%
(2) Expansion	1,6%	1,1%	1,3%
(3) Calendar	0,0%	0,0%	0,0%
(4) Acquisitions	0,0%	-0,1%	0,0%
(5) Forex	-4,0%	-21,3%	-13,0%
(1)+(2)+(3)+(4)+(5) = Total	-15,9%	-39,9%	-28,4%
Underlying EBIT	191	80	271
As a % of sales	6,5%	3,5%	5,2%
bps var.	-141 bp	-710 bp	-412 bp
Asia sales	2 075	1 898	3 973
(1) LFL excl. fuel and calendar	-1,3%	-5,0%	-3,2%
(2) Expansion	2,3%	2,4%	2,4%
(3) Calendar	0,2%	0,0%	0,1%
(4) Acquisitions	0,2%	-0,1%	0,0%
(5) Forex	21,2%	7,0%	13,9%
(1)+(2)+(3)+(4)+(5) = Total	22,7%	4,2%	13,1%
Underlying EBIT	138	139	277
As a % of sales	6,7%	7,3%	7,0%
bps var.	33 bp	-78 bp	-28 bp
E-commerce sales	1 730	1 651	3 381
(1) LFL excl. fuel and calendar	16,4%	-1,2%	6,5%
(2) Expansion	0,2%	0,0%	0,1%
(3) Calendar	0,0%	0,0%	0,0%
(4) Acquisitions	0,1%	-0,1%	0,0%
(5) Forex	-3,2%	-13,5%	-9,0%
(1)+(2)+(3)+(4)+(5) = Total	13,4%	-14,8%	-2,5%
Underlying EBIT	-55	-87	-142
As a % of sales	-3,2%	-5,3%	-4,2%
bps var.	-261 bp	-610 bp	-441 bp

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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
 Virginie Roumage

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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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