Casino Guichard

Price EUR47.10

Postview: waiting for S&P…

Fair Value EUR57 (+21%) **BUY**

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	87.3 / 35.2
Market Cap (EUR)	5,332
Ev (BG Estimates) (EUR)	15,685
Avg. 6m daily volume (000)	818.9
3y EPS CAGR	-12.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.7%	-0.4%	-14.0%	11.0%
Food Retailing	8.6%	2.2%	-0.3%	2.9%
DJ Stoxx 600	9.6%	-6.9%	-6.8%	-7.3%

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	10.6x	19.9x	19.3x	16.0x
FCF yield (%)	13.0%	8.3%	11.1%	14.9%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	6.6%	6.6%	6.6%	6.6%
EV/Sales	0.4x	0.3x	0.3x	0.3x
EV/EBITDA	5.7x	6.5x	6.5x	6.0x
EV/EBIT	10.4x	9.9x	10.2x	9.6x

We have to admit we were somewhat frustrated by the FY analyst meeting. Bearing in mind arguments brought forward recently by investors attacking the company (1/ the "unbearable" complexity of the group; 2/ the constrained circulation of cash within the "holding"; 3/ the anxiogenic level of debt which has translated into a very stretched level of proportionate credit ratio; 4/ and lastly, the opportunity cost in terms of long term growth and FCF following the disposal of Big C), we find that management remained tight lipped as to its intentions going forward.

Given management's philosophy which has often been to sell high mature assets and buy low promising GEMs despite the economic crises taking place in these GEMs (Growth Emerging Markets), we thought that the current depressed share prices of listed LatAm assets would have been an opportunity to do the same again (Casino is to sell its asset in Thailand for EUR3.1bn and could finally overcome the target of disposals which is for EUR4bn). In our latest report, we thus described the scenario by which Casino would have taken the full control of its LatAm assets (see our latest report (19/02/2016): With hindsight, a real Catch-22!), thus dramatically simplifying the structure of the group and the circulation of cash within the company, while maintaining the necessary conditions for long term growth (see our report – Anorexic growth... the bigger the better! / management kept saying that Brazil has huge potential going forward).

Frankly, and bluntly, following the meeting with management, we do not feel this scenario is very likely in the short term. There were many questions regarding such a scenario during the meeting and management rather closed the door for the next 12/18 months while insisting that the cash proceeds from disposals will be used to pay both gross and net debt down. Is it a circumstantial posture ahead of S&P's rating decision (which, ultimately, would not surprise us) or is it a firm and definitive "no"…? The only thing we know is that S&P has a rather disastrous outlook regarding Brazil in the short and medium term and that Casino is very committed to its investment grade status. Stay tuned.

But we do not want to let deception build up whereas management also brought encouraging indications when it comes to France (as a reminder, post disposal of Asia, the domestic market could represent up to 70% of proportionate EBITDA and should become the major factor to monitor in 2016). Beyond current trading (up +4.4% LFL at Géant and +5.2% at LP over the last nine weeks), management indicated that revenues from real estate included in EBITDA should be around EUR66m in 2016 (vs ~EUR140m expected by the consensus, EUR167m in 2015 and EUR162m in 2014), pointing to a +50% improvement of the retail underlying operating profit (i.e. excluding revenue from real estate) to ~EUR830m in 2016 (vs +30% initially expected). Clearly, the guidance seems rather bullish to us, but the optimism of the management tends to prove that France is gaining momentum and rather close to profit recovery after two years of prices investment (for a total consideration of EUR600/700m).

The repositioning of Géant, which brought visible benefits more than two years after the price initiative was launched, illustrates the timescale specific to the sector. In its Retail Journal (vol. 1), consultancy firm Oliver Wyman addresses the case of a US retailer whose volumes surged three years after it slashed its prices. This, along with several other cases, leads the firm to conclude that: **1/** in the wake of price reductions, the bulk of the resulting benefits appear only after a significant period has lapsed (>1 year); **2/** the upturn in volumes is not restricted to the products subject to the biggest price cuts, but affects the store as a whole; **3/** the increase in volumes during the months following a wave of price cuts represents on average less than 40% of the potential gain. Hence we remain reasonably optimistic when it comes to France!

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)

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