21st March 2016

Food retailing

Casino Guichard

Price EUR49.37

Downgrade of Casino to non-investment grade by S&P…

Fair Value EUR57 (+15%) **UNDER REVIEW vs. BUY**

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	87.3 / 35.2
Market Cap (EURm)	5,588
Ev (BG Estimates) (EURm)	15,942
Avg. 6m daily volume (000)	825.5
3y EPS CAGR	-12.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	18.1%	12.2%	0.8%	16.4%
Food Retailing	2.8%	2.8%	4.5%	2.2%
DJ Stoxx 600	3.9%	-5.4%	-3.7%	-6.6%

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	11.1x	20.9x	20.3x	16.7x
FCF yield (%)	12.4%	8.0%	10.6%	14.2%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	6.3%	6.3%	6.3%	6.3%
EV/Sales	0.4x	0.3x	0.4x	0.3x
EV/EBITDA	5.8x	6.6x	6.6x	6.1x
EV/EBIT	10.6x	10.1x	10.4x	9.7x

1/ On 11th December 2015, S&P confirmed its BBB-/stable outlook credit rating. 2/ On 14th January 2016, Casino increased its disposal programme from EUR2bn to EUR4bn. 2/ On 15th January 2016, S&P took things back and placed Casino Group's BBB- under negative credit watch. 3/ In early February, Casino announced the disposal of the equity stake owned in its listed Thai susbsidiary Big C for EUR3.1bn! Ultimately, 4/ On 21st March, S&P dowgrades its rating to BB+/stable outlook… There is something wrong in the chain of events. Whatever the case, maintaining the investment grade was key to us. Even if the downgrade was obviously already priced in by the market (see 5Y CDS), it is nevertheless clearly set to reduce the investor base, while the potential return to the sacrosanct rating should come at a very high price. Rating under review.

One of the biggest challenges for Casino has always been to secure the support of rating agencies, and hence of the market, on its ability to meet debt commitments. Indeed, its credit ratios have always been stretched (since 2007 the adjusted FFO/ND ratio has only been comfortably within the range set by the credit rating agencies on very rare occasions) and were probably saved several times in the past thanks to opportunistic asset disposals, often convoluted (i.e. capital increases in subsidiaries rather than outright disposals for example). This time, very strong asset disposals (Thailand to be completed very soon for a total consideration of EUR3.1bn and Vietnam to come for up to EUR1bn) were obviously not sufficient for S&P, which has just downgraded Casino to BB+/stable outlook.

As a reminder in terms in the chains of events. On 11th December, a positive outlook for France, along with the announcement of EUR2bn in asset disposals, was probably one of S&P's main criteria in maintaining the IG rating. Following attacks by detractors (17th December), Casino gave strong guidance (21st December) for around EUR900m in 2016 EBITDA, "driven by the retail business" (i.e. revenues from real estate won't increase in 2016 and should even decrease), and a solid generation of FCF after financial expenses and dividends above EUR200m in France. On top of this, Casino managed to increase (14th January) its disposal programme from EUR2bn to EUR4bn (at the same time as the CFO admittedly guided for 2015 underlying EBIT of around EUR1.5bn vs cons. ~EUR1.7bn), pointing to a likely further deterioration in the Brazilian environment. Simultaneously (15th January), against this backdrop, S&P took things back and placed Casino Group's BBB- under negative credit watch. The agency fiercely reviewed its position as if, following attacks by detractors, the positive outlook for France had suddenly turned out to be wishful thinking and the EUR4bn remedy from disposals a sword struck into water against the negative backdrop in Brazil.

ANALYSIS

- Casino's bonds contain a +125bp step-up up clause in case of a downgrade to junk bond status. Hence, the impact of the downgrade should be around ~EUR20m e in 2016 and ~EUR90m e in 2017 (excluding future bond buybacks).
- On the other hand, it could be offset by the ongoing EUR4bn deleveraging programme, EUR3.5bn of which will be used to pay debt down (i.e. ~EUR100m of savings based on a net cost assumption of 3% vs a current rate around 2.5% aided by swaps).
- Rallye (not rated) owns 50.01% of Casino. As the holding company's net debt (EUR2.9bn) has not been reduced, Casino's rating needed to be maintained so that Rallye can continue to have access to the bond market under reasonable conditions.
- Paradoxically, now that Casino is non-investment grade, it could gain in flexibility in using the cash from disposals (buyback of LatAm minorities for example /see: With hindsight, a real Catch-22!).
- However the investor base for Casino will be largely reduced as Casino slips below investment grade territory. Not to mention the fact that a potential return to investment grade status will come at a very high price. This is the essence of the issue.

VALUATION

- The sport SOTP currently stands at EUR49

Analyst :
Antoine Parison
33(0) 1 70 36 57 03
aparison@bryangarnier.com

Sector Team :
Nikolaas Faes
Loïc Morvan
Cédric Rossi
Virginie Roumage

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 64,4% NEUTRAL ratings 28,1% SELL ratings 7,4%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

New Delhi
The Imperial Hotel
Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062