

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 subsidiary Big C for EUR3.1bn! Ultimately, 4/ On 21st March, S&P downgrades 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 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



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