22nd March 2016

Food retailing

Casino Guichard

Price EUR50.00

The price of freedom?

Fair Value EUR57 (+14%) **BUY vs. UNDER REVIEW**

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	87.3 / 35.2
Market Cap (EUR)	5,660
Ev (BG Estimates) (EUR)	16,013
Avg. 6m daily volume (000)	827.3
3y EPS CAGR	-12.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	22.0%	18.6%	2.6%	17.9%
Food Retailing	4.0%	3.4%	2.8%	2.2%
DJ Stoxx 600	4.4%	-4.6%	-4.8%	-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	11.3x	21.2x	20.5x	16.9x
FCF yield (%)	12.2%	7.9%	10.5%	14.1%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	6.2%	6.2%	6.2%	6.2%
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	9.8x

We admittedly believed that a downgrade by S&P would prompt a very negative reaction. However, this was clearly not the market's point of view (share up +1.3% yesterday!). According to the traditional expression, we could fallaciously conclude that the downgrade was "already priced-in". With hindsight, there are two possible interpretations, which, incidentally, are not incompatible: 1/ clearly some investors cannot afford to remain shareholders in a non-investment grade company; 2/ since the axe has fallen and Casino is no longer investment grade, management could gain in flexibility from a strategic viewpoint. And we believe that opportunities exist such as the buyback of LatAm minorities for example (see our report: With hindsight, a real Catch-22!). Taking yesterday's (non)event into consideration, along with an attractive intrinsic value (FV of EUR57) and a possible simplification of the portfolio going forward, we are maintaining our Buy recommendation.

In our latest report, we wrote that the recent "psychosis does contain elements of truth" and that maintaining an investment grade rating was "evidently key to us". We concluded that what is most regretful in Casino's situation is that the recent "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".

Hence, we clearly believed that a downgrade by S&P would prompt a very negative reaction (indeed **1/** the investor base will be largely reduced, while **2/** the potential return to the sacrosanct rating should come at high price). However, this was obviously not the market's point of view as the slip to non-investment grade turned out to be a damp squib (share up +1.3% yesterday!). According to the traditional expression, we could fallaciously conclude that the downgrade was "already priced-in".

With hindsight, there are two possible interpretations, which incidentally are not incompatible way: **1/** clearly some investors cannot afford to remain shareholders in a non-investment grade company; **2/** since the axe has fallen and Casino is no longer investment grade, management could gain in flexibility from a strategic viewpoint. And we believe that opportunities exist such as the buyback of LatAm minorities for example (see our report: With hindsight, a real Catch-22!). In so doing, Casino could compensate for the growth opportunity cost linked to the disposal of Big C.

As a reminder, from a very fundamental viewpoint, we estimate that we are witnessing a change in paradigm (see our latest sector report: 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!). This long-term vision is perhaps taken insufficiently into account in S&P's statements.

Indeed, we believe investors should not lose sight of the fact that Brazil (notably) offers: **1/** high demographic potential (200m inhabitants with a median age of 32 years, 84% of which are urban), **2/** a low penetration of modern Food Retail (less than 50%), and **3/** a rather business-friendly environment. These characteristic features are the basis of sustainable healthy growth in a fixed costs industry.

Buying-back LatAm minorities at a very low price would be a "once-in-a-lifetime" opportunity to kill three birds with one stone: **1/** It would radically simplify the structure of the group and hence the circulation of cash within the holding (something the market has always been demanding!); **2/** Casino would get rid of its LatAm stock market listing (which has been its Achille's heel over the past 18 months); **3/** ultimately, Casino would maintain the necessary conditions for long-term growth.

PS: At the end of the day, the strategy applied by Casino is rather similar to that implemented by Carrefour with its Columbian assets in 2012 or to what Tesco did in 2015 by disposing of South Korea…

VALUATION

- The spot SOTP currently stands at EUR50

NEXT CATALYSTS

- Upcoming simplification of the holding?

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