

Sector View

Food retailing

FY Ahold (BUY) & Delhaize (Buy): strong end to the year (first take)

	1 M	3 M	6 M	31/12/15
Food Retailing	0.3%	-4.0%	2.4%	2.0%
DJ Stoxx 600	-0.8%	-11.8%	-4.0%	-7.4%

*Stoxx Sector Indices

Companies covered

Company	Rating	Market Cap.	Value
AHOLD	BUY		EUR22,5
Last Price	EUR20,97	Market Cap.	EUR17,497m
CARREFOUR	BUY		EUR31
Last Price	EUR24,925	Market Cap.	EUR18,406m
CASINO GUICHARD	BUY		EUR57
Last Price	EUR42,73	Market Cap.	EUR4,837m
DELHAIZE	BUY		EUR107
Last Price	EUR97,17	Market Cap.	EUR10,130m
DIA	NEUTRAL		EUR7,5
Last Price	EUR4,8	Market Cap.	EUR2,988m
JERONIMO MARTINS	NEUTRAL		EUR13,5
Last Price	EUR13,375	Market Cap.	EUR8,417m
METRO AG	SELL		EUR24
Last Price	EUR23,41	Market Cap.	EUR7,587m
RALLYE	BUY		EUR18,5
Last Price	EUR15,14	Market Cap.	EUR739m
TESCO	NEUTRAL		166p
Last Price	183,95p	Market Cap.	GBP14,976m

1/ Q4 again proved both Ahold and Delhaize's resilience (Q4 current EBIT 10% above expectations at Ahold, very much in line at Delhaize); 2/ both have virtually no exposure to unwell emerging markets and hence 3/ offer better visibility on operating performances for 2016 than others; 4/ both enjoy some of the best FCF profiles within the sector; 5/ FY dividend up 8.3% at Ahold (EUR0.52) and 12.5% at Delhaize (EUR1.80); 5/ ultimately, via cost-sharing, the flirting between the two retailers offers an alternative within a sector which is suffering an obvious lack of growth. Buy maintained on both Ahold and Delhaize.

Today's publications bring few surprises in terms of the figures, given that both Ahold and Delhaize already provided the market with quite precise indications for Q4 2015 profitability when they released their Q4 trading statement. As a reminder, Delhaize pre-announced its FY 2015 EBIT (i.e. EUR870) and FCF (i.e. EUR516 including one-time elements). On its side, Ahold guided for the Q4 US margin to be higher than the previous quarter (i.e. above 4.0%, positively affected by the additional week) and for underlying operating margin in line with the previous quarter (i.e. 4.6%).

As far as Delhaize is concerned: fully in line with expectations, FY underlying EBIT worked out to EUR872 vs EUR870 pre-announced. In detail, the Q4 current margin (4.1%) was up 30bp excl. the additional week (-10 bp including) in the US (~72% of group EBIT), up 60bp to 2.5% in Belgium (~11% of group EBIT) and 10bp to 7.2% in SEE (~17% of Group EBIT). **As far as Ahold is concerned** (underlying EBIT worked out 10% above expectations to EUR421m in Q4): positively impacted by the additional week (+33bp positive impact on US margin in Q4), **1/** underlying margin in Q4 was higher than that of Q3 (which reached 4.0%) at 4.3% (i.e. +51bp improvement vs ~+20bp e) in the US (~60% of group EBIT); **2/** in line with expectations, the underlying margin was down 25bp in the Netherlands (~38% of Group EBIT) to 4.7% (+20bp excl. Bol.com). **3/** In the Czech Republic (~2% of Group EBIT) the strong improvement in underlying margin (~+230bp) was mainly driven by on-off items, the details of which are not very precise.

ANALYSIS

- Q4 again proved both Ahold and Delhaize's resilience within a sector suffering from a lack of growth. As a reminder, we are witnessing a change in paradigm ([Anorexic growth... the bigger the better!](#)), which for a large number of 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). In this backdrop, size provides a key asset for large players who can dilute fixed costs over a far denser store network and obtain additional ammunition for nurturing their price and non-price competitiveness. Hence the flirting between Delhaize and Ahold!
- As a consequence, what is of a much greater importance and consequence than the quarterly figures themselves is the pending merger. The EGMs are due to be held on 14th March and we have no major concerns as to the approval of the merger, although Delhaize requires a higher threshold than Ahold (i.e. 75% vs 50%). Major execution risks (which cannot be ruled out during such a merger) may arise later notably when the company will have to integrate the US operations. By then, we believe both Ahold and Delhaize are a kind of "insurance" within a skittish market with no clear direction.

VALUATION

- Ahold is currently showing a 2016 EV/EBITDA multiple of 7.7x vs 7.1x for the rest of the sector while Delhaize is currently trading at 6.4x. These ratios are not demanding given the two groups' strong FCF profiles (7% and 6% 2017 FCF yields respectively for Ahold and Delhaize vs ~3/4% on average for the sector)

NEXT CATALYSTS

- EGMs on 14th March.



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