

31st March 2016

Food retailing

**Metro AG**

Price EUR27.40

A smart move, which does not wipe out operational issues however

Fair Value Under Review

Under Review

Bloomberg	MEO GY
Reuters	MEOG.DE
12-month High / Low (EUR)	34.6 / 21.9
Market Cap (EURm)	8,881
Ev (BG Estimates) (EURm)	11,715
Avg. 6m daily volume (000)	1,226
3y EPS CAGR	16.0%

Yesterday Metro announced its intention to split into two entities: Média Saturn on the one hand and Real/Cash & Carry on the other. Because we are currently travelling back to the office and until we are materially able to carefully assess the consequences of this deal, we have put both our rating (Sell) and our Fair Value (EUR24) under review.

#### ANALYSIS

- Once approved by the AGM, the plan is to split the Media Saturn and Food businesses by mid 2017 when Metro's shareholders will receive a proportionate stake in both separately listed entities (Media Saturn will remain in the Metro AG listed entity). At this stage, we tend to believe that the deal makes sense from a strategic point of view, since there are very few synergies between the divisions. Moreover, separate listings would probably help gain operational flexibility going forward. Last but not least, from a valuation perspective, we believe a pure player is indeed far more valuable than a patchwork of very different business units.
- Nevertheless, this fairly smart move won't fix all the issues at Metro:
  - The deal does not wipe out our concerns regarding Russia (20/25pct of the group's profitability). In a market that strongly punishes retailers suspected of having a margin rate approach to the business, a 10 pct margin in Russia leaves us somewhat perplexed.
  - Media Saturn (~30pct of the group's profitability) remains at the forefront of the disruptive development of e-commerce in Europe (consequently, at this stage, it is difficult for us to factor in a strong improvement in margins as expected by the consensus).
  - As a general rule, the German retailer will have to show stronger momentum, especially in Real and Cash&Carry, so that valuation multiples can effectively rerate going forward.
  - We are not sure that the proposed new structure will help fully fix the governance issues linked to Kellerhals. According to management, under the new structure, Kellerhals could not prevent Media Saturn from undertaking international deals going forward, but we guess there is a counterpart... and in any case, a structural M&A deal won't occur before mid-2017 when the deal is completed.

	1 M	3 M	6 M	31/12/15
Absolute perf.	20.7%	-7.3%	11.0%	-7.3%
Food Retailing	3.7%	1.9%	4.4%	3.2%
DJ Stoxx 600	2.2%	-7.2%	-1.9%	-6.7%

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	59,220	59,060	60,610	62,205
% change		-0.3%	2.6%	2.6%
EBITDA	2,457	2,494	2,625	2,762
EBIT	711.0	1,519	1,625	1,735
% change		113.7%	7.0%	6.8%
Net income	502.3	609.9	693.2	783.4
% change		21.4%	13.7%	13.0%

	09/15	09/16e	09/17e	09/18e
Operating margin	2.6	2.6	2.7	2.8
Net margin	0.8	1.0	1.1	1.3
ROE	NM	NM	NM	NM
ROCE	10.5	10.4	10.3	10.3
Gearing	48.9	43.4	44.2	43.2

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	1.54	1.87	2.12	2.40
% change	-	21.4%	13.7%	13.0%
P/E	17.8x	14.7x	12.9x	11.4x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	1.00	0.98	1.02	1.05
Div yield (%)	3.6%	3.6%	3.7%	3.8%
EV/Sales	0.2x	0.2x	0.2x	0.2x
EV/EBITDA	4.8x	4.7x	4.6x	4.4x
EV/EBIT	16.6x	7.7x	7.4x	7.0x

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

**Sector Team :**  
 Nikolaas Faes  
 Loïc Morvan  
 Cédric Rossi  
 Virginie Roumage

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## Distribution of stock ratings

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Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
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