

Carrefour

Price EUR25.13

Q1 2016 (first take): very solid and now it is up to management to give a new momentum!

Fair Value EUR30 (+19%)

BUY

Bloomberg	CA FP
Reuters	CARR.PA
12-month High / Low (EUR)	32.6 / 22.3
Market Cap (EURm)	18,554
Ev (BG Estimates) (EURm)	24,712
Avg. 6m daily volume (000)	3 216
3y EPS CAGR	10.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.3%	-0.7%	-9.1%	-5.7%
Food Retailing	0.8%	4.7%	0.3%	3.0%
DJ Stoxx 600	0.2%	-0.5%	-4.3%	-6.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	76,945	77,218	80,223	83,330
% change		0.4%	3.9%	3.9%
EBITDA	3,914	4,121	4,542	4,970
EBIT	2,187	2,449	2,709	2,967
% change		12.0%	10.6%	9.5%
Net income	1,113	1,155	1,335	1,522
% change		3.7%	15.6%	14.0%

	2015	2016e	2017e	2018e
Operating margin	3.2	3.2	3.4	3.6
Net margin	1.4	1.5	1.7	1.8
ROE	NM	NM	NM	NM
ROCE	9.6	9.0	9.7	10.4
Gearing	42.6	44.0	39.0	31.6

(EUR)	2015	2016e	2017e	2018e
EPS	1.54	1.57	1.82	2.08
% change	-	2.3%	15.6%	14.0%
P/E	16.3x	16.0x	13.8x	12.1x
FCF yield (%)	NM	1.9%	5.0%	7.4%
Dividends (EUR)	0.91	1.04	1.15	1.27
Div yield (%)	3.6%	4.1%	4.6%	5.1%
EV/Sales	0.3x	0.3x	0.3x	0.3x
EV/EBITDA	6.2x	6.0x	5.4x	4.9x
EV/EBIT	11.0x	10.1x	9.1x	8.2x

Sales rose +3.8% ex petrol and at constant exchange rates to EUR20.05bn (vs EUR20.07bn e), and +3.1% LFL excl. petrol and calendar. Among other factors, we would highlight Italy, which is obviously recovering (+4.5% LFL vs +2.9%; many observers agree that consumption is restarting in the country), Spain (+3.4% vs +2.8%; remains Carrefour's spearhead in terms of operating leverage) and Brazil which, despite strong comps, came in above expectations at +9.9% vs +9.2%e!. Belgium (+1% vs 0%e) and France (flat vs -0.5%e) are less flattering, while China (-8.4%, in line) remains the harsh fact (but improving sequentially!). Not that much to comment following a very solid trading statement! When it comes to France, if one should not focus on the "short-term market share monitoring", then let's try to clarify the long-term strategic intent! Henceforward, it is up to management to give a new momentum to the equity story in terms of the communication.

On the one hand, Spain (+3.4% vs 2.8%e / +2.5% in Q4 and +4.6% in Q3 15), Belgium (+1.0% vs 0%e / -0.4% in Q4 and +2.7% in Q3 15) and Italy (+4.5% on favourable comps vs +2.9%e / +3.5% in Q4 and +5.9% in Q3 15) underpinned resilient momentum in Europe. On the other hand, the trend remains unsurprisingly penalised by Asia (-4.9% vs -7.6%e / -12.9% in Q4 and -7.5% in Q3 15). In China (-8.4% vs -11%e / -16.7% in Q4 and -11.2% in Q3 15), Carrefour continues to develop in an environment which remains marked by frugal consumption, but shows a sequential improvement which reinforces management's view that the country may bottom out in 2016. This performance was offset by Taiwan (+8.4% vs +1.3%e). In Latam, Carrefour is still showing a very strong performances in Brazil (+9.9% vs +9.2%e) thanks to a favourable store mix (Cash & Carry).

In France, the trend remains mixed. LFL sales excl. fuel excl. calendar notched down -0.6% at Carrefour Hypermarkets (vs -0.8%e / -0.7% in Q4, +0.7% in Q3 15, +0.5% in Q2 and +2.1% in Q1 15), while LFL growth stood at +0.7% for supermarkets (vs +0.8%e / +1.5% in Q4, +2.5% in Q3, +1.2% in Q2 and +2.5% in Q1 15). In general, Carrefour is operating in a pricing environment that remains opaque and highly promotional. Despite the optimism shown by Casino in terms of inflation (0-1% in 2016 could be a fair assumption according to the CFO). We remain cautious.

LFL (excl. fuel and calendar effect) in Q1 2016 (Source: Carrefour, Street account, Bryan Garnier)

LFL	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16e	Q1 16op
Total group	2.7%	3.8%	1.6%	3.1%	2.3%	1.7%	+3.5%	+2.1%	+2.7%	+3.1%
France	1.7%	2.1%	-0.2%	1.1%	2.5%	0.9%	+1.6%	+0.2%	-0.5%	0.0%
Europe	-1.4%	1.5%	-1.3%	0.5%	0.9%	-0.4%	+4.2%	+2.2%	+1.4%	+3.2%
Latam	12.7%	15.2%	13.7%	15.7%	12.5%	10.7%	+11.7%	+11.9%	+14.3%	+13.5%
Asia	-2.5%	-6.1%	-6.6%	-6.5%	-11.3%	-9.2%	-7.5%	-12.9%	-7.6%	-4.9%

ANALYSIS

- Remember that over the medium term, management still sees room for margin improvement notably thanks to **1/** a more favourable inflation scenario, **2/** logistics and **3/** the recovery in both Italy (could break even in 2016) and China. However in the short term, management needs to add more flavour to 2016 especially in terms of the margin in France, since losses at Dia should be flat in 2016 (i.e. ~EUR50m). Along with further details about e-commerce initiatives (a question mark of the market), this could be a catalyst.
- From a more fundamental viewpoint, we are witnessing a change in paradigm ([anorexic growth... the bigger the better!](#)), which for a large number of mature retailers has meant that solid and recurring growth is now close to zero (a disruptive factor in a fixed-cost industry). Yet with hindsight, this challenge for Georges Plassat (and his future successor) has already come up tangentially, especially when the current CEO spoke of an engine that had to be repaired so that it can accelerate in terms of growth going forward. That is the issue going forward.

VALUATION & NEXT CATALYSTS

- 2016 P/E of 13.8x vs 16x on average for the sector
- Investors were dissatisfied following FY. Thenceforward, we see a potential catalyst in terms of the communication (EBIT guidance? more details about e-commerce? potential investor day?)



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