

18th April 2016

Food retailing

Carrefour

Price EUR26.11

Q1 2016 conference call: more talk.. and more action!

Fair Value EUR30 (+15%):

BUY

Bloomberg	CA FP
Reuters	CARR.PA
12-month High / Low (EUR)	32.4 / 22.3
Market Cap (EUR)	19,281
Ev (BG Estimates) (EUR)	25,439
Avg. 6m daily volume (000)	3,254
3y EPS CAGR	10.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.8%	6.1%	-4.0%	-2.0%
Food Retailing	1.7%	8.4%	0.6%	2.9%
DJ Stoxx 600	0.6%	3.9%	-5.0%	-6.3%

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	17.0x	16.6x	14.3x	12.6x
FCF yield (%)	NM	1.9%	4.8%	7.1%
Dividends (EUR)	0.91	1.04	1.15	1.27
Div yield (%)	3.5%	4.0%	4.4%	4.9%
EV/Sales	0.3x	0.3x	0.3x	0.3x
EV/EBITDA	6.3x	6.2x	5.6x	5.0x
EV/EBIT	11.3x	10.4x	9.4x	8.4x

BEFORE THE CONF. CALL: Investors were dissatisfied following FY. We now view improved communication as a potential catalyst (EBIT guidance? More details about e-commerce? Potential investor day?)

FOLLOWING THE CONF. CALL: Management is clearly trying to communicate more effectively, in our view, since the CFO did not try to avoid unpleasant questions. And within the limit of the exercise, which consists of commenting on a single trading statement (and to the extent that figures were flattering), the CFO addressed precisely the five points that are on investors' minds:

1/ PROMOTIONS IN FRANCE: Carrefour has historically been one of the players that relies most on promotions in France. Carrefour has indicated its intention to be more flexible in this respect going forward (i.e. overhaul of promotion tools). Leclerc was rather EDLP in 2013/14, in order to counter Géant, but turned more promotional in 2015 in a bid to catch up with Carrefour and is returning to a more normative level of promotions. So rather than a disruptive change, we see a rebalancing of the promotional environment.

2/ DIA FRANCE: So far, 267 out of 648 Dia stores have been converted (i.e. 71 City & Express / 95 Contact / 50 Contact Marché / 47 Market / 4 Bio). Out of the 267 renovations, 115 were done in Q1 2016 (31 in January / 39 in February / 45 in March – clearly a strong ramp up). 45% of the renovated stores are located in the Paris area. All of the network should be renovated by the end of the year. In our view, Dia should help to reinforce Carrefour's multi-format strategy with a differentiated offer (organic food notably), more convenience stores (notably in the Paris area) and a densification of the network (from an omnicanal perspective)!

3/ E-COMMERCE: Without being too specific, management nonetheless stated that sales were sharply up, both in food (Drives) and non-food (Rue du Commerce). In Q1 2016, Carrefour derived EUR300m of its sales (EUR20bn total group sales, o/w EUR9.3bn in France) on line. "One swallow does not a summer make" but this is a good start, especially as management has rather been mute on this subject so far.

4/ MARKET SHARE IN FRANCE: Again, without being very specific, management nonetheless deigns to comment on market share. Looking beyond "short term market share monitoring" in France, let's try to clarify long-term strategic intentions. Consequently, management invited observers to look at the group's market share more carefully over the coming quarters while Dia is being renovated (again, Dia should help to reinforce Carrefour's multi-format strategy..., more convenience stores... densification of the network from an omnicanal perspective...). Moreover, it seems that hypermarkets are currently doing better in terms of market share.

5/ MORE FLAVOUR ON 2016: The CFO commented on the current expectations of the consensus. At this stage of the year and keeping in mind forex headwinds, the EUR2.5bn current operating profit expected by the consensus (vs EUR2.45 BG estimates) seems to be a "reasonable" assumption. It is worth remembering that, in 2015, Carrefour was able to maintain its FY guidance throughout the year.

VALUATION

- 2016 P/E of 13.8x vs 16x average for the sector

NEXT CATALYSTS

- Investors were dissatisfied following FY. Henceforward, we see a potential catalyst in terms of the communication (more detail about e-commerce? potential investor day?)

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