

12th April 2016

Food retailing

Casino Guichard

Price EUR51.80

GPA Q1 2016 trading statement : sequential improvement

Fair Value EUR57 (+10%)

BUY

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	86.6 / 35.2
Market Cap (EURm)	5,864
Ev (BG Estimates) (EURm)	10,493
Avg. 6m daily volume (000)	807.8
3y EPS CAGR	6.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.0%	30.0%	-6.9%	22.1%
Food Retailing	1.2%	8.1%	-2.1%	3.4%
DJ Stoxx 600	-2.7%	-2.2%	-8.3%	-9.0%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	46,145	41,275	41,815	43,691
% change		-10.6%	1.3%	4.5%
EBITDA	2,343	2,063	2,175	2,384
EBIT	968.0	1,261	1,309	1,423
% change		30.3%	3.8%	8.7%
Net income	412.0	358.6	412.2	472.5
% change		-13.0%	15.0%	14.6%

	2015	2016e	2017e	2018e
Operating margin	3.1	3.1	3.1	3.3
Net margin	0.9	0.9	1.0	1.1
ROE	NM	NM	NM	NM
ROCE	5.2	5.6	5.8	6.2
Gearing	48.9	18.5	18.5	18.1

(EUR)	2015	2016e	2017e	2018e
EPS	2.80	2.32	2.80	3.33
% change		-16.9%	20.4%	19.0%
P/E	18.5x	22.3x	18.5x	15.6x
FCF yield (%)	NM	5.1%	10.1%	10.7%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	6.0%	6.0%	6.0%	6.0%
EV/Sales	0.3x	0.3x	0.3x	0.2x
EV/EBITDA	5.9x	5.1x	4.9x	4.5x
EV/EBIT	14.3x	8.3x	8.1x	7.6x

GPA (Casino's Brazilian subsidiary / EI of 32.8%, directly and indirectly) released its Q1 16 trading statement (as a reminder, Casino will release its own trading statement on April 14th with a conference call at 08:30 AM CET / +33 1 70 77 09 47). Net sales reached R\$17.8bn (+3%) in Q1, up +0.8% on a LFL basis (vs -2.3% in Q4, -2.6% in Q3 and -3.6% in Q2). The retail business (brick & mortar non-food and food business) is down around -0.5%e (vs -4.8%e in Q4 15, -7.6%e in Q3 and -8.2%e in Q2) taking into account a positive calendar impact. We suspect that the group was again extremely aggressive in terms of pricing in Q1 in a bid to get clients back into the stores. Thenceforward, the ongoing recovery in market share and a sequential improvement in LFL is rather encouraging.

Net Revenue	1Q16 x 1Q15	
(R\$ million)	1Q16	Δ
Consolidated ⁽¹⁾	17,754	3.0%
Food Businesses	9,888	10.9%
Multivarejo ⁽²⁾	6,740	2.0%
Assai	3,148	36.2%
Non-Food Businesses	7,881	-5.5%
Cnova	3,177	7.7%
Via Varejo ⁽³⁾	4,704	-12.7%

Δ Net 'Same-Store' Sales	
	1Q16
Consolidated ⁽¹⁾	0.8%
Multivarejo + Assai	6.0%
Cnova	7.7%
Via Varejo ⁽³⁾	-11.8%

(1) Excludes revenue from intercompany transactions; (2) Extra and Pão de Açúcar; (3) Includes revenue from intercompany transactions.

The highlight of Q1 16 was the growth at Assai (+36.2% vs +27.8% in Q4 15 / double digit LFL), which, along with an increased competitiveness throughout (supported by assertive promotions) at Extra and resilience at Pao de Acucar, spurred sales growth in the Food segment (LFL sales growth of +6.0% / +3.1% excl. calendar vs +1.9% in Q4 2015 +3.3% in Q3 and +1.8% in Q2). Sales performances improved gradually during the quarter. The food segment (56% of sales) registered growing market shares.

LFL were unsurprisingly hit by the performance of Via Varejo (26% of sales) which worked out at -11.8% LFL (vs -15.2% in Q4 2015, -24.6% in Q3, -23.5% in Q2 and -2.7% in Q1). Sales fell more sharply in January due to the strong comparison base, while the February-March performance was above the quarterly average. Via Varejo also continued the closure of lower performance stores and intensified its strategy of price competitiveness and better promotions. Along with healthy performance of services, it has helped improve the company's sales. Via Varejo has increased its market share.

As a reminder, GPA consolidates Cnova (Cdiscount+Nova Pontocom / 18% of sales). As expected, the environment was very challenging for Nova Pontocom with a 25% LFL sales decline or -19.7% restated for VAT adjustments (vs -15% in Q4 15) while Cdiscount (France and other countries) turned out to be rather resilient (+15.3% LFL vs +9.1% LFL in Q4 15). As a reminder, the recent difficulties in Brazil are explained not only by the macro-economic environment but also by company-specific issues (employee misconduct related to inventory management in distribution centers).

VALUATION

Casino owns a 32.8% Economic Interest in GPA (10.3% through Exito and Holdco, 22.5% through Holdco and directly), which represents less than 17%e of Casino's MtM SOTP. The SOTP corresponds to the theoretical value of a company's assets in the event of a disposal. Calculating this intrinsic value on the basis of the market value of listed stakes is an inappropriate stance. It is tantamount to believing that an investor aiming to get his hands on GPA or the bricks & mortar business of Via Varejo (i.e. excl. the 22% stake owned by the banner in Cnova) would offer and obtain a multiple of less than 0.30x sales for the first and a null ratio for the second.

NEXT CATALYSTS

- Recovering profits at Cnova and Via Varejo
- Buyback of minorities by Casino?

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