

20th May 2016

Food retailing

Carrefour

Price EUR23.98

Tending towards premiumisation? (full report published today)

Fair Value EUR30 (+25%)

BUY

Bloomberg	CA FP
Reuters	CARR.PA
12-month High / Low (EUR)	32.0 / 22.3
Market Cap (EURm)	17,709
Ev (BG Estimates) (EURm)	23,828
Avg. 6m daily volume (000)	3 297
3y EPS CAGR	10.9%

The equity story of Carrefour (13x 2017 P/E vs 16x for peers) may appear as an endless prelude and one is running out of patience. The direction of the share is not clear because, at some point, one struggles to understand the post-turnaround commercial strategy. If investors are not supposed to focus on the “short-term market share monitoring”, as the saying goes, then let’s try to clarify the long-term aim (i.e. omnichannel and premiumisation).

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.7%	2.0%	-17.9%	-10.0%
Food Retailing	-6.5%	-0.9%	-9.6%	-2.6%
DJ Stoxx 600	-4.4%	2.3%	-12.4%	-8.7%

As a reminder ([Anorexic growth... the bigger the better!](#)), we are witnessing a change in paradigm linked to the dilution of natural growth drivers. In this context, size provides a key asset for major players which can dilute fixed costs over a denser than average network and obtain additional ammunition for tackling competitiveness. To start with Carrefour (leader in most of its markets) thus has a comparative edge.

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	76,945	76,738	80,371	83,606
% change		-0.3%	4.7%	4.0%
EBITDA	3,914	3,938	4,303	4,615
EBIT	2,187	2,473	2,768	3,018
% change		13.1%	11.9%	9.0%
Net income	1,113	1,170	1,373	1,541
% change		5.2%	17.3%	12.2%

The retailer has underperformed (-14% YTD vs peers) due to circumstantial factors: **1/** the integration of Dia France, **2/** the decline in market share at French hypers faced with hitherto unseen promotional activity from Leclerc, and **3/** losses in China. These have been logically sanctioned, but they unfairly mask the strategy smartly distilled since 2012.

	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	10.3
Gearing	42.6	42.6	37.9	33.0

The outline of this omni-channel strategy is taking shape in France (46% of EBIT excl. central costs): **1/** logistical overhaul (prerequisite to any retail initiative), **2/** premiumisation (to build up niche growth), **3/** takeover of Dia France (densification of network), **4/** acquisition of malls (design of a future connected ecosystem). Abroad (54%), the country and format mix should help maintain the conditions for growth.

(EUR)	2015	2016e	2017e	2018e
EPS	1.54	1.60	1.87	2.10
% change	-	3.7%	17.3%	12.2%
P/E	15.6x	15.0x	12.8x	11.4x
FCF yield (%)	NM	0.8%	5.1%	6.2%
Dividends (EUR)	0.94	1.05	1.14	1.24
Div yield (%)	3.9%	4.4%	4.8%	5.2%
EV/Sales	0.3x	0.3x	0.3x	0.3x
EV/EBITDA	5.9x	6.1x	5.5x	5.1x
EV/EBIT	10.6x	9.6x	8.6x	7.8x

Several events could also enliven the equity story: **1/** the IPO of Carmila (REIT) in a low rates environment; **2/** more details (investors day?) about Brazil which should be listed someday; **3/** improving inflation environment in Europe (?). And ultimately, the touchy issue of governance, will arise inevitably.

In the end, the relevance of the group's strategy goes hand-in-hand with a high-quality shareholding base (Moulin, Arnault, Diniz, Colony...). And a shareholder like the Moulin family (15% of voting rights) is simply the essence of what is taking shape at Carrefour today (i.e. the marriage of retail, malls, premiumisation and e-commerce) and which could lead to a merger between Carrefour and Galeries Lafayette (?).

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