10th May 2016

Food retailing

# Metro AG

Price EUR27.33

## Q2 earnings statement (first take)

**Fair Value EUR26 (-5%)** **NEUTRAL**

| | |
|---|---|
| Bloomberg | MEO GY |
| Reuters | MEOG.DE |
| 12-month High / Low (EUR) | 32.2 / 21.9 |
| Market Cap (EURm) | 8,856 |
| Ev (BG Estimates) (EURm) | 11,734 |
| Avg. 6m daily volume (000) | 1 278 |
| 3y EPS CAGR | 12.3% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -1.5% | 11.3% | -2.3% | -7.6% |
| Food Retailing | -4.9% | 2.6% | -9.3% | -2.8% |
| DJ Stoxx 600 | 0.4% | 7.7% | -11.3% | -8.9% |

| YEnd Sept. (EURm) | 09/15 | 09/16e | 09/17e | 09/18e |
|---|---|---|---|---|
| Sales | 59,220 | 58,320 | 59,835 | 61,396 |
| *% change* | | *-1.5%* | *2.6%* | *2.6%* |
| EBITDA | 2,457 | 2,460 | 2,544 | 2,631 |
| EBIT | 711.0 | 1,497 | 1,557 | 1,618 |
| *% change* | | *110.6%* | *4.0%* | *3.9%* |
| Net income | 502.3 | 597.5 | 652.5 | 711.0 |
| *% change* | | *18.9%* | *9.2%* | *9.0%* |

| | 09/15 | 09/16e | 09/17e | 09/18e |
|---|---|---|---|---|
| Operating margin | 2.6 | 2.6 | 2.6 | 2.6 |
| Net margin | 0.8 | 1.0 | 1.1 | 1.2 |
| ROE | NM | NM | NM | NM |
| ROCE | 10.5 | 10.2 | 9.8 | 9.6 |
| Gearing | 48.9 | 44.4 | 45.9 | 46.4 |

| (EUR) | 09/15 | 09/16e | 09/17e | 09/18e |
|---|---|---|---|---|
| EPS | 1.54 | 1.83 | 2.00 | 2.18 |
| *% change* | - | *18.9%* | *9.2%* | *9.0%* |
| P/E | 17.8x | 14.9x | 13.7x | 12.6x |
| FCF yield (%) | NM | NM | NM | NM |
| Dividends (EUR) | 1.00 | 0.98 | 1.02 | 1.05 |
| Div yield (%) | 3.7% | 3.6% | 3.7% | 3.8% |
| EV/Sales | 0.2x | 0.2x | 0.2x | 0.2x |
| EV/EBITDA | 4.8x | 4.8x | 4.7x | 4.7x |
| EV/EBIT | 16.6x | 7.8x | 7.7x | 7.6x |


**Given the seasonal nature of the business, we would conclude that better than expected bottom line performances (+EUR11m EBIT BSI vs -EUR11me) do not allow us to draw strong conclusions. The fact remains that the LFL (+0.6%) performance (certainly below the normative natural cost inflation) remained soft and prevents us from talking about a commercial recovery. At this stage, we continue to think that hype surrounding the spin-off (details on which would be very much appreciated especially regarding the ex-post credit situation of both seperatly listed entities) has underpinned the share price rather than a commercial recovery whose strength remains unproven.**

Q2 2015/16 sales grew 0.6% LFL to EUR13.6bn (vs EUR13.5bn e). As a whole, business seems to have been better in Germany (+1.1% LFL) than in other regions (+0.3% LFL). The picture is mixed at the international level (very sparse details provided) especially with Russia (which management expects to gradually bottom out during Q4), which was penalised by strong comps. In detail, LFL sales rose +0.5% in C&C (48% of sales), +0.7% at MMS (39% of sales) and +0.5% at Real (13% of sales).

EBIT before special items (EBIT BSI) worked out above expecations at +EUR11m (vs -EUR11m expected by the consensus) i.e. a +26bp increase in margin. In detail, EBIT BSI came out at EUR38m at Metro C&C vs EUR33m e (i.e. flat margin), EUR43m at Media Saturn vs EUR23m e (i.e. +43bp in margin), -EUR16m at Real vs -EUR32m e (i.e. +108bp improvement in margin). Other activities worked out at -EUR53m (vs minus EUR34m e).

Given the seasonality of the business, we would conclude that these above than expected bottom line performances do not allow to draw strong conclusions. The fact remains that LFL performance (certainly below the normative natural cost inflation) remains soft and prevent us from talking about a commercial recovery.

On the whole, Q2 15/16 EPS BSI works out at minus EUR0.18 (vs -EUR0.16 e), on account of a 46% tax rate BSI in H1. For FY15/16, Metro continues to expect a slight increase in overall sales, in a persistently challenging environment. In LFL terms, management foresees a slight increase (vs +1.5% in the previous year). It expects EBIT before special items to rise slightly above the EUR1,511m (vs EUR 1,497m in our own estimates) achieved in financial year 2014/15, including income from real estate sales.

### ANALYSIS & INVESTMENT CASE

- Metro share is supported since the beginning of April by the buzz surrounding the announcement of a spin-off by mid 2017. Hence, we upgraded our recommendation while stressing that: 1/ the spin-off makes sense from a strategic point of view, 2/ separate listings would help gain operational flexibility, 3/ a pure player is far more valuable than a patchwork of different BU. But we also layed the emphasis on fundamental issues that remain harsh facts:
- The favorable tax lever (shifting of costs out of Germany, in a bid to boost the domestic operating result at Metro C&C and thus activate the loss carry forward) should not eclipse soft commercial trends (evidenced in Q2). In 2015, Metro beat the consensus thanks to property development revenues (~EUR150m) that are incorporated in EBITDA. In the end, it is not so much Metro's commercial potential which seems to be acclaimed but rather the tax engineering potential.
- So far, in view of EBIT margin at around 10% (!), Russia accounts for ~25/30% of EBIT whereas its share of sales stands at less than 10%. In a restricted consumer spending environment, and with the market stigmatising and harshly punishing margin rate policies, a margin rate at this level leaves us somewhat perplexed. Moreover, we are concerned by the situation of Media Saturn outside Russia given that it is in the front row concerning the ramp-up of e-commerce.

### VALUATION

- 2017 P/E stands at 14x vs 16x on average for the panel excl. Tesco

### NEXT CATALYSTS

- Spin-off by mid 2017

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

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

# Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

**Stock rating**

BUY — Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL — Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL — Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

**Distribution of stock ratings**

BUY ratings 72% NEUTRAL ratings 0% SELL ratings 28%

# Research Disclosure Legend

| | | | |
|---|---|---|---|
| 1 | Bryan Garnier shareholding in Issuer | Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer"). | No |
| 2 | Issuer shareholding in Bryan Garnier | The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group. | No |
| 3 | Financial interest | A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report | No |
| 4 | Market maker or liquidity provider | A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives. | No |
| 5 | Lead/co-lead manager | In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives. | No |
| 6 | Investment banking agreement | A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services. | No |
| 7 | Research agreement | A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report. | No |
| 8 | Analyst receipt or purchase of shares in Issuer | The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares. | No |
| 9 | Remuneration of analyst | The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group. | No |
| 10 | Corporate finance client | In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months. | No |
| 11 | Analyst has short position | The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer. | No |
| 12 | Analyst has long position | The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer. | No |
| 13 | Bryan Garnier executive is an officer | A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above. | No |
| 14 | Analyst disclosure | The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report. | Yes |
| 15 | Other disclosures | Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed). | No |

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

**London**
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the
Financial Conduct Authority (FCA)

**Paris**
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the
Financial Conduct Authority (FCA) and the
Autorité de Contrôle prudential et de
resolution (ACPR)

**New York**
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

**Munich**
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

**New Delhi**
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

**Geneva**
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA