

Ahold

Price EUR20.07

Q1 2016 (first take): operating trends remain resilient!

Fair Value EUR22 (+10%)

BUY-Top Picks

Bloomberg	AH NA
Reuters	AHLN.AS
12-month High / Low (EUR)	21.0 / 16.3
Market Cap (EURm)	16,746
Ev (BG Estimates) (EURm)	18,968
Avg. 6m daily volume (000)	3 184
3y EPS CAGR	11.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.6%	-0.7%	-2.5%	3.1%
Food Retailing	2.7%	3.0%	-5.1%	2.5%
DJ Stoxx 600	2.5%	4.9%	-9.2%	-4.3%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	32,774	38,203	39,095	40,218
% change		16.6%	2.3%	2.9%
EBITDA	2,129	2,322	2,437	2,511
EBIT	1,250	1,318	1,409	1,454
% change		5.5%	6.9%	3.2%
Net income	790.7	849.0	938.8	972.1
% change		7.4%	10.6%	3.6%

	2014	2015e	2016e	2017e
Operating margin	3.9	3.8	3.6	3.6
Net margin	2.4	2.2	2.4	2.4
ROE	NM	NM	NM	NM
ROCE	15.3	16.1	15.7	16.6
Gearing	27.1	23.3	28.6	13.7

(EUR)	2014	2015e	2016e	2017e
EPS	0.86	0.99	1.13	1.17
% change	-	15.8%	14.3%	3.6%
P/E	23.5x	20.3x	17.7x	17.1x
FCF yield (%)	5.7%	7.5%	6.1%	6.8%
Dividends (EUR)	0.48	0.52	0.55	0.57
Div yield (%)	2.4%	2.6%	2.7%	2.9%
EV/Sales	0.6x	0.5x	0.5x	0.5x
EV/EBITDA	8.9x	8.2x	7.9x	7.3x
EV/EBIT	15.2x	14.4x	13.6x	12.7x



Q1 2016 sales were slightly higher than forecast (i.e. +0.8%), while underlying operating profit was 5% above expectations and net result (EUR241m) 12% below (due to impairment and restructuring charges of EUR54m, notably related to the merger with Delhaize). Today, we guess the market will focus on strong underlying operating trends.

1/ Q1 2016 again proved Ahold's overall resilience; 2/ Ahold has virtually no exposure to unwell emerging markets and hence 3/ offers better visibility on operating performances for 2016 than others; 4/ Ahold enjoys one of the best FCF profiles in the sector; 5/ ultimately, via cost-sharing, flirting with Delhaize offers an alternative within a sector which is suffering an obvious lack of growth. Buy maintained on Ahold.

Sales	Underlying operating profit
US: EUR7.308bn vs EUR7.249bn e	US: EUR291m vs EUR276m e
Netherlands: EUR3.933bn vs EUR3.904bn e	Netherlands : EUR189m vs EUR176m e

Total sales amounted to EUR11.769bn (vs EUR11.679bn expected by the consensus), up +3.5% at constant currency. In terms of outlook, management expects underlying operating margins in reported segments to continue to trend in line with the full year 2015, excluding the potential impact from the merger with Delhaize. This would mean ~4.0% in the US (vs 3.9% expected by the consensus), ~4.6% in the Netherlands (in line with the consensus) and +1.5% in Czech Republic (+1.8% expected by the consensus). FCF increased by EUR101m to EUR287m in Q1 2016, notably driven by year-on-year changes in WCR of EUR126m.

1/ In the US (~62% of group sales and ~60% of the underlying operating profit before central costs / growth was adversely impacted by both the timing of the New Year and fewer winter storms compared to last year), LFL sales excl. gasoline grew +0.8% (vs +0.9%e), supported by further price investments. The addition of 25 A&P stores in the New York Metro area in Q4 2015 was the main factor behind the 3.0% cc growth rate and resulted in an overall market share improvement in both value and volume terms. Management continues to see no inflation in Ahold's US markets, with even deflation in the meat and dairy categories. Bottom line, the underlying operating margin gained 0.3% to 4.0% (vs 3.8% e) supported by strong cost control, lower support costs and favourable utilities costs.

2/ In the Netherlands (~33% of group sales and ~39% of the underlying operating profit before central costs), LFL sales rose +2.9% (vs +2.3%e), obviously supported by the online businesses (Albert Heijn and bol.com increasing consumer sales by more than 30%). Topline at Albert Heijn was supported by increased customer traffic thanks to innovation (i.e. trading up) and successful promotions which resulted in more transactions and volume growth. Bottom line, underlying operating margin was up +0.4% to 4.8% (vs 4.5% e) as a result of simplicity savings that probably made up for the dilutive impact caused by the deployment of e-commerce.

3/ In the Czech Republic (~5% of group sales and ~1% of the underlying operating profit before central costs), LFL excl. gasoline decreased 0.7% (vs +0.2% e). During the quarter, the overall commercial performance (+0.4% at cc) was affected by the required divestment of five stores during the third quarter of 2015 (related to the acquisition of SPAR). Bottom line, underlying operating profit improved to 1.1% vs 0.4% in 2015

VALUATION

- 2017 P/E of 17x in line with the panel but with the best FCF profile in the sector

NEXT CATALYSTS

- Upcoming merger with Delhaize



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