

25th July 2016

Food retailing

**Ahold**

Price EUR21.70

**Ahold Delhaize successfully completes merger (FV estimated at EUR25.8)**

Fair Value EUR25,8 vs. EUR22 (+19%)

**BUY-Top Picks**

Bloomberg	AH NA
Reuters	AHLN.AS
12-month High / Low (EUR)	21.7 / 16.5
Market Cap (EURm)	17,037
Ev (BG Estimates) (EURm)	19,259
Avg. 6m daily volume (000)	3 042
3y EPS CAGR	11.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.4%	13.5%	9.1%	11.4%
Food Retailing	-0.5%	-5.3%	1.2%	-2.1%
DJ Stoxx 600	-0.3%	-2.3%	0.6%	-7.0%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	32,774	38,203	38,635	39,989
% change		16.6%	1.1%	3.5%
EBITDA	2,129	2,322	2,400	2,528
EBIT	1,250	1,318	1,385	1,477
% change		5.5%	5.1%	6.6%
Net income	790.7	849.0	920.7	988.8
% change		7.4%	8.4%	7.4%

	2014	2015e	2016e	2017e
Operating margin	3.9	3.8	3.7	3.7
Net margin	2.4	2.2	2.4	2.5
ROE	NM	NM	NM	NM
ROCE	15.3	16.1	15.9	16.8
Gearing	27.1	23.3	29.8	14.2

(EUR)	2014	2015e	2016e	2017e
EPS	0.86	0.99	1.11	1.19
% change	-	15.8%	12.1%	7.4%
P/E	25.4x	21.9x	19.5x	18.2x
FCF yield (%)	5.3%	7.0%	5.3%	6.4%
Dividends (EUR)	0.48	0.52	0.55	0.57
Div yield (%)	2.2%	2.4%	2.5%	2.6%
EV/Sales	0.6x	0.5x	0.5x	0.5x
EV/EBITDA	9.0x	8.3x	8.1x	7.4x
EV/EBIT	15.4x	14.6x	14.1x	12.7x

**Ahold Delhaize successfully completed its merger over the week-end. 1/ Current momentum proves Ahold Delhaize's overall resilience, 2/ Ahold Delhaize has virtually no exposure to unwell emerging markets and hence 3/ offers better visibility on operating performances for 2016 than others; 4/ Ahold Delhaize enjoys one of the best FCF profiles in the sector; 5/ ultimately, via cost-sharing, the flirting between Ahold Delhaize offers an alternative within a sector that is suffering an obvious lack of growth. Major execution risks (which cannot be ruled out during a merger of this scale) could arise later notably when the company will have to integrate the US operations. We see no execution risk linked to the merger before 2017. Buy.**

Ahold Delhaize has successfully completed its merger, forming one of the world's largest food retail groups. The new group starts trading today on Euronext Amsterdam and Brussels under ticker symbol AD.

Ahold Delhaize American Depositary Receipts (ADRs) will trade over-the-counter in the US and will be quoted on the OTCQX marketplace under the ticker symbol ADRND (ADRY as of 9th August).

On 25th August, the company is to publish Q2 and H1 2016 results for Ahold and Delhaize on a standalone basis. First-take pro-forma accounts are available on page 2 of this report (the accounts on the left side of this report concern Ahold standalone).

#### ANALYSIS

- **1/** Current momentum proves Ahold/Delhaize's overall resilience, **2/** Ahold/Delhaize has virtually no exposure to unwell emerging markets and hence, **3/** offers better visibility on operating performances for 2016 than others, **4/** Ahold/Delhaize enjoys one of the best FCF profiles in the sector, **5/** ultimately, via cost-sharing, flirting between Ahold/Delhaize offers an alternative within a sector that is suffering an obvious lack of growth.
- As a reminder, we are witnessing a change in paradigm ([Anorexic growth... the bigger the better!](#)), which for a large number of retailers has meant that solid and recurring growth has sunk to a sinusoidal pace limited to just a few points (a disruptive factor in a fixed-cost industry). In this backdrop, size provides a key asset for large players who can dilute fixed costs over a far denser store network and obtain additional ammunition for nurturing their price and non-price competitiveness. Hence the flirting between Delhaize and Ahold!
- We estimate that Ahold Delhaize could be valued at around EUR25.8, given EUR500m in net synergies. On average between 2016 and 2019, we estimate that the merger should enhance EPS by 14.5% (3% in 2016, 14% in 2017, 20% in 2018 and 22% in 2019). Newco should enjoy a strong FCF (yield above 6% we believe) and solid debt profile (lease adjusted net debt / EBITDAR around 1.9x).
- Major execution risks (which cannot be ruled out during a merger of this scale) may arise later notably when the company will have to integrate the US operations. We see no execution risk linked to the merger before 2017. Before then, we believe both Ahold and Delhaize provide a kind of "insurance" within a skittish sector with no clear direction. BUY.

#### VALUATION

- Ahold Delhaize could be valued at around EUR25.8 (vs EUR25.5 previously) once we have updated our estimates following Delhaize's Q2 statement.

#### NEXT CATALYSTS

- On 25th August, the company is to publish Q2 and H1 2016 results for Ahold and Delhaize on a standalone basis.



### Simplified P&L (first take)

P&L Newco	2016 e	2017 e	2018 e	2019 e
Sales	63 799	65 848	67 478	68 992
% Growth	1,9%	3,2%	2,5%	2,2%
EBITDA (incl. Synergies)	4 203	4 550	4 827	4 996
- Depreciation & Amortization	(1 717)	(1 787)	(1 847)	(1 904)
= EBIT	2 486	2 763	2 980	3 092

### Simplified balance sheet (first take)

Balance Sheet Newco	2016 e	2017 e	2018 e	2019 e
Fixed Assets	17 401	17 394	17 390	17 391
+ Working Capital Requirement	(2 826)	(2 929)	(3 011)	(3 087)
= Capital employed	14 575	14 464	14 379	14 304

### Simplified FCF (first take)

FCF Newco	2016 e	2017 e	2018 e	2019 e
EBIT	2 486	2 763	2 980	3 092
- Corporate income tax	(668)	(742)	(801)	(831)
+ Depreciation and amortization	1 717	1 787	1 847	1 904
- Change in working capital	62	103	82	76
- Capital expenditures	(1 822)	(1 780)	(1 843)	(1 905)
Free cash flow	1 775	2 131	2 265	2 336

### Key ratios (first take)

Key ratios Newco	2016 e	2017 e	2018 e	2019 e
Growth rate	1,9%	3,2%	2,5%	2,2%
EBITDA Margin	6,6%	6,9%	7,2%	7,2%
EBIT Margin	3,9%	4,2%	4,4%	4,5%
After tax EBIT Margin	2,8%	3,1%	3,2%	3,3%
ROCE	17,1%	19,0%	20,7%	21,6%
After tax ROCE	12,5%	13,9%	15,1%	15,8%
Fixed assets / Turnover ratio	27,3%	26,4%	25,8%	25,2%
Working capital / Turnover ratio	-4,4%	-4,4%	-4,5%	-4,5%
Asset turnover	4,4x	4,6x	4,7x	4,8x

Sources: Ahold, Delhaize, Bryan Garnier estimates

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NEUTRAL ratings 34,2%

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