

12th July 2016

Food retailing

**Carrefour**

Price EUR22.35

Q2 2016 preview: let us not deceive ourselves, Q2 is unlikely to reassure

Fair Value EUR30 (+34%)

BUY

|                            |             |
|----------------------------|-------------|
| Bloomberg                  | CA FP       |
| Reuters                    | CARR.PA     |
| 12-month High / Low (EUR)  | 32.0 / 21.3 |
| Market Cap (EURm)          | 16,902      |
| Ev (BG Estimates) (EURm)   | 23,115      |
| Avg. 6m daily volume (000) | 3 431       |
| 3y EPS CAGR                | 10.8%       |

|                | 1 M   | 3 M   | 6 M   | 31/12/15 |
|----------------|-------|-------|-------|----------|
| Absolute perf. | -3.6% | -7.5% | -9.9% | -16.1%   |
| Food Retailing | 0.1%  | -6.7% | 0.9%  | -3.5%    |
| DJ Stoxx 600   | -0.1% | 0.0%  | -2.2% | -9.0%    |

| YEnd Dec. (EURm) | 2015   | 2016e  | 2017e  | 2018e  |
|------------------|--------|--------|--------|--------|
| Sales            | 76,945 | 75,732 | 79,736 | 82,927 |
| % change         |        | -1.6%  | 5.3%   | 4.0%   |
| EBITDA           | 3,914  | 3,895  | 4,286  | 4,593  |
| EBIT             | 2,187  | 2,449  | 2,764  | 3,010  |
| % change         |        | 12.0%  | 12.8%  | 8.9%   |
| Net income       | 1,113  | 1,162  | 1,370  | 1,536  |
| % change         |        | 4.4%   | 18.0%  | 12.1%  |

|                  | 2015 | 2016e | 2017e | 2018e |
|------------------|------|-------|-------|-------|
| Operating margin | 3.2  | 3.2   | 3.5   | 3.6   |
| Net margin       | 1.4  | 1.5   | 1.7   | 1.9   |
| ROE              | NM   | NM    | NM    | NM    |
| ROCE             | 9.6  | 8.8   | 9.7   | 10.2  |
| Gearing          | 42.6 | 43.4  | 38.4  | 33.5  |

| (EUR)           | 2015  | 2016e | 2017e | 2018e |
|-----------------|-------|-------|-------|-------|
| EPS             | 1.54  | 1.58  | 1.87  | 2.09  |
| % change        | -     | 2.9%  | 18.0% | 12.1% |
| P/E             | 14.5x | 14.1x | 12.0x | 10.7x |
| FCF yield (%)   | NM    | 0.3%  | 5.7%  | 6.6%  |
| Dividends (EUR) | 0.93  | 1.05  | 1.14  | 1.24  |
| Div yield (%)   | 4.2%  | 4.7%  | 5.1%  | 5.5%  |
| EV/Sales        | 0.3x  | 0.3x  | 0.3x  | 0.3x  |
| EV/EBITDA       | 5.7x  | 5.9x  | 5.4x  | 5.0x  |
| EV/EBIT         | 10.3x | 9.4x  | 8.3x  | 7.6x  |



Carrefour's statement (July 28<sup>th</sup>), following that of Casino, is likely to reflect a mitigated consumption environment both in France and Europe. Carrefour has been suffering a decline in market share at its French hypermarchés (momentum at which remains key to the equity story...) for a while now (-40 bp in P06), meaning the group could be somewhat under pressure during this publication. Going forward, we believe the post-summer promotions campaign in France (which was not particularly successful in 2015) will be key for reassuring on Carrefour's ability to compete with Leclerc.

**France (49% of sales / 41% of EBIT excl. global function in H1):** LFL sales excl. fuel and calendar should work out at -3.3% at Carrefour hypermarkets (vs -0.6% in Q1 16, -0.7% in Q4 15, +0.7% in Q3, +0.5% in Q2 and +2.1% in Q1 2015). LFL growth should reach 1.4% for supermarkets (vs +0.7% in Q1 2016, +1.5% in Q4, +2.5% in Q3, +1.2% in Q2 and +2.5% in Q1 2015).

**International (51% of sales / 59% of EBIT excl. global function in H1):** momentum should remain decent in Europe (26% of sales / 21% of EBIT excl. global function) but with a sequential deceleration. In detail, LFL excl. fuel and calendar should increase 1.3% (vs +3.1% in Q1 16). LatAm (18% of sales / 39% of EBIT excl. global function) remains a subject of satisfaction given LFL rates, which should reach +11.4% excl. calendar (vs +13.5% in Q1 16). In Asia (8% of sales / -1% of EBIT excl. global function), momentum should unsurprisingly remain under pressure with LFL growth declining 4.7% excl. calendar (vs -4.9% in Q1 16).

**LFL (excl. fuel and calendar effect) in Q1 2016**

| LFL                | Q1 14       | Q2 14       | Q3 14       | Q4 14       | Q1 15       | Q2 15       | Q3 15        | Q4 15        | Q1 16        | Q2 16 e      |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| <b>Total group</b> | <b>2.7%</b> | <b>3.8%</b> | <b>1.6%</b> | <b>3.1%</b> | <b>2.3%</b> | <b>1.7%</b> | <b>+3.5%</b> | <b>+2.1%</b> | <b>+3.1%</b> | <b>+1.3%</b> |
| France             | 1.7%        | 2.1%        | -0.2%       | 1.1%        | 2.5%        | 0.9%        | +1.6%        | +0.2%        | 0.0%         | -1.1%        |
| Europe             | -1.4%       | 1.5%        | -1.3%       | 0.5%        | 0.9%        | -0.4%       | +4.2%        | +2.2%        | +3.2%        | +1.3%        |
| Latam              | 12.7%       | 15.2%       | 13.7%       | 15.7%       | 12.5%       | 10.7%       | +11.7%       | +11.9%       | +13.5%       | +11.4%       |
| Asia               | -2.5%       | -6.1%       | -6.6%       | -6.5%       | -11.3%      | -9.2%       | -7.5%        | -12.9%       | -4.9%        | -4.7%        |

|                               | H1 15         | H2 15         | 2015          | H1 16 e       |
|-------------------------------|---------------|---------------|---------------|---------------|
| <b>GROUP Sales excl. VAT</b>  | <b>37 738</b> | <b>39 207</b> | <b>76 945</b> | <b>36 072</b> |
| Global function               | -63           | -40           | -103          | -30           |
| Activity contribution (AC)    | 726           | 1 719         | 2 445         | 676           |
| Margin                        | 1,9%          | 4,4%          | 3,2%          | 1,9%          |
| Var. (bps)                    | -40 bp        | 39 bp         | -2 bp         | -5 bp         |
| <b>FRANCE Sales excl. VAT</b> | <b>17 587</b> | <b>18 685</b> | <b>36 272</b> | <b>17 240</b> |
| Activity contribution (AC)    | 321           | 870           | 1 191         | 289           |
| Margin                        | 1,8%          | 4,7%          | 3,3%          | 1,7%          |
| Var. (bps)                    | -56 bp        | -6 bp         | -31 bp        | -15 bp        |
| <b>EUROPE Sales excl. VAT</b> | <b>9 356</b>  | <b>10 368</b> | <b>19 724</b> | <b>9 349</b>  |
| Activity contribution (AC)    | 122           | 445           | 567           | 150           |
| Margin                        | 1,3%          | 4,3%          | 2,9%          | 1,6%          |
| Var. (bps)                    | 91 bp         | 41 bp         | 66 bp         | 30 bp         |
| <b>LATAM Sales excl. VAT</b>  | <b>7 257</b>  | <b>7 033</b>  | <b>14 290</b> | <b>6 271</b>  |
| Activity contribution (AC)    | 291           | 414           | 705           | 273           |
| Margin                        | 4,0%          | 5,9%          | 4,9%          | 4,4%          |
| Var. (bps)                    | 46 bp         | 9 bp          | 18 bp         | 35 bp         |
| <b>ASIA Sales excl. VAT</b>   | <b>3 538</b>  | <b>3 121</b>  | <b>6 659</b>  | <b>3 212</b>  |
| Activity contribution (AC)    | 50            | -37           | 13            | -6            |
| Margin                        | 1,4%          | -1,2%         | 0,2%          | -0,2%         |
| Var. (bps)                    | -115 bp       | -164 bp       | -135 bp       | -160 bp       |

Source: Carrefour, Street account, Bryan Garnier

**VALUATION**

- Carrefour is showing a 2017 P/E of 12x vs 15.5x on average for the sector. Given a FV @ EUR30 offering 34% upside potential, we believe the stock is attractive

**NEXT CATALYSTS**

- Q2 trading statement and earnings on 28th July

## Q2 2016 trading statement

|                                    | Q1            | Q2            | Q3            | Q4            | 2015          | Q1            | Q2 e          | H1 e          |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>(A)+(B)+(C)+(D) TOTAL GROUP</b> | <b>21 006</b> | <b>21 371</b> | <b>21 544</b> | <b>22 430</b> | <b>86 351</b> | <b>20 052</b> | <b>20 380</b> | <b>40 503</b> |
| (1) LFL excl. Fuel                 | 2,5%          | 1,2%          | 3,5%          | 1,9%          | 2,3%          | 3,5%          | 1,5%          | 2,7%          |
| (2) Fuel effect                    | -2,1%         | -1,2%         | -1,9%         | -1,1%         | -1,6%         | -1,0%         | -0,4%         | -0,8%         |
| (3) Expansion                      | 0,8%          | 0,9%          | 0,7%          | 0,3%          | 0,7%          | 0,2%          | -0,1%         | 0,0%          |
| (1)+(2)+(3) Organic growth         | 1,2%          | 0,9%          | 2,3%          | 1,0%          | 1,3%          | 2,7%          | 1,0%          | 1,9%          |
| (4) Acquisition                    | 2,9%          | 2,6%          | 2,3%          | 2,0%          | 2,4%          | -0,1%         | -0,2%         | -0,1%         |
| (1)+(2)+(3)+(4) Var. (cc)          | 4,1%          | 3,6%          | 4,5%          | 3,0%          | 3,8%          | 2,6%          | 0,9%          | 1,8%          |
| (5) Forex                          | 2,1%          | 0,6%          | -2,3%         | -3,8%         | -1,0%         | -6,9%         | -5,5%         | -6,2%         |
| (1)+(2)+(3)+(4)+(5) total var.     | 6,2%          | 4,2%          | 2,2%          | -0,9%         | 2,8%          | -4,3%         | -4,6%         | -4,4%         |
| <b>(A) FRANCE (€ m)</b>            | <b>9 558</b>  | <b>10 168</b> | <b>10 267</b> | <b>10 663</b> | <b>40 656</b> | <b>9 334</b>  | <b>9 930</b>  | <b>19 334</b> |
| (1) LFL excl. Fuel                 | 2,5%          | 0,7%          | 1,7%          | 0,0%          | 1,2%          | 0,7%          | -0,7%         | 0,4%          |
| (2) Fuel effect                    | -4,3%         | -2,2%         | -3,3%         | -2,2%         | -3,0%         | -1,9%         | -0,4%         | -1,4%         |
| (3) Expansion                      | 0,1%          | 0,2%          | 0,0%          | -0,5%         | -0,1%         | -0,8%         | -1,2%         | -1,0%         |
| (1)+(2)+(3) Organic growth         | -1,7%         | -1,3%         | -1,6%         | -2,7%         | -1,8%         | -2,0%         | -2,3%         | -2,1%         |
| (4) Acquisition                    | 5,3%          | 4,6%          | 3,9%          | 3,7%          | 4,3%          | 0,2%          | 0,0%          | 0,1%          |
| (1)+(2)+(3)+(4) total var.         | 3,6%          | 3,3%          | 2,3%          | 1,0%          | 2,5%          | -1,8%         | -2,3%         | -2,0%         |
| <b>(B) EUROPE EXCL. FRANCE</b>     | <b>5 150</b>  | <b>5 368</b>  | <b>5 535</b>  | <b>6 077</b>  | <b>22 130</b> | <b>5 196</b>  | <b>5 314</b>  | <b>10 511</b> |
| (1) LFL excl. Fuel                 | 1,2%          | -0,7%         | 4,3%          | 2,0%          | 1,7%          | 3,6%          | 1,5%          | 2,5%          |
| (2) Fuel effect                    | -0,7%         | -0,6%         | -1,0%         | -0,8%         | -0,8%         | -0,9%         | -0,5%         | -0,7%         |
| (3) Expansion                      | 0,0%          | 0,2%          | -0,7%         | -1,4%         | -0,5%         | -0,7%         | -0,7%         | -0,7%         |
| (1)+(2)+(3) Organic growth         | 0,5%          | -1,1%         | 2,6%          | -0,2%         | 0,4%          | 2,0%          | 0,3%          | 1,1%          |
| (4) Acquisition                    | 1,6%          | 1,6%          | 1,7%          | 0,9%          | 1,4%          | -0,7%         | -0,7%         | -0,7%         |
| (1)+(2)+(3)+(4) Var. (cc)          | 2,1%          | 0,5%          | 4,3%          | 0,7%          | 1,9%          | 1,3%          | -0,4%         | 0,4%          |
| (5) Forex                          | 0,1%          | 0,2%          | -0,1%         | -0,2%         | 0,0%          | -0,4%         | -0,6%         | -0,5%         |
| (1)+(2)+(3)+(4)+(5) total var.     | 2,2%          | 0,7%          | 4,2%          | 0,5%          | 1,8%          | 0,9%          | -1,0%         | -0,1%         |
| <b>(C) LATAM</b>                   | <b>4 069</b>  | <b>4 089</b>  | <b>3 857</b>  | <b>4 091</b>  | <b>16 106</b> | <b>3 451</b>  | <b>3 598</b>  | <b>7 049</b>  |
| (1) LFL excl. Fuel                 | 13,2%         | 10,1%         | 11,7%         | 11,8%         | 11,7%         | 14,7%         | 10,0%         | 12,3%         |
| (2) Fuel effect                    | -0,9%         | -0,4%         | -0,3%         | 0,6%          | -0,2%         | 0,3%          | -0,5%         | -0,1%         |
| (3) Expansion                      | 4,1%          | 3,9%          | 4,3%          | 4,0%          | 4,1%          | 3,6%          | 3,5%          | 3,5%          |
| (1)+(2)+(3) Organic growth         | 16,4%         | 13,6%         | 15,7%         | 16,4%         | 15,5%         | 18,6%         | 13,0%         | 15,8%         |
| (4) Acquisition                    | 0,0%          | 0,0%          | 0,0%          | 0,0%          | 0,0%          | 0,1%          | 0,0%          | 0,0%          |
| (1)+(2)+(3)+(4) Var. (cc)          | 16,4%         | 13,6%         | 15,7%         | 16,4%         | 15,5%         | 18,7%         | 13,0%         | 15,8%         |
| (5) Forex                          | 2,3%          | -5,8%         | -18,4%        | -22,6%        | -11,9%        | -33,9%        | -25,0%        | -29,4%        |
| (1)+(2)+(3)+(4)+(5) total var.     | 18,7%         | 7,8%          | -2,7%         | -6,2%         | 3,6%          | -15,2%        | -12,0%        | -13,6%        |
| <b>(D) ASIA</b>                    | <b>2 229</b>  | <b>1 746</b>  | <b>1 885</b>  | <b>1 599</b>  | <b>7 459</b>  | <b>2 071</b>  | <b>1 538</b>  | <b>3 609</b>  |
| (1) LFL excl. Fuel                 | -10,1%        | -9,3%         | -7,5%         | -12,8%        | -9,9%         | -4,8%         | -5,0%         | -4,9%         |
| (2) Fuel effect                    | 0,0%          | 0,0%          | 0,0%          | 0,0%          | 0,0%          | 0,0%          | 0,0%          | 0,0%          |
| (3) Expansion                      | 0,8%          | 0,6%          | 0,5%          | 1,2%          | 0,8%          | -0,1%         | 0,0%          | -0,1%         |
| (1)+(2)+(3) Organic growth         | -9,3%         | -8,7%         | -7,0%         | -11,6%        | -9,1%         | -4,9%         | -5,0%         | -4,9%         |
| (4) Acquisition                    | -0,2%         | 0,1%          | 0,0%          | -0,1%         | -0,1%         | -0,3%         | 0,0%          | -0,2%         |
| (1)+(2)+(3)+(4) Var. (cc)          | -9,5%         | -8,6%         | -7,0%         | -11,7%        | -9,2%         | -5,2%         | -5,0%         | -5,1%         |
| (5) Forex                          | 16,1%         | 21,6%         | 14,1%         | 8,1%          | 14,9%         | -1,9%         | -6,9%         | -4,1%         |
| (1)+(2)+(3)+(4)+(5) total var.     | 6,6%          | 13,0%         | 7,1%          | -3,6%         | 5,7%          | -7,1%         | -11,9%        | -9,2%         |

Source: Carrefour, Street account, Bryan Garnier

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|         |   |
|---------|---|
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## Distribution of stock ratings

BUY ratings 56,8%

NEUTRAL ratings 33,8%

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