

Carrefour

Price EUR23.26

Q2 sales and H1 results (first take): resilient margins despite pressured LFLs

Fair Value EUR30 (+29%)

BUY

Bloomberg	CA FP
Reuters	CARR.PA
12-month High / Low (EUR)	32.0 / 21.3
Market Cap (EURm)	17,586
Ev (BG Estimates) (EURm)	23,799
Avg. 6m daily volume (000)	3 273
3y EPS CAGR	10.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.0%	-9.7%	-7.0%	-12.7%
Food Retailing	4.3%	-4.4%	1.0%	-2.1%
DJ Stoxx 600	6.0%	-1.7%	0.6%	-6.7%

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	15.1x	14.7x	12.4x	11.1x
FCF yield (%)	NM	0.3%	5.5%	6.4%
Dividends (EUR)	0.93	1.05	1.14	1.24
Div yield (%)	4.0%	4.5%	4.9%	5.3%
EV/Sales	0.3x	0.3x	0.3x	0.3x
EV/EBITDA	5.9x	6.1x	5.5x	5.1x
EV/EBIT	10.6x	9.7x	8.6x	7.8x

Carrefour's statement, following that of Casino, reflects a mitigated consumption environment both in France (poor weather and strike action) and Europe. In this context, Q2 gross sales increased 2.3% cc to EUR20,499m (+2.7% LFL excl. fuel and calendar), a performance very much in line with expectations. Margins turned out to be very resilient so that underlying operating profit reached EUR707m (vs EUR685m e) in H1. As was already the case in Q1, poor performances at French hypermarkets (-3.1% LFL in Q2) were offset by impressive ones in Brazil (+13.1% in Q2). Sometimes, we do not know who to turn to! In our view, the share price reaction will probably depend on management's upcoming message, following a difficult communication exercise during the latest FY.

France (47% of sales / 44% of EBIT excl. global function in H1): Q2 LFL sales excl. fuel and calendar work out at -3.1% at Carrefour hypers (vs -2.7% expected by the consensus). The momentum at Carrefour Supermarchés remains very solid (LFL growth reached +2.5% vs +1.4%e). Given these commercial performance, the resilience of margin (flat in H1 vs -6 bp e) is rather surprising.

Europe (26% of sales / 22% of EBIT excl. global function in H1): momentum remained decent in Europe but with a sequential deceleration. In detail, Q2 LFL excl. fuel and calendar increased +1.2% (vs +1.3% e). On the whole, Carrefour continued to tap into operating leverage with a 34 bp margin appreciation (vs +33bp e) in H1. This convincing operating leverage in Europe is one of the pillar of our Buy rating. This is a good news.

LatAm (18% of sales / 38% of EBIT excl. global function in H1): remains a subject of strong satisfaction given LFL rates, which reached +15.5% excl. calendar (vs +13,2%e) in Q2, supported by the acceleration in inflation over there. Unsurprisingly this triggered a 22bp increase in operating margin (vs +20 bp e) in H1 which. The performance remain supported by Atacadao the margin of which is the highest among Carrefour's BU we believe (~7% e).

In Asia (9% of sales / -4% of EBIT excl. global function in H1): unsurprisingly, the momentum remained under pressure with Q2 LFL growth declining -6.0% excl. calendar (vs -5,5%e). Hence, the BU is still un negative territory in H1 (-EUR1m vs -EUR6m e) because of China (LFL down -9.3%). As a reminder, according to management, Asia may bottom out in 2016.

ANALYSIS

- As was already the case in Q1, poor performances at French hypermarkets (-3.1% LFL in Q2) were offset by impressive ones in Brazil (+13.1% in Q2). Sometimes, we do not know who to turn to! But the fact remains that Carrefour has been suffering a decline in market share at its French hypers (momentum at which remains key to the equity story...) for a while now, meaning the group was to be somewhat under pressure in Q2. And we believe the hyper issue could remain the focus of today's publication. In that respect, Carrefour will struggle to reassure. In the coming months, 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.
- Carrefour's equity story (12,4x 2017 P/E vs 16,5x for peers) may appear as an endless prelude and we are running out of patience. The share price direction 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). We do hope management will bring more insight in this respect at this morning's analyst meeting (09:30 AM CET). In the press release, we foresee the outlines of a more offensive speech, especially on the e-commerce issue. Stay tuned. In our view, the share price reaction will probably depend on management's upcoming message, following a difficult communication exercise in during the latest FY.

VALUATION

- Carrefour is showing a 12.4x 2017 P/E vs 16.5x for peers. Hence the stock turned out to be value.

NEXT CATALYSTS

- More offensive message from management on the e-commerce/omnichannel issue

Quarterly topline performance



LFL	Q1 15	Q2 15	Q3 15	Q4 15	2015	Q1 16	Q2 16e	Q2 16p
Total group	2.3%	1.7%	+3.5%	+2.1%	2.4%	+3.1%	+1.8%	2.7%
France	+2.5%	+0.9%	+1.6%	+0.2%	+1.3%	+0.0%	-0.9%	-0.9%
- ow Hypers	+2.1%	+0.5%	+0.7%	-0.7%	+0.6%	-0.6%	-2.7%	-3.1%
- ow Supers	+2.5%	+1.2%	+2.5%	+1.5%	+1.9%	+0.7%	+1.4%	+2.5%
Europe	+0.9%	-0.4%	+4.2%	+2.2%	+1.8%	+3.2%	+1.3%	+1.2%
- ow Spain	+0.3%	+2.8%	+4.6%	+2.5%	+2.6%	+3.4%	+1.0%	+0.7%
- ow Italy	-1.0%	-5.0%	+5.9%	+3.5%	+0.8%	+4.5%	+2.2%	+1.4%
- ow Belgium	+2.1%	+0.0%	+2.7%	-0.4%	+1.0%	+1.0%	+0.0%	-0.5%
LatAm	+12.5%	+10.7%	+11.7%	+11.9%	+11.7%	+13.5%	+13.2%	+15.5%
- ow Brazil	+8.4%	+7.1%	+7.4%	+8.5%	+7.9%	+9.9%	+9.6%	+13.1%
Asia	-11.3%	-9.2%	-7.5%	-12.9%	-10.3%	-4.9%	-5.5%	-6.0%
- ow China	-14.0%	-12.3%	-11.2%	-16.7%	-13.5%	-8.4%	-9.3%	-9.3%

Sources: Carrefour, Street account, Bryan Garnier estimates

	Consensus	Released	Share of sales	Delta vs cons.
Net sales				
- France	17 118	17 179	47%	0,4%
- Europe	9 386	9 428	26%	0,4%
- LatAm	6 391	6 453	18%	1,0%
- Asia	3 196	3 229	9%	1,0%
Total	36 091	36 289	100%	0,5%
AC			Share of AC	Delta vs cons.
- France	302	312	44%	3,3%
- Europe	154	155	22%	1,0%
- LatAm	269	273	39%	1,4%
- Asia	-5,8	-7,0	-1%	NM
- Central costs	-34	-26	-4%	NM
Total	685	707	100%	3,3%
Margin			-	Delta vs cons.
- France	1,8%	1,8%	-	5,2
- Europe	1,6%	1,6%	-	0,9
- LatAm	4,2%	4,2%	-	2,0
- Asia	-0,2%	-0,2%	-	-3,5
Total	1,9%	1,9%	-	5,1
Var. in margin			-	Delta vs cons.
- France	-6	-1	-	5,2
- Europe	33	34	-	0,9
- LatAm	20	22	-	2,0
- Asia	-159	-163	-	-3,5
Total	-3	2	-	5,1

Sources: Carrefour, Street account, Bryan Garnier estimates

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

Sector Team :
 Nikolaas Faes
 Loïc Morvan
 Cédric Rossi
 Virginie Roumagne

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Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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