

**Carrefour**

Price EUR22.40

**A few thoughts following the H1 2016 analysts' meeting**

Fair Value EUR30 (+34%)

BUY

|                            |             |
|----------------------------|-------------|
| Bloomberg                  | CA FP       |
| Reuters                    | CARR.PA     |
| 12-month High / Low (EUR)  | 32.0 / 21.3 |
| Market Cap (EURm)          | 16,940      |
| Ev (BG Estimates) (EURm)   | 23,153      |
| Avg. 6m daily volume (000) | 3,317       |
| 3y EPS CAGR                | 10.8%       |

|                | 1 M  | 3 M    | 6 M    | 31/12/15 |
|----------------|------|--------|--------|----------|
| Absolute perf. | 3.6% | -13.1% | -11.5% | -15.9%   |
| Food Retailing | 4.8% | -5.3%  | -2.0%  | -3.6%    |
| DJ Stoxx 600   | 7.2% | -2.7%  | 1.4%   | -7.2%    |

| 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             | 14.6x | 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 | 9.5x  | 8.3x  | 7.6x  |

Yesterday, in our first take comment, we wrote that Carrefour's equity story (12,4x 2017 P/E vs 16,5x for peers) could appear to be an endless prelude and that we could start running out of patience. We added that the share price direction was not clear because, at some point, we struggle to understand the post-turnaround commercial strategy. If investors are not supposed to focus on "short-term market share monitoring", as the saying goes, then we should try to clarify the long-term aim (i.e. omnichannel and premiumisation).

We hoped management would shed more light on this subject at the analysts' meeting. Following a difficult communication exercise during the last FY, the share's reaction depended on management's message, which we found quite clear, or, at least, clearer than during the last FY. The outline of the omni/multi-channel strategy is taking shape in France (46% of EBIT excl. central costs) and is being distilled by management:

**1/** The logistical overhaul (a prerequisite to any retail initiative / EUR360m in potential gains of which around 40% already delivered / notably a 20% cut in transportation costs since the Caravelle project was launched, we understand), **2/** work on the offer (i.e. premiumisation to build up niche growth), **3/** conversion of Dia France following the takeover (densification of the network from a click & collect perspective), **4/** design of a future connected ecosystem in malls. Abroad (54%), the country and format mix should help maintain the conditions for growth. All these points are only a link in a real digital and multi-channel strategy.

As far as FCF is concerned, management admits that the current level is not satisfying but that it should increase going forward especially thanks to the dilution on circumstantial capex. Indeed, over the past two years, Carrefour has revamped its hypermarkets in Europe (i.e. ~EUR300/400m pa) and is currently converting Dia stores to Carrefour's banners (i.e. ~EUR100m pa). On the whole, around EUR400-500m in one-off capex was spent in 2015 and this should progressively be diluted and help boost FCF.

Italy should also return to profit from 2016 while Dia France should be at breakeven in 2017. Last but not least, even if the statement was not very clear, the CEO nevertheless indicated that, following cost cutting moves, potential for operating margin appreciation would be around 0.5% going forward (i.e. 2018?), whether in France or abroad. Previously, management was blamed for not providing any guidance and today, seems to be punished (share currently down 5%) for providing an encouraging target. We believe the market must be aware of what it wants!

So far 412 out of 648 Dia stores have been converted. Out of the 412 renovations (115 in Q1, 145 in Q2 => Clearly a strong ramp-up). All of the network should be renovated by the end of the year. In our view, Dia should help to reinforce Carrefour's multi-format strategy with a differentiated offer (organic food notably), more convenience stores (especially in the Paris area) and a densification of the network (from an omni-channel perspective)! Our understanding is that stores converted to Carrefour City and Carrefour Contact banners are showing a +7-8% sales hike and growth seems to be even higher when it comes to Carrefour Market.

Ultimately, the CFO commented on current consensus expectations. At this stage of the year and bearing forex in mind, the EUR2.470m in operating profit currently expected by the consensus (vs EUR2.45 BG estimates) seems to be a reasonable assumption. It is worth remembering that in 2015, Carrefour was able to maintain its FY guidance throughout the year. Several events could now shake up the equity story and especially the Carmila IPO in a low rates environment and that of Brazil (the prospect of which has been confirmed by management, potentially in 2017).

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|         |   |
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