

Delhaize

Price EUR102.45

Strong Q2 2016 and upcoming merger with Ahold (first take comment)

Fair Value EUR104,5 (+2%)

BUY

Bloomberg	DELBB
Reuters	DELBT.BR
12-month High / Low (EUR)	102.5 / 74.3
Market Cap (EURm)	10,714
Ev (BG Estimates) (EURm)	11,495
Avg. 6m daily volume (000)	308.0
3y EPS CAGR	10.8%

Delhaize has just released Q2 2016 sales (EUR6,286m vs EUR6,257m e) and results, which turned out to be very solid (underlying operating profit of EUR247m vs EUR231me). Delhaize also indicates that the closing of the merger between Delhaize Group and Royal Ahold expected on 23rd July 2016, subject to clearance from the US Federal Trade Commission. Our current valuation for newco stands at EUR25.5. Via cost-sharing, flirting with Ahold offers an alternative within a sector that is suffering an obvious lack of growth.

Total revenues rose 4.3% cc to EUR6.286bn (vs EUR6.257bn expected by the consensus). LFL sales growth worked out at 2.9% in the US (+3.9% real growth) to EUR4.060bn (vs EUR4.041bne). In Belgium, total sales reached EUR1.287bn (vs EUR1.291bn e), up +2.1% LFL. In SEE, revenues increased +8.7% LFL to EUR939m (vs EUR924me).

Group underlying operating profit reached EUR247m (vs EUR231m e), up +12.1% at cc, which translated into a 3.9% margin (vs 3.7% e). Underlying operating margin as 4.1% (vs 3.9% e and 3.7% in 2015) in the US, 3.3% in Belgium (vs 3.0% e and 3.2% in 2015) and 5.0% in SEE (vs 4.8% e and 4.5% in 2015).

For the full year and excluding the impact of the merger with Ahold, Delhaize is confident it can deliver approximately EUR400m in free cash flow excluding cash-outs related to the Transformation Plan and related to the merger. In addition, Delhaize expects underlying operating profit to be in line with current market expectations (i.e. EUR953m vs EUR922m in BG estimates).

ANALYSIS

- 1/ Q2 2016 again proved Delhaize's overall resilience; 2/ Delhaize has virtually no exposure to unwell emerging markets and hence 3/ offers better visibility on operating performances for 2016 than others; 4/ Delhaize enjoys one of the best FCF profiles in the sector; 5/ ultimately, via cost-sharing, flirting with Ahold offers an alternative within a sector which 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!
- Ex post, we estimate that Ahold Delhaize could be valued around EUR25.5, given EUR500m in net synergies. On average between 2016 and 2019, we estimated 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 very strong FCF (yield well above 5% we believe) and solid debt profile (lease adjusted Net Debt / EBITDAR around 1.9x).
- Major execution risks (which cannot be ruled out during such a merger) 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. By then, we believe both Ahold and Delhaize are a kind of "insurance" within a skittish sector with no clear direction.

VALUATION

- Ex post, we estimate that Ahold Delhaize could be valued around EUR25.5

NEXT CATALYSTS

- Merger expected on 23rd July and Ahold's Q2 results on 25th August

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	1 M	3 M	6 M	31/12/15
Absolute perf.	12.2%	11.1%	20.8%	14.1%
Food Retailing	0.9%	-5.1%	8.2%	-1.4%
DJ Stoxx 600	0.9%	-2.8%	5.7%	-6.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	21,361	24,395	25,249	25,828
% change		14.2%	3.5%	2.3%
EBITDA	1,355	1,538	1,626	1,688
EBIT	424.1	696.0	922.1	952.5
% change		64.1%	32.5%	3.3%
Net income	445.5	474.7	571.4	616.1
% change		6.6%	20.4%	7.8%

	2014	2015e	2016e	2017e
Operating margin	3.6	3.6	3.7	3.7
Net margin	2.1	1.9	2.3	2.4
ROE	NM	NM	NM	NM
ROCE	7.5	7.9	8.3	8.5
Gearing	18.3	12.7	7.8	2.5

(EUR)	2014	2015e	2016e	2017e
EPS	4.37	4.58	5.51	5.94
% change	-	4.8%	20.4%	7.8%
P/E	23.4x	22.4x	18.6x	17.2x
FCF yield (%)	5.1%	4.7%	4.7%	5.3%
Dividends (EUR)	1.17	1.31	1.59	1.72
Div yield (%)	1.1%	1.3%	1.6%	1.7%
EV/Sales	0.5x	0.5x	0.4x	0.4x
EV/EBITDA	8.6x	7.5x	6.9x	6.4x
EV/EBIT	27.6x	16.5x	12.2x	11.4x



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BUY ratings 72%

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