

**Ahold Delhaize**

Price EUR21.64

**A solid set of results for Ahold standalone in Q2 2016 (first take)****Fair Value EUR25,8 (+19%)****BUY-Top Picks**

Bloomberg	AD NA
Reuters	AD.AS
12-month High / Low (EUR)	22.0 / 16.5
Market Cap (EURm)	27,727
Ev (BG Estimates) (EURm)	29,949
Avg. 6m daily volume (000)	2 986
3y EPS CAGR	11.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.3%	12.5%	8.2%	11.1%
Food Retailing	-0.1%	-0.6%	-0.2%	-2.3%
DJ Stoxx 600	1.0%	2.1%	4.8%	-6.1%

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%

In view of the merger with Delhaize, Ahold has released its standalone quarterly results for Q2 2016 for the last time (standalone accounts on the left side of the attached report). Total sales came in at EUR8,951m (vs EUR8,898m expected by the consensus), up 4.4% excluding fuel at cc. As a consequence, underlying operating profit increased 7.3% (+8.0% at cc) to EUR355m (vs EUR 336m e) and net profit stood at EUR209m (vs EUR209m). This solid set of results reinforces our Buy conviction (the main pillar of which is that, via cost-sharing, the merger with Delhaize offers an alternative within a sector that is suffering an obvious lack of growth).

Total sales worked out at EUR8,951m (vs EUR8,898m expected by the consensus). In LFL terms, total growth reached +1.2% excl. fuel vs +0.8%e in the US (62% of total sales), +3.2% vs +2.4%e in the Netherlands (34% of total sales) and +1.3% vs -0.2%e in Czech Republic (4% of total sales).

In the US, lfl growth excluding fuel (+1.2%) was supported by volume growth, partly offset by price investments as part of the planned investments in customer propositions and deflation in meat and dairy categories. In the Netherlands, lfl sales grew (+3.2%) supported by strong online sales.

Bottom line, this solid set of commercial performances resulted in a flat underlying operating margin (in line with expectations) at 3.9% in the US (cost cuttings reinvested in the value proposition), +70bp (vs 9bp e) to 5.2% in the Netherlands (simplicity savings exceeded price investments, however the magnitude surprises us, notably given the dilutive impact of e-commerce business) and +74bp (vs 24bp e) to 1.7% in the Czech Republic.

Note that the transaction multiples for the divested US stores (86 units required by the antitrust authorities and with an average margin of 6.3%) seems very low to us (12% sales multiple).

**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, the merger between Ahold and Delhaize offers an alternative within a sector that is suffering an obvious lack of growth ([Anorexic growth... the bigger the better!](#)).
- 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**

- We value Ahold Delhaize at EUR25.8, given EUR500m in net synergies by mid 2019. 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).
- Based on our preliminary pro forma accounts (based on EUR300m net synergies already extracted in 2017 out of EUR500m), the details of which will be provided later (Ahold Delhaize will provide pro forma quarterly accounts on October 6<sup>th</sup>), we estimate that Ahold Delhaize is currently showing a 2017 P/E around 15x vs 16.5x on average for the sector.
- Management commented on a guidance for newco 2016 FCF which is for EUR1,3bn (vs EUR1,4bn in our current preliminary estimates). Newco should enjoy a strong FCF (yield above 6% going forward we believe, twice as much as the average of the sector) and solid debt profile (lease adjusted net debt / EBITDAR around 1.9x).

**NEXT CATALYSTS**

- Capital Market Day on 7th December in London



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NEUTRAL ratings 33,3%

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