1st August 2016

Food retailing

Casino Guichard

Price EUR48.45

Detractors will have ammunition to back up their stance

Fair Value EUR57 (+18%) **BUY**

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	69.3 / 35.2
Market Cap (EUR)	5,451
Ev (BG Estimates) (EUR)	8,941
Avg. 6m daily volume (000)	557.1
3y EPS CAGR	7.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.8%	-6.8%	16.1%	14.2%
Food Retailing	1.4%	-3.2%	-4.6%	-3.4%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	46,145	41,237	42,725	44,156
% change		*-10.6%*	*3.6%*	*3.4%*
EBITDA	2,343	1,997	2,204	2,403
EBIT	968.0	1,195	1,319	1,432
% change		*23.5%*	*10.4%*	*8.6%*
Net income	412.0	284.3	379.5	433.0
% change		*-31.0%*	*33.5%*	*14.1%*

	2015	2016e	2017e	2018e
Operating margin	3.1	2.9	3.1	3.2
Net margin	0.9	0.7	0.9	1.0
ROE	NM	NM	NM	NM
ROCE	5.2	5.3	5.9	6.3
Gearing	48.9	20.2	20.5	21.6

(EUR)	2015	2016e	2017e	2018e
EPS	2.80	2.09	3.04	3.51
% change	-	*-25.1%*	*44.9%*	*15.8%*
P/E	17.3x	23.1x	16.0x	13.8x
FCF yield (%)	NM	2.3%	10.3%	8.6%
Dividends (EUR)	3.12	3.12	3.12	3.12
Div yield (%)	6.4%	6.4%	6.4%	6.4%
EV/Sales	0.3x	0.2x	0.2x	0.2x
EV/EBITDA	5.7x	4.5x	4.3x	4.1x
EV/EBIT	13.9x	7.5x	7.1x	6.9x

We believe the stock deserves a re-rating, given the current discount in terms of MtM SOTP (EUR55). In this respect, and unsurprisingly given the sector's seasonal nature, management's message during the H1 analysts' meeting should not yet help convince the market that key guidance (for underlying operating profit of EUR500m in France) is achievable (the consensus currently stands at around EUR460). Not to mention more caution (?) in the tone.

ANALYSIS

- Today, the key issue is whether the group is objectively able to deliver its full year guidance in France, this remaining unchanged at EUR500m for current operating profit (vs EUR337m in 2015) incl. EUR66m profit from real estate promotion (vs EUR167m in 2015 and EUR162m in 2014). Formulated in EBITDA terms, guidance is for around EUR900m (also confirmed by management).
- The group indeed confirmed this EUR500m target in 2016 but “subject to consumption trends remaining intact”. Detractors may identify some caution in the wording (management added that July was pretty luch in line with the month of June as a whole, ie better than the exit trend of June which was strongly impacted by circumstantial events). Moreover, note that profit from real estate development reached EUR49m in H1 2016 (vs EUR33m e) and that it should finally be as much as EUR70-75m in 2016 according to management.
- As a reminder, management also provided guidance (21st December) for French FCF (i.e. “in 2016, Casino expects a solid generation of free cash flow after financial expenses and dividends above EUR200m in France). However our understanding is that: 1/ Capex should be higher in 2016 than initially expected (~EUR400/450m vs ~EUR300m in our previous estimates); 2/ The board of directors also decided to pay an interim dividend of EUR1.56 per share (~EUR170m) for the year of 2016.
- Excl. the interim dividend, but taking into account increased capex, management now says that FCF should be positive (~EUR50m e / i.e. EUR200m - EUR150m additional capex). As a consequence, our understanding is that FCF after financial expenses and dividends in France, rather than EUR200m should in fact end up negative in 2016 (~ -EUR120m e / i.e. EUR200m – EUR150m additional capex – EUR170m interim dividend) when taking into account these two elements (vs the EUR200m initial guidance).
- Going forward, in terms of profitability in France, note that at end-June 2015, 22% of the FP portfolio was franchised and today the proportion is around 50%. Basically, the deployment of a franchise concept is low in capital intensity and structurally more profitable than the integrated business, insofar as the franchised stores are responsible for their own cost base and capex. To a lesser extent than Dia in Spain, *ceteris paribus*, changes in the mix in favour of franchisees should therefore enhance the overall margin.
- In terms of estimates, our understanding is that financial costs at the group level should be as much as EUR600m in 2016 (in line with our estimates) given notably increased interest rates in Colombia. However, it seems that the consensus is currently well below that level. Admittedly, the consensus is also likely to adjust its estimates downward for minority interests, but all in all, there is probably room for an EPS downgrade in coming weeks. Stay tuned.

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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 Roumage

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the
Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the
Financial Conduct Authority (FCA) and the
Autorité de Contrôle prudential et de
resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

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