

13th October 2016

Food retailing

# Ahold Delhaize

Price EUR20.08

Pro-forma accounts

Fair Value EUR25 vs. EUR25,8 (+25%)

BUY

**Following the recent accounting update by the group, we disclose today our new pro-forma accounts. At this stage, taking into account EUR500m net synergies by 2019, we conclude that the merger between Ahold and Delhaize could, on average, have a 16.1% positive impact on 2016/19 EPS (very much in line with our initial estimates of 15.2%). Our fine-tuned Fair Value works out at EUR25.**

Following the recent accounting update by the group, we disclose today our new pro-forma accounts. It goes without saying, the exhaustive data (notably regarding the balance sheet), which should allow us to finalise our estimates, won't be disclosed before the FY. Hence, our spreadsheet is likely to evolve in the coming months with, as a consequence, potentially significant adjustments to several key ratios. At this stage, taking into account EUR500m net synergies by 2019, we conclude that the merger between Ahold and Delhaize could, on average, have a 16.1% positive impact on 2016/19 EPS (very much in line with our initial estimates of 15.2%) when restating our underlying EBIT from both transaction costs and one-off charges linked to the merger (those latter are nonetheless deducted from our DCF).

## ANALYSIS

- **1/** Current momentum proves Ahold/Delhaize's overall resilience, **2/** Ahold/Delhaize has virtually no exposure to ailing 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, flirting by Ahold/Delhaize offers an alternative within a sector that is suffering an obvious lack of growth.
- As a reminder, we are witnessing a change of 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). Against this backdrop, size is 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 by Delhaize and Ahold!
- Major execution risks (which cannot be ruled out during a merger of this scale) may arise later, notably when the company has to integrate the US operations. We see no execution risk linked to the merger before 2017. Before that, we believe both Ahold and Delhaize provide a kind of "insurance" within a skittish sector with no clear direction. BUY.

## VALUATION

- We derive our FV @EUR25 per share from a DCF

## NEXT CATALYSTS

- Investor Day on December 7<sup>th</sup>

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Bloomberg	AD NA
Reuters	AD.AS
12-month High / Low (EUR)	22.1 / 17.3
Market Cap (EURm)	25,728
Ev (BG Estimates) (EURm)	27,506
Avg. 6m daily volume (000)	3 808
3y EPS CAGR	ns

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.2%	-5.6%	-0.1%	3.1%
Food Retailing	1.1%	-1.7%	-6.9%	-3.3%
DJ Stoxx 600	-1.1%	0.7%	1.2%	-7.4%

YEnd Dec. (EURm)	2015e	2016e	2017e	
Sales	60,881	62,936	64,176	
% change		ns	3.4%	2.0%
EBITDA	3,862	4,196	4,473	
EBIT	1,899	2,189	2,532	
% change		ns	15.3%	15.6%
Net income	1,410	1,530	1,726	
% change			8.5%	12.8%

	2015e	2016e	2017e
Operating margin	3.5	3.9	4.2
Net margin	2.3	2.4	2.7
ROE	NM	NM	NM
ROCE	8.0	9.1	10.1
Gearing	19.2	12.3	5.2

(EUR)	2015e	2016e	2017e	
EPS	1.11	1.20	1.36	
% change		ns	8.5%	12.8%
P/E	18.1x	16.7x	14.8x	
FCF yield (%)	6.5%	5.4%	6.3%	
Dividends (EUR)	NM	0.53	0.64	
Div yield (%)	%	2.6%	3.2%	
EV/Sales	0.5x	0.4x	0.4x	
EV/EBITDA	7.1x	6.3x	5.7x	
EV/EBIT	14.5x	12.2x	10.1x	



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