25th October 2016

Food retailing

DIA

Price EUR5.48

Q3 (first take): in line / potential debate on the evolution of the wording of the FCF guidance

Fair Value EUR6,5 (+19%) **BUY**

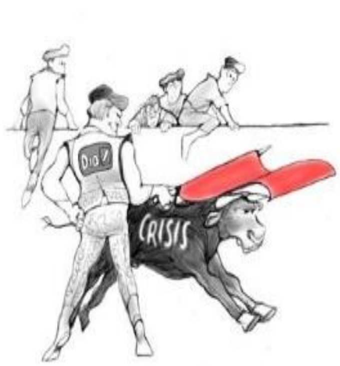
Bloomberg	DIA.SM
Reuters	DIA MC
12-month High / Low (EUR)	6.2 / 4.4
Market Cap (EURm)	3,408
Ev (BG Estimates) (EURm)	4,506
Avg. 6m daily volume (000)	3 042
3y EPS CAGR	6.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.3%	-4.9%	8.1%	0.6%
Food Retailing	1.8%	2.6%	-2.8%	0.4%
DJ Stoxx 600	-0.3%	1.2%	-1.2%	-5.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	8,926	9,024	9,533	10,025
% change		*1.1%*	*5.6%*	*5.2%*
EBITDA	610	627	685	724
EBIT	274.1	349.5	407.8	437.6
% change		*27.5%*	*16.7%*	*7.3%*
Net income	254.1	249.1	295.7	307.7
% change		*-2.0%*	*18.7%*	*4.1%*

	2015	2016e	2017e	2018e
Operating margin	4.4	4.4	4.8	4.9
Net margin	2.8	2.8	3.1	3.1
ROE	NM	NM	NM	NM
ROCE	22.5	20.6	22.1	22.2
Gearing	361.8	228.4	149.7	116.5

(EUR)	2015	2016e	2017e	2018e
EPS	0.42	0.41	0.49	0.51
% change	-	*-1.6%*	*18.7%*	*4.1%*
P/E	13.0x	13.2x	11.2x	10.7x
FCF yield (%)	NM	6.4%	8.1%	7.1%
Dividends (EUR)	0.19	0.20	0.21	0.22
Div yield (%)	3.5%	3.6%	3.8%	4.0%
EV/Sales	0.5x	0.5x	0.5x	0.4x
EV/EBITDA	7.4x	7.2x	6.4x	6.0x
EV/EBIT	16.6x	12.9x	10.8x	10.0x



1/ Publication very much in line with estimates (sales up +10% LFL to EUR2,320m) and, at this stage, we do not expect major adjustments by the market. 2/ Once again following Q1 and Q2, we believe that the ~30bp estimated decline in Q3 underlying margin in Iberia (in line with H1) cannot be interpreted as a margin restatement, while the relationship between the top line (+1.3% LFL) and the bottom line (+14bp) should look more healthy to the market than in the past. 3/ There is an evolution in the wording of the FCF guidance which, for sure, will be source of debates, notably for the pessimists.

Top line (net sales are down -8.0% to EUR2,320m, in line with expectations / +8.7% at cc / +10% LFL, which is the highest ever): 1/ In Iberia (64% of sales), LFL sales increase +1.3% excluding the -0.1% calendar effect (vs. +1.7% in Q2, -0.3% in Q1 and -1.4% in Q4 15). 2/ In emerging markets (36% of sales), given the difficult macro-economic context in LatAm, Dia's performances turned out to be again resilient (+22.5% LFL vs. +19.8%e / during Q3 2016, sales growth accelerated in Brazil). From Q1, LFL figures moved from 9% to twenty due to inflation acceleration in LatAm (especially in Argentina). Note that the currency effect on gross sales growth declined significantly in Q3 (from the negative effects of 38.7% and 34.5% seen in Q1 and Q2 respectively, it declined to 23.9% in Q3).

Bottom line (group EBITDA reached EUR162m vs. EUR161m e / margin down 3 bp): the strong sales growth in emerging market (margin down 9 bp to 3.7%), along with a softening of the negative currency resulted in a less favourable margin mix and explain why, despite a significant increase in margin in Iberia (+14 bp to 8.9%), the consolidated margin slightly decrease (-3bp). Once again following Q1 and Q2, we believe that the ~30bp estimated decline in Q3 underlying margin in Iberia (in line with H1) cannot be interpreted as a margin restatement, while the relationship between the top line (+1.3% LFL) and the bottom line should look more healthy to the market than in the past.

Outlook: 1/ Around 10% gross sales under banner growth (in local currency) in 2016, **2/** Stable adjusted EBITDA margin for full-year 2016, **3/** adjusted EBITDA expected to grow from 4% to 5% in 2016 (ex-currency). **4/** As far as the FCF guidance is concerned, note that previously (notably in Q2), management said the group was well on track to achieve its 2016/18 target which is for EUR750m FCF (i.e. EUR250 per annum). Today, management is expecting a strong cash generation in full-year 2016 (EUR109m FCF in 9M). There is an evolution in the wording which, for sure, will be source of debates, notably for the pessimists.

IBERIA Margin estimates (Bryan Garnier)	Q1	Q2	Q3	Q4	2015	Q1 16	Q2 16	Q3 16
LFL sales gowth	-4,5%	-5,2%	-2,3%	-1,4%	-3,3%	-1,3%	+2,9%	+1.2%
Excl. calendar	na	na	na	na	-0.9%	-0.3%	+1,7%	+1.3%
Est. underlying margin var.	83bp	109bp	12bp	-129bp	19bp	-35bp	-30bp	~-30bp

ANALYSIS

- Remember that over the past year, the relationship between the top line (declining LFL rates) and the bottom line (growing underlying margin rate) in Iberia has appeared unhealthy in the market's eyes. Hence, the market became convinced that, at some point, Dia would have no choice but to do a "margin restatement".
- Once again following Q1 and Q2, we believe that the ~30bp estimated decline in Q3 underlying margin in Iberia cannot be interpreted as a margin restatement, while the relationship between the top line (+1.3%% LFL) and the bottom line should appear rather healthy to the market.

VALUATION

- 2017 P/E of 11.2x vs. 16.5x on average for the market

NEXT CATALYSTS

- Acceleration of LFL in Iberia

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