

Metro AG

Price EUR26.67

Q4 trading statement (first take): topline remains weak

Fair Value EUR26 (-3%)

SELL

Bloomberg	MEO GY
Reuters	MEOG.DE
12-month High / Low (EUR)	31.6 / 21.9
Market Cap (EURm)	8,644
Ev (BG Estimates) (EURm)	11,522
Avg. 6m daily volume (000)	848.4
3y EPS CAGR	12.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.2%	-7.6%	-9.2%	-9.8%
Food Retailing	0.6%	-1.3%	-5.8%	-3.1%
DJ Stoxx 600	-0.1%	-0.1%	-1.6%	-7.8%

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	59,220	58,320	59,835	61,396
% change		-1.5%	2.6%	2.6%
EBITDA	2,457	2,460	2,544	2,631
EBIT	711.0	1,497	1,557	1,618
% change		110.6%	4.0%	3.9%
Net income	502.3	597.5	652.5	711.0
% change		18.9%	9.2%	9.0%

	09/15	09/16e	09/17e	09/18e
Operating margin	2.6	2.6	2.6	2.6
Net margin	0.8	1.0	1.1	1.2
ROE	NM	NM	NM	NM
ROCE	10.5	10.2	9.8	9.6
Gearing	48.9	44.4	45.9	46.4

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	1.54	1.83	2.00	2.18
% change		18.9%	9.2%	9.0%
P/E	17.3x	14.6x	13.4x	12.3x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	1.00	0.98	1.02	1.05
Div yield (%)	3.7%	3.7%	3.8%	3.9%
EV/Sales	0.2x	0.2x	0.2x	0.2x
EV/EBITDA	4.7x	4.7x	4.6x	4.6x
EV/EBIT	16.3x	7.7x	7.6x	7.5x

The negative and salient point of the publication was the poor performance at MMS (-2.0% LFL vs +0.4%e), notably penalised by difficult momentum at Redcoon. Even if management confirmed the FY EBIT BFI guidance, we continue to consider that topline performances remain weak (flat LFL in Q4) and do not allow talk of a commercial recovery, not to mention the credit situation, which remains a source of concern going forward. Sell maintained at this stage.

Q4 2015/16 sales decreased 0.5% to EUR14.2bn (vs EUR14.25bn e), up +0.1% LFL (vs +0.4%e). Again, very sparse details were provided by geography, but it seems that LFL developed positively in Russia C&C (slight LFL growth in Q4), rather in line with management's previous statement according to which the country may gradually bottom out during Q4.

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In detail, LFL sales rose +1.4% in C&C (~49% of sales) vs +0.8% e, declined 2.0% at MMS (~38% of sales) vs +0.4%e and grew by +0.3% at Real (~13% of sales) vs -1.0%.

ANALYSIS & INVESTMENT CASE

- The group's advantageous tax lever (shifting costs out of Germany in a bid to boost domestic operating result at Metro C&C and thus activate tax loss carry forwards) should not eclipse soft commercial trends. LFL performances (+0.1% in Q4 - below normative natural cost inflation) remain soft and prevent us from talking about a commercial recovery.

	Q4 15/16	Q1 15/16	Q2 15/16	Q3 15/16	Q4 15/16 e	Q4 15/16 p
C&C	+1.1%	+0.2%	+0.5%	+0.1%	+0.8%	+1.4%
MMS	+2.9%	+0.4%	+0.7%	+1.2%	+0.4%	-2.0%
Real	-1.6%	-1.6%	+0.5%	-3.5%	-1.0%	+0.3%

- Until september, management had refused to answer the question of whether we can rule out a rights issue in order to address the capital structure problem ahead of the spin-off. We believe that this latency period (five months!), during which management finally managed to find a solution, reflects what remains a precarious credit situation.
- Whether the optimists admit it or not, the precedent of Casino (which has proved that beyond the ratio, a diversified profile is key to maintaining a rating) leads us to believe that the situation at MMS (undiversified cyclical profile and in the front row concerning the ramp-up of e-commerce) remains very stretched, especially in view of weak commercial trends.

VALUATION

- 2017 P/E of 13.5x vs 16.5x on average for peers

NEXT CATALYSTS

- Spin-off

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