FOCUS

Casino Guichard

3rd November 2016

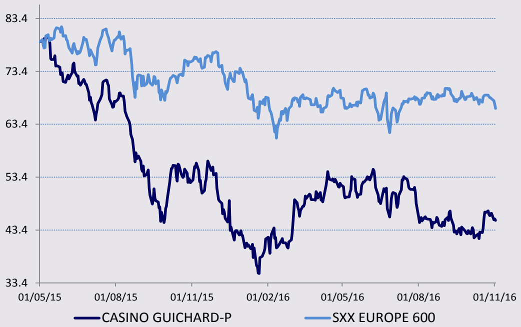
The fat Lady has not sung yet

Food retailing

Fair Value EUR57 (price EUR45.50) **BUY**

Bloomberg	CO FP
Reuters	CASP.PA
12-month High / Low (EUR)	56.5 / 35.2
Market capitalisation (EURm)	5,050
Enterprise Value (BG estimates EURm)	9,581
Avg. 6m daily volume ('000 shares)	411.1
Free Float	%
3y EPS CAGR	8.6%
Gearing (12/15)	49%
Dividend yield (12/16e)	6.86%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	46,145	41,860	45,300	47,261
Curr Op Inc. EURm)	1,446	1,130	1,362	1,503
Basic EPS (EUR)	-0.37	25.21	3.17	3.78
Diluted EPS (EUR)	2.80	1.65	2.94	3.58
EV/Sales	0.28x	0.23x	0.23x	0.23x
EV/EBITDA	5.6x	4.9x	4.5x	4.2x
EV/EBIT	13.4x	16.1x	7.5x	7.1x
P/E	16.3x	27.6x	15.5x	12.7x
ROCE	5.2	4.9	6.0	6.5



Beyond the ongoing carve-out of Cnova, we are wondering whether there might be more on the cards (finally) involving a wider reorganization of the portfolio, the outcome of which could be decisive for the share price. However, this would have to include a deep simplification of the structure (i) along with a reduction of minority interests (ii) while increasing exposure to LatAm to benefit from the expected market recovery at a minimal net cost (iii).

- We do believe that the market would only be favorable to such a reorganization if Casino complies with its commitment to retire EUR4bn worth of gross debt **(iv)** (wip /~50% already completed), made possible following the disposal of Asian Assets (a total of EUR4.2bn cashed-in between February and April 16). With these four conditions in mind, it is possible to imagine that Casino would pursue the logic started back in July 15 (first cash push-up) by transferring the rest of the shares (22.8% of the capital) still owned in GPA to Exito.

- To ease the deal vis-à-vis heated shareholders of Exito, we believe that Casino needs to improve the risk profile of GPA and trigger a rerating of the share. GPA could thus trend towards the market value reached at the moment of the first cash push-up (i.e. BRL76 / excl. control premium). Hence, a solution to achieve the right conditions for a second cash push-up would involve selling Via Varejo (and Nova Pontocom included in VV post carve-out) prior to it, which doing so, would improve the risk profile of GPA (a pure food Brick & Mortar player is more valuable than a patchwork of food, electro domestic and e-commerce activities!).

- The estimated potential cash-in (up to EUR1.3bn post rerating / i.e. 0.45x sales multiple for GPA Food vs 0.30x currently) would match the investment Casino would have to make in order to buy the minority interest of Exito with a 30% premium (i.e. EUR1.2bn). In the end, Casino would comply with its debt commitment **(iv)**, the structure would be dramatically simplified **(i)**, minority interests would decrease (the EI of Casino in GPA moving from 33.2%e to 41.6%e and Exito being 100% equity owned) **(ii)** while increasing the exposure to the market recovery in LatAm **(iii)**.

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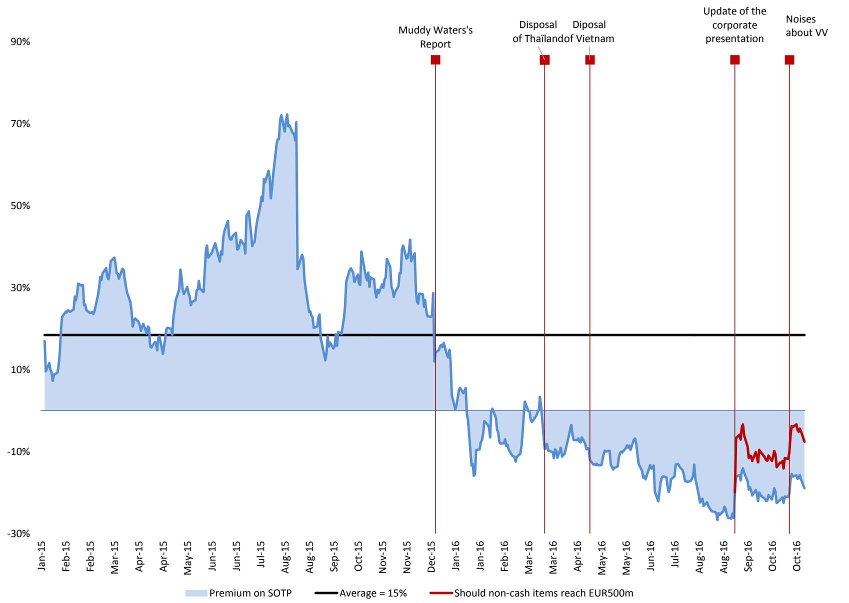
1. Premium / discount of Casino vs its MtM SOTP



Casino has been performing rather well (+6% over the last two weeks), on the back of: 1/ a series of events (trading statement, update of the corporate presentation, acknowledgment of the real estate deal executed by Exito in Colombia, carve-out of Cnova …), more or less advertised by the group; 2/ some noise about Steinhoff (with whom Casino has signed a partnership in France through Conforama) which was recently reported to be in talks to buy the Klein Family stake in Via Varejo; 3/ ultimately, market talks resurrecting the scenario of a potential LatAm minority interests buyback, which has been the subject of our report in February 2016: see: "[With hindsight: a real Catch-22!]"

From the above items, and beyond the ongoing carve-out of Cnova, we are wondering whether there might be more on the cards (finally) involving a wider reorganization of the portfolio, the outcome of which could be decisive for the share price. However, this would have to include a deep simplification of the structure **(i)**, along with a reduction of minority interests **(ii)**, while increasing exposure to LatAm to benefit from the expected market recovery at a minimal net cost **(iii)**.

Nevertheless, we do believe that the market would only be favorable to such a reorganization if Casino complies with **(iv)** its commitment to retire EUR4bn worth of gross debt (wip / ~50% already completed), made possible following the disposal of Asian Assets (a total of EUR4.2bn cashed-in between February and April 16). It is important to highlight the fact that the level of debt in the holding structure and the ALM mismatch have prevented investors from expecting any reward from the optionality embedded in the Value case (the SOP stands at EUR55 per share vs EUR46 market price). Net Debt, which peaked at EUR 8.5bn at the end of H1 15, reached EUR4bn at end-June 2016 and is expected to get to EUR3bn in 2016.

With these four conditions in mind, it is possible to imagine that Casino would pursue the logic started back in July 15 by transferring the second half of voting shares (18.7% of the capital) still owned in GPA to Exito (as a reminder, in 2015, Casino had sold the first half of its unlisted ordinary voting shares to its Colombian subsidiary with a 30% premium on the price of listed preferred non-voting shares). At this stage Casino could collect 100% of the cash pushed up (~EUR1.1bn e), while the market would only retain 55.3% (ie its holding in Exito) of the debt raised to finance the deal, thus slightly improving the proportional adjusted NFD/EBITDAR ratio (we already looked at this scenario in our report in February).

In turn, this new cash push-up would allow Casino to bid on the minorities of Exito (~EUR1.2bn with a 30% premium). It is worth noting that, on the other side, Exito has already ensured EUR250m cash-in thanks to the real estate deal announced in September 26th (Exito will get 50% of the proceed at the closing and the rest over the next to years). At first sight, we have to admit that we struggle to understand what Casino is waiting for. This idleness may be a matter of concern. But with hindsight, there is a stigma attached to past strategic moves by Casino, especially as regard to the first cash push-up from Exito (worth EUR1.65bn, including 100% of Libertad) following which the Colombian share had been strongly punished by the market (-30% since then). Not to mention detractors attacks…

To ease the deal vis-à-vis heated minority shareholders of Exito, we believe that Casino needs to improve the risk profile of GPA and trigger a rerating of the share (hence maximizing the cash-in). GPA could thus trend towards the market value reached at the moment of the first cash push-up (i.e. BRL76 / deal value - BRL100 - less the control premium). Hence, a solution to achieve the right conditions for a second cash push-up would involve selling Via Varejo (and Nova Pontocom included in VV post carve-out) prior to it, which doing so, would improve the risk profile of GPA (a pure food Brick & Mortar player is much more valuable than a patchwork of food, electro domestic and e-commerce activities!).

On our first take estimates, GPA is showing a 0.29x EV/Sales multiple (including ~0.6x for Cnova, ~0.1x for Electronics brick & mortar and ~0.3x for the Food activity). Steinhoff was reported to be in talks to buy the Klein Family stake in Via Varejo with a transaction multiple around 0.15x e excl. stake in Cnova. Taking into account this multiple (i.e. BRL2.4bn est. cash proceed for GPA) and applying a 0.45x (vs 0.30x) ratio to the Food activity, we would have GPA at around BRL78 per share (vs BRL76 as of 30/07/15). As we believe Exito already paid for control, we are not sure the second push-up deserve a premium. On the whole, Casino would collect EUR1.1bn (up to EUR1.3bn if the retailer sell to Exito the 4.1% remaining non-voting shares it also owned on top of the 18.7% voting shares). This amount would match the investment Casino would have to do in order to buy the minority interest of Exito with a 30% premium (i.e. EUR1.2bn).

At the end of the day, **(iv)** the cash-in would roughly match the cash out, **(i)** the structure would be dramatically simplified, **(ii)** minority interests would decrease (the EI of Casino in GPA moving from 33.2%e to 41.6%e) while **(iii)** the exposure to the market recovery in LatAm. Ultimately is would also allow to deconsolidate ~EUR75m worth of losses (Via varejo and Cnova). We are taking a more in-depth look into this scenario but wanted to share our thoughts as of now. Stay tuned

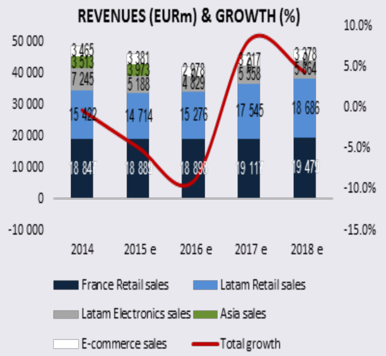
2. Our SotP as of 30/10/2016 *(source : Datastream, Casino, BG est.)*

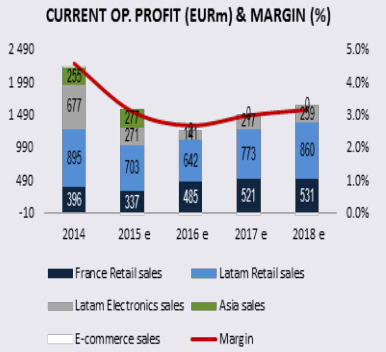
EV of french activities	2016 Sales	EV/Sales	Stake	EV	Per share
- Geant Casino	4 735	0,22X	100%	1 042	9
- SM Casino	3 263	0,40X	100%	1 305	12
- Monoprix	4 203	0,68X	100%	2 850	26
- FP/LP	4 074	0,40X	100%	1 629	15
- Others	2 624	0,40X	100%	1 049	10
EV FOR FRANCE RETAIL & CASINO CAFETERIA	**18 898**	**0,42X**	**100%**	**7 876**	**71**
Net debt holdco at year-end				3 011	27
Seasonnality of net debt				602	5
EQUITY FOR FRANCE RETAIL & CAFETERIA				**4 263**	**39**

Casino's direct equity stake in its subsidiaries	Stake	Equity	Per share
France Retail & Casino Cafeteria	100%	4 263	39
Casino Bank	50%	100	1
REIT (Mercialys)	40,3%	700	6
Brazil (GPA)	22,8%	1 065	10
Colombia (Exito)	55,3%	1 130	10
E-commerce (Cdiscount)	65,8%	667	6
(A) TOTAL EQUITY		**7 926**	**72**
Perpetual bonds		(590)	(5)
Hybride bond issue		(750)	(7)
Put included in NFD		151	1
Pensions and other provisions		(689)	(6)
(B) OTHER RESTATEMENT		**(1 878)**	**(17)**
(A)+(B) = NET EQUITY VALUE		**6 048**	**55**

3. Next Catalyst

Date	Event	Catalyst
March 2017	FY 2016	Casino beats its 2016 EBIT guidance in France





Company description

Casino is a long-standing player in France. It also over 50% of consolidated its sales in fast-growing countries, in Latin America (mainly Brazil and Columbia) and Southeast Asia (Thaïland and Vietnam). Casino has successfully applied its dual (retail+real estate), multi-format, multi-banner, and multi-channel model all around the world.

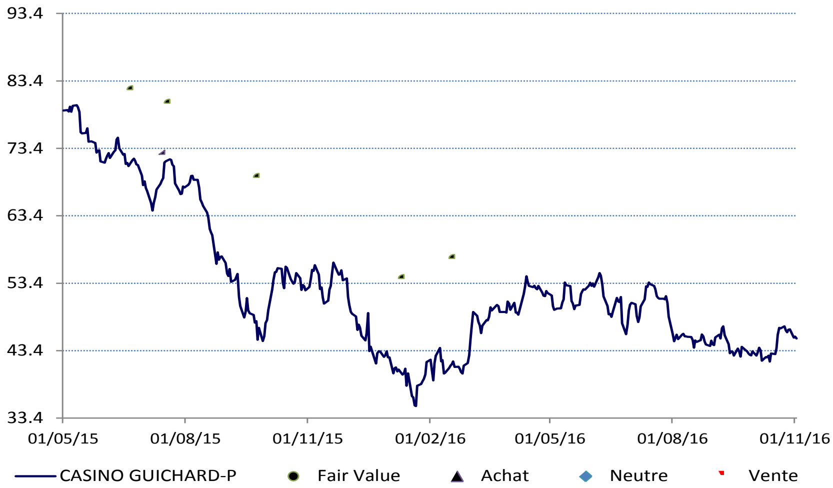
Reoganization of LatAm activities

Simplified Profit & Loss Account (€m)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenues	48,646	48,492	46,145	41,860	45,300	47,261
Change (%)	*15.9%*	*-0.3%*	*-4.8%*	*-9.3%*	*8.2%*	*4.3%*
EBITDA	3,337	3,191	2,343	1,943	2,301	2,543
Current operating income	2,363	2,231	1,446	1,130	1,362	1,503
Current operating margin						
Exceptionals	261	(494)	(478)	(533)	0.0	0.0
EBIT	2,624	1,737	968	597	1,362	1,503
Change (%)	*10.3%*	*-33.8%*	*-44.3%*	*-38.3%*	*128%*	*10.4%*
Financial results	(719)	(678)	(818)	(650)	(620)	(620)
PBT	1,905	1,059	150	(53.2)	742	883
Tax	(401)	(310)	(61.0)	21.8	(260)	(309)
Profits from associates	21.0	77.0	66.0	40.0	42.0	44.1
Income from discontinued activities	(2.0)	(2.0)	4.0	2,900	0.0	0.0
Minority interests	(672)	(573)	(201)	(114)	(175)	(201)
Net profit / group share	851	251	(42.0)	2,795	349	417
Restated net profit	618	556	412	233	364	435
Change (%)	*9.6%*	*-10.0%*	*-25.9%*	*-43.4%*	*56.3%*	*19.4%*
Cash Flow Statement (€m)						
Operating cash flows	2,054	1,893	1,076	884	1,562	1,762
Capex, net	(1,603)	(1,529)	(1,488)	(816)	(1,133)	(1,418)
Change in working capital	530	328	269	(307)	310	177
FCF	981	692	(143)	(239)	739	520
Financial investments	(32.0)	(15.0)	(64.0)	(330)	0.0	0.0
Dividends	(552)	(502)	(570)	(753)	(585)	(600)
Capital increase	1,248	(7.0)	(81.0)	0.0	0.0	0.0
Assets disposal	218	67.0	168	3,900	0.0	0.0
Other	(2,140)	(393)	437	0.0	0.0	0.0
Decrease / (Increase) in net debt	(277)	(158)	(253)	2,578	154	(80.2)
Net debt	5,662	5,820	6,073	3,495	3,340	3,421
Balance Sheet (€m)						
Tangible fixed assets	9,470	9,643	8,769	5,202	5,396	5,774
Intangibles assets	14,891	15,298	13,973	13,973	13,973	13,973
Cash & equivalents	5,529	7,395	5,126	7,704	7,859	7,778
Other assets	11,278	12,945	11,965	11,036	11,544	11,785
Total assets	41,168	45,281	39,833	37,915	38,771	39,311
Shareholders' funds	15,426	15,608	12,419	11,643	11,582	11,600
L & ST Debt	11,139	13,748	11,836	11,836	11,836	11,836
Provisions	1,178	1,180	1,041	1,041	1,041	1,041
Others liabilities	13,425	14,745	14,537	13,396	14,312	14,834
Total Liabilities	41,168	45,281	39,833	37,915	38,771	39,311
WCR	(3,478)	(3,806)	(4,075)	(3,768)	(4,078)	(4,254)
Capital employed	20,883	21,135	18,667	15,406	15,291	15,493
Ratios						
Current operating margin	4.86	4.60	3.13	2.70	3.01	3.18
Tax rate	21.05	29.27	40.67	41.00	35.00	35.00
Normative tax rate	33.00	33.00	33.00	33.00	33.00	33.00
Net margin	1.27	1.15	0.89	0.56	0.80	0.92
ROCE (after tax)	7.58	7.07	5.19	4.91	5.97	6.50
WACC	9.00	7.88	7.88	7.88	7.88	7.88
Gearing	36.70	37.29	48.90	30.02	28.84	29.49
Net debt / EBITDA	1.70	1.82	2.59	1.80	1.45	1.35
Pay out ratio	41.40	141	(840)	12.38	98.50	82.45
Number of shares, diluted	113	113	113	111	110	110
Data per Share (€)						
EPS	7.54	2.22	(0.37)	25.21	3.17	3.78
Restated EPS	5.32	4.43	2.80	1.65	2.94	3.58
% change	*9.7%*	*-16.7%*	*-36.9%*	*-40.9%*	*78.0%*	*21.8%*
Operating cash flows	18.19	16.75	9.52	7.97	14.16	15.97
FCF	8.69	6.12	(1.27)	(2.16)	6.70	4.72
Net dividend	3.12	3.12	3.12	3.12	3.12	3.12

Source: Company Data; Bryan, Garnier & Co ests.

Price Chart and Rating History

Casino Guichard



Ratings		
Date	**Ratings**	**Price**
20/07/15	BUY	EUR71.49
16/07/15	Under review	EUR68.59
30/01/15	BUY	EUR81.37

Target Price	
Date	**Target price**
19/02/16	EUR57
12/01/16	EUR54
25/09/15	EUR69
20/07/15	EUR80
16/07/15	Under review
22/06/15	EUR82
30/01/15	EUR95

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