

Ahold Delhaize

Price EUR20.60

Q3 2016 (first take): in line but soft outlook**Fair Value EUR25 (+21%)****BUY**

Bloomberg	AD NA
Reuters	AD.AS
12-month High / Low (EUR)	22.1 / 18.4
Market Cap (EURm)	26,388
Ev (BG Estimates) (EURm)	28,166
Avg. 6m daily volume (000)	4 001
3y EPS CAGR	ns

Consolidated figures worked out in line with expectations (EUR14.55 bn PF sales / +2.9% at cc) although this was mainly driven by the Netherlands (20% of sales) and Central & SEE (9%), whose commercial performances were higher than expected, while US sales (63%) turned out to be sluggish (~+0.7% LFL vs ~1.3% e). In fact, the US trading environment remains challenging with ongoing deflation and competitive pressure in the market. Management even indicated that the deflationary environment in relation to food sales in the United States should continue at current levels through the fourth quarter. We have to admit that the outlook is not very engaging.

Main consolidated figures

1/ Pro forma net sales increased by 2.6% to EUR14.55bn (vs EUR14.55bn e) and +2.9% at cc

2/ Pro format underlying EBIT worked out at EUR513m (vs EUR516m e)

In detail

In the US (63% of PF sales and ~62% of profitability): LFL excl. gas increased **+0.3% (vs +0.9% e)** at Ahold US, supported by positive volume growth resulting from investments in the value proposition partly offset by deflation. The PF underlying operating margin worked out at **3.9% (vs 4.0% e)**, down 20bp. LFL sales growth increased **+1.3% (vs 1.8% e)** at Delhaize USA with positive LFL and volumes at both Hannaford and FL. The PF underlying operating margin reached **3.5% (vs 3.7% e)**, down 30bp.

In the Netherlands (20% of PF sales and ~23% of profitability): LFL sales increased **3.3% (vs +2.6% e)**, supported by Albert Heijn (still positively impacted by innovations with, notably, a focus on health) and continued strong online sales growth (>30%). The underlying operating margin was **4.4% (vs 4.5% e)**, down 20bp (decline driven by a higher dilutive impact of Bol.com in line with investment plans to accelerate growth - as a reminder Amazon recently arrived in the Netherlands...).

In Belgium (8% of PF sales and ~4% of profitability): LFL sales increased **+1.3% (vs +1.6% e)**, driven by inflation and a good performance in the affiliated network (while volume growth remained negative at the integrated stores). Supported by the implementation of the Transformation Plan, underlying operating profit reached **+2.0% (vs +1.9% e)**, up +90bp.

In Central and South Eastern Europe (9% of PF sales and ~10% of profitability): LFL sales growth excl. gas increased **+6.0% (vs +4.3% e)**, a performance mainly driven by Greece and Romania, while growth was about flat in Czech Republic and Serbia. The underlying operating margin increased 60bp and reached **4.2% (vs 3.9% e)**.

ANALYSIS

- On the whole, consolidated figures worked out in line with expectations. Note however that this was mainly due to the Netherlands (20% of consolidated sales) and Central & SEE (9%), whose commercial performances were higher than expected (+0.6% and +1.5% above respectively), while the US turned out to be soft (~+0.7% LFL vs ~1.3% e).
- In fact, the trading environment remains challenging in the USA (63% of consolidated sales) with ongoing deflation and competitive pressure in the market. Management even indicated that the deflationary environment in relation to food sales in the United States should continue at current levels through the fourth quarter. The outlook is not very engaging.
- For the full year, AD expects PF underlying operating profit margin for the group to be broadly in line with the Ytd performance (i.e. 3.6% vs 3.7% e) and slightly ahead of last year. It continues to expect 2016 FCF to be EUR1.3bn (in line), including expected capital expenditure of EUR1.8bn.

VALUATION & NEST CATALYSTS

- 2017 P/E of 15x vs ~16.5x for peers
- CMD in London on 7th December 2016

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.7%	-5.4%	4.6%	5.8%
Food Retailing	1.6%	2.6%	0.5%	-0.7%
DJ Stoxx 600	-0.2%	-2.0%	1.3%	-7.3%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	NM	60,881	62,936	64,176
% change		ns	3.4%	2.0%
EBITDA	NM	3,862	4,196	4,473
EBIT	NM	1,899	2,189	2,532
% change		ns	15.3%	15.6%
Net income	0.0	1,410	1,530	1,726
% change		NM	8.5%	12.8%

	2014	2015e	2016e	2017e
Operating margin	NM	3.5	3.9	4.2
Net margin	NM	2.3	2.4	2.7
ROE	NM	NM	NM	NM
ROCE	NM	8.0	9.1	10.1
Gearing	NM	19.2	12.3	5.2

(EUR)	2014	2015e	2016e	2017e
EPS	NM	1.11	1.20	1.36
% change	-	ns	8.5%	12.8%
P/E	x	18.6x	17.1x	15.2x
FCF yield (%)	%	6.3%	5.3%	6.2%
Dividends (EUR)	NM	NM	0.53	0.64
Div yield (%)	%	%	2.6%	3.1%
EV/Sales	x	0.5x	0.4x	0.4x
EV/EBITDA	x	7.3x	6.5x	5.9x
EV/EBIT	x	14.8x	12.5x	10.4x



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