

**Ahold Delhaize**

Price EUR19.87

**The outlook (deflation in the US) is not engaging****Fair Value EUR24 vs. EUR25 (+21%)****BUY**

Bloomberg	AD NA
Reuters	AD.AS
12-month High / Low (EUR)	22.1 / 18.4
Market Cap (EURm)	25,459
Ev (BG Estimates) (EURm)	27,237
Avg. 6m daily volume (000)	4 061
3y EPS CAGR	ns

**We have to admit that the outlook provided by Ahold Delhaize (competitive environment and deflation in the US) during its Q3 2016 is not very engaging. Moreover, the consensus (and ourselves as we adjust downward our 2016/18 estimates by 6.7% on average) is struggling to adjust estimates following the merger. Hence, we are still in a period of latency during which we are adopting a more cautious stance. We are looking forward to more details regarding the merger and the strategic plan during the upcoming CMD (7th December).**

As a reminder, Q3 2016 figures were in line with expectations. Note however that this was mainly due to the Netherlands (20% of PF sales / **+3.3% LFL vs +2.6% e / 4.4% current margin vs 4.5% e**) and Central & SEE (9% / **+6.0% LFL vs 4.3% e / 4.2% current margin vs 3.9% e**), where commercial performances were higher than expected (+0.6% and +1.5% above respectively), while the US (63% of PF sales) turned out to be soft (**~+0.7% LFL vs ~1.3% e / 3.7% current margin vs 3.9% e**).

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.2%	-7.1%	3.8%	2.0%
Food Retailing	1.4%	3.4%	0.5%	-1.7%
DJ Stoxx 600	0.9%	0.0%	1.8%	-6.9%

In fact, the trading environment remains challenging in the US with ongoing deflation (-0.8% and -1.6% respectively at Ahold USA and Delhaize USA) and competitive pressure in the market (especially when it comes to Food Lion, of which ~75% of the stores compete directly with Wal-Mart). 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.

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	NM	60,881	62,225	63,649
% change		ns	2.2%	2.3%
EBITDA	NM	3,862	4,020	4,305
EBIT	NM	1,899	2,057	2,401
% change		ns	8.3%	16.7%
Net income	0.0	1,410	1,415	1,612
% change			0.3%	14.0%

In the Netherlands, e-commerce (>30% growth) had a strong positive impact on LFL (+3.3% released, including +1.3% for supermarkets, +0.7% for online and +1.3% for Bol.com). Bottom line, the decline in margin (-20bp) is driven by a higher dilutive impact of Bol.com (70bp) in line with investment plans to accelerate growth. However, it is worth remembering that Amazon recently arrived in the Netherlands and hence we suspect that the dilutive impact of Bol.com could widen over coming quarters.

	2014	2015e	2016e	2017e
Operating margin	NM	3.5	3.7	4.0
Net margin	NM	2.3	2.3	2.5
ROE	NM	NM	NM	NM
ROCE	NM	8.0	8.5	9.5
Gearing	NM	19.2	13.3	6.3

On the whole, 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% estimated by the consensus) 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. We are looking forward for more details regarding the merger and the strategic plan during the upcoming CMD (7th December).

(EUR)	2014	2015e	2016e	2017e
EPS	NM	1.11	1.11	1.27
% change	-	ns	0.3%	14.0%
P/E	x	17.9x	17.9x	15.7x
FCF yield (%)	%	6.5%	5.0%	6.0%
Dividends (EUR)	NM	NM	0.49	0.60
Div yield (%)	%	%	2.5%	3.0%
EV/Sales	x	0.4x	0.4x	0.4x
EV/EBITDA	x	7.1x	6.6x	5.9x
EV/EBIT	x	14.3x	12.9x	10.6x

**ANALYSIS**

- We have lowered our 2016/18 estimates by 6.7% on average. We have notably adjusted the phasing of synergies (EUR30m expected in 2016 out of the EUR500m final target)

**VALUATION**

- The company is currently showing a 16x 2017 P/E vs 16.5x on average for the panel

**NEXT CATALYSTS**

- CMD in London on 7th December 2016

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