

Sector View

Food retailing

Ahead of Q4, we would prefer Ahold Delhaize to Carrefour

	1 M	3 M	6 M	31/12/15
Food Retailing	0.9%	0.4%	1.2%	-0.6%
DJ Stoxx 600	5.5%	3.4%	5.4%	-1.6%

*Stoxx Sector Indices

Companies covered

AHOLD DELHAIZE	BUY	EUR24
Last Price	EUR19,715	Market Cap. EUR25,261m
CARREFOUR	BUY	EUR30
Last Price	EUR22,735	Market Cap. EUR17,193m

Ahold Delhaize and Carrefour are trading at rather attractive valuations (14.7x and 12.6x 2017 P/E respectively vs a 16.5x average for the panel) and we are at BUY on both. They should experience a rather smooth end to the year. However, Ahold Delhaize benefited from strong FCF generation, which Carrefour lacks. So at this stage, ahead of Q4, we prefer Ahold Delhaize (Buy, FV @EUR24).

CARREFOUR (Buy, FV @EUR30): on the one hand, we have adjusted down the associates line in our P&L, given significant one-offs in Turkey (EUR40m losses vs EUR45m revenues previously). Moreover, we have turned more cautious on France (price investments / -8bp e in 2016 margin), other Europe (weaker LFL / +15bp e in 2016 margin) and Asia (-100bp e in 2016 margin). On the other hand, we have updated our Forex which partly offsets the negative impact from the elements mentioned above. On the whole, we have lowered our 2016/18 EPS by 4.1% on average. We now expect the 2016 underlying operating income to reach EUR2.41bn (vs EUR2.46bn previously), given that the group stated during the latest publication that the EUR2.45bn consensus was reachable (vs comfortable with EUR2.47bn previously).

AHOLD DELHAIZE (Buy, FV @EUR24): the share buyback programme (EUR1bn in 2017) and the strong appreciation of the USD against the euro were the main reasons why we increased our 2016/18 estimates by 3.8% on average. As a reminder, the trading environment remains challenging in the US with ongoing deflation (~-0.8% and ~-1.6% respectively at Ahold USA and Delhaize USA in Q3) 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. Moreover, it is worth remembering that, in Q4 2015, the closure of some A&P stores benefited to Ahold stores. This unfavorable comparison base should have a 90bps negative impact on Q4 LFL.

ANALYSIS

- At this stage, we expect a smooth end to the year at Carrefour. Following a strong promotional campaign in September, the market share momentum finally turned out to be difficult and hence, the direction of the share price is rather difficult to read. Moreover, there is noise around the succession of Georges Plassat which, at this stage, creates an uncomfortable zone of uncertainty ahead of Q4. The share remains attractive, but at this stage, we would favour Ahold Delhaize.
- 1/** Current momentum proves Ahold Delhaize's overall resilience, **2/** Ahold Delhaize has virtually no exposure to emerging markets and hence, **3/** offers better visibility on operating performances for 2017 than others, **4/** Ahold Delhaize enjoys one of the best FCF profiles in the sector (high single digit FCF yield), **5/** via cost-sharing, the merger between Ahold and Delhaize offers an alternative within a sector that is suffering an obvious lack of growth, **5/** ultimately, Ahold Delhaize share could be supported by the EUR1bn buyback programme scheduled for 2017.

VALUATION

- Carrefour is currently trading on a 12.6x 2017e P/E vs 16.5x on average for the sector
- Ahold Delhaize is currently showing a 14.7x 2017e P/E vs 16.5x on average for the sector

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