Metro AG

Price EUR30.48

FY (first take): not a beat! (revenues from real estate well above expectations notably)

Fair Value EUR26 (-15%) **SELL**

Bloomberg	MEO GY
Reuters	MEOG.DE
12-month High / Low (EUR)	30.5 / 21.9
Market Cap (EURm)	9,877
Ev (BG Estimates) (EURm)	12,755
Avg. 6m daily volume (000)	819.5
3y EPS CAGR	12.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.7%	16.8%	6.8%	3.1%
Food Retailing	3.2%	4.2%	3.5%	-0.3%
DJ Stoxx 600	4.8%	3.4%	6.3%	-3.3%

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	19.8x	16.7x	15.3x	14.0x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	1.00	0.98	1.02	1.05
Div yield (%)	3.3%	3.2%	3.3%	3.4%
EV/Sales	0.2x	0.2x	0.2x	0.2x
EV/EBITDA	5.2x	5.2x	5.1x	5.1x
EV/EBIT	18.0x	8.5x	8.4x	8.2x

FY EBIT before special items (BSI) worked out to EUR1,560m (vs EUR1,441m expected by the consensus). However this figure included income from real estate sales amounting to EUR162m vs guidance for EUR100m, as well as unexpected income from the dissolution of obligations from post-employment benefit plans of EUR42m. <u>On the whole, based on the expected EUR100m figure for real estate and without taking into account the EUR42m, the EBIT BSI would have reached EUR1,456m vs EUR1,441m e (i.e. flat margin).</u> Hence, this publication is not a beat but is just slightly above estimates. Sell maintained at this stage.

As a reminder in terms of the topline (release on 19/10/2016), the negative and salient point of the publication was the poor performance of MMS (-2.0% LFL vs +0.4%e), notably penalised by difficult momentum at Redcoon (over recent months, it seems that the e-commerce activity as been under pressure in Europe, judging from the poor performances of both Redcoon and Cdiscount notably). As far as EBIT BSI is concerned, see detail below.

EBIT Before Special Items (BSI) and margin rate

EBIT BSI released vs cons.	Q4 15/16	Var. vs cons	FY 15/16	Var. vs cons
Cash & Carry	306	14,2%	1 043	3,8%
Media-Saturn	179	15,5%	454	5,6%
Real	27	-10,0%	100	-2,9%

Margin rate	Q4 15/16	Var.	FY 15/16	Var.
Cash & Carry	4,2%	50 bp	3,6%	6 bp
Media-Saturn	3,5%	93 bp	2,1%	4 bp
Real	1,5%	-42 bp	1,3%	20 bp

Source: Metro, Inquiry Financial, BG estimates

The outlook is based on the current group structure and adjusted for currency effects. For the FY 2016/17, management expects to see a slight rise in overall sales despite persistently challenging economic environement (continuously complex geopolitical situation). In LFL terms, the group foresees another slight increase (+0,2% this year). It also expects the EBIT BSI to rise slightly above the EUR1,560 released this year (with income from real estate expected to be slightly lower).

ANALYSIS & REMINDER OF OUR 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.
- 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 (undiversifed cyclical profile and in the front row concerning the ramp-up of e-commerce) remains very stretched. More detail to come during the upcoming CMD.

VALUATION

- 2017 P/E of 15,3x vs 16,8x on average for the panel

NEXT CATALYSTS

- CMD tomorrow (15th December) during which management should provide more insight into the post spin-off strategy for both separated entities (i.e. Food and Consumer Electronics)

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