BRYAN, GARNIER & CO

27th February 2019

AHOLD DELHAIZE

| Consumer, Brands & Retail
| Retail & E.commerce

NEUTRAL

Fair Value	EUR23,7 (+4%)
Share price	EUR22.87
EPS 3Y Cagr	15.5%

Slight beat for FY results

Slight beat for Q4 EBIT margin

Note that Ahold Delhaize already reported its sales in January and has now unveiled FY results, with EUR691m in underlying EBIT for Q4, beating CS expectations by >2%, also implying a 4.2% margin up 20bp (vs. 4.1%e by CS). The outperformance was mainly driven Belgium (2.9% margin vs. 2.3%e) where the recovery plan seems to be bearing fruit with higher gross margin and lower OPEX, especially visible in labour costs and D&A. The US (4.3% vs. 4.2%e) and Central and Southeastern Europe (5.3% vs. 5.2%e) also came out slightly above anticipations. The Netherlands (4.9% margin as expected) remains well oriented as the pure online non-food player bol.com continued to improve its margins (ex bol.com the margin is slightly down). With EUR432m in accumulated net synergies at the end of 2018, the group is still well on track to meet its EUR500m in net synergies by the end of 2019, the majority of which should stem from the US and sourcing.

Strong 2018 EPS and FCF

For the full year 2018, underlying EPS from continuing operations came out at EUR1.6, reaching the top of the EUR1.5-1.6 range guided by the group, notably driven by lower than expected financial expenses and income taxes. FCF amounted to EUR2.3bn. Ahold Delhaize will propose a dividend of EUR0.70/share, up 11% YoY and implying a pay-out ratio of 42%. The group will introduce an interim dividend of 40% of the H1 2019 underlying income from continuing operations to be paid after the publication in August.

2019 outlook implies margin headwinds and capping

Despite c.EUR70m in net synergies and EUR540m in cost-cutting (as part of the Save for Our Customer program) to be generated over 2019, Ahold Delhaize is anticipating flat margins for 2019 (in line with the CS). It confirms our fear to see the US margins eroding given increasing labour and transportation costs, the need to invest in prices in e-commerce and in e-commerce capabilities. We also believe Q1 should be closely monitored in the US regarding a potential shutdown impact and a decline in food inflation. The group also expects CAPEX of EUR2bn in 2019 given the ongoing remodelling of Stop & Shop and the e-commerce ramp-up in the US while underlying EPS should grow in high single digits (in line with the CS).

Neutral recommendation maintained

We are making no change to our estimates prior to the conference call. We confirm our Neutral stance as we still struggle to identify the profitability levers at the group level as headwinds are rising, especially in the US. The group is certainly a best-in-class player in execution, allowing it to generate strong FCF, adopt a generous investor return policy and be ready to seize any M&A opportunity. The stock is a safe-haven in the retail segment for long-term investors, and already fully priced as our FV of EUR23.7 points to no real upside, but we prefer to play the French food retailers.

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Market Data

Bloomberg / Reuters	AD NA/AD.AS
Market Cap.	EUR27,066m
E.V.	EUR29.709m
Free Float	0
Avg. Daily volume (6m)	4 976
12m high / low	23.4 / 17.6
Ytd Perf.	3.6%

EURM	12/17	12/18e	12/19e	12/20e
Sales	62,721	62,791	64,724	65,593
% Change		*0.1%*	*3.1%*	*1.3%*
EBITDA	4,251	4,371	4,530	4,612
% Change		*2.8%*	*3.7%*	*1.8%*
EBIT	2,227	2,490	2,653	2,710
% Change		*11.8%*	*6.6%*	*2.1%*
Net Income	1,582	1,890	1,955	2,000
% Change		*19.4%*	*3.4%*	*2.3%*
ROE	NM	NM	NM	NM

	12/17	12/18e	12/19e	12/20e
EV/Sales	0.5x	0.5x	0.5x	0.4x
EV/EBITDA	7.0x	7.0x	6.4x	6.1x
EV/EBIT	13.3x	12.2x	11.0x	10.3x
EPS	1.26	1.58	1.90	1.95
% change		*25.1%*	*20.3%*	*2.3%*
P/E	18.1x	14.5x	12.0x	11.7x
Div Yield	2.8%	3.0%	3.7%	3.7%

Next Catalyst:
Q1 2019 results on 8th May

Last FV Change:
2019-1-23, Q4 sales above expectations while 2018 EPS in the high end of guidance

Last Reports:
2019-1-23, Q4 sales above expectations while 2018 EPS in the high end of guidance

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