

25th April 2019

## CARREFOUR

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

## BUY

Fair Value EUR20(+20%)  
Share price EUR16.76  
EPS 3Y Cagr 12.2%

### Positive surprise in France in Q1; price investments finally materializing

#### Noticeable LfL acceleration in Q1 driven by France and LatAm

Carrefour positively surprised in Q1 with a 2.7% LfL excl fuel & calendar, which came out above the CS at 1.7% and showed a noticeable sequential acceleration vs Q4 18 at 1.8%. This outperformance was notably due to France (+1.0% vs. +0.1%e) where supers (+1.5%) and especially hypers (+0.1%) were back to growth despite an ongoing limited effect from the Yellow Vests movement (especially in city centers). Interestingly, Carrefour detailed its 1.0% LfL performance in France between food (2.0%) and non-food (-5.4%). LatAm also continued to register impressive performances with a 14.5% LfL excl fuel & calendar (vs. 12.5%e) thanks to rising food inflation in Brazil and good momentum in Argentina.

#### Still too early to see an inflexion in RoEurope and Asia

Rest of Europe and Asia came out in line with expectations with a LfL excl fuel & calendar of respectively -1.5% and -3.4% and showed no real improvement as it is still too early to expect any tangible return from the action plans in Spain, Italy (where the CEO only arrived a few months ago) and China (where the digitization work and the alliance with Tencent are vast).

#### Price investments are materializing in France

After emergency price investments in French supers last year, Carrefour finally began to make price investments across its channels in France in Q1 and notably in hypermarkets, which was one of the focuses of investors. The membership programs "Large Bran rewards" and "Loyalty rewards" were launched in Feb to offset the price hikes on some national brands required by the EGAlim law. But we believe Carrefour is also aiming at more widely improving the customers' price perception (which would imply further price cuts on some national brands), notably through the "Unbeatable prices" on 10 fruits and vegetables. The timing is smart as the EGAlim law is helping Carrefour to reposition itself vs Leclerc. These price investments should be financed by the ongoing cost-savings measures (i.e. purchasing alliances, French HQ reorganisation, ongoing negotiations regarding job cuts across French hypers and supers) and with a limited impact on P&L. We continue to expect a 10bp current EBIT margin improvement in France in 2019.

#### Buy confirmed, FV unchanged at EUR20

Buy confirmed with FV unchanged at EUR20. Q1 should not be seen as the long-awaited inflexion point in French growth as hypers were helped by easy comps and as the price investments might weigh on LfL before seeing an elasticity (most probably in 2020). By then, we do not expect any change in LfL trend in French hypers. But these measures prove that Carrefour is widely addressing its price and non-price historic weaknesses and will finance them through significant cost-savings. Regarding the ever-declining non-food categories, partnerships, reduction of space and renunciations (all promoted by M. Bompard) will be key to stop the bleeding.

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#### Market Data

Bloomberg / Reuters	CA FP/CARR.PA
Market Cap.	EUR13,224m
E.V.	EUR17,554m
Free Float	49,1
Avg. Daily volume (6m)	2 909
12m high / low	18.1 / 13.1
Ytd Perf.	12.4%

EURM	12/18	12/019	12/020	12/021
Sales	76,000	77,179	79,377	81,678
% Change		1.6%	2.8%	2.9%
EBITDA	3,399	3,734	4,086	4,428
% Change		9.9%	9.4%	8.4%
EBIT	744.0	1,496	2,086	2,436
% Change			39.5%	16.8%
Net Income	866.0	975.4	1,105	1,222
% Change		12.6%	13.3%	10.6%
ROE	NM	NM	NM	NM

	12/18	12/019	12/020	12/021
EV/Sales	0.2x	0.2x	0.2x	0.2x
EV/EBITDA	5.2x	4.7x	4.2x	3.7x
EV/EBIT	23.7x	11.7x	8.1x	6.7x
EPS	1.12	1.26	1.43	1.58
% change		12.6%	13.3%	10.6%
P/E	15.0x	13.3x	11.7x	10.6x
Div Yield	3.5%	3.9%	4.2%	4.4%

Next Catalyst: H1 19 results at end of July

Last FV Change:

[2019-4-18, Conquering Digital with Drive Services](#)

Last Reports:

[2019-4-18, A la conquête du digital avec les drives](#)

## CARREFOUR

<b>BUY</b>	
<b>Fair Value</b>	EUR20(+20%)
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<b>Market Cap.</b>	EUR13,224m
<b>EPS 3Y CAGR</b>	12.2%

Fiscal year end 31/12	2017	2018	2019e	2020e	2021e
<b>Financial Summary</b>					
EPS	-0,70	-0,72	0,64	1,06	1,30
Restated EPS	1,04	1,12	1,26	1,43	1,58
% change	-25,4%	7,5%	12,6%	13,3%	10,6%
Operating cash flows	3,13	2,26	3,14	3,76	4,21
FCF	-0,06	-0,02	0,93	1,48	1,77
Net dividend	0,52	0,59	0,65	0,70	0,73
Average yearly Price	20,40	16,33	-	-	-
Number of shares, diluted (m)	755	773	773	773	773
<b>Valuation (x)</b>					
EV/Sales	0,24	0,22	0,22x	0,20x	0,19x
EV/EBITDA	5,36	4,83	4,48x	3,93x	3,44x
EV/EBIT	9,55	8,61	11,18x	7,70x	6,26x
P/E	19,6	14,6	13,28x	11,72x	10,59x
FCF yield (%)	-0,3%	-0,1%	17,93x	11,30x	9,46x
Net dividend yield (%)	2,5%	3,6%	3,9%	4,2%	4,4%
<b>Profit &amp; Loss Account (EURm)</b>					
Revenues	78,897	76,000	77,179	79,377	81,678
Change (%)	2,9%	-3,7%	1,6%	2,8%	2,9%
EBITDA	3,573	3,399	3,734	4,086	4,428
Current operating income	2,006	1,905	2,036	2,245	2,436
Exceptionals	(1,310)	(1,161)	(540)	(159)	0
EBIT	696	744	1,496	2,086	2,436
Change (%)	-64,8%	6,9%	101,0%	39,5%	16,8%
Financial results	(445)	(262)	(260)	(255)	(250)
PBT	251	482	1,236	1,831	2,186
Tax	(618)	(539)	(543)	(805)	(961)
Profits from associates	4	14	30	30	30
Income from discontinued activities	1	(301)	0	0	0
Minority interests	(169)	(216)	(227)	(238)	(250)
Net profit / group share	-531	-560	496	818	1,005
Restated net profit	787	866	975	1,105	1,222
Change (%)	-23,8%	10,0%	12,6%	13,3%	10,6%
<b>Cash Flow Statement (EURm)</b>					
Operating cash flows	2,364	1,748	2,428	2,905	3,255
Capex, net	(2,379)	(1,611)	(1,791)	(1,918)	(2,052)
Change in working capital	(33)	(153)	85	159	166
FCF	(48)	(16)	722	1,146	1,369
Financial investments	(259)	(193)	(3)	(3)	(3)
Dividends	(292)	(234)	(438)	(482)	(536)
Capital increase / buyback	(40)	42	0	0	0
Assets disposal	1,622	295	0	0	0
Other	(195)	64	0	0	0
Decrease / (Increase) in net debt	788	(42)	282	660	831
Net debt	3,743	3,785	3,503	2,843	2,013
<b>Balance Sheet (EURm)</b>					
Tangible fixed assets	14,461	14,098	14,191	14,267	14,326
Intangibles assets	7,977	7,983	7,983	7,983	7,983
Cash & equivalents	3,609	4,346	4,628	5,288	6,118
Current assets	15,208	14,323	14,459	14,710	14,973
Other assets	6,558	6,628	6,659	6,692	6,725
Total assets	47,813	47,378	47,920	48,940	50,125
L & ST Debt	7,497	8,275	8,275	8,275	8,275
Provisions	3,003	3,521	3,521	3,521	3,521
Others liabilities	25,106	24,267	24,516	24,925	25,354
Minority interests	2,099	2,117	2,262	2,418	2,586
Shareholders' funds	10,059	9,169	11,608	12,219	12,975
Total Liabilities	10,059	9,169	11,608	12,219	12,975
WCR	(5,642)	(5,489)	(5,574)	(5,733)	(5,899)
Capital employed	16,796	16,592	16,599	16,517	16,410
<b>Ratios</b>					
Operating margin	2,5%	2,5%	2,6%	2,8%	3,0%
Tax rate	246,2%	111,8%	44,0%	44,0%	44,0%
Normative tax rate	35,0%	35,0%	35,0%	35,0%	35,0%
Net margin	1,0%	1,1%	1,3%	1,4%	1,5%
ROCE (after tax)	7,8%	7,5%	8,0%	8,8%	9,6%
WACC	8,5%	8,5%	8,5%	8,5%	8,5%
Gearing	37%	41%	30%	23%	16%
Net debt / EBITDA	1,0x	1,1x	0,9x	0,7x	0,5x
Pay out ratio					

Source: Company Data; Bryan, Garnier & Co ests.

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