

Consumer, Brands & Retail

5th September 2019

CARREFOUR

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

BUY

Fair Value EUR21(+35%)
Share price EUR15.71
EPS 3Y Cagr 12.4%

Feedback from roadshow with management

As the implementation of the plan is well underway...

During our roadshow with the group's CEO (Alexandre Bompard) and CFO (Matthieu Malige) in Paris, management reiterated its confidence in its ability to redesign the whole commercial offer. The more explicit customer-centric approach has already proven its worth in Argentina and is currently proving its worth in Spain. The move should be achieved through the restructuring of non-food categories, the transformation of food categories and the construction of e-commerce. Carrefour has:

- Redesigned its brand to make it sustainably differentiated (through Act for Food, private labels and organic);
- Reduced its selling space by 100,000sqm (out of the 350,000sqm targeted across the geographies, especially in non-food);
- Halved its pricing gap with Leclerc (c.3pts according to the latest Lineaires' price index vs. >6pts at end of 2017). This gap could narrow again in H2 2019 as the index, calculated throughout H1, does not seem to fully reflect the latest price investments (we believe the gap could come closer to 2pts).
- Amended its commercial strategy from promotions (bargain hunters are the most expensive to attract and the most volatile) to loyalty (through attractive multi-format loyalty programs and everyday low price);
- Begun to catch up on e-commerce (grocery e-commerce is up 30%, already 1,500 drives across the geographies o/w 100 pedestrian drives in France).

...market share losses in France are set to repeat in the short-term

Although necessary to fuel the commercial recovery, these measures (i.e. selling space reduction, more limited promotions and price investments) imply a negative impact on the top line in the short-term according to management, and further market share losses in France in Kantar's future publications. It is too soon to expect an uptick in volumes following price investments as management does not yet see any elasticity on volumes. From our perspective, we still have a 12-month period in mind, implying a potential reaction on volumes from the end of H1 2020. In this respect, we believe Q3 2019 could be soft in France, especially since the back-to-school period used to be a very promotional period for Carrefour and also given the unfavourable comparison base. We noted no change in message regarding the other geographies except for Spain, which seems to benefit from revived in-store traffic since the end of Q2.

Towards limited margin improvement before a potential return on operational leverage

For the time being, cost-cutting initiatives (EUR1.4bn generated out of the EUR2.6bn targeted by FY2020) are almost entirely used to finance: 1/ price investments; 2/ the redesign of the whole commercial offer o/w e-commerce; 3/ still negative operating leverage. That said, we understand from management that the EBIT margin

[Continued on next page]

Clément Genelot

33(0) 1 56 68 75 60
cgenelot@bryangarnier.com

[Click here to download document](#)

Market Data

| | |
|------------------------|-------------------|
| Bloomberg / Reuters | CA FP/CARR.PA |
| Market Cap. | EUR12,678m |
| E.V. | EUR17.071m |
| Free Float | 65% |
| Avg. Daily volume (6m) | 2 398 |
| 12m high / low | EUR18.1 / EUR14.4 |
| Ytd Perf. | 5.3% |

| EURM | 12/18 | 12/19 | 12/20 | 12/21 |
|--------------|--------|--------|--------|--------|
| Sales | 76,000 | 72,686 | 74,963 | 77,233 |
| % Change | | -4.4% | 3.1% | 3.0% |
| EBITDA | 3,399 | 3,627 | 3,998 | 4,329 |
| % Change | | 6.7% | 10.2% | 8.3% |
| Current EBIT | 1,905 | 2,028 | 2,260 | 2,446 |
| % Change | | 6.5% | 11.4% | 8.2% |
| Net Income | 866.0 | 950.0 | 1,095 | 1,209 |
| % Change | | 9.7% | 15.2% | 10.4% |

| | 12/18 | 12/19 | 12/20 | 12/21 |
|-----------|-------|-------|-------|-------|
| EV/Sales | 0.2x | 0.2x | 0.2x | 0.2x |
| EV/EBITDA | 5.0x | 4.6x | 4.0x | 3.5x |
| EV/EBIT | 22.9x | 21.3x | 7.6x | 6.2x |
| EPS | 1.12 | 1.25 | 1.44 | 1.59 |
| % change | | 12.0% | 14.9% | 10.2% |
| P/E | 14.0x | 12.5x | 10.9x | 9.9x |
| Div Yield | 3.8% | 4.2% | 4.5% | 4.6% |

Next Catalyst: Q3 2019 sales around mid-October

Last FV Change:

2019-7-26, EBIT margin finally stabilizing in France

Last Report:

2019-8-28, Carrefour and Casino in LatAm: It's a Match!

improvement in France will remain limited in 2019 and 2020 (we still factor +10bp for 2019 and +20bp for 2020 into our model). Beyond 2020, management has been clear about its intention to maintain financial discipline and its ability to implement new efficiency programmes. We then understand that such new cost initiatives combined with a successful commercial relaunch, implying the return of operating leverage, would be the key to further improve EBIT margin. One crucial question, still unanswered at this stage, is of course to know what could be the normative level of the EBIT margin in France.

Increasingly open discourse about M&A

Whereas from 2017 to H1 2019, the Carrefour teams were entirely focused on implementing the transformation plan, management now thinks they can handle both the monitoring of the transformation plan and the integration of a company. Furthermore, the group should present a strengthened financial position by the end of 2019 (we anticipate a 0.8x net debt/EBITDA ratio pre-IFRS 16 vs. 1.1x in 2018) thanks to the upcoming proceeds coming from China (i.e. EUR620m) and Cargo (i.e. EUR230m). With an increasingly unstable competitive landscape taking shape in Western Europe over recent quarters, management intends to maintain a healthy balance sheet to be ready to seize any opportunity. With a very pragmatic and open-minded approach, specific to Carrefour's management, every opportunity would be studied but with a stronger focus on organic and convenience (thus excluding the EUR2bn of assets to be sold by Casino). While management considers that M&A is not essential to Carrefour's growth and store network expansion in Brazil, we still consider our recent scenario with GPA in our report [Carrefour and Casino in LatAm: It's a Match!](#) to be credible as any opportunity would generate interest from Carrefour.

We continue to favour Carrefour within our European food retailing universe

Carrefour (Buy, EUR21) remains our top pick in our European food retailing universe for its governance stability, healthy balance sheet and ongoing redesigning of its customer proposition. These are key elements in a low-growth/low-margin food retail sector facing the rise of e-commerce, where the competitive landscape is set to evolve in the medium-term. But we have to admit that buying Carrefour stocks today remains a bet as a noticeable change in volumes in France from H2 2020 is not assured given the competitive and lacklustre food retail environment. Investors recently tended to be very focused on the sales performance in France. In this respect, we expect the share price to remain volatile until the end of the year with the upcoming publications of Kantar Worldpanel and the Q3 sales publication in mid-October.

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

| | |
|----------------|---|
| BUY | Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion. |
| NEUTRAL | Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion. |
| SELL | Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion. |

Distribution of stock ratings

BUY ratings 49,7%

NEUTRAL ratings 43,1%

SELL ratings 7,2%

Research Disclosure Legend

| | | | |
|----|---|--|-----|
| 1 | Bryan Garnier shareholding in Issuer | Bryan Garnier & Co Limited or another company in its group (together, the “Bryan Garnier Group”) has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the “Issuer”). | No |
| 2 | Issuer shareholding in Bryan Garnier | The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group. | No |
| 3 | Financial interest | A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report | No |
| 4 | Market maker or liquidity provider | A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives. | No |
| 5 | Lead/co-lead manager | In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives. | No |
| 6 | Investment banking agreement | A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services. | No |
| 7 | Research agreement | A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report. | No |
| 8 | Analyst receipt or purchase of shares in Issuer | The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares. | No |
| 9 | Remuneration of analyst | The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group. | No |
| 10 | Corporate finance client | In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months. | No |
| 11 | Analyst has short position | The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer. | No |
| 12 | Analyst has long position | The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer. | No |
| 13 | Bryan Garnier executive is an officer | A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person’s household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above. | No |
| 14 | Analyst disclosure | The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report. | Yes |
| 15 | Other disclosures | Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed). | No |



BRYAN, GARNIER & CO

London

Bryan, Garnier & Co Ltd
Beaufort House
15 St. Botolph Street
London EC3A 7BB
United Kingdom
+44 207 332 2500

Paris

Bryan, Garnier & Co Ltd
26 Avenue des Champs-
Elysées
75008 Paris
France
+33 1 56 68 75 20

Munich

Bryan, Garnier & Co. GmbH
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

Zurich

Bryan, Garnier & Co
Theaterstrasse 4
8001 Zurich
Switzerland
+41 44 991 3300

New York

Bryan Garnier Securities
750 Lexington Avenue
16th floor
New York, NY 10022
United States
+1 212 337 7000

IMPORTANT INFORMATION

This document is classified under the FCA Handbook as being investment research (independent research). Bryan, Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan, Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan, Garnier & Co Limited is authorized and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom.

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom This Report has not been approved by Bryan, Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan, Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

This Report is based on information obtained from sources that Bryan, Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan, Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its

accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan, Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC, 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.