

MARKET DIGEST

Carrefour H1 2017, hard time for food retailers, Buy

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Carrefour delivered today weak results and 2017 guidance. Whereas organic growth during Q22017 and H12017 is satisfactory, profitability was strongly hit by French Hypermarkets, by Dia, by Argentina and by the digital commerce. Group H1 2017 EBIT of EURO 621mn is 21.5% lower vs H12016 and 7% lower than market expectation of EURO 669mn. 2017 EBIT Guidance are around EURO 2.07bn. This is more than 13% downward adjustment to market expectations of EURO 2.4bn.

Carrefour is facing structural changes in the food retail business, fierce competition in its home hypermarkets, poor economic conditions in Argentina and specific issues with its Dia's stores concept in Spain. The only positives for the French retail food distributor are Chinese operations, the arrival of the New Ceo Mr. Bompard and a cheap valuation.

Whereas we acknowledge these results and new guidance sound like a profit warning and market will severely punish Carrefour share price, we do not believe Carrefour is a value trap. It is likely new CEO took the opportunity to clean the company and to start from a lower but solid basis. French hypermarket business will remain difficult, but there is large room for improvement in the digital commerce, in emerging markets and with Dia's stores.

In France, EBIT stood at EURO 199mn, representing a decline of 36% vs H12016 and an operating margin of 1.1% (-70bps). This is mainly due to higher promotional investments in a very competitive environment, as well price adjustments in certain stores to maintain Carrefour's market share vs Leclerc and Casino notably. France's operational performance was also impacted by the increase of losses at ex-DIA stores. Dia is now expected to lose EURO150mn by year end. Mr Bompard in addition to focus on digital operations will need to quickly adjust or change Dia's business model.

In Other European countries (excluding France), EBIT stood at EURO149m (-3.7% vs H12016), with operating margin slightly down by 10bps to 1.5%. This variation includes the impact of the transformation and integration of Eroski stores in Spain and Billa stores in Romania.

In Latin America, EBIT rose to EURO 293mn, up +7.5% thanks to currencies impact but down 15.35% at constant exchange rates. Operating margin stood at 3.6% (down 60bps). In Brazil, financial services were impacted by a change in regulation on consumer credit as well as by start-up costs linked to the launch of the Atacadão card. The consumption environment remained very difficult in Argentina, marked by pressure on volumes and high inflation, impacting the Group's margin.

Carrefour 2017 is guiding for sales growth around 2%-4% at constant exchange rates in the full year vs 3%-5% previously. 2017 EBIT evolution vs 2016 should be roughly in line with the evolution during H12017.

At current share price and valuation, we believe Carrefour is cheap and deserve a Buy rating with a target price of EURO 20 based on DCF model.

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