MARKET DIGEST

CARREFOUR 2016 RESULTS, WEAK FRANCE BUT STRONG INTERNATIONAL, BUY

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Carrefour published 2016 results in line with expectations but with a big miss on France (10% shortfall), partly offset by a stronger Europe (18% beat) and by a stronger Brazil (5% beat). Asia was in line with expectations. All in all, group EBIT fell 2% short of expectations in H2. FCF and net debt were in line.

2017 guidance was separately in line, with sales growth of 3-5% at constant FX and capex down to EURO 2.4bn.

French margin reached 2.9%, implying an 80bp decline in H2, due to the increase in promotions and fierce competition from Leclerc. Europe was very strong with a 3.5% EBIT margin, +60bps YOY driven by Spain.

Although Carrefour emphasized its declining exposure to non-food (only 17% at end of 2016) and to the hypermarket format (less than 50% expected in 2019 vs 58% in 2012) as well as its plan to triple online sales to EURO 4bn by 2020, we believe that investors remain concerned about its short-term performance in France, while Carrefour hypermarkets continue to lose market share despite its price investment. Although we expect Dia's losses to decline this year and the Caravelle project to continue to deliver savings, operating margin in France are likely to stay at current level of 2.9%.

Carrefour confirmed its intention to float both its Carmila property and Brazilian divisions in 2017 but did not provide a more precise agenda as these Ipos will be subject to market conditions.

We believe market reaction was excessive, as Carrefour's strategy goes in the right direction, but French competitive hypermarkets environment is delaying Carrefour EBIT recovery in the short term.
We believe Carrefour Outside of France is doing well. Dia and China restructuring is well underway and emerging market should offset French weakness in 20017 and 2018.

Carrefour is cheap value stock with a 12m P/E of 12.9x and an EV/EBITDA of 5.13x. We are confirming our Buy rating and 12m price target of EURO 30.

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