

# Carrefour (CARR.PA)

## Alert: 1Q14 Sales Conference Call Notes

■ **1Q14 Sales Summary:** Group organic sales ex-fuel, ex-calendar were up +3.7%. French LFL sales ex-fuel ex-calendar were slightly below consensus: +0.7% at hypermarkets and +1.8% at supermarkets (consensus estimates: +0.9% and +2.0% respectively). Convenience and other formats posted a strong +5.7% LFL however. Other Europe also in-line with Spain and Belgium posting positive LFL (+0.1% and +0.5% respectively) and Italy -7.6% (cons: -6.5%). Brazil +3.9% (consensus: +3.4%) and China -4.0% (consensus: -3.2%).

■ **Our View:** Overall there were no surprises today and the data points to resilience in trading in Carrefour's key markets. Management believes the full-year EBIT consensus of €2.38bn looks "reasonable" at this stage. We don't expect any changes to market forecasts today.

### ■ Notes from conference call with CFO Pierre-Jean Sivignon:

- **Group Sales:** +3.7% organic sales growth (ex-fuel, ex-calendar) was the strongest in two years. This was driven by better non-food sales and stable performance at food.
- **France:** All formats performed well. Traffic improved in all formats. Carrefour price repositioning began 2 years ago and price perception has been improving since 3Q12. Price perception improved this quarter too. *Hypermarkets:* 6<sup>th</sup> consecutive quarter of food sales growth. Non-food sales were resilient (still negative but better than in 4Q13). Traffic improved for a fourth quarter in a row. *Supermarkets:* footfall was positive. Smaller formats saw acceleration of sales.
- **Drives:** Opened 26 in the quarter. Carrefour had 374 units at end of March, of which 9 are solo Drives. The company will continue to increase the numbers but more importantly optimize the existing footprint. Trend of revenue growth in Drives was consistent with 4Q13.
- **Spain:** Management encouraged by momentum. This is the second quarter of positive LFL growth. LFL was positive in food and non-food. Organic growth was +1.1%. Food LFL in 4Q13 was slightly negative, but now turned positive. Three drivers of the improvement in performance: Carrefour has invested heavily in improving its fresh food offering, allowed managers to adapt food assortment to local needs, and finally revamped stores and shopping malls. Sees inflation c1% but slowing further. Carrefour did not gain market share in the country.
- **Italy:** Environment was very promotional in the quarter. Expect new commercial strategy to show results in the medium term. Carrefour will be more consistent on prices (more EDLP) and promotions. Started re-training of staff on fresh food etc.

<b>Neutral</b>	<b>2</b>
Price (10 Apr 14)	€28.98
Target price	€27.00
Expected share price return	-6.8%
Expected dividend yield	2.1%
<b>Expected total return</b>	<b>-4.7%</b>
Market Cap	€20,977M
	US\$29,065M

### Price Performance (RIC: CARR.PA, BB: CA FP)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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- **Belgium:** Trading environment is volatile. Management does not believe Carrefour gained market share. Hard discounters are doing well.
- **Poland:** LFL sales drop in low single digit when adjusted for calendar impact. Inflation is c1%. Market is more promotional. Carrefour acquired a small upmarket supermarket chain in 4Q.
- **Brazil:** Both hypers and Atacadão formats did well despite lower food inflation compared to 1Q13. Plan for 2014 is to open 10 Atacadão stores. Carrefour owns the real estate in Brazil (vs. a lease model in China).
- **Argentina:** Both volume and traffic increased. Inflation around 25%. A price freeze has been in place since the beginning of the year on around 200 products. 8% of sales (dry groceries) fall under the price freeze.
- **China:** Last year 2Q and 3Q saw encouraging trends and LFLs were positive. Since 4Q, Carrefour has been affected by lower consumption in discretionary categories, especially non-food and alcohol sales. Market share vs. competitors unchanged. Expansion in tier-2 and tier-3 cities has been happening over the last 2 years. Opened 20 stores per year, of which a high proportion are in these cities. Expansion represents 5.1% of our total growth in 1Q14 (4.4% in 4Q).
- **Logistics project:** Will enable DCs to be multi-format multi-channel supportive. It is a 3-year project and should be completed in 1Q 2016.

## Carrefour

### Valuation

Our €27 target price is arrived at by applying a sector average multiple of 8.0x lease adjusted EV/EBITDAR to our 2014 earnings estimate.

### Risks

Carrefour faces the following industry and company-specific risk factors. The major upside risk to our recommendation and target price is that trading improves in France. Further corporate activity is a further risk, specifically should it sell assets for attractive prices in emerging markets. Currency movements are also a source of share price risk. Carrefour's heavy southern European exposure presents significant macro-economic risks at present.

## Appendix A-1

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#### Carrefour (CARR.PA)

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Analyst: Pradeep Pratti  
Covered since February 26 2014



	Date	Rating	Target Price	Closing Price
1	11-May-11	*2M	*27.08	27.00
2	1-Sep-11	2M	*19.50	18.18
3	4-Oct-11	2M	*18.00	16.74
4	7-Oct-11	Stock rating system changed		

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	7-Oct-11	*2	18.00	17.26
6	7-Nov-11	*3	*15.00	19.16
7	13-Jul-12	*2	15.00	14.55
8	13-Nov-12	2	*19.00	18.12

	Date	Rating	Target Price	Closing Price
9	5-Feb-13	2	*21.00	20.83
10	18-Oct-13	2	*27.00	27.37

Rating/target price changes above reflect Eastern Standard Time

**Carrefour (CARR.PA)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

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