

Carrefour	
Ticker Site BiG	CA
Ticker BiGlobal Trade	CA
Ticker BT24	CA
Ticker BiG Power Trade	CA
P/E Ratio 2019E	13,83
P/BV Ratio	1,52
EV/EBITDA	11,13

Source: Company's data;

Price and Performance (Values in EUR)	
Price	15,99
52 week high	18,18
52 week low	14,25
YTD	7,2%
Average daily volume (un)	2.478.081
Market Capitalization (mn)	12.904
Beta	0,79
Dividend	0,46
EPS	-0,73

Source: Company's data;

Analysts Consensus (last 3 months)	
Buy	14
Hold	12
Sell	2

Source: Company's data;

Financial Data	
Sales (EUR mn)	75.261
EBITDA (EUR mn)	2.279
Number of Employees	363.862
ROA	-0,3%
ROE	-1,9%
D/E	1,22
Dividend Yield	2,88%

Source: Company's data;

## Notes:

All quotes were updated in Bloomberg at 08h40 of August 9<sup>th</sup>, 2019.

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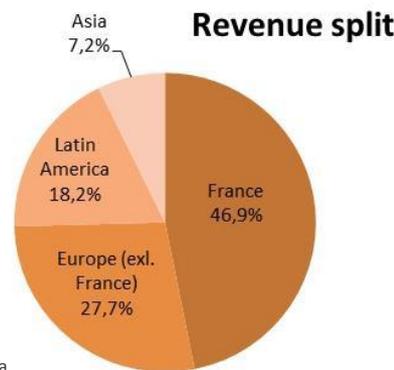
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## Carrefour (Ticker: CA)

### Description

**Carrefour** is a French food retailer established in 1959 and headquartered in Boulogne-Billancourt, France. The company operates in segments of hypermarkets, supermarkets, convenience stores and cash & carry. It is present in Europe (France, Spain, Belgium, Poland, Romania, Italy), South America (Argentina, Brazil) and Asia (China, Taiwan) having total of 12 thousand stores. Africa and Middle East are covered by franchising stores or through partnerships. The biggest revenue generating market is France, which makes 47% of total sales. Carrefour reported €75 billion in annual sales in 2018 and it has a market capitalization of €12.9 billion.



Source: Company's data

### Investment Points

In the last years Carrefour is facing a challenging environment in the food retail business. Rapid growth of discount stores, which have a huge pricing advantage force biggest food retailers to change their strategy. Several years in a row Carrefour has decreasing margins and earnings, which turn to be negative in the last two years; also the company started increasing debt. Nevertheless, as a way to recover the business Carrefour announced about the transformation plan, which is supposed to result in €2.8bn savings by 2022. If the transformation proves to be successful, the company may recover and maintain its food retail leading position worldwide; however at the moment it is not recommended to invest in a company.

### Environmental, Social and Governance (ESG)

Due to society concerns towards the healthy food and healthier lifestyle, Carrefour engaged in providing healthy production for the affordable prices. The company not only expands its assortment by various healthy options, but also changes the ingredients of its own brands in order to make them healthier. Even though the company presents detailed explanation of various initiatives, the results are less discussed, thus it creates the impression that the company keeps initiatives at the planning stage. Furthermore, Carrefour still has deforestation-linked beef among its products, which highly contributes to the negative reputation of the company. For more information refer to *page 7*.

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**▲ Investment Case**

**Carrefour 2022.** In 2018 Carrefour announced about the transformation plan for 2022. The main aim is to reduce costs by €2.8bn; reach €5 bn in sales through e-commerce; reach €5 bn in sales of organic products and dispose the real estate assets of total value of €500 mn to reduce the holdings of non-strategical assets.

In order to achieve these goals, company took several measures: cut 2 400 jobs in France (also Belgium and Argentina) and divest 273 DIA stores. Moreover, the company is planning to reduce the assortment by 15% globally by 2020 to improve the clarity of the offer. Also, it is planned to reduce the size of the stores and focus more on convenience stores, especially in France. The savings are expected to be used to gain competitiveness against Leclerc in terms of pricing, as well as invest in digitalization, i.e. e-commerce and achieve the market share of 20% of French food e-commerce.

During 2018 the company already divested DIA stores and achieved savings of €1,050 million. In addition to this Carrefour signed the partnership with Tesco and System U in order to gain negotiation power towards the suppliers.

**Competition.** In the last years Carrefour faced difficulties due to fierce competition in food retail industry. Due to recent changes in retail business, companies are moving to smaller stores and offering big discounts for the products. Carrefour trying to maintain premium brand, which led to the decreasing market share. As discount and convenience stores are gaining more attention from the customers, Carrefour had to significantly change its strategy to avoid further losses.

**Financial position.** In last couple years Carrefour faced profitability obstacles, which is leading to increasing level of debt and may result to solvency issues. Second year in a row Carrefour is having losses, which reached €529 million attributable to the Group in 2018. The gross margin is decreasing since 2016 and reached 22.5%. Operating margin despite of being significantly low is also decreasing; in 2018 it was equal to 1%. Besides poor profitability the company is increasing the level of debt, in 2018 Net Debt/EBITDA level reached 5.7x.

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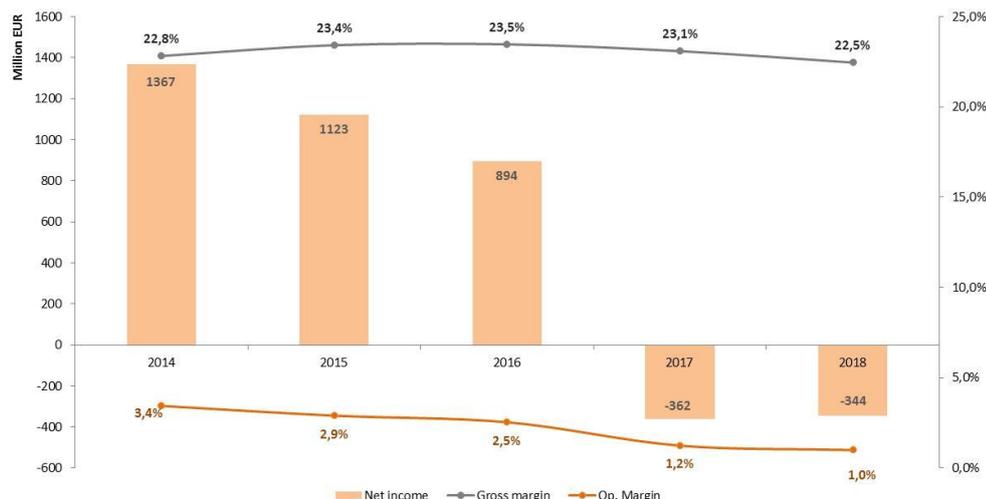
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Income Statement (EUR millions)	2018	2017
Revenues	75.261	77.673
Other Revenue	2.656	2.719
COGS	(60.850)	(62.311)
SG&A and D&A	(15.162)	(15.946)
Other Expenses/Income	(1.147)	(1.158)
Operating Expenses	(77.159)	(79.415)
EBIT	758	977
Net Interest	(262)	(445)
EBT	496	532
Taxes/benefits	(539)	(618)
Net loss	(43)	(86)
Net loss from discont. operations	(301)	(277)
Total loss	(344)	(362)
Loss per share	(0,73)	(0,70)

Source: Company's data

## Income statement

Revenues in 2018 decreased by 3.1% due to decreases in activity in South America and Asia. The company blames fierce competition created by the discount stores. Recurring operating income also decreased by 10.8% mainly affected by the negative FOREX impact in Argentina. Also, the expenses were increased due to investments made to increase competitiveness and logistics automatization. Carrefour resulted in loss of €344 million, as compared to loss of €362 million in 2017. €301 million of loss is attributable to discontinued business line, namely convenience Dia stores in France. The business line was divested in 2018. The group share of loss was equal to €561 million, 5.6% higher than in 2017, consequently loss per share increased to negative €0.73.



Source: Company's data

Free Cash Flow (EUR millions)	2018	2017
Operational Cash Flow	2.109	2.843
Operating Profit	496	533
D&A, impairments	2.024	2.464
Interest Paid	233	317
Interest and dividends received	37	76
Taxes	(513)	(588)
NWC	115	156
Others	(283)	(115)
Investment Cash Flow	(1.613)	(2.634)
Capex	(1.422)	(2.206)
Acquisitions	(189)	(251)
Others	(2)	(177)
Financial Cash Flow	530	364
Debt change	925	(466)
Dividends	(234)	(292)
Others	(161)	1.122
Change in free cash flow	1.026	573
Other and forex	(315)	(283)
Cash and equivalents at end	4.300	3.593

Source: Company's data

## Free Cash Flow

Operational cash flow decreased by 25.8%, mainly affected by lower D&A and the negative impact of discontinued operations of €141 million. Company decreased significantly investment cash flows (-35.5% as compared to 2017) as it applies more selective approach to make sure that the investments are productive and result in value creation. Reduction in CAPEX started in 2017. Regarding financing cash flows, the long-term debt increased as company made three issues of €500 million worth convertible bonds. During the year Carrefour shareholders received €234 million in dividends, of which €82 million was attributable to non-controlling interest. The company closed the year with the increase in cash by 19.7%.

## Balance Sheet

As company owns buildings, PPE makes a significant part of the total assets, i.e. 27%. Also, Carrefour has banking and insurance division, which allows it to grant loans to customers: it makes 13% of total assets. There was no significant changes in assets side, thus the value remained stable in 2018. In liabilities side the significant item is accounts payable, which made 39% of total liabilities in 2018. The major change in debt was before mentioned issuance of convertible bonds. Other liabilities include provisions, which made €3.5 billion in 2018, 17% higher than in 2017. Carrefour made €1.2 billion provision for the legal proceedings; however, no further details are disclosed.

## Guidance

In the first half of 2019, Carrefour generated sales of €38.8 bn, 1.2% lower than during the same period in 2018 due to negative FOREX impact. All foreign markets resulted in

Balance Sheet (EUR millions)	2018	2017
<b>Assets</b>	<b>47.378</b>	<b>47.813</b>
Cash & Equivalents	4.300	3.593
Short term investments	190	161
Goodwill	7.983	7.977
Receivables	2.537	2.750
Loans to customers	6.208	6.321
Inventories	6.135	6.690
Property Plant & Equipment	12.637	13.097
Intangible Assets	1.461	1.364
Joint Ventures & Associates	1.374	1.355
Other Assets	4.552	4.507
<b>Liabilities</b>	<b>36.092</b>	<b>35.655</b>
Short term Debt	1.339	1.069
Long term Debt	6.936	6.428
Payables	14.161	15.082
Consumer credit financing	5.514	5.478
Other liabilities	8.142	7.598
Total Shareowner's Equity	11.286	12.159
Total Equity and Liabilities	47.378	47.813

Source: Company's data

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negative currency impact, mainly driven by Argentine Peso. Moreover, the company faced decreasing sales in its main market – France – by 2.1%. Other European markets also decreased in sales, only Poland and Romania was growing positively. Latin America and Asia generated lfl growth of 15.9% and 3.0% respectively. Carrefour resulted in positive EBIT of €23 million as compared to negative €169 million during the same period in 2018, which is the result of cost reduction due to transformation plan 2022. Net loss was decreased to €322 million as compared to loss of €750 million in 2018 H1.

In 2018 Shareholders' meeting it was decided to set the dividends at 0.46 per share with the reinvestment option. Payment of the cash dividend represents payout of €152 million in 2019.

### ▲ Management

**Alexandre Bompard** – CEO and Chairman of Carrefour, appointed to the position in 2017. CEO holds a degree in Public Law and postgraduate degree in Economics from the Institut d'Études de Paris. Before joining Carrefour Bompard was leading Fnac group for 5 years. He was leading the group during its IPO and takeover of Darty, having the position of Chairman and CEO. The newly appointed CEO has a challenging task to develop Carrefour's e-commerce channel and improve the strategy towards the discount stores, which are rapidly changing retail industry.



Alexandre Bompard, CEO of Carrefour

### ▲ Main Segments

Carrefour is present in all segments of retail, namely hypermarkets, supermarkets, convenience stores, cash & carry, and e-commerce.

**Hypermarkets** represent the network of 1481 stores worldwide. They offer wide range of food and non-food items, which vary from 20 thousand to 80 thousand SKUs at low prices and target promotions. The sales area is ranging from 2 thousand to 23 thousand sq.m.

**Supermarkets** represent the network of 3462 stores. They offer day-to-day items and fresh products at convenient locations. The store size is varying between 1 thousand and 3.5 thousand sq.m.

**Convenience** stores represent the network of 7181 stores. The banners include Express, City, Contact, Montagne, Bio, 8 à Huit, which are supposed to serve the customers for every day shopping, therefore have extended working hours and low product prices. The size of the store is between 200 and 900 sq.m.

**Cash & carry** represents the network of 171 stores. It serves the restaurants and other professional food caterers with food and non-food items for the wholesale pricing. Cash & carry segment mainly cover France, having 144 Promocash stores in the country.

**Multi-channel** retail represents e-commerce (€1.2 bn of total sales in 2018, +30% growth). It offers food and non-food items, which can be quickly delivered to customers. Also, the mobile applications are being developed to allow customers to shop through their mobiles. The company also offer service of pick-up at a Drive or Click&Collect.

The sales figures are reported under the geographical locations, which include France, Europe (exl. France), Latin America and Asia.

**France (46.9% of total revenue; growth -0.3%; op. margin 1.3%).** Company had 5365 stores in the country at the end of the year. 273 stores of ex-Dia were successfully divested in 2018. Sales decreased during the year due to lower sales in hypermarkets (-1.4%), which was not offset by the increase of lfl sales in supermarkets (+1.6%). Operating margin decreased as compared to 2017 due to competitive environment in the market,

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further investments in cost-cutting restructuring and the impact of Yellow Vests protests during the Q4 of 2018. Due to fierce competition in the country, Carrefour finds it difficult to maintain the market share, especially with the presence of the market leader Leclerc, which is the pricing leader in the market.



**Other European countries (27.7% of total revenue; growth -0.2%; op. margin 3.2%).** Company has 4788 stores in Belgium, Poland, Romania, Spain and Italy, the biggest market being Spain with the sales of 8.7 billion, making 41% of sales in Other European countries. Total sales in Europe decreased due to strong competition created by the discount stores and independent retailers. Operating margin remained stable. The impact of the new regulation in Poland was minor, because company invested more in marketing activities to promote shopping on other weekdays. Also, Carrefour has a partnership with Turkish banner Sabanci, representing a network of 613 stores.

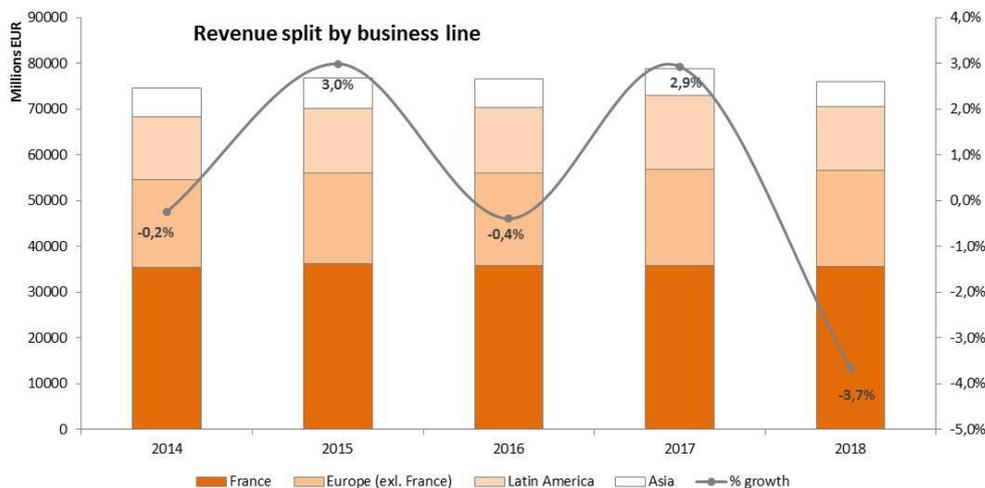


**Latin America (18.2% of total revenue; growth -13.9%; op. margin 5.6%).** Carrefour has 1025 stores in Argentina and Brazil, the latter being the major market with the €11.9 billion in sales. Brazil tends to be the most profitable market, where Carrefour owns 72% shares of local retailer Atacadão. LFL sales increased by 15.7% in 2018, however due to negative currency effect, the sales decreased. After applying IAS 29, Argentina business generated loss of €33 million, while business in Brazil grew significantly due to opening of the new Atacadão stores.



**Asia (7.2% of total revenue; growth -6.9%; op. margin 0.8%).** Business in Asia has 474 stores spread across China and Taiwan, main market being China with €3.6 billion in sales. The company is focused on development of e-commerce channel in China due to high acceptance by the customers. In addition, Carrefour has a partnership with Indonesian supermarket chain, which has 96 stores.

**Other regions.** Carrefour also operates in Africa and Middle East through the franchising partnerships: the company has total of 459 stores.



Source: Company's data

## M&A

Every year the company invests in various businesses to increase growth and develop e-commerce business line.

To develop online sales channel Carrefour acquired 17% stake in **Showroomprive**, which

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is one of the largest Europe's online sales operator. Also, a majority stake in French start-up **Quitoque**, allows company to access online meal-delivery service. To develop organic products line, Carrefour acquired **So.bio**, a French supermarkets chain specialised in organic production. Portuguese and Spanish markets of organic products will be reached through **Planeta Huerto**, an online organic production leader.

In 2018 Carrefour started a strategic partnership with **Tencent** and **Yonghui** regarding the development of Carrefour China business line. Companies aim to combine Carrefour retail expertise with the digital knowledge of Tencent to develop an innovative division.

In addition to rapid M&A activity the company also had to divest one of the business lines, namely **Dia**. The discount-store chain was acquired in 2014; however in 2018 Carrefour completed divestment of 273 stores due to unprofitable business activity.

## Relative Valuation

Carrefour has the lowest EBITDA margin compared to the industry peers and considerably higher Net debt/EBITDA ratio of 5.7x, which increased in the last year due to increased debt. In terms of P/E ratio the company is way below the industry average of 16.7 and it is expected to decrease further below the industry average in the following period to 11.9. Also, Carrefour is paying much lower dividends than its main competitors, namely Morrison and Sainsbury: dividend yield is 2.9%, while the main competitors have yield between 6% and 7%.

Name	Country	Market Cap (mn)	Currency	P/E 2019E	P/E 2020E	EV/EBITDA	YTD	Div. Yield	1 Yr. Price Δ	NetDebt/ EBITDA	Margin EBITDA
CASINO	FRANCE	3.741	EUR	12,5	10,2	12,5	-5,1%	9,0%	6,8%	6,8	4,4%
JERONIMO MARTINS	PORTUGAL	9.273	EUR	21,6	19,9	10,0	42,5%	2,2%	12,8%	2,1	6,6%
SAINSBURY	BRITAIN	4.242	GBP	9,4	9,3	5,3	-27,6%	5,7%	-43,3%	0,4	3,8%
WM MORRISON	BRITAIN	4.446	GBP	13,5	12,7	7,9	-11,4%	6,8%	-28,1%	1,2	4,7%
AXFOOD	SWEDEN	43.569	SEK	26,8	26,1	16,3	36,8%	3,4%	15,6%	2,0	5,5%
CARREFOUR	FRANCE	12.904	EUR	13,8	11,9	11,1	7,2%	2,9%	2,9%	5,7	3,7%
Average exc. Carrefour				16,8	15,6	10,4	7,1%	5,4%	-7,2%	2,5	5,0%

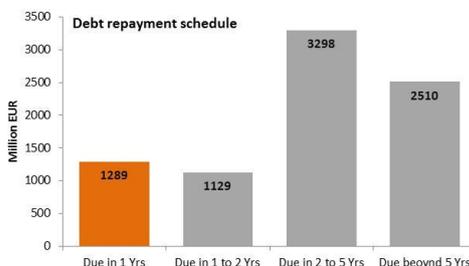
Source: Company's data

## Risks

**Competition.** Carrefour operates in a highly competitive environment, where discount stores are gaining market share, creating serious obstacles to the company to maintain the growth. The main threat is Leclerc, operating in the main market of Carrefour, i.e. France. In the last year Leclerc was the market leader and even other discount stores (Lidl, Aldi) found it difficult to compete, as Leclerc has the most attractive pricing and quality for customers. In other markets discount stores are also gaining pace, e.g. Central Europe, Latin America, which forces Carrefour to adjust its business strategy. In addition to threats from the discount stores, Carrefour also competes against the online retailer Amazon, which is highly present in Spain and France. Even though Carrefour introduced e-commerce, it is still lagging behind the other major players.

**Liquidity risk.** Carrefour second year in a row has losses reaching €500 million in 2018. Operational cash flows are also decreasing since 2016, while the amount of debt is increasing (by 8% in 2018). Net Debt/EBITDA ratio increased to 5.7x, which is much higher than the peers average (2.1x). The further increase in debt and contraction of cash flows may lead to solvency issues.

**Foreign currency risk.** The company constantly faces negative impact of foreign currency exchange, especially as it is exposed to the emerging markets in Latin America, namely Brazil and Argentina. In 2018 the company faced negative impact of Brazilian real and Argentine peso of 5.3%, which resulted in negative €161 million. Both countries makes roughly 20% of total Group's sales, thus further negative impact may lead to bigger



Source: company's data

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negative impact.

**Reputation.** Carrefour is the largest food retailer in Brazil, owning 14% of market share, which makes the company the major buyer of Brazilian beef. The main issue is that cattle in Brazil are the main cause of deforestation. In 2018 Carrefour initiated the program to have 100% deforestation-free beef by 2020. However, the goal applies only on fresh beef, meaning that pre-packaged or frozen beef, which makes roughly 50% of total beef sold by Carrefour, might be supplied by the manufacturers from deforestation areas. Carrefour also finds it difficult to trace the indirect supply chain. Being one of the deforestation-linked beef providers makes Carrefour a target for the environmental campaigns as deforestation in Brazil is one of the most important issues nowadays. Consequently, negative reputation may lead to further decrease in revenues.

## ▲ Environmental, Social and Governance (ESG)

**Environment.** Carrefour sets specific goals to contribute to the environmental initiatives through its products, store management and relationships with customers. Some of the examples include promotion of responsible fishing, reducing packaging, food waste and deforestation. The table below presents results achieved in 2018.

Nevertheless, Carrefour is one of the producers of deforestation-linked beef in Brazil, which is the major environmental issue (for more information refer to section *Risks*).

Products	Objective 2018	Result 2018	Score 2018 105%
1. €5 billion in sales of organic products by 2022	€1.71 billion	€1.76 billion	103%
2. 10% of Carrefour Quality Lines products within Fresh Products by 2022	6.9%	6.0%	87%
3. 50% of Carrefour seafood products sold come from responsible fishing by 2020	35%	37.3%	106%
4. Implementation of a Sustainable Forests action plan for the products linked to deforestation by 2020	50%	48.5%	97%
5. 10,000 tonnes of packaging saved by 2025	1,438 tonnes	1,867 tonnes	130%

Stores	Objective 2018	Result 2018	2018 Score 103%
6. Reduce food waste by 50% by 2025 (vs. 2016)	-	-	-
7. Recover 100% of waste by 2025	70%	67%	95%
8. Reduce CO2 emissions by 40% by 2025 and by 70% by 2050 (vs. 2010)	-26.7%	-28.6%	107%
9. 2,000 employees identified as "food transition superheroes" in stores by 2020	10 superheroes	10 superheroes	100%

Customers	Objective 2018	Result 2018	2018 Score 103%
10. 80% of customers identify food transition in stores by 2022	50%	63.8%	129%
11. 100% of countries roll out a program focused on local products and purchasing by 2020	30%	20%	67%
12. 100% of countries implement an annual Act For Food communication program	100%	100%	100%
13. 100% of countries roll out an Healthier Diet action plan by 2022	60%	70%	117%

Source: Company's data

**Social.** Carrefour is engaged to encourage people to move to healthy nutrition by introducing various healthy-product lines. Also, the company has removed non-natural flavouring and colouring ingredients from its brands to children, namely Carrefour Kids and Carrefour Baby. In addition to this more vegetarian options are being included in the assortment. However, some widely discussed initiatives, such as to ensure the quality of food (vegetables, fruits) should be the fundamental activity of food retailer, thus should not be treated as a significant ESG action.

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**Governance.** Company has set several goals, which are expected to be achieved by 2025. Firstly, company seeks to have 40% of women in key positions. In addition, it is planned to have 4% of disabled employees. Carrefour commits to ensure that every employee receives 13 training hours annually by 2025.

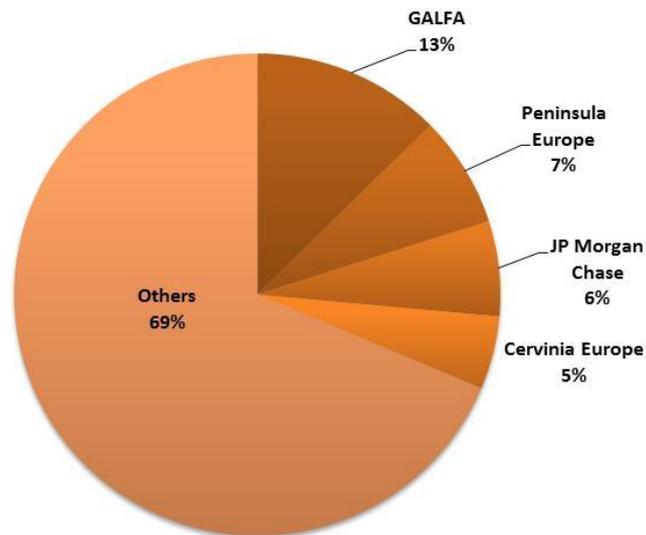
Company does not discuss any social initiatives or projects to empower the society.

### Graph



Source: BiGlobal Trade (partner Saxo Bank); BiG Research

### Shareholders



### Calendar

February 28<sup>th</sup> 2020: Full year Results 2019

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  - Accumulate, expected absolute return between +5% and +15%;
  - Keep/Neutral, expected absolute return between -5% and +5%;
  - Reduce, expected absolute return between -5% and -15%;
  - Sell, expected absolute return below -15%;

The investment framework aforementioned is merely indicative and not globally strict.

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