

COMPANY NOTE

Target | Estimate Change

Netherlands | Consumer | Food Retailers

8 November 2018

Jefferies

Ahold Delhaize (AD NA) Not bad! Is it a fad?

Key Takeaway

AD's results revealed an accelerating CSS and synergy led 6% Q3 beat. FY FC guidance lifted by >5% to at least €2bn reflects a €0.1bn capex cut. This sets the scene positively for next week's CMD, when AD will discuss digital/online plans and Stop & Shop's repositioning. Major changes to AD's FC profile will not be part of that debate.

Did not expect that in Q3! AD Q3 sales growth of +4.3% (inc fx) drove EBIT margin up by 25bps YoY, with +10% EBIT of €647m becoming €655m ex hurricane costs (JEFe/const€607m/€620m). This reflects accelerating CSS gains in both the US (+3%, +2.5% ex hurricanes) and Holland (+5.9%). US inflation was disclosed as broadly stable vs 1.6% in Q2, describing a marked inflection in volume trends in recent months. Q3 profits also benefited from stepped up Q3 synergy delivery (of €45m, after €38m in Q2, all US driven). Online growth remains a strong enabler in the Netherlands (+25.2%) and accelerated in the US (to 11.8% from <9% in H1). The one underwhelming Q3 detail was Belgian CSS of 0.6%, notwithstanding 1.4% -ve calendar. Still, our estimates are lifted by c.5% to reflect improving US dynamics, and improved FC guidance.

Mgmt suggests an evolutionary CMD. AD confirmed that online/digital plans and the repositioning of Stop & Shop (23% of US sales, c.15% of group) will take centre stage on 13 Nov. The group flagged no concerns around the ability to continue with a sales/capex ratio of c.3% (as the S&S refresh ramp-up coincides with Food Lion relaunches nearing completion). The need for a sharpened S&S value offer also appears of limited consequence to FC. The CMD is set to reconfirm AD's capital discipline, suggesting a new 2019 buyback may be announced (JEFe €750m).

LT context fluid, ST more supportive. A 8.2% FCY is a two year high for AD, supported by the surprising profit progress made in Q3, despite mounting US opex challenges. Rarely have we seen as marked a sequential inflection. And improved execution across US chains is a vague enough enabler to require closer inspection before being rewarded with the assumption of longevity. The longer term debate is set to continue to focus on the disruption risks of Kroger's commitment to at least 20 CFCs over the next three years, and reports of AMZN's plan for 3,000 Go stores over the same timeframe. AD's US centre of gravity is urban enough to put it on the firing line of these potential capacity headwinds.

EUR	Prev.	2017A	Prev.	2018E	Prev.	2019E	Prev.	2020E
Rev. (MM)	--	62,890.0	62,149.0	62,616.0	63,429.0	64,891.0	64,806.0	66,290.0
EBIT (MM) Adjusted	--	2,447.0	--	2,555.0	--	2,708.0	--	2,757.0
FY P/E		15.8x		13.3x		11.8x		11.1x
EPS								
FY Dec	--	1.29	1.46	1.53	1.65	1.73	1.77	1.83

HOLD

Price target €21.00
(from €19.50)
Price €20.37^

Financial Summary

Net Debt (MM):	€3,197.0
Dividend Yield:	3.3%

Market Data

52 Week Range:	€22.08 - €16.18
Total Entprs. Value:	€28.7B
Market Cap.:	€25.5B
Institutional Ownership:	100.0%
Shares Out. (MM):	1,250.0
Float (MM):	918.1
Avg. Daily Vol.:	5,461,087

James Grznic *

Equity Analyst
+44 (0) 20 7029 8667 jgrznic@jefferies.com

Sebastian Barbero *

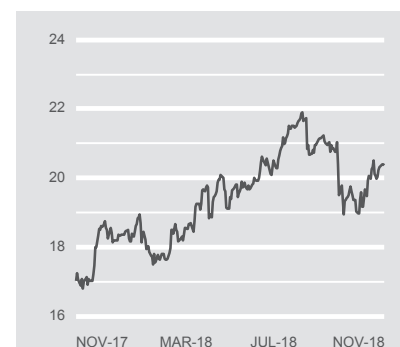
Equity Associate
+44 (0) 20 7029 8433 sbarbero@jefferies.com

Frederick Wild *

Equity Associate
+44 (0)20 7029 8716 fwild@jefferies.com

* Jefferies International Limited

Price Performance



^Prior trading day's closing price unless otherwise noted.

Table 1: Ahold Delhaize – Q3 18 Results

Dec y/e (€m)	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q3 18A
Group sales	15,324	15,509	15,282	16,216	15,870	16,121	15,136	15,763	14,933	15,531	15,548	15,780
o/w USA	9,638	9,632	9,553	9,994	9,989	9,986	9,216	9,249	8,839	9,211	9,405	9,612
CSS ex fuel %	1.6	2.4	0.5	0.6	-1.1	0.7	1.3	1.0	2.8	-0.1	1.6	3.0
o/w Netherlands	3,173	3,243	3,148	3,451	3,320	3,434	3,279	3,673	3,408	3,536	3,427	3,469
CSS %	3.0	4.4	2.8	6.0	3.3	4.8	3.6	6.0	3.2	2.9	4.4	5.9
o/w Belgium	1,194	1,255	1,213	1,280	1,186	1,262	1,215	1,290	1,245	1,286	1,247	1,226
CSS %	3.9	2.6	1.3	-0.9	-0.7	0.0	-0.3	0.0	4.1	1.4	2.0	0.6
o/w rest of Europe	1,319	1,379	1,368	1,491	1,375	1,439	1,426	1,551	1,441	1,498	1,470	1,473
CSS ex fuel %	7.4	6.5	5.7	3.5	1.5	1.7	0.5	0.3	0.7	0.5	1.1	0.6
Group EBIT	559	562	542	635	606	628	582*	631	600	616	607	647
margin %	3.6	3.6	3.5	3.9	3.8	3.9	3.8	4.0	4.0	4.0	3.9	4.1
o/w USA	383	341	355	380	401	393	359	382	378	366	376	395
margin %	4.0	3.5	3.7	3.8	4.0	3.9	3.9	4.1	4.3	4.0	4.0	4.1
o/w Netherlands	150	167	142	170	167	174	161	174	166	187	175	177
margin %	4.7	5.1	4.5	4.9	5.0	5.1	4.9	4.7	4.9	5.3	5.1	5.1
o/w Belgium	30	37	24	30	29	32	28*	13	28	35	31	38
margin %	2.5	2.9	2.0	2.3	2.4	2.5	2.3	1.0	2.3	2.7	2.5	3.1
o/w rest of Europe	41	59	56	75	41	55	62	84	44	53	54	56
margin %	3.1	4.3	4.1	5.0	3.0	3.8	4.3	5.4	3.1	3.6	3.7	3.8
o/w GSO costs	-45	-42	-35	-20	-32	-26	-28	-22	-16	-25	-30	-19

Source: Jefferies, company data

*Note: This is ex €9m one-off related to labour costs

Ahold Delhaize Financial Forecasts

Table 2: Ahold Delhaize Summary P&L

Dec y/e (€m)	2016	2017	2018E	2019E	2020E
Group sales	62,332	62,890	62,616	64,891	66,290
growth %	2.4	0.9	-0.4	3.6	2.2
o/w USA	38,817	38,440	37,314	38,769	39,369
o/w Netherlands	13,015	13,706	14,185	14,682	15,151
o/w Belgium	4,942	4,953	5,091	5,223	5,364
o/w rest of Europe	5,557	5,791	6,025	6,218	6,405
Group EBIT	2,298	2,447	2,555	2,708	2,757
margin %	3.7	3.9	4.1	4.2	4.2
growth %	6.6	6.5	4.4	6.0	1.8
o/w USA	1,459	1,535	1,545	1,590	1,594
o/w Netherlands	629	676	714	756	773
o/w Belgium	121	102	143	157	172
o/w rest of Europe	231	242	234	286	298
o/w GSO costs	-142	-108	-80	-80	-80
Group interest	-355	-297	-283	-280	-280
Group PBT	1,943	2,150	2,272	2,428	2,477
Income taxes	-493	-530	-468	-510	-520
JV income	36	35	29	29	33
Underlying net income	1,486	1,654	1,833	1,947	1,990
EPS	1.17	1.29	1.53	1.73	1.83
Share count	1,272	1,281	1,198	1,127	1,089
DPS	0.58	0.63	0.72	0.77	0.78

Source: Jefferies estimates, company data

Table 3: Ahold Delhaize Summary Cashflow

Dec y/e (€m)	2016	2017	2018E	2019E	2020E
Operating cashflow inc work capital	2,375	3,736	3,877	3,982	4,059
Less cash restructuring costs	-220	0	-20	-20	0
Total investing cashflow	-1,202	-1,509	-1,750	-2,000	-2,100
Capex	-1,302	-1,698	-1,820	-2,050	-2,150
Disposals of tangible and intangibles	100	142	70	50	50
Cashflow post investing	953	2,227	2,107	1,962	1,959
Dividends	-429	-720	-801	-916	-974
Other	-1,001	-992	-2,000	-750	-750
Retained cashflow	1,741	532	-694	296	236
Net debt	3,244	2,503	3,197	2,901	2,666

Source: Jefferies estimates, company data

Table 4: Ahold Delhaize Summary Forecast Changes

Forecasts (€m)	FY18E New	FY 18E Old	% Chg	FY 19E New	FY 19E Old	% Chg
Sales	62,616	62,149	0.8	64,891	63,426	2.4
EBIT	2,555	2,470	3.4	2,708	2,596	4.3
EPS	1.53	1.46	4.7	1.73	1.65	4.9
Drivers of Change	Higher US CSS growth and margin					

Source: Jefferies estimates

Company Description

Ahold Delhaize

Ahold Delhaize is a top 5 player in the US grocery market, with leadership in the US Eastern Seaboard. The group holds leading positions in virtually every one of its DMAs of operation, stretching from as far south as Food Lion in the Carolinas, to as far North as Hannaford in Maine. AD is also the market leader in Holland, Greece and Serbia, with top 3 positions in Belgium and Romania. AD also owns Bol.com, the number 1 GM pureplay business in the Benelux region.

Company Valuation/Risks

Ahold Delhaize

€21 PT = 2019E FCY of 8.5%, at the higher end of the historical range. Risks: synergy under-delivery and worsening competitive pressures.

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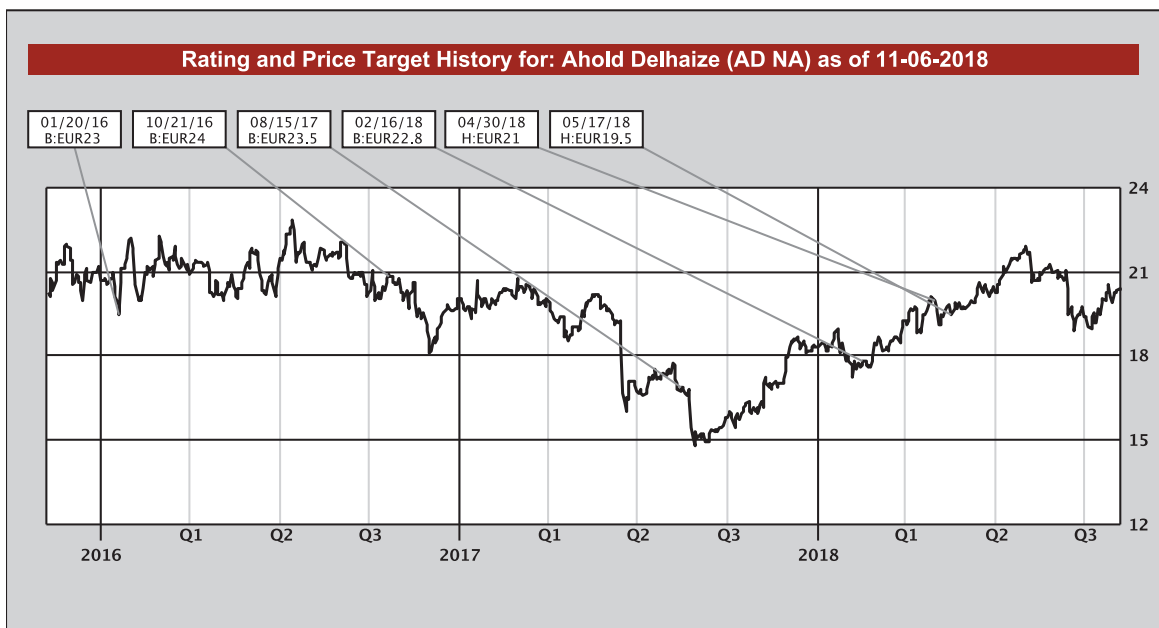
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D: Dropped Coverage

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			Count	Percent	Count	Percent
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