

## COMPANY NOTE

Target | Estimate Change

Netherlands | Consumer | Food Retailers

8 January 2019

# Jefferies

## Ahold Delhaize (AD NA) Steady Eddie

### Key Takeaway

**AD's FC strength and US\$ weighting made the stock a strong outperformer in tough equity markets in Q4 2018. With the shares now rated on a <8% FCY the investment merits are more sensitive to relative market attractions. On an absolute basis, the US industry's willingness to embrace food online in a margin/ROCE dilutive manner remains our biggest concern. But this may not be fully borne out until 2020.**

**A solid end to a steady 2018...** is what we expect AD to report on 23 January. We forecast Q4 sales growth of 4.4% (2.9% ex fx). And we assume a mix of performance broadly consistent with that seen in Q3. In the US we forecast ex fuel CSS growth of 2.6%, aided by a 60bps calendar/weather boost. In the Netherlands we estimate a slowdown in momentum to a still impressive 3.5%, reflecting an extremely tough comparable base of +6%. Belgium will recover the -ve calendar impact that weighed down Q3 sales, leading to a CSS gain of 2.5% in Q4 (or 1.2% ex calendar). We expect AD to reiterate the guidance it set in November for 2018 FC of at least €2bn (JEF€ €2.1bn) and EPS of €1.50-€1.60 (JEF€ €1.54).

**...with a resilient 2019 ahead.** Late in 2018 AD outlined an ambition to step up its growth credentials through a mixture of online investments, infill acquisitions and by improving performance at Stop & Shop (its largest US chain, but also the one that failed to enjoy market share gains in recent years). We expect sharper pricing and improved in-store experience to provide healthier CSS support at S&S later in 2019. And whilst we are unclear on the rate at which AD is looking to step up rolling out Micro Fulfilment Centres in its largest geography, a more dynamic online offering should also prove accretive to its US CSS delivery. What is less certain is the extent to which a winding down of merger benefits and a step up in S&S pricing efforts can be fully offset by ongoing cost saving initiatives. Even if we do note that guide for 2019 EPS growth in the MSD territory is supported by the \$350m/5.7% early bond redemption of Dec 2018. Our model does not yet reflect the recently announced King Kullen acquisition, but we expect limited accretion in 2019, building towards 2% in the longer term.

**Online concerns more of a 2020 headwind, but valuation context less supportive.** The combination of Kroger's push into CFCs and Amazon's foray into cashierless convenience stores are critical new factors set to emerge over the mid-term. But these pressures are unlikely to build in earnest until 2020. And ahead of that AD's track record of free cashflow delivery should prove supportive (especially in the case of defensively minded markets).

EUR	Prev.	2017A	Prev.	2018E	Prev.	2019E	Prev.	2020E
Rev. (MM)	--	62,890.0	62,616.0	62,700.0	64,891.0	64,977.0	66,290.0	66,377.0
EBIT (MM) Adjusted	--	2,447.0	2,555.0	2,562.0	2,610.0	2,614.0	2,650.0	2,654.0
<b>EPS</b>								
FY Dec	--	1.29	1.53	1.54	--	1.66	--	1.76
FY P/E		17.3x		14.5x		13.5x		12.7x

**HOLD**

Price target €22.00  
(from €21.00)  
Price €22.34^

### Financial Summary

Net Debt (MM):	€3,188.0
Dividend Yield:	3.4%

### Market Data

52 Week Range:	€23.26 - €16.96
Total Entprs. Value:	€31.1B
Market Cap.:	€27.9B
Institutional Ownership:	100.0%
Shares Out. (MM):	1,250.0
Float (MM):	918.2
Avg. Daily Vol.:	5,432,281

**James Grznic \***

Equity Analyst

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

**Sebastian Barbero \***

Equity Associate

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

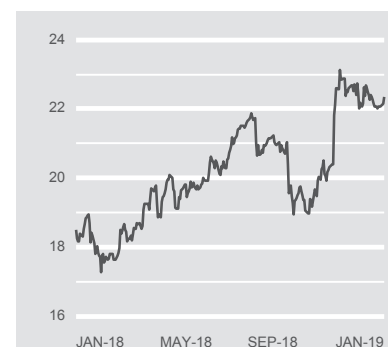
**Frederick Wild \***

Equity Associate

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

\* Jefferies International Limited

### Price Performance



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

## Scenarios

### Base Case

- We assume the Delhaize merger will result in some €500m of net synergies accruing by Q4 2019.
- Capex of 3.0% of sales in 2019 and 3.1% in 2020.
- Buy-backs of €1bn in 2019.
- We forecast €/€ of 1.15 for 2019 and 2020.
- 2020 FC of €1.9bn; Target multiple: 8.2% FCY; Price Target: €22.

### Upside Scenario

- Better online execution in both the US and Belgium leads to a sharp acceleration in market share gains, with CSS building to 3% by end 2020.
- Group margin expands by 20bps in both 2019 and 2020 vs our current -6/-3bps estimate.
- Total merger synergies of €550m flow to the bottom line.
- €/€ of 1.05.
- 2020 FC €2.5bn; Target multiple: 7.3% FCY; Price Target: €32.

### Downside Scenario

- US CSS falls to <1% in 2019 and 2020.
- Margins fall by 10 bps in 2019 and 15bps in 2020.
- Capex builds to 3.4% of sales.
- €/€ of 1.45.
- 2020 FC €1.4bn; Target multiple: 10.9% FCY; Price Target: €12.

## Investment Thesis / Where We Differ

- In the US the group has been able to withstand increased competitive pressures, particularly in the Carolinas, helped by an extensive store remodel programme. In addition, AD has been disciplined in reinvesting €250m of gross synergies into pricing, largely in the US.
- Ahold Delhaize's Dutch business has been a stellar performer, helped by a best-in-class multi-channel offering; this is set to be replicated in Belgium in the coming years.
- Despite the above, we are aware of the extent to which net synergies will be exhausted in 2019, making AD more vulnerable to the risk of deteriorating US fundamentals.

## Catalysts

- FY 2018 sales – Jan 23<sup>rd</sup> 2019
- FY 2018 results – Feb 27<sup>th</sup> 2019
- AGM – Apr 10<sup>th</sup> 2019
- Q1 2019 results – May 8<sup>th</sup> 2019
- Q2 2019 results – Aug 7<sup>th</sup> 2019
- Q3 2019 results – Nov 6<sup>th</sup> 2019

## Long Term Analysis

### Long Term Financial Model Drivers

<b>LT Earnings CAGR (ex fx)</b>	<b>6-8%</b>
Organic revenue growth	<b>2-4%</b>
Margin expansion	<b>0%</b>
Buybacks	<b>4%</b>

**Table 1: Ahold Delhaize – Q4 18 Results Preview**

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 18	Q4 18E
<b>Group sales</b>	<b>15,324</b>	<b>15,509</b>	<b>15,282</b>	<b>16,216</b>	<b>15,870</b>	<b>16,121</b>	<b>15,136</b>	<b>15,763</b>	<b>14,933</b>	<b>15,531</b>	<b>15,780</b>	<b>16,451</b>
o/w USA	9,638	9,632	9,553	9,994	9,989	9,986	9,216	9,249	8,839	9,211	9,612	9,716
CSS ex fuel %	1.6	2.4	0.5	0.6	-1.1	0.7	1.3	1.0	2.8	-0.1	3.0	2.6
o/w Netherlands	3,173	3,243	3,148	3,451	3,320	3,434	3,279	3,673	3,408	3,536	3,469	3,798
CSS %	3.0	4.4	2.8	6.0	3.3	4.8	3.6	6.0	3.2	2.9	5.9	3.5
o/w Belgium	1,194	1,255	1,213	1,280	1,186	1,262	1,215	1,290	1,245	1,286	1,226	1,327
CSS %	3.9	2.6	1.3	-0.9	-0.7	0.0	-0.3	0.0	4.1	1.4	0.6	2.5
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	1,473	1,610
CSS ex fuel %	7.4	6.5	5.7	3.5	1.5	1.7	0.5	0.3	0.7	0.5	0.6	1.5
<b>Group EBIT</b>	<b>559</b>	<b>562</b>	<b>542</b>	<b>635</b>	<b>606</b>	<b>628</b>	<b>582*</b>	<b>631</b>	<b>600</b>	<b>616</b>	<b>647</b>	<b>698</b>
margin %	3.6	3.6	3.5	3.9	3.8	3.9	3.8	4.0	4.0	4.0	4.1	4.2
o/w USA	383	341	355	380	401	393	359	382	378	366	395	410
margin %	4.0	3.5	3.7	3.8	4.0	3.9	3.9	4.1	4.3	4.0	4.1	4.2
o/w Netherlands	150	167	142	170	167	174	161	174	166	187	177	185
margin %	4.7	5.1	4.5	4.9	5.0	5.1	4.9	4.7	4.9	5.3	5.1	4.9
o/w Belgium	30	37	24	30	29	32	28*	13	28	35	38	41
margin %	2.5	2.9	2.0	2.3	2.4	2.5	2.3	1.0	2.3	2.7	3.1	3.1
o/w rest of Europe	41	59	56	75	41	55	62	84	44	53	56	82
margin %	3.1	4.3	4.1	5.0	3.0	3.8	4.3	5.4	3.1	3.6	3.8	5.1
o/w GSO costs	-45	-42	-35	-20	-32	-26	-28	-22	-16	-25	-19	-20

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
<b>Group sales</b>	<b>62,332</b>	<b>62,890</b>	<b>62,700</b>	<b>64,977</b>	<b>66,377</b>
growth %	2.4	0.9	-0.3	3.6	2.2
o/w USA	38,817	38,440	37,379	38,835	39,437
o/w Netherlands	13,015	13,706	14,212	14,710	15,181
o/w Belgium	4,942	4,953	5,085	5,217	5,358
o/w rest of Europe	5,557	5,791	6,022	6,215	6,402
<b>Group EBIT</b>	<b>2,298</b>	<b>2,447</b>	<b>2,562</b>	<b>2,614</b>	<b>2,654</b>
margin %	3.7	3.9	4.1	4.0	4.0
growth %	6.6	6.5	4.7	2.0	1.5
o/w USA	1,459	1,535	1,549	1,526	1,518
o/w Netherlands	629	676	715	728	751
o/w Belgium	121	102	142	154	166
o/w rest of Europe	231	242	235	286	298
o/w GSO costs	-142	-108	-80	-80	-80
Group interest	-355	-297	-283	-280	-280
<b>Group PBT</b>	<b>1,943</b>	<b>2,150</b>	<b>2,279</b>	<b>2,334</b>	<b>2,374</b>
Income taxes	-493	-530	-469	-490	-498
JV income	36	35	30	25	25
Underlying net income	1,486	1,654	1,840	1,869	1,900
<b>EPS</b>	<b>1.17</b>	<b>1.29</b>	<b>1.54</b>	<b>1.66</b>	<b>1.76</b>
Share count	1,272	1,281	1,195	1,124	1,078
DPS	0.58	0.63	0.77	0.83	0.88

Source: Jefferies estimates, company data

**Table 3: Ahold Delhaize Summary Cashflow**

Dec y/e (€m)	2016	2017	2018E	2019E	2020E
<b>Operating cashflow inc work capital</b>	<b>2,375</b>	<b>3,736</b>	<b>3,886</b>	<b>3,901</b>	<b>3,971</b>
Less cash restructuring costs	-220	0	-20	-20	0
Total investing cashflow	-1,202	-1,509	-1,750	-1,900	-2,000
Capex	-1,302	-1,698	-1,820	-1,950	-2,050
Disposals of tangible and intangibles	100	142	70	50	50
<b>Cashflow post investing</b>	<b>953</b>	<b>2,227</b>	<b>2,116</b>	<b>1,981</b>	<b>1,971</b>
Dividends	-429	-720	-801	-979	-1,058
Other	-1,001	-992	-2,000	-1,000	-1,000
Retained cashflow	1,741	532	-685	3	-87
<b>Net debt</b>	<b>3,244</b>	<b>2,503</b>	<b>3,188</b>	<b>3,186</b>	<b>3,273</b>

Source: Jefferies estimates, company data

**Table 4: Ahold Delhaize Summary Forecast Changes**

Forecasts (€m)	FY19E New	FY 19E Old	% Chg	FY 20E New	FY 20E Old	% Chg
<b>Sales</b>	<b>64,977</b>	<b>64,891</b>	<b>0.1</b>	<b>66,377</b>	<b>66,290</b>	<b>0.1</b>
EBIT	2,614	2,610	0.2	2,654	2,650	0.1
<b>EPS</b>	<b>1.66</b>	<b>1.66</b>	<b>0.2</b>	<b>1.76</b>	<b>1.76</b>	<b>0.1</b>

Drivers of Change Reflecting early bond buyback in Dec 2018

Source: Jefferies estimates

Risks: synergy under-delivery and worsening competitive pressures.

## 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

€22 PT = 2020E FCY of 8.2%, at the higher end of the historical range. Risks: synergy under-delivery and worsening competitive pressures.

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Recommendation Published	January 7, 2019 , 12:39 ET.
Recommendation Distributed	January 8, 2019 , 00:00 ET.

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			Count	Percent	Count	Percent
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