

## COMPANY NOTE

Target | Estimate Change

Netherlands | Consumer | Food Retailers

16 February 2018

# Jefferies

## Ahold Delhaize (AD NA) Cash mAD

### Key Takeaway

**AD remains the cheapest grocer under our coverage, and the one displaying the most upbeat FC outlook into 2018. This is not only due to a wind down of exceptional cash costs (and further build in synergies), but also thanks to an increasingly upbeat volume/pricing outlook in the US.**

**A strong 2017, no surprise there...** AD's Q4 sales update already acknowledged FY 2017 consensus (for group EBIT of €2.45bn and EPS of €1.29). With nine months of earnings under the belt, it is unlikely that Q4 margin trends will surprise much. And on that front we assume Q4 US margin of +10bps, Holland +10bps and Belgium +40bps. Guidance for FY FC substantially ahead of previous €1.6bn guidance translates into €1.8bn for us, with timing accounting for €150m of the overdelivery. We expect AD to propose a FY dividend of €0.64, (notwithstanding the €2bn 2018 buyback), confirming the group's financial strength and confidence in the outlook.

**...more to come in 2018.** We expect mgmt. to confirm an increased 2018 FC, relative to the underlying 2017 base (i.e. €1.65bn). The new year should benefit from a net synergy build broadly in line with that seen in 2017 as well as a reduction in exceptional integration costs (we assume this to be a tailwind of around €100m). And this should more than offset the previously guided €100m increase in capex and the impact of US\$/€ shifting to an average of 1.13 in 2017 to a spot of 1.25 (the latter driving small cuts to our TP and estimates). Operationally we expect continued strength in Holland and better progress in Belgium. But it should be an improved US backdrop (with industry data confirming a marked inflection in volume and pricing trends in recent weeks) which will be front of mind when weighing AD's outlook.

**Cheapest European food retail stock** as we model a 2018 FC of c.€1.6bn (or c.€1.7bn when adjusted for timing dilution, especially from working capital) compared with a post €2bn buyback equity base of €20bn. This compares with a European sector average of 4.5% and Kroger post tax reform on 6.8%. It seems to us that AD should be very well equipped to remain relevant in a multi-channel world, given its domestic leadership in the food online channel. We sense greater urgency at the group in rethinking its US multichannel offering along the tried and tested lines of ah.nl.

### Valuation/Risks

€22.8 PT = 2019 FCY of 7%, post €2bn of buybacks in 2018 and €750m assumed in 2019. Risks: synergy underdelivery and worsening competitive pressures.

EUR	Prev.	2016A	Prev.	2017E	Prev.	2018E	Prev.	2019E
Rev. (MM)	--	62,332.0	62,688.0	62,694.0	61,852.0	59,926.0	62,996.0	61,045.0
EBITDA (MM)	--	4,063.0	4,249.0	4,237.0	4,286.0	4,148.0	4,492.0	4,349.0
EV/EBITDA	6.1x	6.3x	--	5.8x	5.7x	5.8x	5.1x	5.4x
<b>EPS</b>								
FY Dec	--	1.17	1.29	1.28	1.44	1.40	1.69	1.64
FY P/E		15.1x		13.8x		12.6x		10.8x

**BUY**

Price target €22.80  
(from €23.50)  
Price €17.63^

### Financial Summary

Net Debt (MM):	€3,192.0
Dividend Yield:	3.6%

### Market Data

52 Week Range:	€20.88 - €14.72
Total Entprs. Value (MM):	€25,617.4
Market Cap. (MM):	€22,425.4
Institutional Ownership:	100.0%
Shares Out. (MM):	1,272.0
Float (MM):	1,206.7
Avg. Daily Vol.:	6,031,765

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\* 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 Q1 2020.
- Annual combined capex of 3.1% of sales and €440m of cash restructuring costs (half accrued in 2016 and the balance falling partly in 2017 and partly in 2018).
- Buy-backs of €2bn/€750m in 2018/2019.
- We forecast \$/€ of 1.25.
- 2019 FC of €1.77bn; Target multiple: 7% FCY; Price Target: €22.8.

### 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% from 2019.
- Total merger synergies of €600m flow to the bottom line. Capex of 2.5% of sales and €350m of cash restructuring costs. Buy-backs upped to €1.5bn in 2019.
- \$/€ of 1.05.
- 2019 FC €2.5bn; Target multiple: 6% FCY; Price Target: €38.

### Downside Scenario

- Total merger synergies of only €300m flow to the bottom line.
- Capex of 3.6%.
- No incremental buybacks beyond the current €2bn programme.
- \$/€ of 1.30.
- 2019 FC €0.9bn; Target multiple: 8% FCY; Price Target: €10.

## 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 coming years.
- Industry leading FC generation, a strong B/S profile and improving volume/mix dynamics in the US see us stay buyers despite FX headwinds in the year ahead.

## Catalysts

- FY 2017 results – Feb 28<sup>th</sup>, 2018
- AGM – April 11<sup>th</sup>, 2018
- Q1 2018 sales – May 9<sup>th</sup>, 2018
- Q2 2018 sales – Aug 8<sup>th</sup>, 2018
- Q3 2018 results – Nov 7<sup>th</sup>, 2018

## Long Term Analysis

### Long Term Financial Model Drivers

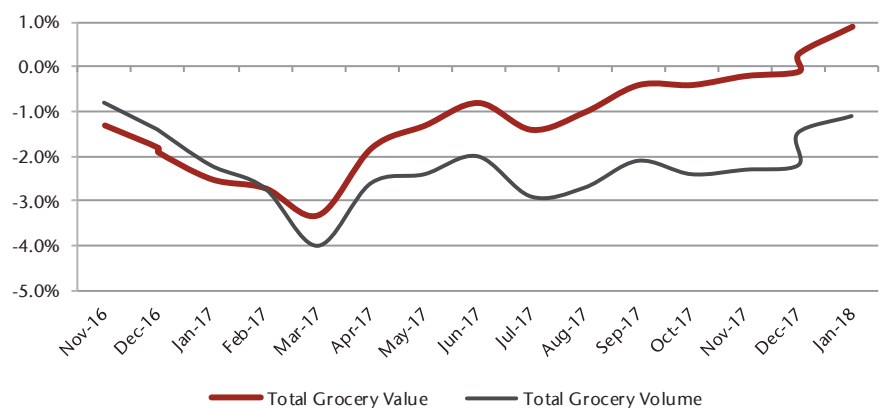
LT Earnings CAGR (ex fx)	7-10%
Organic revenue growth	2-3%
Margin expansion	2-3%
Buybacks	3-4%

**Table 1: Ahold Delhaize – Q4 17 Results Preview**

Dec y/e (€m)	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17E
<b>Group sales</b>	<b>15,324</b>	<b>15,509</b>	<b>15,282</b>	<b>16,216</b>	<b>15,766</b>	<b>16,044</b>	<b>15,121</b>	<b>15,763</b>
o/w Ahold USA	5,837	5,789	5,665	6,025	5,969	5,934	5,425	5,566
CSS ex fuel %	1.3	2.0	-0.1	-0.5	-1.8	0.3	0.7	0.6
o/w Delhaize America	3,801	3,843	3,888	3,969	3,943	3,989	3,780	3,683
CSS %	2.0	3.0	1.3	2.2	0.0	1.2	2.3	1.5
o/w Netherlands	3,173	3,243	3,148	3,451	3,298	3,424	3,277	3,673
CSS %	3.0	4.4	2.8	6.0	3.3	4.9	3.6	6.0
o/w Belgium	1,194	1,255	1,213	1,280	1,181	1,258	1,213	1,290
CSS %	3.9	2.6	1.3	-0.9	-0.6	0.0	-0.3	0.0
o/w rest of Europe	1,319	1,379	1,368	1,491	1,375	1,439	1,426	1,551
CSS ex fuel %	7.4	6.5	5.7	3.5	1.5	1.7	0.5	0.3
<b>Group EBITDA</b>	<b>995</b>	<b>995</b>	<b>981</b>	<b>1,092</b>	<b>1,058</b>	<b>1,079</b>	<b>1,029</b>	<b>1,073</b>
margin %	6.5	6.4	6.4	6.7	6.7	6.7	6.8	6.8
<b>Group EBIT</b>	<b>559</b>	<b>562</b>	<b>542</b>	<b>635</b>	<b>604</b>	<b>626</b>	<b>586*</b>	<b>627</b>
margin %	3.6	3.6	3.5	3.9	3.8	3.9	3.9	4.0
o/w Ahold USA	253	209	220	239	249	239	221	230
margin %	4.3	3.6	3.9	4.0	4.2	4.0	4.1	4.1
o/w Delhaize America	130	132	135	141	153	152	142	131
margin %	3.4	3.4	3.5	3.6	3.9	3.8	3.8	3.6
o/w Netherlands	150	167	142	170	165	174	161	184
margin %	4.7	5.1	4.5	4.9	5.0	5.1	4.9	5.0
o/w Belgium	30	37	24	30	28	32	28*	35
margin %	2.5	2.9	2.0	2.3	2.4	2.5	2.3*	2.7
o/w rest of Europe	41	59	56	75	41	55	62	80
margin %	3.1	4.3	4.1	5.0	3.0	3.8	4.3	5.2
o/w GSO costs	-45	-42	-35	-20	-32	-26	-28	-34

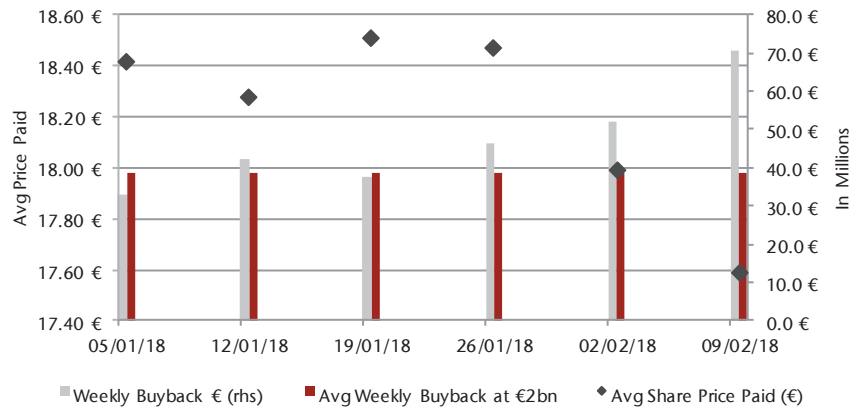
Source: Jefferies, company data

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

**Chart 1: US Grocery Value Growth vs Volume Growth – Easy Comps in H1 18**

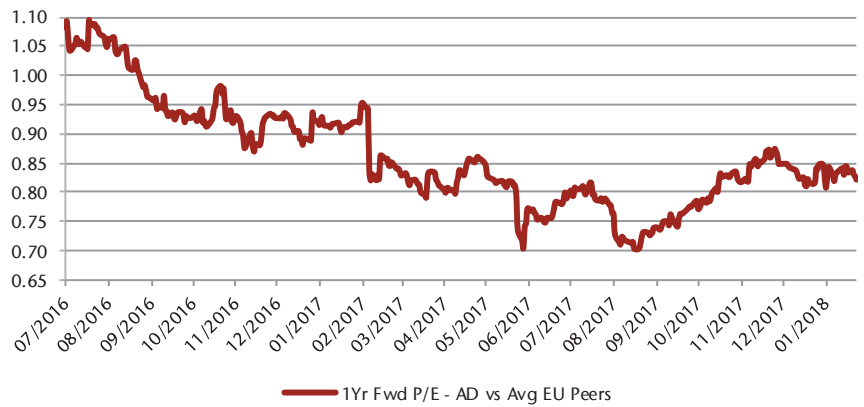
Source: Nielsen, Jefferies

**Chart 2: Ahold Delhaize Share Buyback**



Source: Company data, Jefferies

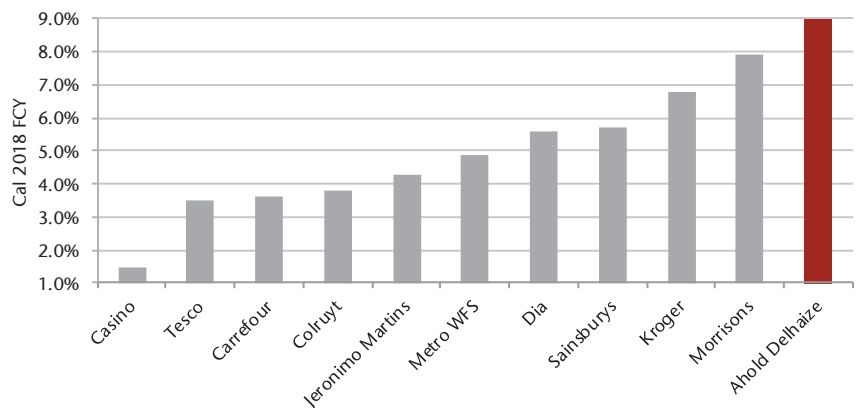
**Chart 3: AD 1Yr Forward P/E Rating vs European Peers**



Source: Factset, Jefferies

Note: Europeans peers include Tesco, Morrisons, Sainsburys, Carrefour, Casino, Dia, Metro WFS, Jeronimo Martins, Colruyt

**Chart 4: Grocers Cal 2018 Free Cashflow Yield Comp**



Source: Bloomberg, Jefferies

## Ahold Delhaize Financial Forecasts

**Table 2: Ahold Delhaize Summary P&L**

Dec y/e (€m)	2015	2016	2017E	2018E	2019E
<b>Group sales</b>	<b>60,881</b>	<b>62,332</b>	<b>62,694</b>	<b>59,926</b>	<b>61,045</b>
growth %	n/a	2.4	0.6	-4.4	1.9
o/w Ahold USA	23,106	23,316	22,894	20,846	21,137
o/w Delhaize America	15,146	15,501	15,395	14,101	14,312
o/w Netherlands	12,624	13,015	13,672	14,082	14,505
o/w Belgium	4,859	4,942	4,942	4,991	5,066
o/w rest of Europe	5,146	5,557	5,791	5,907	6,025
<b>Group EBITDA</b>	<b>3,862</b>	<b>4,063</b>	<b>4,237</b>	<b>4,148</b>	<b>4,349</b>
margin %	6.3	6.5	6.8	6.9	7.1
<b>Group EBIT</b>	<b>2,155</b>	<b>2,298</b>	<b>2,441</b>	<b>2,450</b>	<b>2,629</b>
margin %	3.5	3.7	3.9	4.1	4.3
growth %	n/a	6.6	6.2	0.4	7.3
o/w Ahold USA	922	921	939	896	941
o/w Delhaize America	519	538	579	550	587
o/w Netherlands	570	629	684	725	772
o/w Belgium	86	121	123	140	167
o/w rest of Europe	193	231	238	254	268
o/w GSO costs	-135	-142	-120	-115	-105
Group interest	-425	-355	-320	-310	-295
<b>Group PBT</b>	<b>1,730</b>	<b>1,943</b>	<b>2,121</b>	<b>2,140</b>	<b>2,334</b>
Income taxes	-346	-493	-522	-514	-549
JV income	26	36	38	39	42
Underlying net income	1,410	1,486	1,637	1,666	1,828
<b>EPS</b>	<b>1.11</b>	<b>1.17</b>	<b>1.28</b>	<b>1.40</b>	<b>1.64</b>
Share count	n/a	1,272	1,275	1,189	1,114
DPS	n/a	0.58	0.64	0.65	0.72

Source: Jefferies estimates, company data

**Table 3: Ahold Delhaize Summary Cashflow**

Dec y/e (€m)	2015	2016	2017E	2018E	2019E
<b>Operating cashflow inc work capital</b>	<b>3,169</b>	<b>2,375</b>	<b>3,758</b>	<b>3,402</b>	<b>3,610</b>
Less cash restructuring costs	0	-220	-220	-20	-20
Total investing cashflow	-1,549	-1,202	-1,744	-1,769	-1,822
Capex	-1,601	-1,302	-1,784	-1,839	-1,872
o/w Ahold capex	-850	0	-935	-992	-1,011
o/w Delhaize capex	-751	0	-849	-848	-861
Disposals of tangible and intangibles	52	100	50	70	50
<b>Cashflow post investing</b>	<b>1,620</b>	<b>953</b>	<b>1,795</b>	<b>1,612</b>	<b>1,768</b>
Dividends	-560	-429	-743	-819	-833
Other	0	-1,001	-1,000	-2,000	-750
Retained cashflow	1,060	1,741	52	-1,206	185
<b>Net debt</b>	<b>1,929</b>	<b>3,244</b>	<b>3,192</b>	<b>4,399</b>	<b>4,213</b>

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
<b>Sales</b>	<b>59,926</b>	<b>61,852</b>	<b>-3.1</b>	<b>61,045</b>	<b>62,996</b>	<b>-3.1</b>
EBITDA	4,148	4,286	-3.2	4,349	4,492	-3.2
<b>EPS</b>	<b>1.40</b>	<b>1.44</b>	<b>-2.8</b>	<b>1.64</b>	<b>1.69</b>	<b>-3.0</b>

Drivers of Change

USD/EUR changed from 1.18 to 1.25

Source: Jefferies estimates

## Company Description

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.

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### (Article 3(1)e and Article 7 of MAR)

Recommendation Published , 13:26 ET. February 15, 2018  
Recommendation Distributed , 00:00 ET. February 16, 2018

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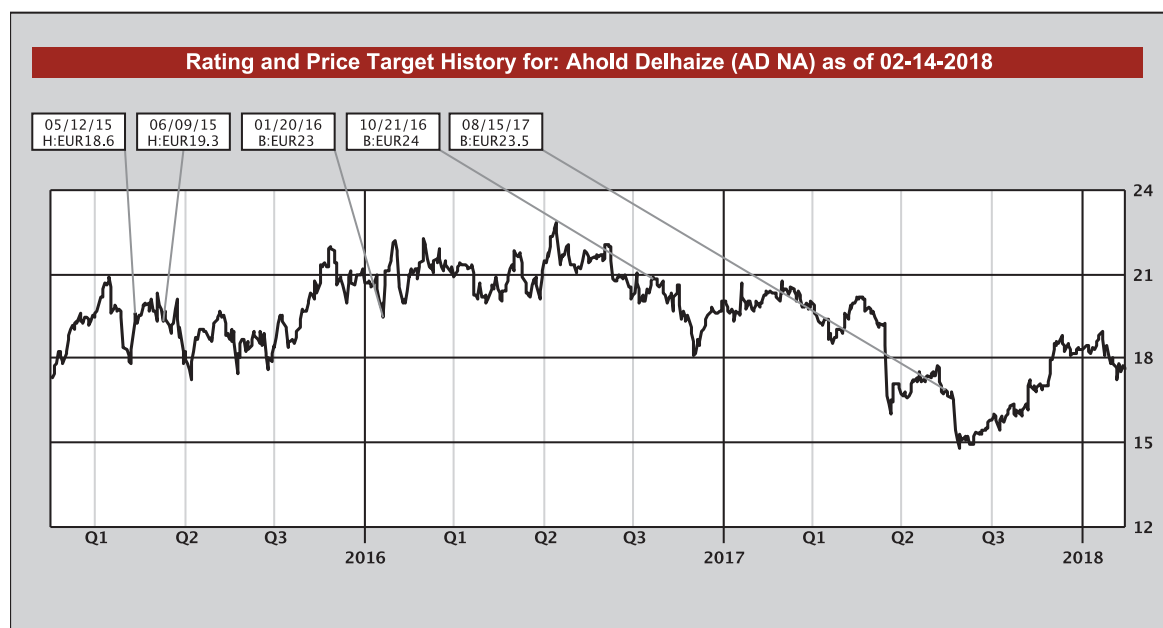
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- Casino (CO FP: €45.09, HOLD)
- Colruyt (COLR BB: €43.46, UNDERPERFORM)
- DIA (DIA SM: €3.90, HOLD)
- J. Sainsbury (SBRY LN: p244.80, HOLD)
- Jeronimo Martins (JMT PL: €17.29, HOLD)
- Metro Wholesale & Food Specialist AG (B4B GY: €17.89, HOLD)
- Tesco (TSCO LN: p202.20, HOLD)
- The Kroger Company (KR: \$28.40, BUY)
- Wm Morrison Supermarkets (MRW LN: p217.00, HOLD)



**Notes:** Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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			Count	Percent	Count	Percent
BUY	1106	53.35%	340	30.74%	69	6.24%
HOLD	823	39.70%	164	19.93%	23	2.79%
UNDERPERFORM	144	6.95%	20	13.89%	3	2.08%



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