

# Ahold Delhaize (AD NA)

## Bird in Hand

### Key Takeaway

**AD's finals confirmed it as the European grocer with the most attractive FC profile, offering the most visible potential for further progress in 2018, and at the lowest valuation (2018 FCY 9%). A strong beat in US margin should be particularly well received.**

**A strong delivery despite a mixed 2017 backdrop...** Q4 EBIT of €631m was 1% ahead of JEFe/cons €627m/€624m. Regional delivery shows a US beat offsetting European shortfalls. Ahold USA Q4 EBIT margin was +24bps (JEFe/cons +10bps), and Delhaize America impressed with +47bps (JEFe/cons flat). Netherlands was short at -20bps (JEFe/cons +10bps), weighed by higher pension charges. Belgium disappointed at €13m EBIT (JEFe €35m), prompting more drastic mgmt. changes. CSE was well ahead. Net debt fell >€0.7bn despite a €1bn buyback. DPS is proposed at €0.63.

**FC for 2018 set at c.€1.9bn** suggests healthy confidence notwithstanding a €200m inflow from US tax reform (which is a sustainable annual benefit stemming from accelerated utilisation of property depreciation). We estimate that the combination of reduced working capital tailwinds (c.€90m delta), normalisation of JV dividend receipts (-€50m), capex hikes (guided to increase by €200m, or c.€300m ex fx, taking advantage of the cash tax inflows) and fx dilution to US\$ FC (c.€100m) imply that underlying FC should build by around €200m. This morning's call confirmed comfort with expectations for a 2018 margin build of 20bps (strongly underpinned by an incremental net synergy increasing by c.€150m, or >€200m at gross level). There has been no noticeable change in competitive tempo in either the US or Holland in recent months. And AD is comfortable that it is keeping pace with price action at US value leaders (this is nicely validated by continued progress in market share, especially at Food Lion, we would add).

**Plenty of new initiatives in 2018** with pretty drastic changes in Belgium seemingly already starting to feed through to improved sales delivery (as logistics issues and promotional efficacy are being tackled). We would expect the major hike in 2018 group capex to help start replicating the hugely successful Dutch multi-channel food effort in the US and Belgium.

**Remains by far the cheapest grocer** as we estimate a 2018 FCY of 9% (or 9.5% by 2019 given continued buybacks and the more synergy benefits coming through).

### 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	--	62,694.0	--	59,926.0	--	61,045.0
EBITDA (MM)	--	4,063.0	--	4,237.0	--	4,148.0	--	4,349.0
EV/EBITDA	--	6.3x	--	5.8x	--	5.8x	--	5.4x
<b>EPS</b>								
FY Dec	--	1.17	--	1.28	--	1.40	--	1.64
FY P/E		15.4x		14.0x		12.8x		11.0x

**BUY**Price target €22.80  
Price €17.96^

### 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):	€26,037.1
Market Cap. (MM):	€22,845.1
Institutional Ownership:	100.0%
Shares Out. (MM):	1,272.0
Float (MM):	1,206.7
Avg. Daily Vol.:	5,991,085

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### Price Performance



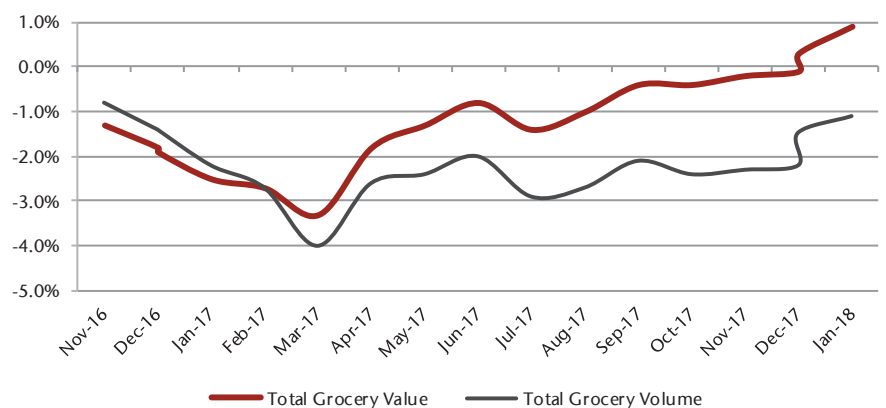
^Prior trading day's closing price unless otherwise noted.

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

Dec y/e (€m)	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17E	Q417A
<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>	<b>15,763</b>
o/w Ahold USA	5,837	5,789	5,665	6,025	5,969	5,934	5,425	5,566	5,566
CSS ex fuel %	1.3	2.0	-0.1	-0.5	-1.8	0.3	0.7	0.6	0.6
o/w Delhaize America	3,801	3,843	3,888	3,969	3,943	3,989	3,780	3,683	3,683
CSS %	2.0	3.0	1.3	2.2	0.0	1.2	2.3	1.5	1.5
o/w Netherlands	3,173	3,243	3,148	3,451	3,298	3,424	3,277	3,673	3,673
CSS %	3.0	4.4	2.8	6.0	3.3	4.9	3.6	6.0	6.0
o/w Belgium	1,194	1,255	1,213	1,280	1,181	1,258	1,213	1,290	1,290
CSS %	3.9	2.6	1.3	-0.9	-0.6	0.0	-0.3	0.0	0.0
o/w rest of Europe	1,319	1,379	1,368	1,491	1,375	1,439	1,426	1,551	1,551
CSS ex fuel %	7.4	6.5	5.7	3.5	1.5	1.7	0.5	0.3	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>	<b>1,081</b>
margin %	6.5	6.4	6.4	6.7	6.7	6.7	6.8	6.8	6.9
<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>	<b>631</b>
margin %	3.6	3.6	3.5	3.9	3.8	3.9	3.9	4.0	4.0
o/w Ahold USA	253	209	220	239	249	239	221	230	234
margin %	4.3	3.6	3.9	4.0	4.2	4.0	4.1	4.1	4.2
o/w Delhaize America	130	132	135	141	153	152	142	131	148
margin %	3.4	3.4	3.5	3.6	3.9	3.8	3.8	3.6	4.0
o/w Netherlands	150	167	142	170	165	174	161	184	174
margin %	4.7	5.1	4.5	4.9	5.0	5.1	4.9	5.0	4.7
o/w Belgium	30	37	24	30	28	32	28*	35	13
margin %	2.5	2.9	2.0	2.3	2.4	2.5	2.3*	2.7	1.0
o/w rest of Europe	41	59	56	75	41	55	62	80	84
margin %	3.1	4.3	4.1	5.0	3.0	3.8	4.3	5.2	5.4
o/w GSO costs	-45	-42	-35	-20	-32	-26	-28	-34	-22

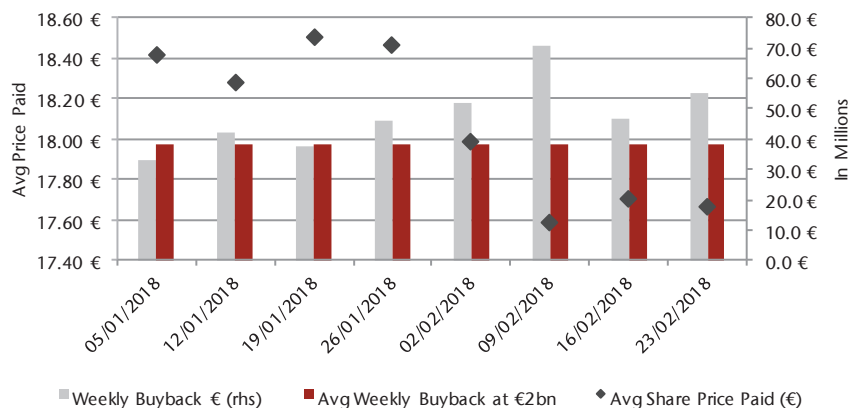
Source: Jefferies, company data

\*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**

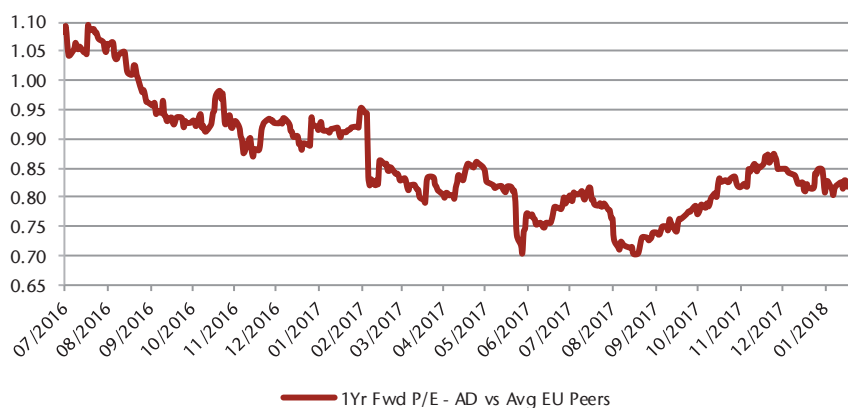
Source: Nielsen, Jefferies

**Chart 2: Ahold Delhaize Share Buyback**



Source: Company data, Jefferies

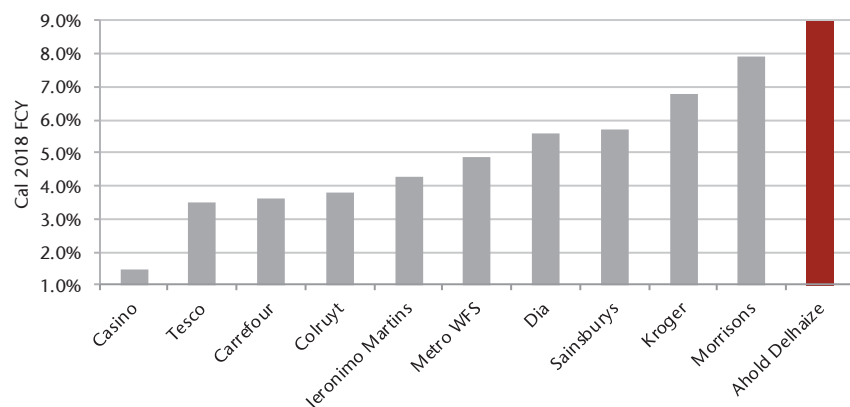
**Chart 3: AD 1Yr Forward P/E Rating vs European Peers**



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

## 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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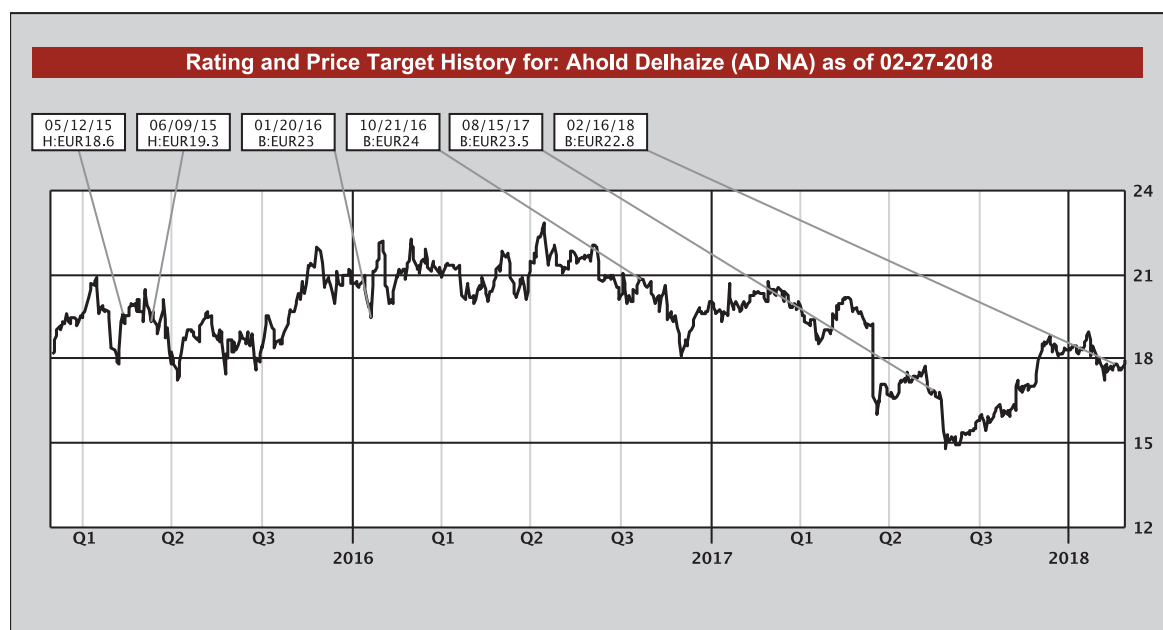
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