

Ahold Delhaize (AD NA)

Stop the Rot at Stop & Shop

Key Takeaway

This was a slow Q2 for AD, with -ve US CSS volumes a major point of debate. While AD reconfirmed FC expectations and guided to an improving H2, the concern is that slowing merger synergies, top-line deflationary risks and accelerating opex challenges make for an uncertain margin outlook. Mr. Muller's first actions as new CEO reveal an increased urgency in reviving a lagging Stop & Shop.

A slower Q2. AD reported Q2 sales of -3.7% (+0.9% ex fx), and EBIT -2.0% (+2.3% ex fx) to €616m (JEFe/cons €611m/€614m). A Q2 margin of +7bps follows +20bps in Q1 (synergies +24bps in Q2, was +30bps in Q1). Lower insurance opex within HQ costs was a help (of €13m in Q2, €29m in H1). As anticipated, the Q1 Easter switch impacted sales in all geographies by c.100bps. In the US, CSS slowed more than feared to -0.1% (JEFe +0.5%), despite 1.6% inflation; margin was a modest +3bps (Q1 +27bps). In NL, solid CSS of 2.9% (Q1 +3.2%) saw margin +22bps (was -16bps in Q1). The Belgian turnaround continues with CSS +1.4% and margin of +19bps. AD confirmed €1.9bn FY FC guidance, with >€1.1bn in H1 boosted by wkg cap timing and a back-end loading to €1.9bn capex (€0.7bn in H1).

US dynamics weaker... US CSS of -0.1% becomes +1.1% ex Easter, but inflation of 1.6% confirms H1 CSS volume of -0.5%/-0.6%. Devolving commercial responsibilities to the individual chains resulted in a hiatus in price/promos in Q2 (AD did not clarify the benefit this had on Q2 margin). Guidance is for much improved H2 volumes, supported by improved trends in June/July. But concerns will persist given that: US inflation is expected to slow to 1% (was >2% in H1), implying improved CSS will require an unlikely inflection in volumes; opex challenges may worsen further (we note June freight cost inflation of c.10%); confirmed guidance for synergy savings suggests the €82m enjoyed in H1 will slow to €48m in H2. AD is comfortable with FY cons for group margin at +15bps, but we fear that risk here is to the downside.

...offset by European strength. At 60% of group EBIT, the US remains the critical swing factor. Still, good progress in Europe in Q2 allowed for a more balanced Q2 delivery given: scale gains at Bol.com are reducing the drag to NL margin; in Belgium, merger savings were sufficient to offset stepped-up promos.

Staying on Hold as we remain wary of near-term margin risks. Mr Muller's debut as group CEO suggested no major revolution in store for the group, even if today's call confirmed the need for a much more drastic S&S reboot (mostly store refurbishment driven). A greater focus on same-day delivery in US food online will also be a critical point of debate at the Nov CMD.

EUR	Prev.	2017A	Prev.	2018E	Prev.	2019E	Prev.	2020E
Rev. (MM)	--	62,890.0	--	61,682.0	--	62,848.0	--	64,205.0
EBITDA (MM)	--	4,247.0	--	4,175.0	--	4,359.0	--	4,474.0
EV/EBITDA	--	6.2x	--	6.3x	--	5.6x	--	5.2x
EPS								
FY Dec	--	1.29	--	1.46	--	1.65	--	1.77
FY P/E	--	16.3x	--	14.4x	--	12.7x	--	11.9x

HOLD

Price target €19.50

Price €20.99^

Financial Summary

Net Debt (MM):	€3,381.0
Dividend Yield:	3.3%

Market Data

52 Week Range:	€22.08 - €14.72
Total Entprs. Value (MM):	€29,618.5
Market Cap. (MM):	€26,237.5
Institutional Ownership:	100.0%
Shares Out. (MM):	1,250.0
Float (MM):	1,206.0
Avg. Daily Vol.:	5,031,877

James Grznic *

Equity Analyst

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

Caroline Gulliver *

Equity Analyst

+44 (0) 20 7029 8226 cgulliver@jefferies.com

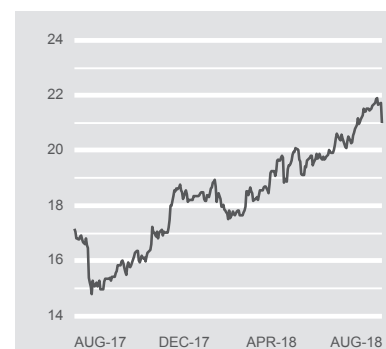
Sebastian Barbero *

Equity Associate

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

* Jefferies International Limited

Price Performance



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

Table 1: Ahold Delhaize – Q2 18 Results

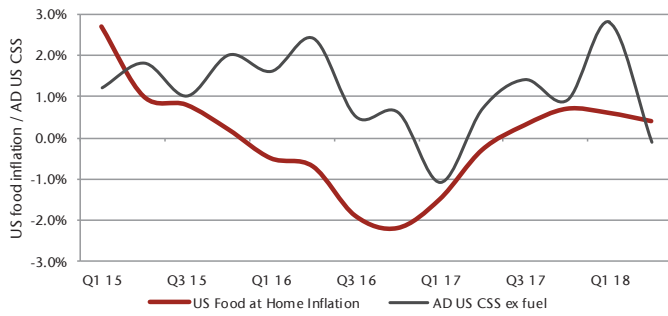
Dec y/e (€m)	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18E	Q2 18A
Group sales	15,324	15,509	15,282	16,216	15,870	16,121	15,136	15,763	14,933	15,469	15,531
o/w USA	9,638	9,632	9,553	9,994	9,989	9,986	9,216	9,249	8,839	9,180	9,211
CSS ex fuel %	1.6	2.4	0.5	0.6	-1.1	0.7	1.3	1.0	2.8	0.5	-0.1
o/w Netherlands	3,173	3,243	3,148	3,451	3,320	3,434	3,279	3,673	3,408	3,499	3,536
CSS %	3.0	4.4	2.8	6.0	3.3	4.8	3.6	6.0	3.2	2.4	2.9
o/w Belgium	1,194	1,255	1,213	1,280	1,186	1,262	1,215	1,290	1,245	1,301	1,286
CSS %	3.9	2.6	1.3	-0.9	-0.7	0.0	-0.3	0.0	4.1	2.6	1.4
o/w rest of Europe	1,319	1,379	1,368	1,491	1,375	1,439	1,426	1,551	1,441	1,489	1,498
CSS ex fuel %	7.4	6.5	5.7	3.5	1.5	1.7	0.5	0.3	0.7	0.2	0.5
Group EBIT	559	562	542	635	606	628	582*	631	600	611	616
margin %	3.6	3.6	3.5	3.9	3.8	3.9	3.8	4.0	4.0	4.0	4.0
o/w USA	383	341	355	380	401	393	359	382	378	375	366
margin %	4.0	3.5	3.7	3.8	4.0	3.9	3.9	4.1	4.3	4.1	4.0
o/w Netherlands	150	167	142	170	167	174	161	174	166	175	187
margin %	4.7	5.1	4.5	4.9	5.0	5.1	4.9	4.7	4.9	5.0	5.3
o/w Belgium	30	37	24	30	29	32	28*	13	28	31	35
margin %	2.5	2.9	2.0	2.3	2.4	2.5	2.3	1.0	2.3	2.4	2.7
o/w rest of Europe	41	59	56	75	41	55	62	84	44	60	53
margin %	3.1	4.3	4.1	5.0	3.0	3.8	4.3	5.4	3.1	4.0	3.6
o/w GSO costs	-45	-42	-35	-20	-32	-26	-28	-22	-16	-30	-25

Source: Jefferies, company data

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

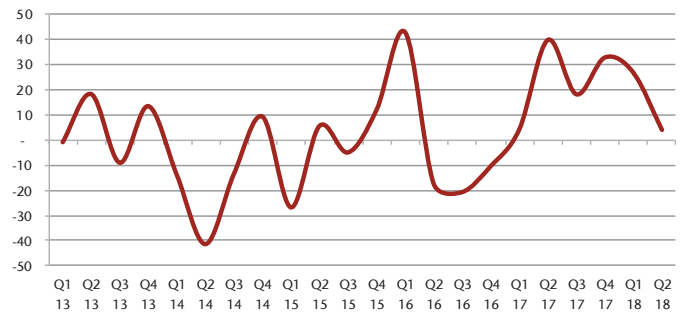
Sales and Margin Trends

Chart 1: AD US CSS vs US Food at Home Inflation



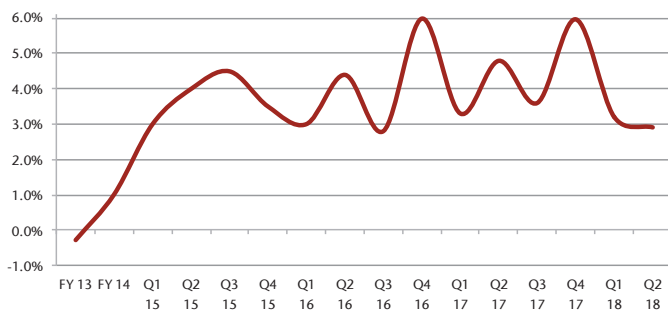
Source: Company data, Jefferies

Chart 2: AD US Underlying YoY Margin Change (bps)



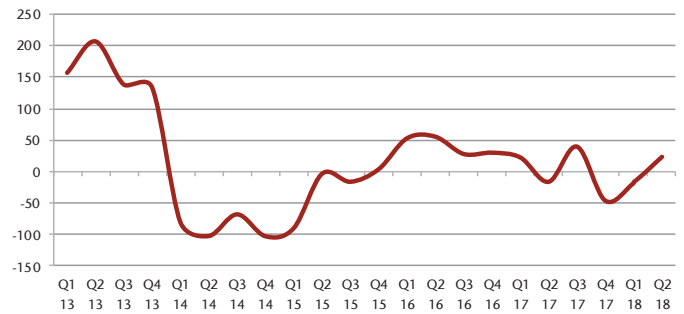
Source: Company data, Jefferies

Chart 3: AD Dutch CSS Growth



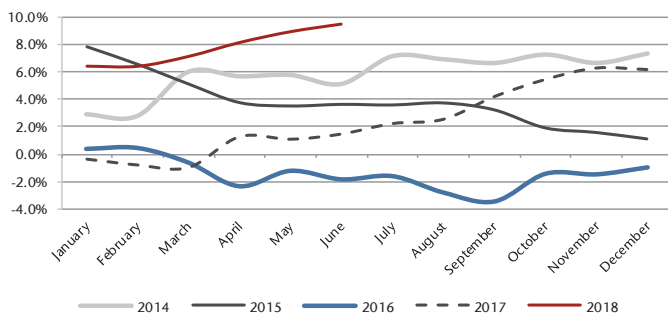
Source: Company data, Jefferies

Chart 4: AD Benelux YoY Margin Change (bps)



Source: Company data, Jefferies

Chart 5: Freight Costs Continue to Accelerate...



Source: CASS, Jefferies

Chart 6: ...and Wage Growth Stands at Decade Highs



Source: Factset, Jefferies

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	61,682	62,848	64,205
growth %	2.4	0.9	-1.6	1.9	2.2
o/w USA	38,817	38,440	36,546	37,470	38,051
o/w Netherlands	13,015	13,706	14,021	14,470	14,933
o/w Belgium	4,942	4,953	5,141	5,290	5,448
o/w rest of Europe	5,557	5,791	5,975	6,142	6,314
Group EBIT	2,298	2,447	2,448	2,599	2,676
margin %	3.7	3.9	4.0	4.1	4.2
growth %	6.6	6.5	0.1	6.2	3.0
o/w USA	1,459	1,535	1,502	1,529	1,522
o/w Netherlands	629	676	687	709	732
o/w Belgium	121	102	114	135	158
o/w rest of Europe	231	242	251	273	281
o/w GSO costs	-142	-108	-106	-110	-110
Group interest	-355	-297	-274	-280	-280
Group PBT	1,943	2,150	2,174	2,319	2,396
Income taxes	-493	-530	-457	-487	-503
JV income	36	35	27	30	33
Underlying net income	1,486	1,654	1,745	1,862	1,926
EPS	1.17	1.29	1.46	1.65	1.77
Share count	1,272	1,281	1,198	1,127	1,089
DPS	0.58	0.63	0.69	0.73	0.76

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	3,758	3,966	4,116
Less cash restructuring costs	-220	0	-20	-20	0
Total investing cashflow	-1,202	-1,509	-1,814	-1,833	-1,873
Capex	-1,302	-1,698	-1,884	-1,883	-1,923
o/w Ahold capex	0	0	-1,029	-1,008	-1,028
o/w Delhaize capex	0	0	-855	-875	-895
Disposals of tangible and intangibles	100	142	70	50	50
Cashflow post investing	953	2,227	1,923	2,113	2,243
Dividends	-429	-720	-801	-872	-931
Other	-1,001	-992	-2,000	-750	-750
Retained cashflow	1,741	532	-878	491	562
Net debt	3,244	2,503	3,381	2,890	2,328

Source: Jefferies estimates, company data

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

€19.5 PT = 2018e FCY of 8.7%, at the higher end of the historical range. Risks: synergy under-delivery and worsening competitive pressures.

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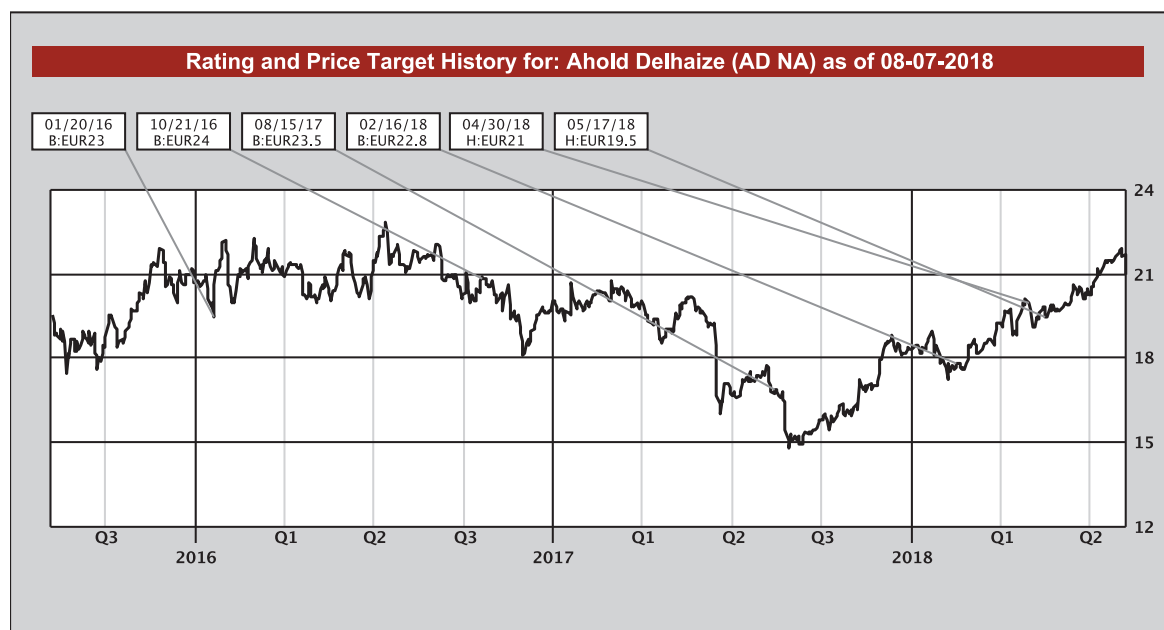
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H: Hold

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			Count	Percent	Count	Percent
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