

# Ahold Delhaize (AD NA)

## Freight Fright

### Key Takeaway

**AD's Q1 update was another solid milestone. Still, our recent downgrade reflects concerns around building US opex pressures at a time of reducing net synergy tailwinds. Future quarters will represent a sterner test if the US gross margin backdrop does not improve and/or CSS delivery does not accelerate from here.**

**An in-line, solid Q1** with group EBIT of €600m (JEFe/cons €584m/€586m), or €584m excluding lower insurance costs. US CSS of 2.8% (with inflation +2.3%, set to slow over the rest of 2018) was supported by weather (+30bps), soft comps and calendar (the latter a +120bps boost), helping +27bps margin. The Netherlands slowed a little to CSS of 3.2%, but Belgium surprised with strong CSS of +4.1%. In both cases margins were c.-20bps. Q1 group EBIT margin was +20bps YoY and -10bps ex €44m of incremental synergies (which should slow towards €20m by y/e). Guidance for 2018 c.€1.9bn FC is confirmed, with €441m delivered in Q1.

**US backdrop mixed...** The US gross margin environment remains tight, despite building opex pressures (especially wages, but we also note freight rates seeing price rises of 6.7% so far in 2018, after 2.4% in 2017). AD continues to defend market share successfully in the US. But a lack of acceleration in the 2yr stack CSS (especially once the +150bps of one-offs is stripped out) means that upcoming quarterly updates may prove more susceptible to dilution from elevated cost inflation.

**...whilst progress continues in Europe.** CSS at +3.2% in the Netherlands was a little slower than in previous quarters, but the business remains a market share winner (and continues to defend a healthy domestic margin profile, notwithstanding margin dilutive online growth). An encouraging build in CSS in Belgium was a welcome surprise, even if margins remain low at this early stage in the recovery as the business reinvests into promos and into in-store labour. Elsewhere in Europe a more normalised competitive set in Greece continues to weigh on sales.

**Wary of earnings momentum turning neutral in coming months...** as we continue to see AD as a well run group, with clear FC attractions (2018 FCY of 8.6%) and a strong role to play in a consolidating US industry. In the nearer term we are more concerned by risks of moderating margin tailwinds, well aware of the extent to which investors were willing to de-rate AD to a FCY of c.11% in 2017.

### Valuation/Risks

€21 PT = 2018e FCY of 8%, at mid-point of the historical range. Risks: synergy under-delivery and worsening competitive pressures.

EUR	Prev.	2017A	Prev.	2018E	Prev.	2019E	Prev.	2020E
Rev. (MM)	--	62,694.0	--	60,141.0	--	61,369.0	--	62,572.0
EBITDA (MM)	--	4,247.0	--	4,143.0	--	4,345.0	--	4,463.0
EV/EBITDA	--	6.2x	--	6.1x	--	5.6x	--	5.4x
<b>EPS</b>								
FY Dec	--	1.29	--	1.42	--	1.66	--	1.79
FY P/E	--	15.1x	--	13.7x	--	11.7x	--	10.9x

**HOLD**

Price target €21.00

Price €19.49^

### Financial Summary

Net Debt (MM):	€3,404.0
Dividend Yield:	3.1%

### Market Data

52 Week Range:	€20.35 - €14.72
Total Entprs. Value (MM):	€27,766.5
Market Cap. (MM):	€24,362.5
Institutional Ownership:	100.0%
Shares Out. (MM):	1,250.0
Float (MM):	1,206.3
Avg. Daily Vol.:	6,063,382

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### Price Performance



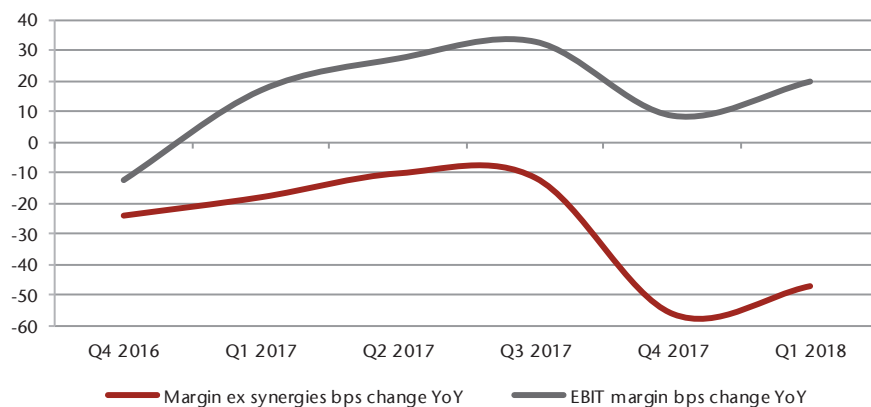
^Prior trading day's closing price unless otherwise noted.

**Table 1: Ahold Delhaize – Q1 18 Results**

Dec y/e (€m)	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18E	Q1 18A
<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>14,821</b>	<b>14,933</b>
o/w USA	9,638	9,632	9,553	9,994	9,912	9,923	9,203	9,249	8,841	8,839
CSS ex fuel %	1.6	2.4	0.5	0.6	-1.1	0.7	1.4	0.9	2.6	2.8
o/w Netherlands	3,173	3,243	3,148	3,451	3,298	3,424	3,277	3,673	3,377	3,408
CSS %	3.0	4.4	2.8	6.0	3.3	4.9	3.6	6.0	3.1	3.2
o/w Belgium	1,194	1,255	1,213	1,280	1,181	1,258	1,213	1,290	1,199	1,245
CSS %	3.9	2.6	1.3	-0.9	-0.6	0.0	-0.3	0.0	2.0	4.1
o/w rest of Europe	1,319	1,379	1,368	1,491	1,375	1,439	1,426	1,551	1,404	1,441
CSS ex fuel %	7.4	6.5	5.7	3.5	1.5	1.7	0.5	0.3	0.8	0.7
<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>1,081</b>	<b>1,007</b>	<b>1,037</b>
margin %	6.5	6.4	6.4	6.7	6.7	6.7	6.8	6.9	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>631</b>	<b>584</b>	<b>600</b>
margin %	3.6	3.6	3.5	3.9	3.8	3.9	3.9	4.0	3.9	4.0
o/w USA	383	341	355	380	403	391	363	382	383	378
margin %	4.0	3.5	3.7	3.8	4.1	3.9	3.9	4.1	4.3	4.3
o/w Netherlands	150	167	142	170	165	174	161	174	164	166
margin %	4.7	5.1	4.5	4.9	5.0	5.1	4.9	4.7	4.9	4.9
o/w Belgium	30	37	24	30	28	32	28*	13	27	28
margin %	2.5	2.9	2.0	2.3	2.4	2.5	2.3*	1.0	2.3	2.3
o/w rest of Europe	41	59	56	75	41	55	62	84	42	44
margin %	3.1	4.3	4.1	5.0	3.0	3.8	4.3	5.4	3.0	3.0
o/w GSO costs	-45	-42	-35	-20	-32	-26	-28	-22	-31	-16

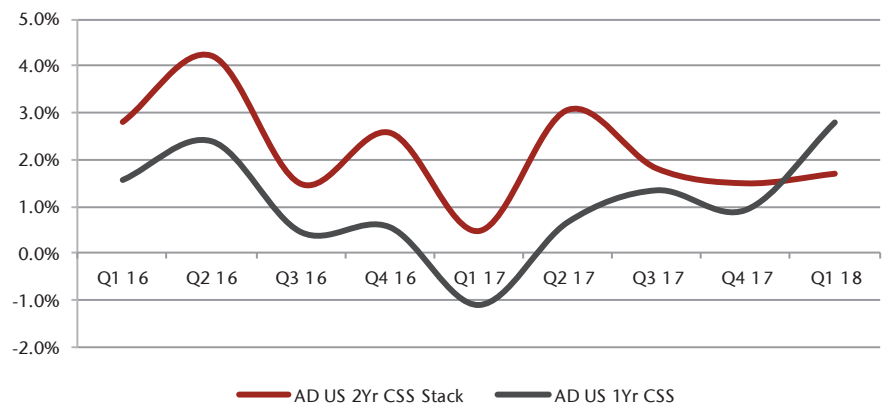
Source: Jefferies, company data

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

**Chart 1: AD Quarterly Margin Progression, Reported vs Ex Synergy Benefit**

Source: Company data, Jefferies

**Chart 2: US CSS Progress**



Source: Company data, Jefferies

## 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>62,694</b>	<b>60,141</b>	<b>61,369</b>	<b>62,572</b>
growth %	2.4	0.6	-4.1	2.0	2.0
o/w USA	38,817	38,289	35,177	35,755	36,300
o/w Netherlands	13,015	13,672	14,096	14,519	14,954
o/w Belgium	4,942	4,942	4,991	5,101	5,203
o/w rest of Europe	5,557	5,791	5,878	5,995	6,115
<b>Group EBITDA</b>	<b>4,063</b>	<b>4,247</b>	<b>4,143</b>	<b>4,345</b>	<b>4,463</b>
margin %	6.5	6.8	6.9	7.1	7.1
<b>Group EBIT</b>	<b>2,298</b>	<b>2,446</b>	<b>2,439</b>	<b>2,614</b>	<b>2,700</b>
margin %	3.7	3.9	4.1	4.3	4.3
growth %	6.6	6.4	-0.3	7.2	3.3
o/w USA	1,459	1,538	1,465	1,540	1,563
o/w Netherlands	629	674	719	769	796
o/w Belgium	121	101	110	143	172
o/w rest of Europe	231	242	253	267	272
o/w GSO costs	-142	-108	-108	-105	-103
Group interest	-355	-297	-301	-290	-280
<b>Group PBT</b>	<b>1,943</b>	<b>2,149</b>	<b>2,138</b>	<b>2,324</b>	<b>2,420</b>
Income taxes	-493	-530	-470	-488	-508
JV income	36	35	33	35	36
Underlying net income	1,486	1,654	1,700	1,871	1,948
<b>EPS</b>	<b>1.17</b>	<b>1.29</b>	<b>1.42</b>	<b>1.66</b>	<b>1.79</b>
Share count	1,272	1,281	1,198	1,126	1,088
DPS	0.58	0.63	0.67	0.74	0.76

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>3,729</b>	<b>3,954</b>	<b>4,106</b>
Less cash restructuring costs	-220	0	-20	-20	0
Total investing cashflow	-1,202	-1,509	-1,809	-1,824	-1,860
Capex	-1,302	-1,698	-1,879	-1,874	-1,910
o/w Ahold capex	0	0	-1,031	-1,009	-1,027
o/w Delhaize capex	0	0	-848	-865	-883
Disposals of tangible and intangibles	100	142	70	50	50
<b>Cashflow post investing</b>	<b>953</b>	<b>2,227</b>	<b>1,900</b>	<b>2,109</b>	<b>2,246</b>
Dividends	-429	-720	-800	-850	-936
Other	-1,001	-992	-2,000	-750	-750
Retained cashflow	1,741	532	-901	509	560
<b>Net debt</b>	<b>3,244</b>	<b>2,503</b>	<b>3,404</b>	<b>2,895</b>	<b>2,335</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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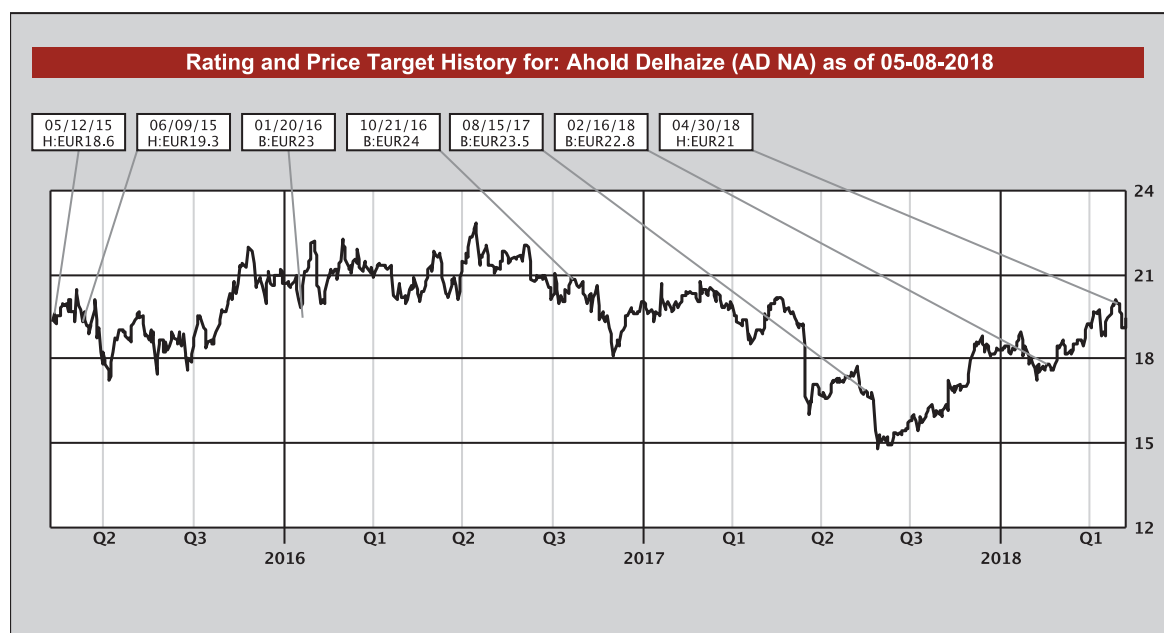
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