

# Colruyt (COLR BB)

## Buyback Bubble

### Key Takeaway

**COLR's FY results confirm ongoing slippage in relative sales densities. A surprising rise in H2 gross margin led to a 3% net profit beat vs consensus. However, sales progress looks muted and retail pressures are set to persist (as a major competitor, Delhaize, continues to invest in improved value and stepped-up expansion). Near-completion of the €350m buyback programme should make COLR's valuation correlate more closely with the lack of profit growth.**

**A slight FY beat...** with FY EBIT of €488m (JFe/cons €474m/€460m) given FY underlying group margin of -24bp YoY, and retail at -29bp (much improved relative to the -57bp pro-forma reported at group level in H1, with -71bp for retail in H1). The critical change has been a major positive swing in gross margin which, having declined by 50bp in H1, increased by 84bp in H2. COLR stated that this reflects a less competitive environment in more recent months. Clean net income came in at €351m (vs JFe/cons €349m/€343m), relative to guidance for 'matching as closely as possible' the €348m (pro-forma) achieved in 16/17. Closing net cash fell to €87m (was €524m a year ago), with buybacks accounting for €329m of that. The €350m 2yr buyback programme has now reached the €331m mark. The group expects a competitive market in 18/19.

**...but COLR's ability to outperform on sales remains challenged.** Retail sales growth of 3.1% in the FY (it was 3.2% in H1) means that COLR has seen limited build in sales densities in the past year, and just 10bp of market share gain. Muted sales progress, despite consistently high capex efforts, should continue as we expect the change at AD's helm to make for a more challenging domestic competitive backdrop. AD's step-up in promotional efforts in Belgium since calendar Q4 2017 has led to solid market share gains of +40bp in Q1 2018 (having been a loser of share in 2017). This attrition is set to worsen as AD steps up its investments in the market through store renovations, accelerated openings, and a much-improved multi-channel offering.

**Lack of new buy-backs removes a +ve risk.** COLR's valuation (cal 2019 P/E >17x, EV/EBITDA c.9x and FCY <4%) remains disconnected from the lack of earnings growth (net income has remained largely unchanged for the past seven years) offered by the group. Although a retail margin of 6% (FY 17/18) is significantly below historical peaks of c.8% (most recently seen in 11/12), we suspect earnings risk to be negatively pitched if AD continues to build on recent market share gains. The looming completion of the €350m buyback is set to remove a major positive technical that has supported the stock in recent months.

### UNDERPERFORM

Bloomberg BRU: COLR BB

Price target €37.00

Price €45.08^

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

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Table 1: Colruyt FY 17/18 Results

€m	H1 16/17	H1 16/17 Pro-forma *	H2 16/17	FY 16/17	H1 17/18	H2 17/18E	H2 17/18A	FY 17/18E	FY 17/18A
<b>Group sales</b>	<b>4,740</b>	<b>4,300</b>	<b>4,754</b>	<b>9,494</b>	<b>4,458</b>	<b>4,553</b>	<b>4,573</b>	<b>9,011</b>	<b>9,031</b>
growth %	4.2	n/a	2.4	3.4	3.7	-4.2	-3.8	-5.1	-4.9
<b>Retail</b>	<b>3,547</b>	<b>3,555</b>	<b>3,665</b>	<b>7,233</b>	<b>3,683</b>	<b>3,857</b>	<b>3,777</b>	<b>7,540</b>	<b>7,460</b>
growth %	3.0	n/a	2.7	2.4	3.2	3.0	1.5	5.2	3.1
<b>Foodservice</b>	<b>811</b>	<b>456</b>	<b>877</b>	<b>1,688</b>	<b>463</b>	<b>499</b>	<b>464</b>	<b>962</b>	<b>927</b>
<b>Group EBIT</b>	<b>262</b>	<b>248</b>	<b>221</b>	<b>483</b>	<b>232</b>	<b>242</b>	<b>256</b>	<b>474</b>	<b>488</b>
growth %	1.3	n/a	-0.4	-2.8	-6.5	9.5	15.8	-1.8	1.0
margin %	5.5	5.8	4.6	5.2	5.2	5.3	5.9	5.3	5.4
<b>Retail</b>	<b>241</b>	<b>238</b>	<b>198</b>	<b>439</b>	<b>219</b>	<b>233</b>	<b>229</b>	<b>452</b>	<b>448</b>
margin %	6.8	6.7	5.3	6.2	5.9	6.0	5.0	5.8	5.0
<b>Total foodservice EBIT</b>	<b>19</b>	<b>23</b>	<b>24</b>	<b>43</b>	<b>14</b>	<b>4</b>	<b>16</b>	<b>17</b>	<b>30</b>
Foodservice margin %	2.4	5.0	2.7	2.5	3.0	0.7	0.3	1.9	0.3
<b>PBT</b>	<b>267</b>	<b>258</b>	<b>233</b>	<b>500</b>	<b>251</b>	<b>243</b>	<b>251</b>	<b>494</b>	<b>502</b>
<b>Net income</b>	<b>195</b>	<b>183</b>	<b>169</b>	<b>364</b>	<b>179</b>	<b>169</b>	<b>172</b>	<b>349</b>	<b>351</b>
EPS (€)	1.35	1.24	1.13	2.48	1.23	1.20	1.37	2.43	2.60

\*Note pro-forma excludes impact of Pro a Pro operations on historic group profits

\*\* Note FY 17/18 net income adjusted for €23m of exceptional gains

Source: Jefferies

## Company Description

### Colruyt

Colruyt is a top three Belgian food retailer. The company operates through its eponymous chain a soft discount format which occupies value leadership in the country. In addition, the company also runs a small (but rapidly growing) chain of convenience stores in Belgium as well as supermarkets in France. Whilst retail operations account for 80% of the group, Colruyt also trades in the food service industry (supplying both wholesale retail clients and institutional clients) through major activities in Belgium and France.

## Company Valuation/Risks

### Colruyt

Valuation: €37 PT = 14.8x cal 2018E P/E, at the low end of history to reflect ongoing margin slippage. Risks: Improving Belgian consumer/competition.

### Ahold Delhaize

€19.5 PT = 2018e FCY of 8.6%, at the higher end of the historical range. Risks: synergy under-delivery and worsening competitive pressures.

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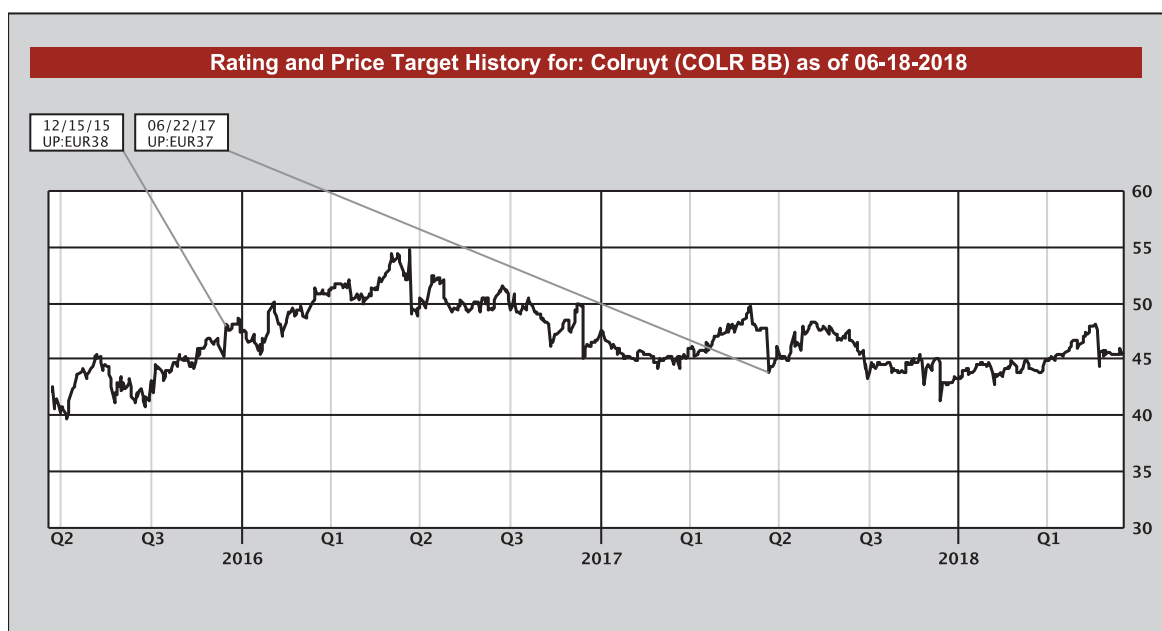
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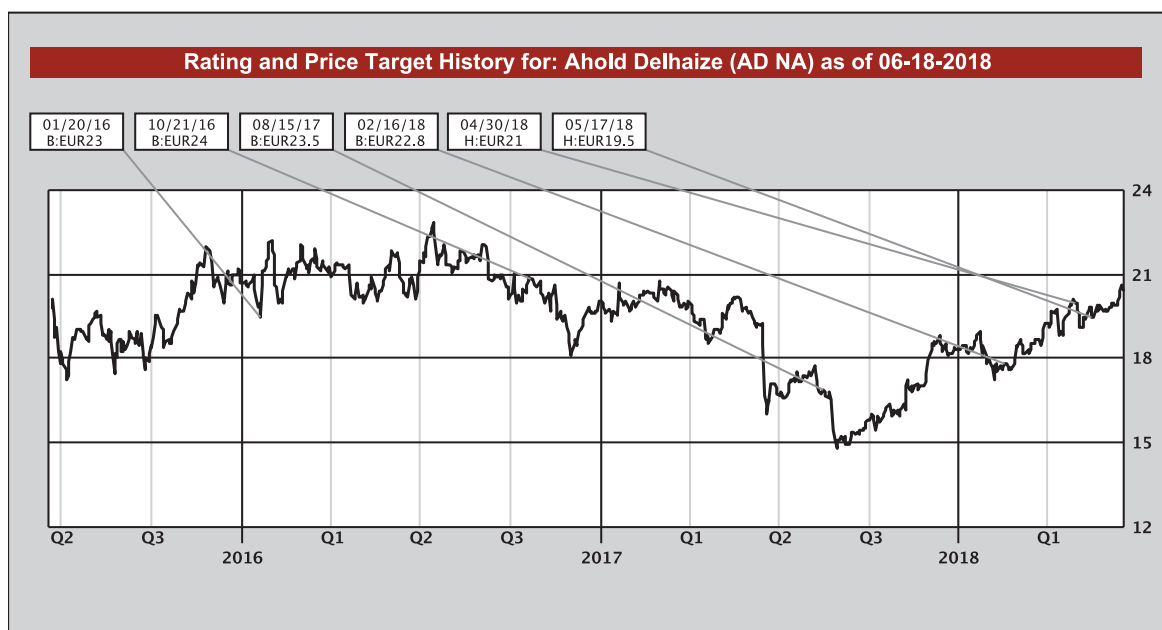
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- Ahold Delhaize (AD NA: €20.29, HOLD)
- Colruyt (COLR BB: €45.08, UNDERPERFORM)





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