

## DESCRIPTION

Carrefour is the world's 2nd largest retailer, with 2010 sales of €89 billion. The company derives 63% of its revenue from Europe (France accounts for 40% of turnover). Carrefour has focused its attention on the «G4» countries (France, Spain, Belgium, Italy). Emerging markets represent c.35% of its revenue. Carrefour has 2 key markets there: Brazil (13% of revenue) and China (6%). Carrefour business model is mainly dependent on its hypermarket format (53% of revenue in Europe). The company has a presence in most of the retail formats. It currently operates 15,960 stores globally (o/w 1,401 hypermarkets; 2,945 supers; 6,404 hard discount; 5,059 convenience stores; 151 cash & carry). 87% of its outlets are in Europe, 9% in Latin America and 5% in Asia. Under new CEO, Lars Olofsson (former Nestlé executive), Carrefour has engaged in cost reduction and a transformation of its key format (hyper) to attract more customer and try to limit market share loss. In July '11, the co spun-off its hard discount subsidiary DIA, which is listed in Spain.

Share Price (last close)	17.91€
Nb of shares	679.3m
<b>Market Capitalization</b>	<b>€12,167m</b>
Net Debt 2011e	€10,959m
<b>Enterprise Value</b>	<b>€23,126m</b>

**FAIR ~€17**  
**Valuation Range**  
**[€17.2-€38.5]**



## Market profile

52 weeks high	€40.40
52 weeks low	€14.66
Average volume	3.5m

Free float	84%
Insiders	16%

## Shareholders

Blue Capital	11.09%
Colony Blue Investor	2.23%
Employees	1.04%
Groupe Arnault	0.74%
Treasury shares	0.54%
Free float	84.36%

## Valuation ratios

P/E 2011e/2012e	74x/16.3x
P/CF 2011e/2012e	5.2x/4.3x
P/B 2011e/2012e	1.7x/1.7x
EV/Sales 2011e/2012e	0.27x/0.29x
EV/EBIT 2011e/2012e	10.4x/10.2x
Rendement du dvd	6.4%/6.7%
FCF Yield 2011e/2012e	-5%/2.3%
Gearing 2011e/2012e	157%/165%

## 5 year-forecast (CAGR)

Revenue	-0.8%
EBIT	-1.1%
EPS	21.7%
Rec. EPS	-2.2%
DPS	4.9%

## What's the call ?

Since the merger with Promodes in 1999, Carrefour has not been able to take advantage of its critical size. It seems the company has lost its ability to innovate, has underinvested in its resources (1st of all are its human resources) and has lagged its main competitors (Auchan, Leclerc in France) to attract customer traffic and maintain or expand its market share. This structural problem has led to management turnover and disappointing like-for-like growth in revenue. For the time being, neither Carrefour's management, nor Carrefour's board have been able to correctly defend the interest of their shareholders. The presence of Blue Capital since 2007 seems to be more a drawback than an advantage. Although we believe the current share price is slightly in line with our updated estimate of Carrefour's intrinsic value, the many risks the company faces in the future (not to mention the structural shift of consumer demand towards more customized services, the development of e-commerce...) leads us to apply a margin of safety of 30%, which is quiet steep for a retail co but reflects uncertainty regarding the turnaround of Carrefour.

## Catalysts

- 1) Recovery in G4 operating profit, with France as the key driver in profitability recovery.
- 2) Spin-offs to release «value» (Dia, real estate to be listed separately).
- 3) Disposal of operations in non-strategic markets.
- 4) Net debt reduction.

## Risks

- 1) Structural decline of operating profit in France (43% of consolidated EBIT), due to a very competitive local market and the continuous investment in price reduction to limit market share erosion.
- 2) Minority interests not protected; control of the company belongs to one minority shareholder (Blue Capital).
- 3) Macro risk: tightening of fiscal policies in Europe.

## Valuation

We used 4 different approaches to estimate the intrinsic value of Carrefour:  
DCF=€17.3 (WACC: 6.8%; g: 2%; avg op margin 2011-18e: 2.6% way below history)  
EPV=€34.9; Sum-of-the-parts=€17.8; Residual income model=€25.1.  
The average of these 4 methods gives an intrinsic value of €23.8.