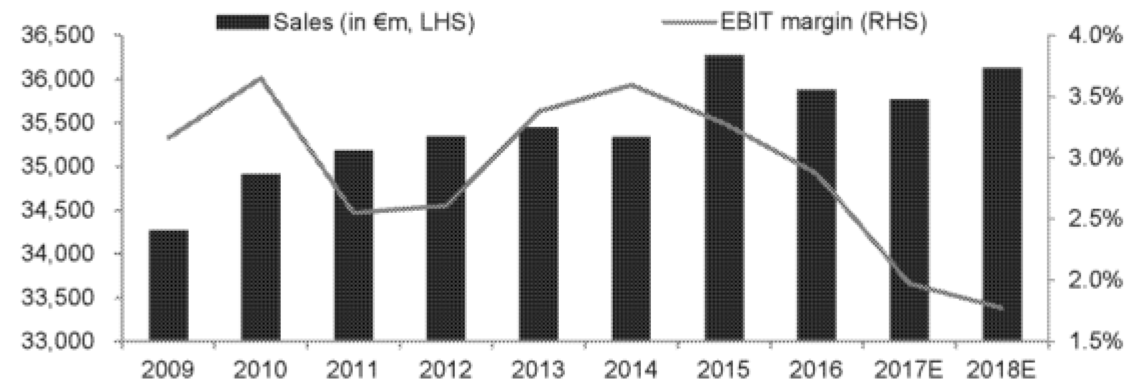
4 Carrefour – Maxime Mallet, SELL, close €18.3, €15 tgt, 18% downside

- **We believe 2018 consensus is at risk.** We are 13% below consensus 18E EPS (and 15% below 19E consensus).
- **Carrefour needs to invest given competitive pressures in France.** Hypers (52% of French sales) suffers from a 5% price gap vs. Leclerc and underexposure to online grocery (with only 8% market share).
- November's Kantar data showed a **market share loss of 60bps** to 20.5%.
  - This is not confined to Hypers (40bps share loss); Supers also lost 30bps of market share.
- **Recent price and promotional investments have not delivered** better customer perceptions. Price perceptions are broadly flat YoY for both Supers and Hypers. Therefore, more will be needed.
- **Carrefour's market position is already weak.** French EBIT margin is at a historical low of 2.0% in 2017E.
- **Closing the gap to peers would be expensive.** Eliminating it would cost the entirety of French EBIT.
- **The strategic plan in January is likely to be underwhelming.** The first measures taken by the new management do not address the main issues and it will be costly and take time to fix the group's positioning
- **Cash flow generation is structurally weak.** The meagre 2.6% FCF yield is linked to thin margins in a tough competitive environment and a high tax rate of 35%.
- Carrefour still trades at a **11% premium to peers** at 16x 18E EPS.
- Catalysts: strategic plan on January 23rd.

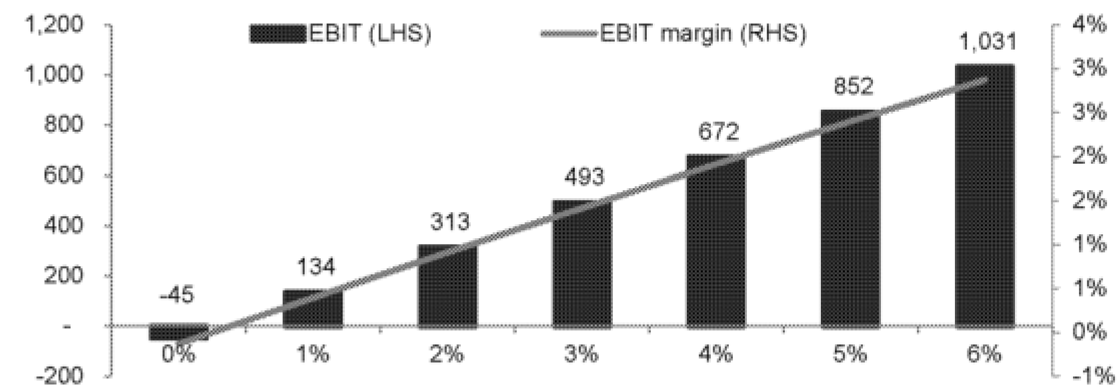
Related DB Research:
French Food Retail: A stronger November and a weaker Carrefour (Mallet)

French profitability is falling



Source: Company reports, Deutsche Bank estimates

Narrowing the gap vs. Leclerc would be costly



Source: Deutsche Bank estimates (Carrefour Hypers vs. Leclerc on horizontal; France EBIT on LHS; France EBIT margin on RHS)