

Opening the Matryoshka – Rallye SA

RAL FP Equity

A look at a nested holding company

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This material is being presented at the European Investing Summit on 07 October 2015, as an illustration of research in Europe. This is not a buy or sell recommendation for any security of any type. Luminance Global Fund has a long position in the stock, and in Via Varejo in Brazil. The fund may change its positions at any time without notice. This is not an offer for the Luminance Global Fund. Data is as of 06 October 2015. A hat tip to Marcelo P Lima of Heller House for his work on this group, profiled at the NY Value investing Congress, September 2014.

At the heart – Casino Group (CO FP Equity)



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A handy map

- ❖ Multiple layers are used to control a large organisation with a small economic stake. We see this in Asia all the time.
- ❖ Groupe Euris is private. It owns 87%* of **Finatis SA**
- ❖ Finatis SA owns 84%* of **Fonciere Euris**
- ❖ Fonciere Euris owns 55.4%* of **Rallye SA**
- ❖ Rallye SA moved from owning 48.4%* of Casino to over 50% in 2015
- ❖ Voting rights are much more than the economic ownership. Control of Casino group has been continuous since 1998.
- ❖ Casino has been consolidated for a long time due to control.

* Data as of 31 December 2014

Constant motion

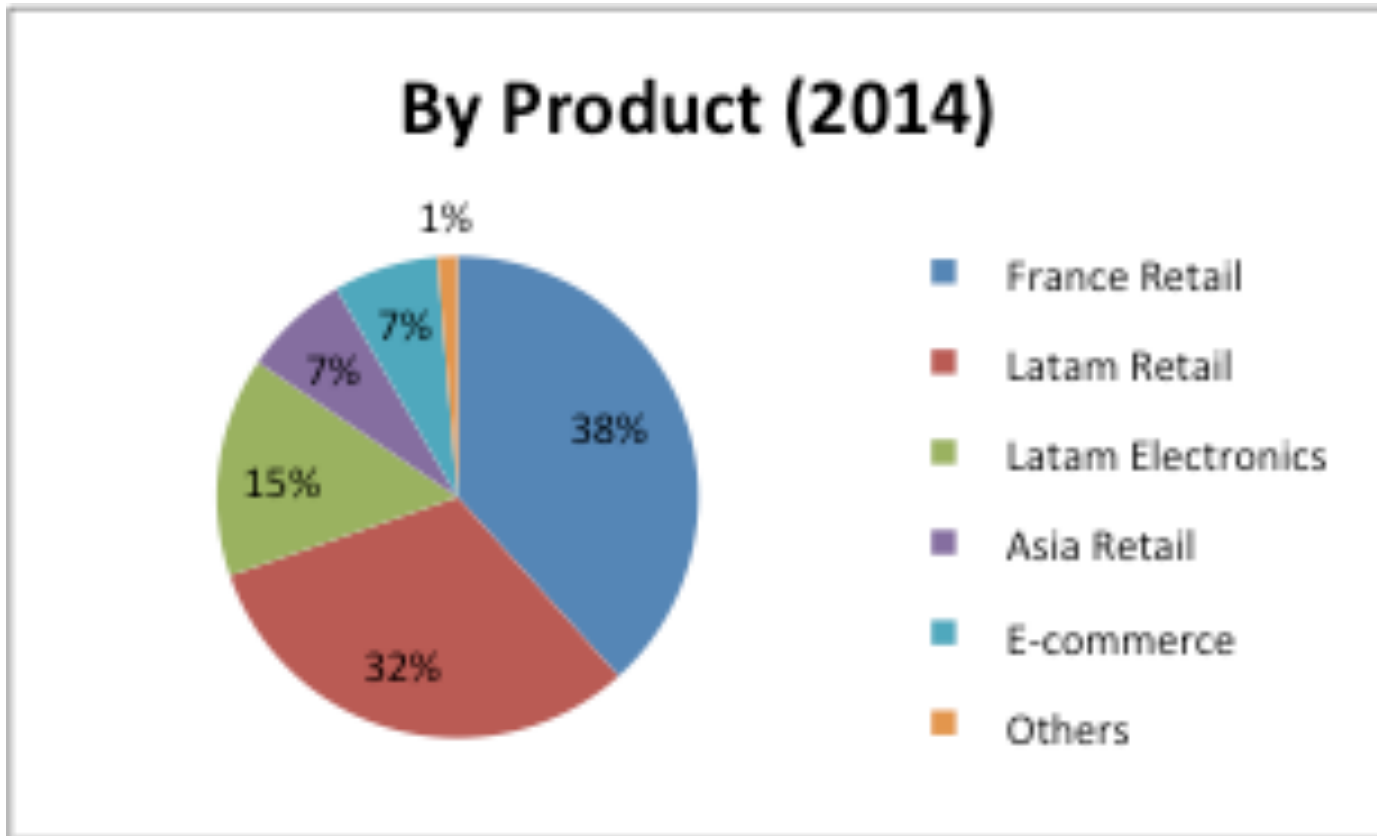
- ❖ Retail is a tough business. Scale is much sought after by large firms. Segmentation, innovation are other angles.
- ❖ All the businesses will keep moving over time.
- ❖ Casino Group has shown an ability to focus on areas where they are leaders (#1 or # 2) and has shown the discipline not to go where they are not wanted:
 - ❖ China : too late
 - ❖ India : too complicated
 - ❖ Russia : too dangerous
- ❖ Big chunks are leading positions in Brazil & Thailand, and a large presence in France.

Eagle's eye view of strategy

- ❖ Casino Group took small stakes in different businesses and built up their current business positions over time. They grew inorganically in Brazil, Thailand, etc., and did not build from the ground up.
- ❖ Exited Taiwan, USA and the Netherlands where they did not achieve leader/co-leader status
- ❖ Argentina : position is #5, but it is profitable
- ❖ Plan: Expand into surrounding countries – use Brazil and Columbia as a base (recent re-org)
- ❖ Financial structuring - always been savvy

Overview of running business

❖ 99% of Rallye's revenue comes from Casino. By product, it is:



Scale of business

- ❖ Market positions :
 - ❖ Leader in Brazil (Cash & Carry)
 - ❖ #2 in Thailand (Hypermarkets)
 - ❖ # 1 Columbia
 - ❖ France – not a leader. Present in all segments. Leader in premium.

Multiple access routes to subsidiaries

- ❖ Brazil Retail: Companhia Brasileira de Distribuicao – Listed
- ❖ Brazil Electronics: Via Varejo – Listed
- ❖ Columbia : Exito – Listed
- ❖ Thailand : Big C – Listed
- ❖ E-commerce : Cnova – Listed
- ❖ France property : Mercialys – Listed

Noisy news

- ❖ Rallye bonds have no covenants regarding any financial ratios.
- ❖ Rallye bank debt has two covenants:
 - ❖ **1. Consolidated EBITDA/ Cons. net financial debt > 2.75**
(Dec 31, 2014: 3.96 ; June 30, 2015: 4.02)
EBITDA corresponds to current operating income plus current ongoing depreciation and amortization
 - ❖ **2. Shareholders' Equity > EUR 1.2bn**
There is no Mark-to-market on this number. As of Dec 31, 2014, it was EUR 1.75bn. French GAAP allows for a premium for control, called "value in use". Rallye does not have to use lower of cost or market value.(End-2013, -2012: EUR 1.9bn)

Shareholder dynamics

- ❖ Executive Chairman & CEO: Jean-Charles Naouri runs the show at Casino.
- ❖ Former architect of French financial market reforms
- ❖ At age 38, started off with a 1% stake in investment company Euris
- ❖ Groupe Euris is controlled by J-C Naouri

Ways to express a view

- ❖ Rallye Bonds maturing in 2016 : yield of just 3.5%
 - ❖ Committed credit facility gives peace of mind
 - ❖ 2018: 6.5%
 - ❖ 2022: 7.6%
- ❖ Leveraged play on Casino : Rallye shares (price to book: <0.8)
Sentiment and liquidity are hard to price - shares could go down a lot before they go up
- ❖ Multiple group shares trade at multi-year lows:
 - ❖ Casino (France) hit a five-year low at end of September 2015
 - ❖ Exito (Columbia) hit a five-year low last week
 - ❖ Cnova (US) down nearly 60% since listing in November 2014
 - ❖ Via Varejo (Brazil) down 80% in past year (listed in December 2013)

FAQ

- ❖ Will there be a general offer for Casino?
 - ❖ Unlikely. Beyond 50%, there is no trigger anymore under French rules, there is no need for Rallye to seek approval or consent to increase its stake in Casino Group. It may do so opportunistically.
- ❖ Can Rallye buy back its shares?
 - ❖ It could buy upto 10% in 24 months. It has the freedom to do so. Major buybacks were in 2000, 2009, 2011.
- ❖ Can Rallye refinance its bonds in 2016?
 - ❖ Possibly, if market prices are attractive. It has the backup option to redeem it with its existing committed credit line. May 2015 refinancing was at EURIBOR +2% for EUR 725mn.

Appendix: Ratios and data

- ❖ Ticker: RAL FP Equity on Bloomberg
- ❖ Founded: 1924 . Sold assets in exchange for 30% of Casino group: 1992
- ❖ Head office: Paris, France
- ❖ Market cap (06-October-2015): EUR 820mn (USD 924mn at 1.127 USD per EUR)
- ❖ Price per share: EUR 16.82
- ❖ Shares outstanding: 48.8 million
- ❖ Free float: 43.2%
- ❖ Dividend yield: 10.88% trailing 12 months
- ❖ Auditor: Ernst & Young

Data is from Bloomberg (06 October 2015)