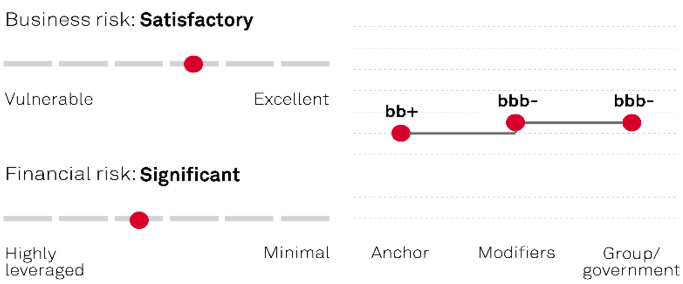
ELO (Auchan Holding)

March 28, 2023

Ratings Score Snapshot



BBB-/Stable/A-3

Issuer credit rating

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Credit Highlights

Overview

Key strengths	Key risks
Large food retailer with good product and geographic diversification and sound brand recognition.	High reliance on price-sensitive hypermarket and destination formats, while consumer preference is shifting to e-commerce, proximity, and convenience stores in mature economies.
An asset-rich balance sheet, notably from New Immo Holding's (NIH's) real estate assets, worth €7.5 billion as of Dec. 31, 2022.	Exposure to the French retail market (approximately 50% of the group's revenue), which is characterized by intense competition and inflationary pressure, weighing on Auchan's profitability and ability to pass on price increases given high inflation.
Supportive financial policy and track record of deleveraging, underpinning the group's commitment to preserve the investment-grade rating.	Continued high investment needs over the next few years, constraining free operating cash flow (FOCF) and further deleveraging.
	About 10% of revenue generated in Russia.

ELO's 2022 EBITDA declined due to Auchan Retail's difficult first-half, but showed recovery in second-half. The group's S&P Global Ratings-adjusted EBITDA dropped about 6% in 2022 to €1.7 billion, despite sales growing 7.7%, supported by higher fuel prices, inflation, and increased number of customers. Its margin dropped 70 basis points to 5.1%. Profitability felt the weight of

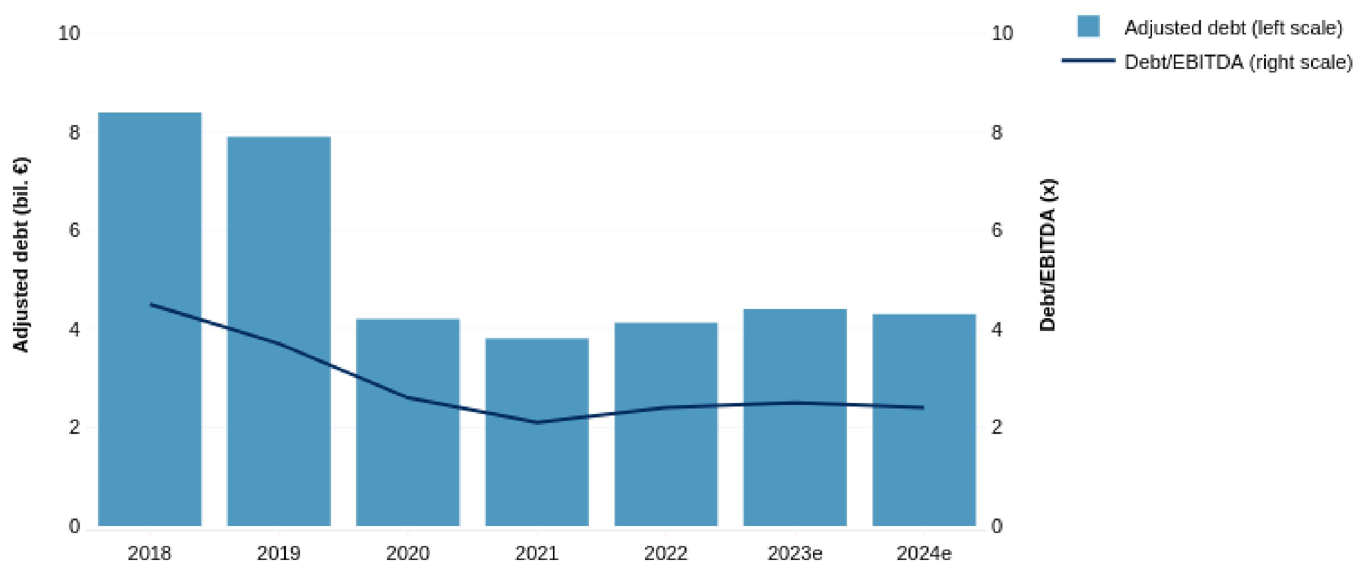
Auchan Retail's poor performance, showing an overall EBITDA decline of 8.0%, to €1.3 billion, primarily due to a 26% decline in its core geography, France, which accounts for about half of consolidated revenue. This sharp drop stems from material inflation on various cost items, including cost of goods sold, energy, labor, advertisements, and IT costs, which the company decided to only partially pass through. The profitability drop was concentrated in the first half of the year, when Auchan Retail opted to be somewhat more aggressive than peers on pricing and spending, to adjust its price positioning and retain increasingly price-sensitive customers. The strategy effectively resulted in Retail France's like-for-like growth turning positive at 5.2% in second-half, for the first time after several years of contraction, while EBITDA was 2.7% up year over year in second-half after a 74.3% decline in the first half. Overall performance was supported by the resilience of other regions and the strong rebound in real estate, with NIH's EBITDA growing 21% year over year to €369 million.

Elevated inflation and challenging economic conditions keep ELO's profitability and ability to turn around French retail operations under pressure in 2023. We believe the current economy, characterized by significant cost inflation and weak consumer confidence and purchasing power, will continue affecting European retailers' profitability in the next 12 months. We see evidence of customers trading down, reducing volumes, and shifting toward more affordable and usually less-profitable product categories, while companies face higher energy bills and tougher negotiations with suppliers. In this context, we expect ELO's S&P Global Ratings-adjusted EBITDA margin will only gradually recover toward 5.5% in 2023-2025, from 5.1% in 2022 and 5.8% in 2021. In the next couple of years, ELO's ability to maintain positive-yet-profitable like-for-like growth in France is crucial to consolidating its business risk profile and the rating. Despite the good dynamics in second-half 2022, the group's traffic is still below pre-COVID-19 levels, and suffered from years of market share erosion. We believe Auchan Retail's competitive position in France is threatened by its large dependence on large hypermarkets, which we estimate account for more than two-thirds of its revenue, with significant nonfood exposure. Considering the positive contribution of NIH's profitability, with an S&P Global Ratings-adjusted EBITDA margin of about 55% in 2021, we estimate Auchan Retail's adjusted EBITDA margin at 4.0%-4.5% in 2022-2023, below the average of global food retailers, which we calculate at 5.0%-10%. We believe the French retail operations have an even thinner adjusted EBITDA margin of about 3.0%, raising questions about the group's incentive to invest durably in the French market. Furthermore, while the French retail operations posted a positive 1.7% like-for-like growth in 2022, this is well below the food inflation level in France, indicating volume contraction and consumers' trading down.

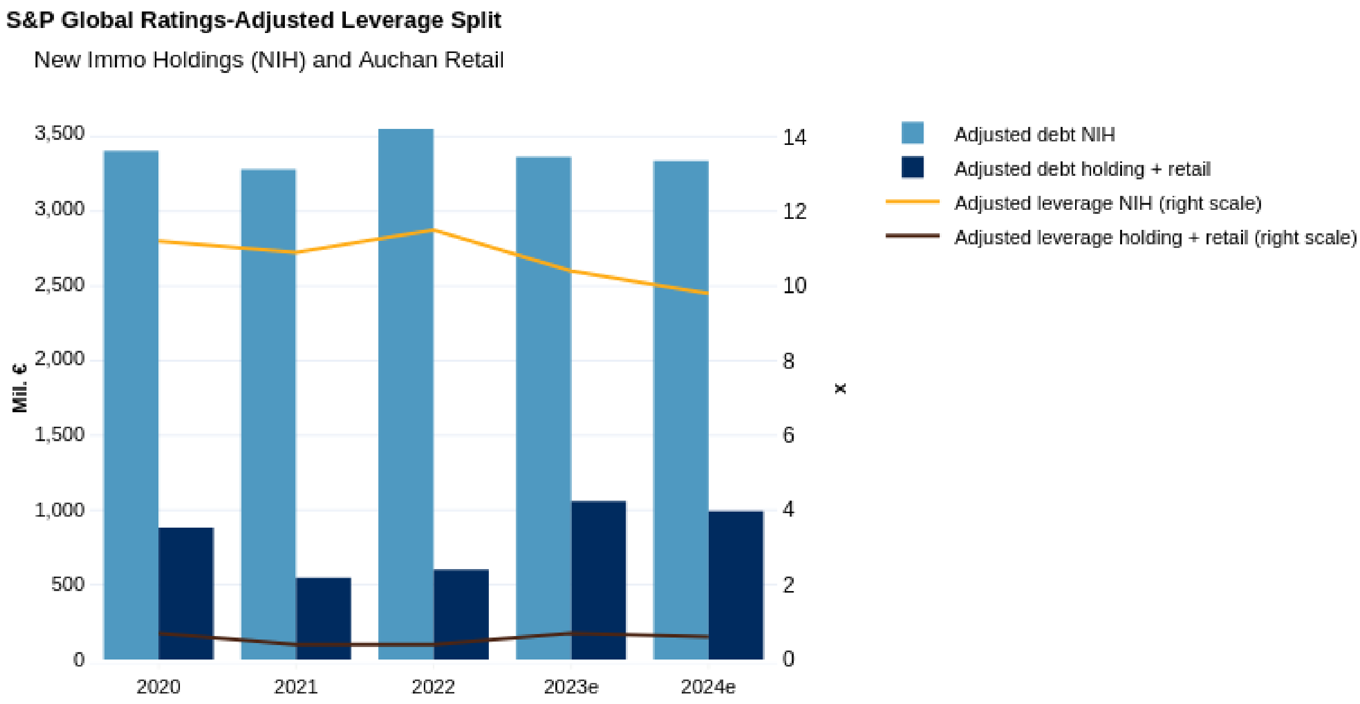
ELO's balance sheet remains strong, with financial debt mostly dedicated to real estate operations. Due to subdued EBITDA, the group's S&P Global Ratings-adjusted leverage increased to 2.4x in 2022, from 2.1x in 2021. This level remains lower than 2.6x in 2020 and 3.7x-4.5x in 2018-2019. In recent years, ELO went through a substantial deleveraging, with our adjusted debt declining to €4.1 billion in 2022, from a peak of €8.4 billion in 2018, as the group delivered its ambitious disposal plan. We expect leverage will remain at 2.3x-2.7x in 2023 and 2.1x-2.5x in 2024, as the group sticks to its conservative financial policy, which is a key rating factor. Excluding EBITDA from Russia, we estimate adjusted leverage would be about 0.4x higher, at 2.8x in 2022. We estimate NIH accounts for about 85% of ELO's €4.1 billion S&P Global Ratings-adjusted debt, leaving the holding company and Auchan Retail with a net cash position. We think this gives Auchan Retail more flexibility to eventually invest in prices and absorb a challenging trading period, especially in France, because the real estate arm bears the great majority of financial leverage and risks.

Cash flow will remain weak in 2023-2025, due to subdued profitability and high capital expenditure (capex), hampering deleveraging prospects. In 2022, ELO's FOCF after leases was negative at about €400 million, mostly due to a working capital outflow of about €310 million and NIH's acquisition of the V2 shopping center for about €300 million, which the company reports as capex. This translated in an equivalent increase in the company's reported net debt, to €2.58 billion from €2.18 billion, with the proceeds from disposals in Taiwan being entirely absorbed by the €200 million dividend. We expect the group's FOCF after leases will remain relatively weak in 2023-2024, either flat or up to €300 million, as the group will maintain high annual capex of €1.0 billion-€1.1 billion, after a period of reduced investment during the pandemic. Accounting for the annual €200 million dividend and the €200 million-€300 million acquisition of 235 stores from DIA in Spain, this will translate into a further increase in net financial debt in 2023, absent additional disposals, before stabilization and a progressive decline in 2024-2025. On the other hand, given ELO's ability to gain interest income on its significant liquidity buffer and limited sensitivity of liabilities to floating rates, we do not expect rising interest rates will have a material effect on cash flow over 2023-2025.

ELO's Adjusted Debt And Leverage Evolution
Including Russia



e--Estimate (including Russia). Source: S&P Global Ratings.



e--Estimate. Source: S&P Global Ratings.

NIH's strong recovery and growth of non-French retail operations buffer the group's performance and business position. ELO's geographic and business diversification offered some natural hedge to retail underperformance and subdued profitability in France. In 2022, Auchan retail posted better results in its other regions, such as Spain and Portugal, where like-for-like revenue rose 5.2% and EBITDA stayed flat; and Central and Eastern Europe, where like-for-like revenue grew 5.8% and EBITDA 4.9% (although generally growth was below reported food inflation for the year). At the same time, NIH delivered solid performance, with its reported EBITDA rebounding 19.4% year on year to €369 million, as activity returned to normal after COVID-19-related restrictions in 2020-2021. Most of its rental income is indexed to inflation, so we project NIH's revenue and income will keep rising over the coming 12 months, although the challenging economic conditions could deteriorate retailers' ability to pay rents and cash-flow predictability. We also believe that, despite NIH's good-quality and convenient shopping centers in catchment areas that should continue to attract retailers and footfall, the sector's long-term prospects are uncertain. This is in line with our general view of the retail property sector, which is going through major changes. These include the rise in e-commerce and shift in consumer habits, exacerbated by the pandemic, and a weaker tenant base that could take years to recover. However, we expect ELO to meaningfully invest in these activities with diversification in other areas, as exemplified with the creation of NHood, which intends to develop services associated with real estate.

ELO continues operating in Russia. As of Dec. 31, 2022, Auchan Retail operated 230 stores in Russia, which we assume account for about 10% of the group's revenue, making it the third-largest country of operations after France and Spain. NIH's exposure is more limited, with Russia representing only about 5.0% of total company gross asset value and net rental income. Despite international sanctions, and the political and reputational pressure triggered by the Russia-Ukraine war, the group decided to keep its Russian subsidiary operating, while stopping all new investment. We understand the Russian subsidiary has no external debt and has adequate liquidity to manage its treasury and working capital needs independently from the rest of the group. We also understand that 80% of its sales are locally sourced food, and only a very small portion of nonfood supplies are denominated in euros and U.S. dollars. Therefore, we understand supply-chain issues and currency mismatches are limited. Nevertheless, we believe the operational and financial challenges of continued operations in Russia are elevated. These include currency volatility, legal complexity related to sanctions, reputational risk, and potential political pressure. As such, we cannot exclude that the group might leave the country at some point. We also believe the group will not be able to use the EBITDA and cash flow from Russia to service its debt. Therefore, we consider adjusted leverage excluding the Russian contribution to be more representative of the group's current creditworthiness. This is about 0.4x above the group's consolidated leverage.

Outlook

The stable outlook reflects our anticipation that, despite tough operating trends in the retail and real estate businesses, ELO will maintain consolidated S&P Global Ratings-adjusted leverage below 3.5x and funds from operations (FFO) to debt well above 20%. The outlook also reflects our anticipation that the group will maintain a conservative financial policy, while reinvesting in its core European retail operations to reinforce its competitive positioning. This should translate into positive like-for-like and pre-exceptional profitability growth, and improved cash flow.

Downside scenario

We could lower the rating if:

- The group's retail operations deteriorate materially in the next 24 months, due to weaker business position, translating into negative like-for-like growth and a lack of success in sustaining profitability and restoring material positive FOCF;
- The real estate business' performance and credit ratios deteriorate more than we anticipate because of the challenging economic and retail conditions; or
- Consolidated adjusted leverage exceeds 3.5x or FFO to debt deteriorates below 20% because of delays in asset disposals and the return to a more aggressive financial policy.

Upside scenario

We could revise the outlook to positive if ELO maintains its business risk profile despite structural pressure and if its deleveraging efforts continue such that debt to EBITDA remains below 3.0x (excluding Russia). This would likely arise from continuing asset disposals but also supportive financial policy and a sustainable improvement in profitability and organic FOCF, indicating a durable strengthening of credit quality.

Our Base-Case Scenario

Assumptions

- French real GDP growth to slow to 0.2% in 2023 and 1.5%-1.6% in 2024-2025. Eurozone real GDP growth to slow to 0% in 2023 and 1.4%-1.5% in 2024-2025. Inflation to remain elevated in 2023, at 4.4% in France and 5.7% in the eurozone, before progressively slowing down.
- Inflation and economic uncertainty continuing to pose risk to European food retailers' sales and profitability in 2023, with the hit depending on the specific retailer's market share, product offering, pricing power with customers and suppliers, and ability to achieve cost efficiency measures. Given surging inflation on many input costs--including food, energy, and labor--combined with weak consumer confidence and purchasing power, we expect food retailers will need to balance price increases to customers with market share consolidation. This will translate into volume and profitability pressure in Europe. The business' nonfood segments are likely to face a squeeze in discretionary spending. We expect pressures on volumes and profits as well on the grocery part of the business, as consumers shift toward less expensive food categories and baskets, weighing on the operating margin, which is inherently thinner on these products.
- The group's revenue to expand by 1.0%-2.0% in 2023-2024, despite significant food price inflation, because we expect volumes will continue to contract and the group will protect its price positioning by passing cost increases to customers gradually.

- Auchan Retail’s gross margin to stabilize at about 23% in 2023-2024, compared with our estimate of 22.5% in 2022 and 23.4% in 2021. We expect gross margin will remain constrained by inflationary pressure, although we believe the group will be more conservative than in first-half 2022 when it comes to pricing strategy.
- EBITDA margin at real estate arm NIH to stabilize at 53%-54% in 2023-2024.
- ELO’s EBITDA margin to remain at 5.0%-5.5% in 2023, then stabilize at 5.5% in 2024-2025. This compares with 5.8% in 2021 and 5.1% in 2022. Profitability will remain constrained by inflationary pressure, including on energy and food prices, as well as labor and other costs. Higher costs will only be partially offset by the cost savings delivered under its Renaissance plan over the past five years.
- Minor working capital inflow of €50 million per year in 2023-2024, representing a partial reversal of 2022 outflow.
- Annual gross capex of €1.0 billion-€1.1 billion per year, including about €200 million annual capex for NIH. We believe investment is critical for ELO's efforts to remain competitive after some years of reduced investments in the context of COVID-19. Capex includes part of the transformation charges relating to automated and digital investment.
- Acquisition outflow of €200 million-€300 million relating to the 235 stores from DIA in Spain.
- Annual dividend of €200 million.
- Buybacks related to employee shareholdings of up to €30 million each year.
- We do not incorporate any additional disposal. This is because we have limited visibility on the assets to be sold and their current valuation. We also believe that some disposals will also cause a decline in EBITDA, resulting in a mixed effect on adjusted leverage.

Key metrics

ELO--Key Metrics (Fiscal Year Ended Dec. 31)

Mil. €	2020a	2021a	2022a	2023f	2024f	2025f
Revenues	32,117	31,088	33,485	33,500-34,500	34,000-35,000	34,000-35,000
EBITDA	1,608	1,809	1,703	1,700-1,800	1,800-1,900	1,900-2,000
EBITDA margin	5.0	5.8	5.1	5.0-5.5	~5.5	~5.5
Capital expenditure	685	814	1127	1,000-1,100	1,000-1,100	1,000-1,100
Reported FOCF, after finance lease payments	1,351	321	(391)	0-300	0-300	0-300
Debt to EBITDA (x)	2.6	2.1	2.4	2.3-2.7	2.1-2.5	2.1-2.5
FFO to debt (%)	22.7	35.7	31.5	30-35	35-40	35-40
DCF to debt (%)	7.1	(7.8)	(9.1)	2-7	3-8	3-8
Revenue excluding Russia	-	-	~30,000	30,000-31,000	30,500-31,500	30,500-31,500
EBITDA excluding Russia	-	-	1,250-1,350	1,500-1,600	1,600-1,700	1,700-1,800
Debt to EBITDA excluding Russia	-	-	~2.8	2.7-3.1	2.5-2.9	2.5-2.9

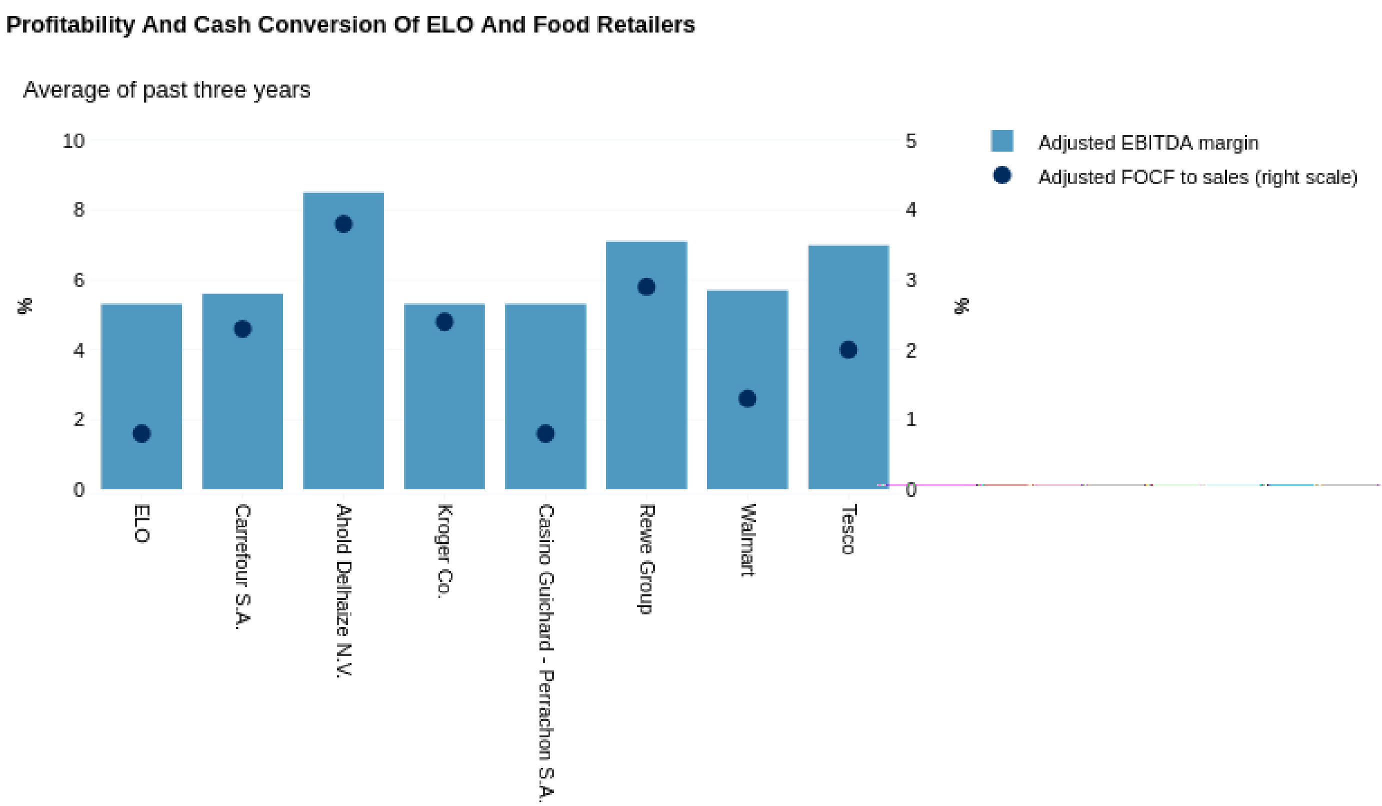
Note: Adjusted figures by S&P Global Ratings. a--Actual. f--Forecast.

We consider leverage excluding Russia as more representative of the group’s ability to repay its debt under the current circumstances. Although the group does not intend to leave Russia for now, we consider ELO’s adjusted leverage excluding EBITDA from Russia as a metric that better reflects the group’s current creditworthiness. This is because, under the current circumstances, including the sanctions, we believe the group cannot rely on the cash flows generated in Russia to service its debt. By removing our estimate of Russian EBITDA for 2022, we estimate ELO’s adjusted leverage increases about 0.4x.

Company Description

ELO reported €33.5 billion of sales in 2022. The company operates hypermarkets and supermarkets in 13 countries. It is the fifth-largest retailer in France, with sizable operations in both Eastern and Western Europe and a notable presence in Spain, Russia, Poland, Portugal, and Romania. The group owns and operates shopping centers through NIH in 11 countries. ELO also holds a 49.3% stake in Oney Bank, with the remaining 50.7% being owned by BPCE (one of France's largest banks) since 2019. The Mulliez family owns about 97% of ELO through Association Familiale Mulliez (AFM), while the remainder is owned by eligible employees.

Peer Comparison



FOCF--Free operating cash flow. Source: S&P Global Ratings.

ELO--Peer Comparisons

	ELO	Carrefour S.A.	Casino Guichard - Perrachon S.A.	REWE Group	Esselunga SpA
Foreign currency issuer credit rating	BBB-/Stable/A-3	BBB/Stable/A-2	CCC+/Developing/C	BBB/Stable/A-2	BB+/Negative/--
Local currency issuer credit rating	BBB-/Stable/A-3	BBB/Stable/A-2	CCC+/Developing/C	BBB/Stable/A-2	BB+/Negative/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2021-12-31	2021-12-31	2021-12-31
Mil.	EUR	EUR	EUR	EUR	EUR

ELO--Peer Comparisons

Revenue	33,485	81,685	31,053	72,658	8,497
EBITDA	1,703	4,422	2,065	5,249	690
Funds from operations (FFO)	1,300	3,715	1,104	4,006	506
Interest	233	513	790	553	55
Cash interest paid	256	353	778	556	61
Operating cash flow (OCF)	964	3,581	1,010	3,867	636
Capital expenditure	1,127	1,882	1,123	2,345	447
Free operating cash flow (FOCF)	(163)	1,699	(114)	1,522	189
Discretionary cash flow (DCF)	(374)	613	(233)	1,119	189
Cash and short-term investments	2,609	5,366	2,283	626	756
Gross available cash	2,609	5,041	2,283	626	756
Debt	4,126	10,501	12,382	13,954	2,317
Equity	6,324	12,350	4,963	8,620	2,222
EBITDA margin (%)	5.1	5.4	6.6	7.2	8.1
Return on capital (%)	5.6	9.0	2.7	11.2	6.1
EBITDA interest coverage (x)	7.3	8.6	2.6	9.5	12.5
FFO cash interest coverage (x)	6.1	11.5	2.4	8.2	9.3
Debt/EBITDA (x)	2.4	2.4	6.0	2.7	3.4
FFO/debt (%)	31.5	35.4	8.9	28.7	21.9
OCF/debt (%)	23.4	34.1	8.2	27.7	27.5
FOCF/debt (%)	(4.0)	16.2	(0.9)	10.9	8.2
DCF/debt (%)	(9.1)	5.8	(1.9)	8.0	8.2

Business Risk

Our view of ELO's business risk profile is supported by the group's sound brand recognition; good geographic and business diversification, including sizable retail and real estate operations; and its material size, which translates into strong bargaining power. This is balanced by the weak retail performance in France, where the group has been losing market share, as well as the uncertainty around the Russian operations' future.

In the past few years, Auchan Retail's market positioning has been challenged by increasing competition and evolving consumer preferences in a number of countries, and particularly in France, which accounts for more than 50% of the group's total sales. According to Euromonitor, Auchan Retail's market share in its domestic country has been declining, to 6.6% in 2022 from 8.0% in 2017. In our view, this is due to the stiff competition in the French market, characterized by the growing presence of food discounters and specialized fresh food retailers, and Auchan's concentration in hypermarkets and destination formats, which are more subject to price competition and exposed to evolving consumer behavior--notably disruption from e-commerce. Over the past few years, the French hypermarket segment has been decreasing to the benefit of supermarkets, convenience formats, and e-commerce--notably for nonfood products, with COVID-19 having accelerated the trend. We believe competition for out-of-town retailers will continue intensifying, adding structural pressure to ELO's capacity to recapture revenue growth and improve profitability in its core market. Still, in second-half 2022, Auchan's like for like growth was 5.2% year on year, driven by hypermarket growth. Although the growth rate is lower than food inflation in France, suggesting some volume decline, we believe it was stronger than some of the group's main peers. This suggests that Auchan increased traffic after several years of decline, benefiting from the investment in pricing it had done in first-half 2022.

ELO’s geographic and business diversification offers some natural hedge to French retail subdued performance. In particular, Auchan Retail benefited from good growth in Spain and Portugal, as well as in Central and Eastern Europe, over the past few years. This allowed the group to partially offset the poor French performance. In 2022, while French retail EBITDA dropped by 26%, Auchan Retail’s overall EBITDA dropped by only 8% thanks to the good performance in other regions. ELO’s overall S&P Global Ratings-adjusted EBITDA dropped by only 6%, as the rebound of real estate operation offered an additional buffer. That said, despite the historical decline in France, French retail revenue still accounts for about half of ELO’s consolidated revenue. We estimate its EBITDA accounts for 30%-40% of the total.

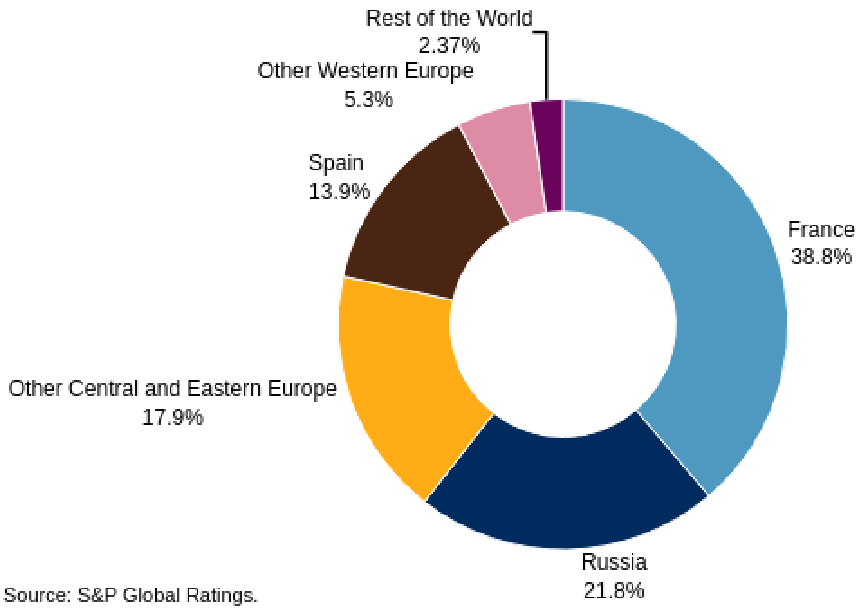
Russia represents Auchan Retail’s third-biggest region, after France and Spain. While the group has decided to remain in the Russia for now, S&P Global Ratings cannot exclude it may leave at some point, given the elevated operating, financial, and legal issues. Exiting Russia would have a material impact on the group’s EBITDA, but would also reduce its geographic diversification, which is a key supporting factor of our business risk profile assessment.

Since the launch of the Renaissance plan (2018), the group has accelerated its restructuring and improved its underlying profitability. It abandoned loss-making countries, such as Italy and Vietnam, and launched partnerships with other Mulliez-controlled entities to operate some of the nonfood sections in large hypermarkets. The company is looking to transform its hypermarkets into a more hybrid format--still the traditional shopping destination for large item purchases but also serving as a local warehouse. This is notably to address increasing online demand and act as a relay for the "pedestrian drive" (collection) service ELO is developing as an alternative to convenience and proximity formats, where it has a limited presence. On the cost side, the Renaissance plan has meant some profitability improvements, notably in France, with improved selling, general, and administrative expense, and payroll costs, allowing the group to partially absorb inflation-related cost increases in 2022. We understand the company will continue to work to strengthen the attractiveness of its hypermarkets in France, by increasing the penetration of more margin-accretive private label products, as well as developing more service activities to stimulate traffic. We believe that increasing the still relatively thin share of private labels could help the group benefiting from trading-down and facilitate its bargaining power vis-a-vis suppliers.

NIH's real estate operations strengthen our view of ELO's business risk profile. The group benefits from NIH’s good asset quality, with a portfolio valued at €7.5 billion as of Dec. 31, 2022; a well-diversified tenant base, with its top 10 tenants representing only 18% of total gross rental income and no single tenant representing more than 3%; and good geographic diversity. However, about 75% of the portfolio are shopping centers clustered around ELO's hypermarkets, which exposes NIH to trends affecting the sector.

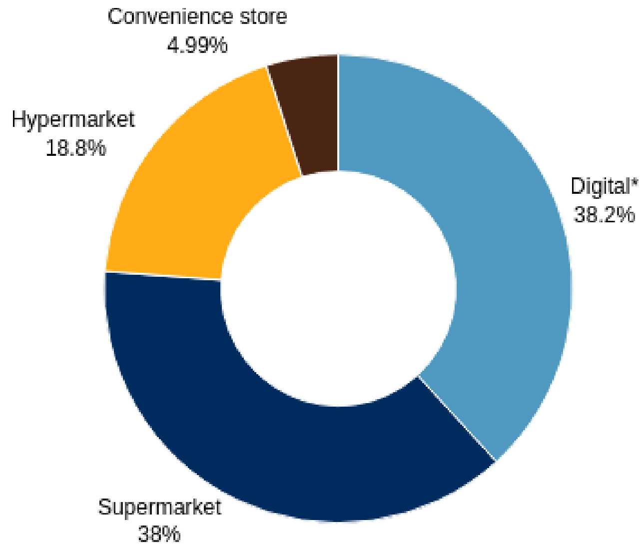
Auchan Retail - Hypermarkets And Supermarket By Location

As of Dec. 31, 2022



Source: S&P Global Ratings.

Auchan Retail Store Network Composition In France
As of Dec. 31, 2022



*Includes Drive and Auchan Pieton. Although the hypermarket segment represents about 20% of the French network, in terms of the number of stores, we think its contribution to the overall topline in France is above two thirds of revenue.
Source: S&P Global Ratings.

Financial Risk

In the past four years, ELO has built a track record of material deleveraging, with S&P Global Ratings-adjusted leverage declining to 2.4x as of December 2022 from 4.5x in 2018, on the back of substantial asset disposals. These included the sale of Sun Art to Alibaba for about €3.0 billion in 2019, the sale and lease-back of 11 logistics warehouses for €289 million in 2021, and the disposal of the Taiwan operations in 2022, with most proceeds being used to repay debt.

We recognize that leverage is relatively low, given the financial risk profile category. However, we expect the tough operating environment could translate into additional deterioration of credit metrics in 2023, after the 0.3x leverage deterioration in 2022. Excluding Russia EBITDA would cause a further 0.4x increase. Moreover, we believe some uncertainty concerning the group's long-term financial policy remains. In particular, after years of disposals and deleveraging, in 2022-2023 the group is performing some acquisitions in France and Spain, while in 2021 it distributed an exceptional dividend of €750 million aimed at passing on to shareholders a portion of the proceeds from the disposal of Chinese operations.

We expect ELO's operating cash flow will remain weak in 2023-2024, given that the company will keep capex high at €1.0 billion-€1.1 billion, after a few years of low investment due to the pandemic. We therefore forecast FOCF after lease payments will be neutral to moderately positive, and fully absorbed by dividend payments.

Debt maturities

ELO's main debt maturities include:

- 2023: About €417 million of ELO's bonds
- 2024: About €845 million of ELO's bonds
- 2025: About €558 million of ELO's bonds, €60 million of NIH's bonds, and €180 million of other financial liabilities
- 2026: About €1.06 billion of ELO's bonds, €298 million of NIH bonds, and €159 million of other financial liabilities
- 2027: About €616 million of ELO's bonds
- 2028: About €631 million of ELO's bonds

ELO--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	44,335	42,865	38,545	32,117	31,088	33,485
EBITDA	2,269	1,886	2,157	1,608	1,809	1,703
Funds from operations (FFO)	1,760	1,451	1,508	964	1,356	1,300
Interest expense	274	289	82	412	262	233
Cash interest paid	321	282	426	380	280	256
Operating cash flow (OCF)	1,786	1,460	1,146	1,156	1,277	964
Capital expenditure	1,516	1,827	1,033	685	814	1,127
Free operating cash flow (FOCF)	269	(367)	113	471	463	(163)
Discretionary cash flow (DCF)	(193)	(821)	(98)	303	(295)	(374)
Cash and short-term investments	1,775	2,319	2,593	4,401	2,927	2,609
Gross available cash	1,775	2,319	2,593	4,501	2,927	2,609
Debt	6,303	8,415	7,958	4,256	3,803	4,126
Common equity	10,754	9,395	7,784	6,705	6,454	6,324
Adjusted ratios						
EBITDA margin (%)	5.1	4.4	5.6	5.0	5.8	5.1
Return on capital (%)	3.0	(5.2)	2.5	3.2	6.6	5.6
EBITDA interest coverage (x)	8.3	6.5	26.4	3.9	6.9	7.3
FFO cash interest coverage (x)	6.5	6.2	4.5	3.5	5.8	6.1
Debt/EBITDA (x)	2.8	4.5	3.7	2.6	2.1	2.4
FFO/debt (%)	27.9	17.2	19.0	22.7	35.7	31.5
OCF/debt (%)	28.3	17.3	14.4	27.2	33.6	23.4
FOCF/debt (%)	4.3	(4.4)	1.4	11.1	12.2	(4.0)
DCF/debt (%)	(3.1)	(9.8)	(1.2)	7.1	(7.8)	(9.1)

Reconciliation Of ELO Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	4,970	6,130	33,485	1,734	365	231	1,703	948	201	1,127
Cash taxes paid	-	-	-	-	-	-	(147)	-	-	-
Cash interest paid	-	-	-	-	-	-	(256)	-	-	-
Lease liabilities	1,423	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	52	-	-	1	1	2	-	-	-	-
Accessible cash and liquid investments	(2,366)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	15	-	-	-	-	-	-
Dividends from equity investments	-	-	-	14	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	24	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	16	-	-
Noncontrolling/ minority interest	-	194	-	-	-	-	-	-	-	-
Debt: Put options on minority stakes	60	-	-	-	-	-	-	-	-	-
Debt: other	(13)	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(61)	(61)	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	246	-	-	-	-	-
Total adjustments	(844)	194	-	(31)	210	2	(403)	16	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**

Reconciliation Of ELO Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
	4,126	6,324	33,485	1,703	575	233	1,300	964	201	1,127

Liquidity

We assess ELO's liquidity as adequate based on our expectation that its sources of liquidity will exceed its uses by over 1.2x over the 12 months started Jan. 1, 2023.

Principal liquidity sources

- €2.6 billion cash and cash equivalents
- €2.1 billion of available committed credit lines
- About €1.2 billion of FFO forecast over the next 12 months (net of lease depreciation)

Principal liquidity uses

- Current financial debt of about €0.7 billion
- Total annual capex of up to €1.1 billion (including growth and maintenance)
- Seasonal working capital requirements of up to €1.2 billion;
- Acquisitions of €200 million-€300 million
- About €30 million of share repurchases as part of the employee incentive program

Covenant Analysis

Requirements

Some credit lines bear a financial covenant (debt to EBITDA at a maximum of 3.5x, as defined in the debt documentation).

Compliance expectations

We expect ELO will maintain sufficient headroom under its covenants.

Other Credit Considerations

Our adjusted leverage calculation of 2.4x in 2022 incorporates a significant debt contribution from the real estate business, which generated about 22% of reported EBITDA in 2022, but represented about 85% of ELO's €4.1 billion S&P Global Ratings-adjusted debt. From a financial standpoint, and in line with our rating approach for real estate companies, NIH has a much more leveraged capital structure relative to its EBITDA than regular corporate entities. This high leverage is offset by the high level of real estate assets on the books and the predictability of the related rental income--a characteristic we reflect in our methodology for real estate companies, which have less stringent financial triggers compared with other corporates. Under our financial matrix framework for real estate entities, NIH's weighted-average credit metrics correspond to an intermediate financial risk profile. Considering NIH's debt, the group's consolidated leverage and cash position indicates meaningful deleveraging in the retail operations, which currently have a net cash position.

Therefore, we believe that ELO's credit quality is stronger than what its consolidated credit metrics suggest under our issuer credit rating methodology, justifying a one-notch uplift from the 'bb+' anchor. Considering its hybrid nature, combining both retail and real estate businesses, we will monitor the consolidated group and the creditworthiness of its two core businesses on a stand-alone basis under each methodology.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have had no material influence on our credit rating analysis of ELO.

The group's exposure to environmental and social risk is similar to that of the broader industry. For ELO, as a privately owned company, governance factors are very significant to the credit profile. The group is subject to less-stringent reporting and disclosure requirements than publicly listed companies.

As part of its corporate strategy, Auchan Retail put a large focus on improving its environmental impact, making it a key aspect of the strengthening of its competitive position. The group's environmental ambitions include reducing plastic packaging, food waste, and its carbon footprint. With respect to the latter, ELO's target is reducing Scope 1 and Scope 2 carbon dioxide emissions by 46% by 2030 (compared with 2019) and reaching carbon neutrality by 2043. As a comparison point, other large publicly rated food retailers such as Carrefour and Ahold Delhaize have committed to net zero on Scope 1 and 2 by 2040 (2035 in the case of Tesco). Regarding Scope 3 emissions, where most of the greenhouse gas emissions are generated for the industry, the group's target is reducing them by 25% by 2030 (compared with 2020).

As part of its efforts to differentiate its product offering, ELO aims to rely more on local sourcing of products and food traceability through, among other initiatives, more partnerships with farmers. It also intends to be a local physical marketplace for food producers. In November 2021, Auchan signed its first sustainability-linked loan, with terms conditional on achieving several climate change and sustainable agricultural production targets. ELO has historically benefited from good labor relations and has developed an employee ownership program.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2022, the group's capital structure consisted of about €5.0 billion of issued bonds and bank debt, essentially borrowed by the parent company, ELO. NIH reported about €3.2 billion of debt on its books in fiscal 2021, but over 60% of it was intercompany loans with ELO. The debt the parent borrowed is not guaranteed by its two subsidiaries, Auchan Retail and NIH, but is lent on to them through long-term senior unsecured intercompany loans. There are no cross-default or cross-acceleration clauses between the debt borrowed at ELO and that at the NIH level.

Analytical conclusions

ELO's capital structure mostly consists of senior unsecured debt, primarily constituting bonds and notes. We rate the group's debt 'BBB-', in line with the long-term issuer credit rating, because there are no significant elements of subordination risk in the capital structure.

As of Dec. 31, 2022, real estate subsidiary NIH has taken some third-party debt on its own books, amounting to about €700 million. This debt comprises a bond, a private placement, and corporate and asset financings, and represents about 14% of ELO's total consolidated debt.

Rating Component Scores

Foreign currency issuer credit rating	**BBB-/Stable/A-3**
Local currency issuer credit rating	**BBB-/Stable/A-3**
Business risk	**Satisfactory**
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	**bbb-**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Top Trends 2023: Retail and Restaurants, Jan. 23, 2023
- Economic Outlook Eurozone Q1 2023: Reality Check, Nov. 28, 2022
- ELO (Auchan Holding), Nov. 17, 2022
- ELO (Auchan Holding) Has Sufficient Financial Headroom To Withstand Earnings Hit In Russia And Ukraine, March 17, 2022

Ratings Detail (as of March 28, 2023)*

ELO	
Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper	A-3
Senior Unsecured	BBB-
Issuer Credit Ratings History	
16-Nov-2020	BBB-/Stable/A-3
22-Mar-2019	BBB-/Negative/A-3
19-Sep-2018	BBB/Negative/A-2
Related Entities	
Auchan Coordination Services S.A.	
Issuer Credit Rating	--/--/A-3
New Immo Holding S.A.	
Issuer Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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