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Bulletin:

ELO's Half-Year Results Are Weaker Than Expected Due To Subdued Profitability Of Retail Operations

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This report does not constitute a rating action.

MADRID (S&P Global Ratings) Aug. 1, 2023--S&P Global Ratings said today that ELO (Auchan Holding) reported another weak first-half performance, due to subdued profitability in its retail operations. However, the group expects a recovery in the second half and its strong balance sheet provides flexibility to keep full-year 2023 leverage in line with 2022.

In the first six months of 2023, ELO (BBB-/Stable/A-3) reported sales of €15.8 billion, about 1.2% higher than 2022, or about 4.8% higher when excluding fuel. However, reported EBITDA declined to €545 million, about 12% lower than in first-half 2022, which was already 10% below first-half 2021. The group's reported EBITDA margin was 3.5%, compared to 4.0% in first-half 2022, and 4.7% in first-half 2021. While the group's gross margin recovered 90 basis points (bps) compared to last year, significantly higher personnel and other operating costs weighed on EBITDA. These were driven by inflation, higher energy costs, as well as an increased employee headcount following the acquisition of DIA stores in Spain. That said, we understand a significant portion of the EBITDA drop was concentrated in Russia and Ukraine, due to the difficult operating environment. Excluding these two countries, EBITDA would have declined 3%. Since the beginning of the war, we consider ELO's adjusted leverage excluding the Russian EBITDA to be more representative of the group's current creditworthiness.

Like 2022, the group's profitability was dragged down by Auchan Retail, for which EBITDA contracted 17.9% year on year after a 21.5% decline in first-half 2022. Beyond the difficulties in the war zone, we understand that French EBITDA further declined, after the 75% contraction in first-half 2022. Although management is confident it can address the poor profitability of the French retail operations in the medium term, by investing in prices and in the attractiveness of hypermarkets, we believe this constitutes a major challenge for the group and the rating. This is because French retail activities, which represent about half of the group's revenue and one-fourth of its EBITDA, have been suffering from years of progressive market share losses in a highly competitive environment, below-average profitability, and unpredictable performance, which points to a structural problem, in our view.

The performance of New Immo Holding (NIH), ELO's real estate subsidiary, was more resilient. NIH's revenue increased 7.2% year on year to €304 million and its EBITDA 0.7% to €185 million. Compared to Dec. 31, 2022, the fair value of its investment properties was broadly unchanged at €7.4 billion, despite the challenging economic environment.

As of June 30, 2023, ELO's reported net financial debt (excluding lease liabilities) of €4,040 million, up from €3,271 million last year. The increase is mostly explained by the €521 million acquisition of V2 (by New Immo Holding) and of 217 supermarkets from DIA in Spain (by Auchan Retail). Consequently, the group's reported net financial leverage was 2.49x, versus 1.52x at Dec.

Primary contact

Eugenio Manzoli
Madrid
33-1-40-75-25-53
eugenio.manzoli
@spglobal.com

Secondary contacts

Kathleen Allard
Paris
33-14-420-6657
kathleen.allard
@spglobal.com

Mickael Vidal
Paris
33-14-420-6658
mickael.vidal
@spglobal.com

31, 2022, and 1.94x at June 30, 2022. Management targets a 1.5x net financial leverage at year-end 2023 due its expectation of an EBITDA recovery in the second half--like that seen in 2022--and potentially some real-estate disposals. Our adjusted leverage (in the table below) differs from the company's reported figures because we add lease, pension, and other liabilities to our adjusted debt. We believe the group still has good financial flexibility given its liquidity buffer and ability to dispose assets, if needed, to strengthen its balance sheet. However, ELO may need significant investments to improve the viability of its French retail operations over the medium term, in our view.

	--Fiscal year ended Dec. 30--					
Mil. €	**2020a**	**2021a**	**2022a**	**2023f**	**2024f**	**2025f**
Revenue	32,117	31,088	33,485	33,500-34,500	34000-35000	34,000-35,000
EBITDA	1,608	1,809	1,703	1,500-1,600	1,800-1,900	1,850-1,950
EBITDA margin	5.0	5.8	5.1	~4.5	5.0-5.5	5.0-5.5
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	2.7-3.1	2.3-2.7	2.1-2.5
FFO to debt (%)	22.7	35.7	31.5	25-30	35-40	35-40
DCF to debt (%)	7.1	-7.8	(9.1)	0-5	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	1,350-1,450	1,600-1,700	1,650-1,750
Debt to EBITDA (excluding Russia)	-	-	~2.8	3.0-3.4	2.5-2.9	2.5-2.9

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

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