FitchRatings

Fitch Downgrades Carrefour To 'A-'; Outlook Stable

07 Sep 2009 3:00 AM

Fitch Ratings-Paris/London-07 September 2009: Fitch Ratings has today downgraded France-based retailer Carrefour S.A.'s ("Carrefour") Long-term Issuer Default Rating (IDR) and senior unsecured rating to 'A-' from "A", and Short-term IDR to 'F2' from "F1". The Outlook on the Long-term IDR is stable.

The downgrade reflects Carrefour's expected operating profit decline in FY09, with "activity contribution" (a measure of recurring operating profit) in the range of EUR2.7-EUR2.8bn, down approximately 18% from FY08's: EUR3.3bn. The company attributed the decline as being mainly due to operating margin compression in the group's core French and Spanish markets, given the depressed economic environment and the company's more aggressive commercial initiatives.

The downgrade also reflects that, as a result of the decline in operating profit, the group's lease adjusted debt metrics will now deteriorate above 2.5x in 2009 and Fitch's expectation that the company will now operate in an adjusted leverage range of 2.5x-3x over the next two years. Therefore, the operating performance and adjusted debt level is now no longer compatible with an "A" rating.

Positive rating factors include the group's size, leading position in its main core European markets, the group's multi -format strategy and its international diversification in emerging markets, where it benefits from market leadership compared to European peers and good operating performance momentum, notably in Brazil.

Carrefour is implementing a major cost savings plan and more aggressive commercial initiatives to drive in-store customer traffic and gain market share. The company expects its new plan to achieve savings of EUR4.5 bn - notably EUR3.1 bn of cost savings mainly from operations in France, Spain, Italy and Belgium, and an additional EUR1.4 bn from a reduction in inventories by 2012. As a result of executing this plan, Carrefour will also incur EUR1 bn one-off expenses over the implementation phase and Fitch notes that this plan does not detail the amount of cash from cost savings that will need to be reinvested in prices in order to enhance the competitive profile of Carrefour's stores. Furthermore, Fitch also notes that a comprehensive plan regarding the group's strategy for its French hypermarkets and non-food proposition will be announced by the end of the year.

"The key challenge for Carrefour going forward is its ability to successfully implement its new cost savings plan in an environment characterized by low inflation, subdued consumer demand and intense competition and promotional activity among retailers," said Johnny Da Silva, European Food Retail Analyst in Fitch's Corporate team.

The Stable Outlook reflects that, while incorporating execution risk for such a major and long transformation plan, Fitch expects Carrefour to gradually improve its adjusted debt ratios and group operating margin during late 2012, when the transformation plan will be nearing completion.

The company's liquidity remains solid, with EUR1.9 bn of cash reported as of H109, EUR3 billion in undrawn committed facilities maturing in 2011 and 2012 with no financial covenants, and a well spread out debt maturity profile - the next bond maturity is due in May 2010 (EUR1bn). Fitch expects Carrefour to continue to generate strong free cash flow (FCF) in 2009, notably thanks to the group capex reduction plan, with a total capex at about EUR2.3 billion for FYE09 budgeted by the company (vs EUR2.9billion at FYE08), and its good working capital management. Management expects free cash flow before dividends to be around EUR1.2bn in FY09.

In FY09, Fitch expects Carrefour's lease adjusted net debt leverage ratio to be in the 2.5x- 3x range. In terms of debt adjustments, Fitch multiplies Carrefour's operating leases by 8x, includes off-balance sheet obligations such as the put option on Finiper SpA maturing in 2010, includes debt related to franchisees in France (adding back associated EBITDA), and excludes operating profit from Carrefour's bank operation called Societe des Paiements PASS (S2P), a joint venture bank with BNP Paribas.

Contacts: Johnny Da Silva, Paris, Tel: +33 1 44 29 91 36; Giulio Lombardi, +44 (0) 20 7417 6314.

Media Relations: Francoise Alos, Paris, Tel: +33 1 44 29 91 22, Email: francoise.alos@fitchratings.com; Julian Dennison, London, Tel: +44 020 7682 7480, Email: julian.dennison@fitchratings.com; Peter Fitzpatrick, London, Tel: + 44 (0)20 7417 4364, Email: peter.fitzpatrick@fitchratings.com.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site. The issuer did not participate in the rating process other than through the medium of its public disclosure.