

Table of Contents

[Major Rating Factors](#)

[Rationale](#)

[Outlook](#)

[Business Description](#)

[Business Risk Profile: Strong, Stemming From Solid Domestic Performance And Ongoing International Growth](#)

[Financial Risk Profile: Still Modest, Despite Dilution In Financial Metrics Following Debt-Financed Expansion](#)

[Financial Statistics/ Adjustments](#)

[Related Criteria And Research](#)

Groupe Auchan SA

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## Major Rating Factors

Corporate Credit Rating

A/Stable/A-1

[Ratings Detail >>](#)

Strengths:

- Well-established market position in the French home market.
- Presence in fast-growing emerging markets, balancing mature growth trends in Western European markets.
- Financial flexibility derived from real estate development business and prudent shareholder remuneration policy.

## Weaknesses:

- Exposure to the difficult Spanish and Italian markets.
- Financial metrics held back by debt-financed organic expansion and real-estate business.

## Rationale

The ratings on French food retailer Groupe Auchan SA reflect its well-established positions in the regulated French and southern European markets, underpinned by its expertise in the hypermarket format. Although barriers to entry protect Auchan's core French market, the group is exposed to intense competition and buying power erosion. In addition, the group's increased leverage, following a period of debt-financed expansion, has become a ratings constraint.

Auchan is the fourth-largest food retailer in France, with a market share of about 12%. Operating 123 hypermarkets in France at year-end 2009, Auchan has a strong position in this segment, fueled by high recognition of the Auchan banner; a focus on large stores that average more than 9,000 square meters; and almost nationwide coverage. Auchan has developed firm expertise in hypermarkets, a format that the group is successfully expanding in emerging markets, particularly China and Russia. Hypermarkets are, however, more exposed to down trading than other retail formats owing to the higher share of nonfood products in their offering.

## Key business and profitability developments

Auchan's operations over 2009 reflected a relative resilience in a difficult trading environment, notably supported by the group's hypermarket operations, which contribute 80% of group revenues. The group's like-for-like sales excluding petrol declined by 1.2% over 2009, while store expansion (up 4.9%) offset the negative impact from petrol and exchange rates. From a regional perspective, Auchan's almost 13% growth in emerging markets mitigated contracting sales in France (down 3.6%) and other Western European markets (down 1.5%). Given unchanged economic conditions at the beginning of 2010, Standard & Poor's Ratings Services expects these key trends in Auchan's operating performance to prevail at least during the first half of 2010.

Auchan's business strategy is focused on volume generation, and its positioning in the low-price hypermarket format provides a degree of resilience. Hypermarkets, which account for about two-thirds of the group's EBITDA, offset a poor performance in the group's supermarket operations and essentially contributed to the increase in the group's reported EBITDA margin, by 20 basis points to 5.9% in 2009. The group benefits from a positive price image. Overall, Auchan's share of private label products was about 35% in 2009. The prices of the group's first-price private-label product range are comparable with those of hard-discount formats, consequently positioning Auchan well to meet customers' growing focus on low prices. In addition, while the the group's real estate operations (Immochan) have contributed to Auchan's softening financial profile over time, we consider the group's real estate ownership and development activities a diversifying and strategically supportive factor for Auchan's retail operations.

Going forward, we continue to consider weak consumer purchasing power and ongoing margin pressure a continuing threat for the European retail sector in 2010. This said, we believe that Auchan's French retail operations are well positioned to further withstand this ongoing pressure. In addition, the volume contribution of international operations and ongoing expansion should in our view mitigate potential negative trends in the group's domestic markets.

## Key cash flow and capital-structure developments

A comparatively solid operating performance and lower working capital needs than the group had anticipated of €182 million year on year had positive effects on Auchan's financial profile in 2009. In addition, management reduced capital expenditure by 20% to €1.6 billion and cut its dividend payout by almost half to €98 million over the year. The combined effects of relatively resilient operations and a cutback in investments and shareholder remuneration helped raise the group's ratio of adjusted funds from operations (FFO) to debt to about 39%, up from 33% in 2008.

Auchan's 2009 financials reflect a balanced approach between its strategic prerogatives of volume growth and expansion, and a financial policy that enables the group to maintain an adequate

financial profile for the current rating levels. Therefore, while we believe that the group's capital expenditure is set to rise again over time, Auchan's disciplined financial policy, supported by the financial flexibility derived from its asset base, should enable the group to sustain a ratio of adjusted FFO to debt at about 35%, and to maintain a leverage ratio of adjusted debt to EBITDA of about 2x. We consider a ratio of adjusted FFO to debt of 30%-35% and a debt to EBITDA ratio of 2.0x-2.5x as the minimum level commensurate with the current ratings.

### Short-term credit factors

The short-term rating is 'A-1'. We view Auchan's liquidity as adequate. The group's policy is to have undrawn, long-term committed facilities available at all times to fund seasonal peaks, plus one week of turnover. Auchan benefits from significantly diversified funding sources. At the end of 2009, the group's sources of liquidity essentially consisted of €2 billion cash and cash equivalents plus the undrawn portion of committed long-term bank lines, which stood at €3.9 billion at that time. We consider Auchan's liquidity sufficient to cover its reported consolidated short-term debt (including Banque Accord) of €3 billion (2008: €3.5 billion), annual working capital swings of €1.5 billion, and potential shortfalls of operating cash flow against capital expenditure--which was a reported €96 million in 2009. A few bank lines bear financial covenants, but Auchan has significant headroom. The company's debt maturity profile is fairly balanced, with €800 million and €500 million in bond debt coming due in 2010 and 2011.

Auchan's substantial real estate holdings, especially the shopping malls around its hypermarkets, support the group's liquidity. Management valued these assets at €5.6 billion at the end of 2009.

## Outlook

The stable outlook reflects our view that based on a balanced financial policy, the group is in a position to maintain current financial metrics despite a potentially ongoing difficult trading environment in some of its markets and ongoing capital-intensive real estate development activities. In addition, we believe that Auchan's operations should benefit over time from the development of its growing international presence, mainly Eastern Europe and China, and from the development of its real estate activities (shopping centers), which now contribute more to the group's earnings than its supermarkets. The minimum levels we consider adequate for the current ratings are adjusted FFO to debt in the 30-35% range and adjusted debt to EBITDA of 2.0x-2.5x. We could lower the ratings if Auchan's financial measures slide below the FFO to debt figures, or if they move above the debt/EBITDA range. Upside potential for the ratings is remote for the time being.

## Business Description

Auchan is a leading food retailer operating hypermarkets present in 13 countries and supermarkets in France, Italy, and Spain. The group has also developed real estate operations through shopping malls while extending captive financing activities run by Banque Accord (A/Stable/A-1). The Mulliez family, through its holding company, Association de la Famille Mulliez (AFM), owns Auchan. AFM also has majority stakes in some of France's most successful retail groups, such as do-it-yourself (DIY) retailer Leroy Merlin S.A. There are, however, no capital links or cross-subsidizing between the AFM companies.

Despite the diversification of its geographic presence, Auchan's business is focused on Western Europe--accounting for 76% of consolidated 2009 sales--and the hypermarket format, which generated a reported 80% of 2009 sales before central cost.

## Business Risk Profile: Strong, Stemming From Solid Domestic Performance And Ongoing International Growth

The major supports for Auchan's business risk profile, which we consider to be strong under our criteria, are:

- Positioning in emerging growth markets offsets business dynamics in mature Western European markets. Like for many peers, expansion in emerging markets is part of Auchan's international strategy to generate high-volume growth. Auchan generated 24% of its 2009 sales in emerging markets against 21% in 2008, focusing on Eastern Europe, specifically Poland; Russia, where it set up in 2002 and now operates 38 hypermarkets (versus 33 in 2008); and Asia. We expect Auchan to continue to grow in these two countries on the back of accelerating store

openings. Accordingly, the contribution of sales from these emerging markets is set to increase further in the coming years.

- Resilience of Auchan's hypermarket format. Hypermarkets remain the primary food retail format in France, with an overall food and near-food retail market share of about 50%. They also account for the lion's share of Auchan's sales. Auchan has a broadly stable 12% market share in France, primarily based on its 123 local hypermarkets. This makes Auchan one of France's leading hypermarket operators, along with Carrefour S.A. (A-/Stable/A-2) and Leclerc (not rated). The format has started to face strong headwind recently, in light of the current consumer spending downturn, which especially affected the performance of nonfood sales. Yet, Auchan's hypermarket operations have proven to be resilient so far. Auchan's value- and volume-oriented business model positions the group's hypermarket operations close to the discount segment, which kept its performance broadly stable in 2009, contrary to some of its competitors' hypermarket operations.
- The still-benign regulatory environment in the French home market. Many European countries have municipal planning policies that regulate the local development of shopping centers. These planning policies are particularly conservative in the group's French home market, where the construction of sales units exceeding 1,000 square meters is subject to public approval. This effectively protects existing retail asset owners such as Auchan from excessive local competition.
- Extensive real estate holdings, providing strategic flexibility. Auchan owns a portfolio of shopping malls, managed through the Immochan development unit. Such real estate ownership is a strategically supportive feature for retailers because it enables better control of the development and operating management of stores. Owning property also contributes to enhancing the retailer's footfall because it facilitates development of complementary businesses in shopping malls. Auchan now operates 297 shopping centers (up from 289 in 2008), of which about 75% are situated in the Eurozone. Most of them are freehold and combine lease incomes and management fees, contributing to about 17% of group operating earnings in 2009.

These supports are partly offset by:

- Exposure to markets with significant risk of consumer downtrading. Outside France, Auchan is a well-established player in Italy and Spain with a market share in each country of about 7%. Both markets have been suffering from softening demand, however. While the Italian market has been historically difficult for Auchan, the Spanish market, whose consumers were hit by the real estate crisis, has become more difficult over the past two years. While Auchan continues to suffer from depressed market conditions, deflationary trends, and softer demand in Italy, Spanish hypermarkets also face stiff competition from supermarkets, which is the preferred format in Spain, and from hard discounters.
- Focus on volume growth and real estate roll-out holding back profitability. Focusing on volume growth, Auchan's profitability has been softening over time. Like all French retailers, Auchan is constantly forced to invest further in price cuts, heightening pressure on domestic margins. Despite the competitive environment, EBITDA margins have remained broadly stable over the past years. Against this, the group's adjusted return on capital declined from double- to single-digit levels over the period. Mitigating factors since 2008 were chiefly Auchan's geographic diversification in the growing Chinese and Russian markets and the stable performance of its real estate activities. Against this, the declining return on capital ratio reflects the capital needs of the group's real estate activities.

## Financial Risk Profile: Still Modest, Despite Dilution In Financial Metrics Following Debt-Financed Expansion

The main strengths of Auchan's financial risk profile, which we assess as modest, are:

- A balanced financial policy. Auchan's expansion activity has caused group financial metrics to soften over the last years. However, management's announced cutback on capital expenditure in 2009 and 2010, together with a moderate dividend payout policy, enabled the group to maintain a financial profile in line with current rating expectations. This reflects management's balanced financial policy, which weighs goals of strategic expansion against the maintenance of a robust financial structure.
- Real estate assets as potential sources of financial flexibility. Owning property can provide financial flexibility, as long as any divestment of these assets does not restrict the group's strategic control over its operations. At the end of 2009, the value of the assets owned by the group's real estate development subsidiary Immochan, essentially consisting of shopping malls located in Western Europe, stood at about €5.6 billion. While we understand that in general Auchan has a build and hold policy regarding these assets, we still believe that the group's real estate portfolio could support the group's financial flexibility in case of need.

These strengths are tempered by the following:

- Limited flexibility regarding equity funding. The 87.4% ownership by the Mulliez family limits Auchan's ability to raise equity. Structural subordination does not apply, as the bulk of financial debt at the holding company level is in Auchan Finances SNC (--/--/A-1), a vehicle that has documented downstream loans to Auchan's operating subsidiaries on a recurring basis. Auchan Finances SNC is 99.9% owned by Auchan, the holding company, and 0.1% by Auchan France, the French hypermarket subsidiary. Auchan France is legally responsible for all of Auchan Finances SNC's liabilities, as under French law covering SNCs ("sociétés en nom collectif") all shareholders are legally responsible for 100% of liabilities.

- Capital intensity for real estate development that is holding back financial metrics. Groupe Auchan funds the development of its real estate activities at Immochan through the parent company's balance sheet. In addition to international expansion, this has essentially contributed to the dilution of group financial metrics in the past years. Rising real estate development activities could therefore contribute to diluting financial metrics and, more generally, expose Auchan's balance sheet to real estate market dynamics. This said, we also recognize the beneficial effects of earnings diversification and of the financial flexibility represented by the real estate portfolio has on Auchan's overall financial profile.

## Financial Statistics/Adjustments

Auchan reports under IFRS (International Financial Reporting Standards). We consolidate and adjust the debt relating to Banque Accord, Auchan's 100%-owned bank, under our captive finance methodology. Standard & Poor's uses its captive finance methodology to analyze industrial companies with captive financial service operations, such as automakers and retailers. We usually align the rating on the captive finance entity's debt with the debt rating on the parent, because we view a captive finance company and its operating parent company as a single business enterprise. We analyze financing activities and manufacturing activities separately, reflecting the different types of assets that the captive and the parent possess. We segregate debt, equity, and earnings of the captive entity from those of the parent so that both entities reflect similar credit quality.

In Auchan's case, we deemed a financial services debt leverage factor of 7.0x appropriate for the rating category, based on the quality of Banque Accord's receivables, leases, and other assets. According to this leverage factor, at end-December 2009, Banque Accord's debt stood at €2.3 billion, against Auchan's financial debt of €5.2 billion.

We adjust debt for operating leases (discounted at 7%), pensions and for necessary cash for daily store activity. The impact on debt was €1.5 billion, €95 million, and €300 million, respectively.

Table 1 | [Download Table](#) | [View Expanded Table](#)

### Reconciliation Of Groupe Auchan S.A. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €)\*

--Fiscal year ended Dec. 31, 2009--

Groupe Auchan S.A. reported amounts									
	Debt	Revenues	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Capital expenditures
Reported	7,449.0	39,671.0	2,437.0	2,437.0	1,307.0	152.0	1,504.0	1,504.0	1,600.0
Standard & Poor's adjustments									
Operating leases	1,525.0	--	377.5	114.6	114.6	114.6	262.9	262.9	37.6
Postretirement benefit obligations	94.9	--	--	--	--	5.0	7.2	7.2	--
Surplus cash and near cash investments	(1,727.0)	--	--	--	--	--	--	--	--
Deconsolidation/Consolidation	(2,325.8)	(456.0)	(11.0)	(11.0)	(11.0)	--	(19.0)	(19.0)	--
Reclassification of nonoperating income (expenses)	--	--	--	--	(28.0)	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	182.0	--
Minority interests	--	--	--	--	--	--	--	--	--
Total adjustments	(2,432.9)	(456.0)	366.5	103.6	75.6	119.6	249.8	431.8	37.6
Standard & Poor's adjusted amounts									

	Debt	Revenues	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	5,016.1	39,215.0	2,803.5	2,540.6	1,382.6	271.6	1,753.8	1,935.8	1,637.6

\*Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization.

Table 2 | [Download Table](#)

Groupe Auchan S.A. -- Peer Comparison\*

Industry Sector: Retail

	Groupe Auchan S.A.	Carrefour S.A.	Migros - Genossenschafts-Bund	Metro AG	Target Corp.¶
Rating as of April 20, 2010	A/Stable/A-1	A-/Stable/A-2	A/Stable/A-1	BBB/Stable/A-2	A+/Negative/A-1
Fiscal year ended	Dec. 31, 2009	Dec. 31, 2008		Dec. 31, 2008 Dec. 31, 2009	Jan. 31, 2010
	(Mil. €)				
Revenues	39,215.0	87,170.1		16,727.5 65,529.0	45,629.7
EBITDA	2,540.6	5,174.5		1,407.7 3,953.7	4,687.1
Net income from continuing operations	661.0	1,255.6		435.5 383.0	1,789.7
Funds from operations (FFO)	1,935.8	4,403.6		1,469.6 2,878.0	4,681.6
Capital expenditures	1,637.6	3,794.3		1,625.2 2,418.5	1,237.2
Free operating cash flow	116.2	1,573.3		(205.0) 589.4	3,171.0
Debt	5,016.1	12,900.4		3,960.6 13,090.7	9,410.7
Equity	7,480.8	10,341.3		6,704.2 5,871.6	10,302.4
	Adjusted ratios				
EBITDA/revenues (%)	6.5	5.9		8.4 6.0	10.3
Operating income (before D&A)/revenues (%)	7.1	6.6		9.2 7.3	10.3
EBIT interest coverage (x)	5.1	3.8		3.9 2.3	6.8
EBITDA interest coverage (x)	9.4	5.9		6.9 3.5	9.9
Return on capital (%)	10.8	13.9		7.3 13.6	15.9
FFO/debt (%)	38.6	34.1		37.2 22.0	49.7
Free operating cash flow/debt (%)	2.3	12.2		(0.4) 4.5	33.5
Debt/EBITDA (x)	2.0	2.5		2.8 3.3	2.0
Total debt/debt plus equity (%)	40.1	55.5		37.1 69.0	47.7

\*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt. ¶Excess cash and investments not netted against debt. D&A--Depreciation and amortization.

## Groupe Auchan S.A. -- Financial Summary\*

Industry Sector: Retail

	--Fiscal year ended Dec. 31--				
	2009	2008	2007	2006	2005
(Mil. €)					
Revenues	39,215.0	39,057.0	36,345.0	34,990.0	33,608.0
EBITDA	2,540.6	2,452.5	2,235.6	2,283.3	2,306.1
Net income from continuing operations	661.0	727.0	747.0	746.0	738.0
Funds from operations (FFO)	1,935.8	1,704.3	1,607.7	1,691.0	1,697.0
Capital expenditures	1,637.6	2,426.3	2,257.1	1,491.7	1,182.9
Free operating cash flow	116.2	(727.0)	(610.4)	309.3	595.1
Debt	5,016.1	5,139.4	3,863.0	3,254.5	3,609.8
Equity	7,480.8	6,922.6	6,549.0	6,118.0	5,574.0
Adjusted ratios					
EBITDA/revenues (%)	6.5	6.3	6.2	6.5	6.9
Operating income (before D&A)/revenues (%)	7.1	6.7	6.5	6.9	7.3
EBIT interest coverage (x)	5.1	3.7	4.8	6.5	6.1
EBITDA interest coverage (x)	9.4	6.2	8.0	10.9	10.2
Return on capital (%)	10.8	12.3	12.9	13.9	14.0
FFO/debt (%)	38.6	33.2	41.6	52.0	47.0
Free operating cash flow/debt (%)	2.3	(14.1)	(15.8)	9.5	16.5
Debt/EBITDA (x)	2.0	2.1	1.7	1.4	1.6
Debt/debt and equity (%)	40.1	42.6	37.1	34.7	39.3

\*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt. D&A--Depreciation and amortization.

## Related Criteria And Research

Key Credit Factors: Business And Financial Risks In The Retail Industry, Sept. 18, 2008

### Ratings Detail(As Of 20-Apr-2010)\*

Groupe Auchan S.A.

Corporate Credit Rating	A/Stable/A-1
Senior Unsecured (9 Issues)	A
Corporate Credit Ratings History	
15-Apr-2010	A/Stable/A-1
24-Mar-2009	A/Negative/A-1
30-Jun-2003	A/Stable/A-1
Business Risk Profile	Strong
Financial Risk Profile	Modest
Debt Maturities	
As of Dec. 31, 2009:	
2010: €2,142 million	
2011: €1,718 million	
2012: €1,021 million	
2013: €1,985 million	
2014: €1,700 million	
Thereafter: €1,076 million	
Related Entities	
Auchan Finances SNC	
Issuer Credit Rating	--/--/A-1
Commercial Paper	
Local Currency	A-1
Banque Accord	
Issuer Credit Rating	A/Stable/A-1
Certificate Of Deposit	A/A-1
Senior Unsecured (5 Issues)	A

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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