

Food Retail

3Q23 Preview | What to expect from ASAÍ3 and CRFB3 in Q3?

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What to expect from Assaí in 3Q23?

Assaí will report its 3Q23 numbers on Oct. 30. Reduced consumer purchasing power, food deflation and changes in the behavior of B2B consumers - **the scenario is very similar to 2Q23**.

Considering the slowdown in food inflation without any major increase in volume, along with B2B clients who fraction consumption over the month, we still expect **Same Store Sales below zero** this quarter, estimated at -1.5% y/y (vs. 9.0% in 3Q22). It's worth noting that, although we do expect negative SSS, we believe Assaí will be less affected than its main competitor, Atacadão (to be discussed below).

In this scenario, we believe that topline growth will be guided by the 52 openings in the last 12M. We estimate **gross sales at R\$18.4b (+21.0% y/y)**.

As for gross margin, we don't expect any major news. We believe that margin surplus from converted stores will continue to be invested in stores in more competitive regions, and therefore we expect a relatively stable margin year-on-year. We estimate **gross margin at 16.2% (-10bps y/y)**.

With fewer conversions in the quarter and less stores to be converted, we expect a reduction in pre-operating expenses. At the same time, the positive performance of converted stores - with sales uplift above that presented in 2Q23 (>2.5x) - should help dilute expenses in 3Q23.

We expect a slight pressure of -15bps y/y on the operating margin, lower than the impact seen in recent quarters. We estimate **adjusted EBITDA at R\$1.2b (+18.5% y/y), leading to a margin of 7.2% (-15bps y/y)**.

With the R\$1.0b loan raised in July, we believe that financial expenses will have a significant impact on the bottom line. We estimate a -41.1% y/y decrease in net income, totaling R\$166m (-41.1% y/y).

We don't expect to see any financial deleveraging this quarter. After an exceptional Q2 in terms of working capital, we should see rebuilding of inventories preparing for the anniversary event, Black Friday and the year-end festivities.

Given these dynamics, we believe that deleverage should start to be seen by 4Q23, reaching 2.5x Net Debt/EBITDA by the end of the year.

Positive signs ahead. With better seasonality in 4Q23 and a normalization of inventories, Assaí should return to a deleveraging path. From 2024 onwards, with fewer investments, the end of transaction payments and a downward trend in interest rates, we expect to see a strong process of financial deleveraging.

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Company

ASAÍ3 BZ Equity

Buy

Price: R\$ 11,60 (October 9, 2023)

Target Price 12M: R\$ 17,00

CRFB3 BZ Equity

Neutral

Price: R\$ 9,01 (October 9, 2023)

Target Price 12M: R\$ 13,00

Table 1: Genial 3Q23 Estimates for ASAI3.

ASSÁI	3Q23 E	3Q22 C	% y/y bps	Cons. Bloomberg *	% Genial / Bloomberg	2Q23 C	% q/q bps
Gross Sales	18.380	15.185	21,0%	N/A	-	17.553	4,7%
Same Store Sales (%)	-1,5%	9,0%	-	N/A	-	-1,7%	-
Net Revenue	16.742	13.832	21,0%	17.671	-5,3%	15.984	4,7%
COGS	(14.031)	(11.578)	21,2%	(14.790)	-5,1%	(13.420)	4,6%
Gross Profit	2.712	2.254	20,3%	2.881	-5,9%	2.564	5,8%
% Gross Margin	16,2%	16,3%	-10 bps	16,3%	-11 bps	16,0%	15 bps
EBIT	851	748	13,8%	992	-14,2%	737	15,5%
% EBIT Margin	5,1%	5,4%	-33 bps	5,6%	-53 bps	4,6%	47 bps
D&A	(330)	(232)	42,3%	(324)	2,0%	(341)	-3,2%
Adj. EBITDA	1.198	1.011	18,5%	1.335	-10,3%	1.113	7,6%
% Adj. EBITDA Margin	7,2%	7,3%	-15 bps	7,6%	-40 bps	7,0%	19 bps
Net financial result	(738)	(440)	67,7%	N/A	-	(628)	17,5%
IRPJ/CSLL	53	(27)	-295,1%	N/A	-	47	12,1%
Net income	166	281	-41,1%	285	-42,0%	156	6,2%
% Net Margin	1,0%	2,0%	-104 bps	1,6%	-63 bps	1,0%	1 bps

Source: Genial, Company data & Bloomberg Consensus.

What to expect from Carrefour in 3Q23?

Carrefour will post its sales preview on Oct. 25 and its consolidated financial results on Oct. 31. With food deflation impacting the group's main brand, Atacadão, we expect the company to post another quarter of losses.

If our expectations are confirmed, **this would be the third quarter in a row that the group posts a net loss** - and the fourth since Carrefour Brasil's IPO in 2017.

Atacadão

With the change in B2B consumer behavior and given the vertical's exposure to this public (~60% of purchase volume), **we expect Atacadão to post another quarter of weak operating leverage**, with sequential and annual deterioration of Same Store Sales (SSS), estimated at -6.0% y/y (vs. +10.5% in 3Q22 and vs. -4.3% in 2Q23).

On the other hand, the **operating margin should show slight sequential improvement** – a result of the "end" of pre-operating expenses, since there are no more BIG and Maxxi stores to be converted, and also a result of greater SG&A control. We estimate adjusted EBITDA margin (inc. BIG) at 5.9% (-70bps y/y; +20bps q/q).

Table 2: Genial 3Q23 Estimates | Cash & Carry (CRFB3)

CASH & CARRY	3Q23 E	3Q22 C	% y/y bps	2Q23 C	% q/q bps
Gross Sales	20.377	19.742	3,2%	20.066	1,5%
Same Store Sales (%)	-6,0%	10,5%	-	-4,3%	-168 bps
Net Revenue	18.281	17.813	2,6%	18.039	1,3%
COGS	(15.563)	(15.182)	2,5%	(15.348)	1,4%
Gross Profit	2.719	2.631	3,3%	2.691	1,0%
% Gross Margin	14,9%	14,8%	10 bps	14,9%	-5 bps
Adj. EBITDA	1.087	1.186	-8,3%	1.020	6,6%
% Adj. EBITDA Margin	5,9%	6,7%	-71 bps	5,7%	29 bps

We would like to **draw attention to two topics** that should be highlighted over the next few quarters:

(I) As the company directs its efforts towards reducing SG&A expenses, **we should see a break-even of converted stores (Maxxi and BIG) sooner than previously expected**, with margin ramp-up contributing to the recovery of operating profitability in 2024;

(II) The stabilization of interest rates at a higher level than previously expected (Genial Selic Est. at 10% in 2025) and the food deflation scenario should cause the Nov/22 **guidance regarding the opening of Atacadão stores to be delayed by two years**, reaching 470 Cash-and-Carry stores only in 2028.

Retail

The **retail segment has the toughest comps (y/y)**, and we believe **it should be the main profitability detractor in 3Q23**.

We don't expect revenue growth in the retail division throughout 2S23. In addition to the impact of food deflation, which has not yet led to an increase in volume in the consumption basket, we expect Carrefour's retail segment to decrease with a significant reduction of stores in its portfolio (converted into Atacadão), compared to last year. We estimate an SSS of -8.0% y/y for the vertical (vs. 14.0% in 3Q22).

Strong operational deleveraging should negatively impact profitability in the group's retail business. We estimate a sequentially lower EBITDA margin, at 2.4% (-140bps y/y; -40bps q/q).

Table 3: Genial 3Q23 Estimates | Retail (CRFB3).

RETAIL (INC. BIG)	3Q23 E	3Q22 C	% y/y bps	2T23 C	% q/q bps
Gross Sales (ex. petrol)	5.631	7.420	-24,1%	6.734	-16,4%
Petrol	804	788	2,0%	814	-1,3%
Same Store Sales (%)	-8,0%	15,0%	-153,4%	0,3%	-830 bps
Net Revenue	5.702	7.356	-22,5%	6.660	-14,4%
COGS	(4.323)	(5.482)	-21,1%	(5.036)	14,2%
Gross Profit	1.378	1.874	-26,4%	1.624	-15,1%
% Gross Margin	24,2%	25,5%	-130 bps	24,4%	-21 bps
Adj. EBITDA	139	281	-50,6%	186	-25,3%
% Adj. EBITDA Margin	2,4%	3,8%	-139 bps	2,8%	-35 bps

Source: Genial and Company Data.

Sam's Club

Given Sam's anniversary month in Q3, **we expect a quarter with more aggressive promotional campaigns** for Carrefour's club segment - which should imply a sequential decrease in gross margin. We estimate SSS at +2.0% y/y and operating margin at 5.0% (-260bps y/y; +10bps q/q).

Table 4: Genial 3Q23 Estimates | Sam's Club(CRFB3)

SAM'S	3Q23 E	3Q22 C	% y/y bps	2Q23 C	% q/q bps
Gross Sales	1.555	1.386	12,2%	1.436	8,3%
Same Store Sales (%)	2,2%	-	-	-	-
Net Revenue	1.358	1.210	12,2%	1.254	8,3%
COGS	(1.087)	(946)	14,9%	(1.001)	-8,6%
Gross Profit	272	264	2,9%	254	7,0%
% Gross Margin	20,0%	21,8%	-182 bps	20,2%	-23 bps
Adj. EBITDA	68	93	-27,0%	62	9,5%
% Adj. EBITDA Margin	5,0%	7,7%	-269 bps	4,9%	6 bps

Source: Genial and Company Data.

Banco Carrefour (CSF)

The group's financial services vertical should be the main positive highlight in Q3 - especially when taking into account the weaker 3Q22 base, when Banco Carrefour incorporated BIG's risk charge.

With loan portfolio growth estimated at 26.9% y/y and considering delinquencies to be sequentially stable (and at lower levels than the market), Banco Carrefour's operational performance should show significant improvement this quarter.

Table 5: Genial 3Q23 Estimates | Banco Carrefour (CRFB3).

BANCO CARREFOUR (CSF)	3Q23 E	3Q22 C	% y/y bps	2Q23 C	% q/q bps
Revenue	1.265	1.033	22,4%	1.262	0,2%
Risk Charge / Provision	(707)	(549)	28,9%	(712)	0,6%
Gross Profit	557	484	15,1%	550	1,3%
% Gross Margin	44,1%	46,9%	-	43,6%	48 bps
Adj. EBITDA	217	165	31,7%	210	3,5%
% Adj. EBITDA Margin	17,2%	16,0%	-	16,6%	54 bps

Source: Genial and Company Data.

Consolidated Group

Table 6: Genial 3Q23 Estimates | Consolidated Group (CRFB3).

CONSOLIDATED GROUP	3Q23 E	3Q22 C	% y/y bps	Bloomberg	% Genial/Consensus	2Q23 C	% q/q bps
Gross Sales	28.366	29.333	-3,3%	N/A	-	29.050	-2,4%
Taxes & Returns	(3.025)	(2.954)	2,4%	N/A	-	(3.096)	2,3%
Net Revenue	25.341	26.379	-3,9%	27.933	-9,3%	25.954	-2,4%
COGS	(20.415)	(21.132)	-3,4%	(22.631)	-9,8%	(20.842)	2,0%
Gross Profit	4.926	5.246	-6,1%	5.302	-7,1%	5.112	-3,6%
% Gross Margin	19,4%	19,9%	-45 bps	19,0%	46 bps	19,7%	-26 bps
EBIT	1.008	1.277	-21,1%	1.122	-10,2%	769	31,1%
% EBIT Margin	4,0%	4,8%	-86 bps	4,0%	-4 bps	3,0%	101 bps
D&A	(477)	(480)	-0,7%	(561)	-15,1%	(456)	-4,5%
Adj. EBITDA	1.524	1.692	-9,9%	1.683	-9,5%	1.339	13,8%
% Adj. EBITDA Margin	6,0%	6,4%	-40 bps	6,0%	-1 bps	5,2%	85 bps
Net financial result	(811)	(741)	9,5%	N/A	-	(778)	-4,3%
IRPJ/CSLL	(204)	(175)	16,7%	N/A	-	(194)	-5,3%
Net Income (Loss)	(8)	361	-	197	-	(203)	96,1%
% Net Margin	0,0%	1,4%	-140 bps	3,7%	-374 bps	-0,8%	75 bps

Source: Genial, company Data & Bloomberg Consensus.

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