

## Equity Research

**Grupo Empresarial Éxito: Retail industry transition during 2010 is expected to positively affect the company's results.**

Prepared by:

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52-Week Low (COP)	\$ 7,660
52-Week High (COP)	\$ 16,920
Market Price as of 11-Sep'09 (COP)	\$ 16,500
YTD (%)	62.4%
Total Shares Outstanding (mm)	288.82
Market Cap (COP million)	4,765,608
Target Price 2010E	<b>\$17,800</b>
Upside	7.9%

**Table 1. WACC 2010E**

Exchange Rate Depreciation	3.0%
<b>Kd</b>	<b>10.8%</b>
Kd (1-t)	7.2%
Risk Free Rate	4.0%
Country Risk Premium	2.5%
Market Premium	6.0%
Leveraged Beta	0.84
Ke COP	14.9%
<b>WACC</b>	<b>13.6%</b>

Source: Valores Bancolombia

**Table 2. Valuation Summary  
 (COP Million)**

= Value of Operating Assets	<b>5,814,952</b>
+ Cash & Equivalents	33,755
+ Non – Operational Portfolio	140,648
+ Other Non – Oper. Assets	396,075
- Debt	-672,295
- Other Non – Oper. Liabilities	-365,532
- Minority Interest	-212,954
<b>= Equity Value</b>	<b>5,134,650</b>
Shares Outstanding	288.82
<b>= Target Price 2010E</b>	<b>\$17,800</b>

Source: Valores Bancolombia

### Base Case Scenario

▪ We are setting our new target price (end date December 2010) for Grupo Empresarial Éxito at **COP17,800**, derived from a Discounted Free Cash Flow exercise. The upside implied by this target price incorporates a lower discount rate of 13.6% (down from 16.1% used in our April '09 valuation exercise) given a 2.5% country risk premium and a perpetuity growth rate of 6.5%. Also, the additional value results from an overall stabilization of the margin and cash flows, items which experienced negative pressures during 2009. Thus, the combined effect of a lower discount rate and a better operational performance yields a positive result from the valuation exercise.

▪ The macroeconomic outlook for 2010 and 2011 looks more promising, a reverse in the trend of a barely positive economic growth expected for 2009. Such reversion may help Éxito go back on track of its expansion plan, to enhance its operational income growth and to gain room for improving its profitability margins.

▪ Base case scenario main assumptions are:

- **Same Store Sales (SSS) are expected to end 2010 at 0%** recovering from their negative performance along 2009. From this point onwards this indicator should start on a slow recovery path up to 4.6% in 2015.
- Reported sales mix at the end of 1H09 had a 72% food component, and a remaining 28% of non-food items, a composition that was assumed stable for all the proposed sensitivity scenarios.
- **Valores Bancolombia keeps its EBITDA margin expectation unchanged for 2010 at 7.8%**, while in the midterm this profitability indicator should improve up to 8.2%, once the total brand portfolio is fully operating.
- Under this scenario Exito resumes its original commercial area expansion plan aggressively. During the following years the industry might go through a transition period in which the company would execute few openings, while between **2012 and 2014 the firm should open 27 new stores**.
- This Project would require additional debt resources for **COP 1.0 trillion between 2011 y 2014**.
- The final target price obtained under this scenario was set at **COP 17,800** for which a subjective occurrence probability was established at 65%.

### **Pessimistic Scenario**

- Year 2009 has been one of the most challenging in recent history for the retail industry. According to official data for 2Q09 this economic sector registered the second lowest annual growth rate of the past 24 quarters with an observed growth of 3.7%.
- Éxito, as a leading player of the industry with an approximate market share of 42%<sup>1</sup> faced this challenging scenario and was forced to adjust its strategic plan. The company has been successfully implementing and executing this goal, however, a longer adverse macroeconomic scenario could imply narrower maneuverability for margin protection, offering at the same time fewer incentives to resume its expansion plan. Hence, further weakening in consumption, the main driver for the current economic slowdown in Colombia, might imply a negative bias over our valuation.
- Pessimistic scenario main assumptions are:
  - According to the adverse macroeconomic scenario, **Same Store Sales indicator should be negative during 2010 and 2011 reaching 3.6% and 1.5% respectively**, being consistent with observed data as of 1H09 of -5.2%.
  - This economic outlook would also reduce Exito's capacity to extend its current cost and expenses simplification program as a mechanism to protect profitability margins. Hence, during 2010 an EBITDA margin contraction is expected, going down to 7.4%, and later experiencing a slow recovery up to 7.7% only until 2016.
  - As was mentioned before, fewer incentives to increase its commercial area will reduce new openings which are expected to amount to 21 between 2013 and 2015. In order to finance such investments **the company will have to acquire new debt for COP 533,362 million between 2011 and 2015**.
  - The final target price obtained under this scenario was set at COP **15,600**, for which a subjective occurrence probability was established at 25%.

### **Optimistic Scenario**

- The strategies designed in order to face the industry's current situation proved to be successful. In 1H09 the firm has been able to protect its margins, while keeping sufficient liquidity to operate and satisfy its financial obligations. The EBITDA margin observed during 1H09 was 6.5%, 20 bps below the ratio achieved one year before, despite a 2.5% top line contraction. This was possible thanks to an aggressive cost and expenses management strategy.
- Additionally, cash and marketable securities experienced a steep strengthening to COP 454,720 million, after increasing 128% at the end of 1H09 in a 12-month comparison. This important growth was achieved after executing lease back operations over mature assets and throughout an adjustment in inventory levels, allowing to free important working capital resources.
- Optimistic scenario main assumptions are:
  - **A 4% Same Store Sales growth was set for 2010 assuming a quick recovery in households' consumption habits**. Afterwards this indicator should increase up to 6% in 2016.
  - Once the firm attains a lighter and more efficient operational structure under hard conditions in 2009, added to a better macroeconomic situation, profitability margins shall experience a steep recovery. **For 2010 an EBITDA margin of 7.9% is expected, and one of 8.5% for 2015**.
  - Looking forward to capture a bigger share of the current non formal retail channels, a greater priority is given to the expansion plan. Thus, **34 new openings are expected to take place between 2011 and 2014**, an investment which would require additional debt of COP 1.4 billion. It is important to highlight

<sup>1</sup> Grupo Empresarial Éxito: *The Colombian Retail Power House*

the company's administrative capability to undertake such ambitious plan compared to the one proposed under the base case scenario thanks to its expertise and a bigger expected cash flow generation.

- The final target price obtained under this scenario was set at COP **20,200**, for which a subjective occurrence probability was established at 10%.

**Table 4. Risk – Reward Scenarios**

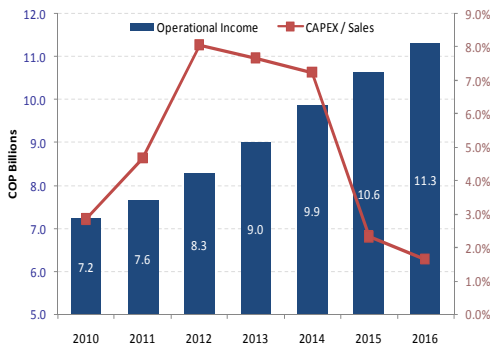


	<b>Date</b>	<b>Target Price</b>	<b>Closing Price</b>
1	11-Sep-07	17.330	15.040
2	21-May-08	19.800	14.100
3	13-Abr-09	10.700	11.020
4	11-Sep-09	17.800	16.500

Source: Valores Bancolombia

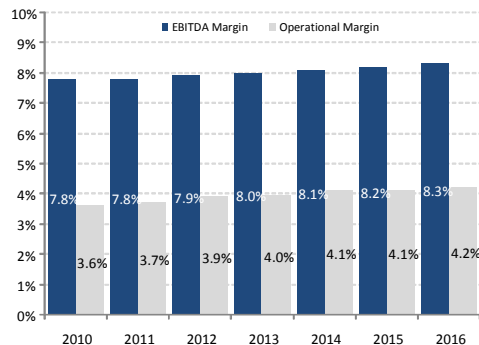
APPENDIX I

Operational Income vs CAPEX / Sales



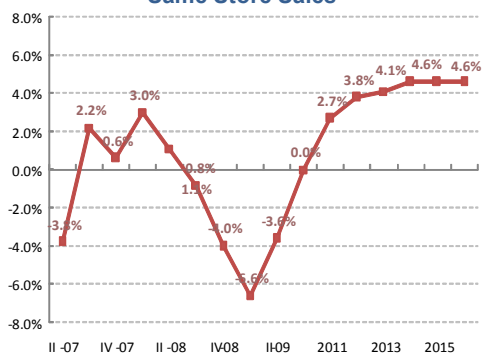
Source: Valores Bancolombia

EBITDA Margin & Operational Margin



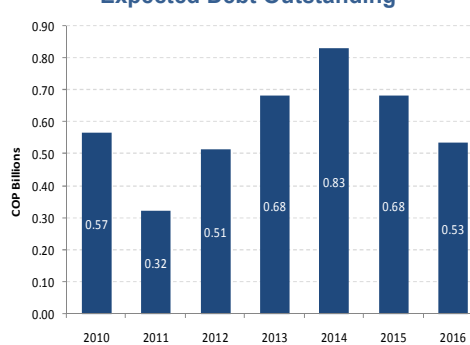
Source: Valores Bancolombia

Same Store Sales



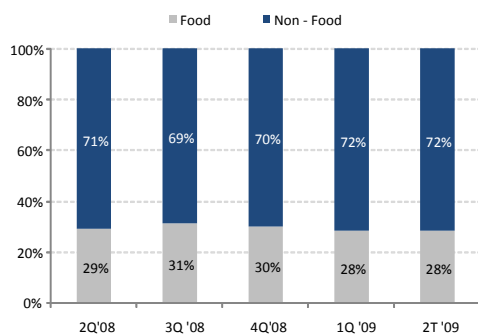
Source: Valores Bancolombia

Expected Debt Outstanding



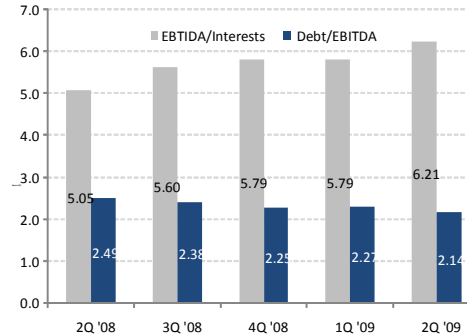
Source: Valores Bancolombia

Sales Mix



Source: Grupo Empresarial Éxito

Debt Indicators



Source: Grupo Empresarial Éxito

## APPENDIX II

Target Price 2010E – Sensitivity Analysis  
(Continuity Value vs. WACC)

		WACC						
		10.7%	11.7%	12.7%	13.7%	14.7%	15.7%	16.7%
Continuity Value	5.5%	27,500	22,300	18,600	15,800	13,600	11,900	10,500
	6.0%	30,300	24,200	19,900	16,700	14,300	12,400	10,900
	6.5%	33,700	26,300	21,400	17,800	15,100	13,000	11,400
	7.0%	38,000	28,900	23,100	19,000	16,000	13,700	11,900
	7.5%	43,700	32,200	25,200	20,400	17,000	14,500	12,500

Source: Cálculos Valores Bancolombia

Target Price 2010E – Sensitivity Analysis  
(Avg. Same Store Sales Vs. Unleveraged Beta)

		Unleveraged Beta						
		0.59	0.64	0.69	0.74	0.79	0.84	0.89
Avg. Same Store Sales	1.40%	17,700	16,700	15,800	15,000	14,300	13,600	13,000
	2.40%	19,300	18,300	17,300	16,500	15,700	14,900	14,300
	3.40%	20,900	19,800	18,800	17,800	17,000	16,200	15,500
	4.40%	22,600	21,400	20,300	19,300	18,400	17,500	16,800
	5.40%	24,400	23,100	21,900	20,900	19,900	19,000	18,100

Source: Cálculos Valores Bancolombia

## APPENDIX III

**Consolidated Financial Statements Grupo Empresarial Éxito**  
(COP Thousand Million)

<b>Income Statement</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Operational Income	6,816	7,125	7,124	7,233	7,631	8,271	9,009
Operational Expenses	6,551	6,859	6,860	6,973	7,347	7,946	8,650
EBIT	265	266	264	260	285	325	359
<b>EBIT Margin</b>	3.9%	3.7%	3.7%	3.6%	3.7%	3.9%	4.0%
Net Non-Operational Income	76	88	(30)	(34)	(76)	(99)	(119)
EBITDA	530	543	519	564	595	653	721
EBITDA Margin	7.8%	7.6%	7.3%	7.8%	7.8%	7.9%	8.0%
<b>Net Profit</b>	131	153	59	147	218	283	280
Net Margin	1.9%	2.2%	0.8%	2.0%	2.9%	3.4%	3.1%

<b>Balance Sheet</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Assets	6,149	6,208	5,821	5,299	5,291	5,748	6,185
Cash and Equivalents	345	221	455	125	5	22	13
Inventories	923	949	790	780	823	892	972
Liabilities	2,640	2,684	1,912	1,730	1,569	1,840	2,122
Short Term Debt	40	477	190	340	239	76	110
Other Short Term Liabilities	1,329	1,375	1,064	1,056	1,131	1,200	1,306
Long Term Debt	955	548	565	225	84	439	571
Other Long Term Liabilities	316	284	93	109	115	125	136
Equity	3,385	3,389	3,298	3,432	3,585	3,771	3,926
Minority Interest	124	135	146	146	147	147	148

Source: Valores Bancolombia

**Estimated Multiples Grupo Empresarial Éxito**

<b>Multiples</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
P/E	37.0	18.8	52.6	35.0	23.6	18.2
P/VL	1.4	0.9	0.94	1.50	1.43	1.36
EV/EBITDA	10.4	6.8	7.5	9.9	9.2	8.6
EPS	461.8	540.6	203.3	508.6	754.2	979.1

Source: Valores Bancolombia

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