

Ahold Stock Analysis



Ahold Delhaize group – Source: Ahold

Ahold Stock Price Overview

Ahold’s stock price chart tells quite a story.



Ahold stock price historical chart – Source: [Google finance](https://www.google.com/finance)

The 2000s were a very exuberant period on the Dutch stock exchange and the index hasn’t recovered since, as neither did Ahold’s stock. The big drop in 2003 happened when accounting irregularities emerged within Ahold’s US business. The company settled most of the issues, paid fines and went on a steady recovery since. In 2016 in merged with Belgian chain Delhaize.

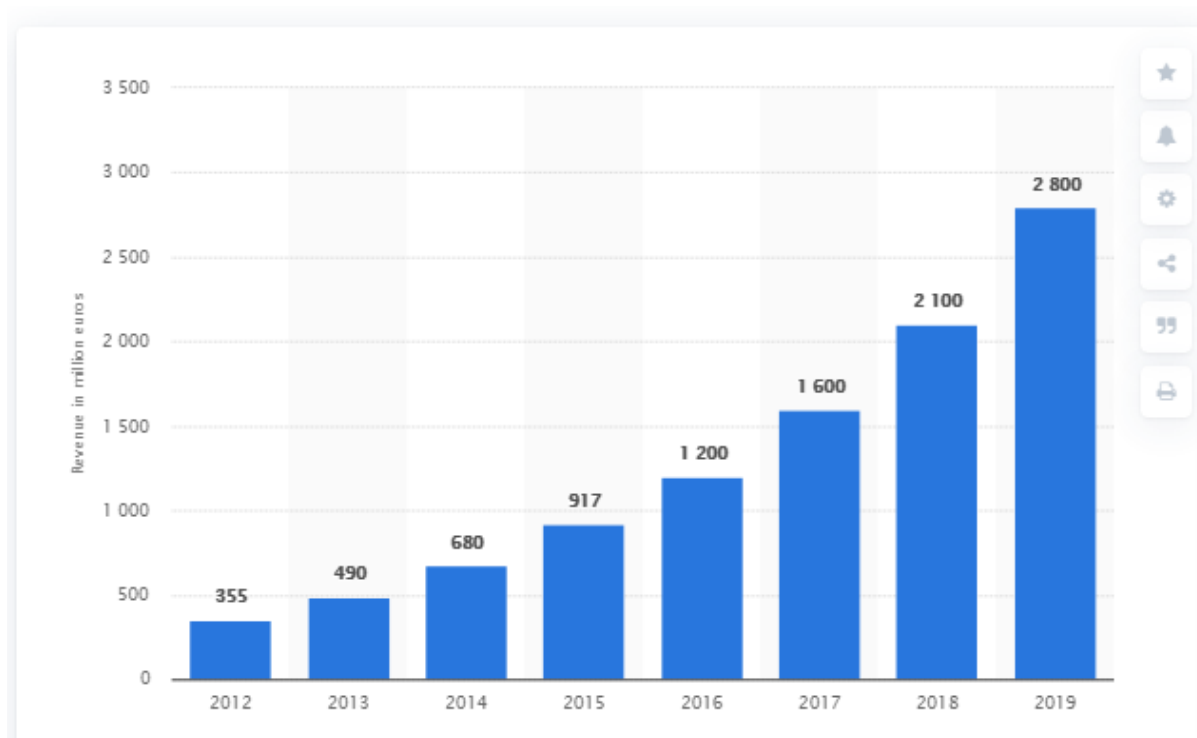
The current market capitalization is 26.8 billion EUR, Albert Heijn is the dominating grocer in the Netherlands with a 35% market share, they are the 4th retailer in the US and the [market share in Belgium](#) is 20%. Plus, there are other markets but not significant.

Who are the top 10 Grocers in the United States?

1. WALMART INC. Grocery Sales: \$288 billion from 4,253 stores. ...
2. THE **KROGER CO.** Revenues of about \$121 billion across its 2,759 stores operating under the **Kroger**, Harris Tweeter and Smith's banners.
3. **ALBERTSONS COS. INC.** ...
4. AHOLD DELHAIZE USA. ...
5. PUBLIX SUPER MARKETS INC. ...
6. H.E. ...
7. MEIJER INC. ...
8. WAKEFERN FOOD CORP.

US grocers list – Source: [Food Industry](#)

The crown jewel should be the Amazon of the Netherlands, Bol.com which is the online arm of the retailer that has been showing staggering growth numbers over the last years.



Bol.com revenue growth – further expanding in 2020 due to COVID – Source: [Statista](#)

If Bol.com would be an individual entity growing at 33% per year (46% in 2020), it could even get a price to sales ratio of 10 in the current market and just by itself justify the whole market capitalization of Ahold. However, the fact that the market capitalization is what it is,

tells us more about the other crazily priced stocks than it tells us about Bol.com and Ahold. As we know, growth is one thing, but profitability is another.

Let's take a deeper look at the business, the fundamentals, make a stock valuation and the Ahold's stock investment thesis.

Ahold stock analysis – business overview

Ahold's strategy is to position itself as an omnichannel retailer.



Ahold stock analysis - Source: [Q3 2020 Investor presentation](#)

It is a good example of how an old company can use and apply the new technologies. So much for disruption destroying everything that is old.

Significantly step-up online capacity, supply chain & technological capabilities

- 2020:** U.S. market household coverage ~90%; same-day coverage ~70%
- 2020 & 2021:** US online capacity increase of ~100%
- 2020 & 2021:** EU online capacity increase of ~50% (incl. over 50% at bol.com)
- 2021:** Doubling U.S. Click & Collect locations to ~1,400 vs. the start of '20
- 2021:** Self-distribution model coming to the U.S. in early 2023. First integrated DC of the initiative will go live in 2021
- 2020 & 2021:** Doubling electronic shelf labels to > 50% of European grocery stores in '21 vs. '20; in nearly all Albert Heijn & Delhaize owned stores by '20

Ahold stock analysis - Source: [Q3 2020 Investor presentation](#)

The models applied resemble Amazon’s strategy. We will see how it will work, will be interesting to watch.

Ahold Delhaize

Advancements in omnichannel offerings to consumers in the U.S.

2

- Q1 2021**: The GIANT Company to test a new subscription model with < \$100 annual membership fee
- H1 2021**: U.S. will offer an 'endless aisle' with an additional 80,000 – 100,000 general merchandise and food items, utilizing the Mirakl platform
- 2021**: U.S. introducing 1,500 – 2,000 more own-brand items to the existing base of 15,000 items
- 2021**: ~60 planned store remodels at Stop & Shop vs. 31 in 2020; remodeled stores are performing well

Ahold stock analysis - Source: [Q3 2020 Investor presentation](#)

Europe:

Ahold Delhaize


Advancements in omnichannel offerings to consumers in Europe

2

- July 2020**: Albert Heijn launched a home delivery service in the Antwerp region of Belgium, which is off to a promising start
- August 2020**: Bol.com expanded to French-speaking Belgium in Brussels & Wallonia; reaches new customers and already attracted thousands of Belgian third-party sellers
- September 2020**: Mega Image launched a 90 min. home delivery service in Bucharest, Romania
- September 2020**: Launched 'AH Compact,' a no-fee home delivery service for smaller households in its first market in The Netherlands, will expand to additional markets in 2021
- 2020 & 2021**: Albert Heijn plans to remodel 170 stores to its new fresh and technology-focused format; over 200 stores remodeled to date, and performing well


Ahold stock analysis - Source: [Q3 2020 Investor presentation](#)

The business seems stable, even Food Lion in the US achieved 32 consecutive quarters of comparable sales growth.




Highlights: United States

- ~115% online sales growth in Q3; raising full year target to over 90%+ US sales growth in 2020 (from 75%+ previously).
- 883 click & collect points at the end of Q3 (up from 765 in Q2); target of 1,100+ in 2020
- Completed 11 Stop & Shop remodels in Q3 and expect a total of 31 in 2020; stores continued to outperform in Q3
- Food Lion remains our fastest growing brand and achieved its 32nd consecutive quarter of positive comparable sales
- Giant Food and Stop & Shop e-commerce platforms were integrated & revamped to provide a better consumer digital experience




Ahold stock analysis - Source: [Q3 2020 Investor presentation](#)

The online growth in Europe is staggering and the business is still expanding. We will see if and when will this turn into increased profitability thanks to scale. The Netherlands are extremely densely populated which helps but still there is no improvement in margins.



Highlights: Europe

- Continued strength in the Benelux ecosystem, with Q3 market share gains in both The Netherlands and Belgium; CSE maintained share
- 48.6% net consumer online sales growth in Q3
- Bol.com net consumer online sales growth of ~46% in Q3 and added roughly 3,000 Bol.com merchant partners to the platform, bringing the total to nearly 37,000 merchants; sales from third-party sellers grew by 73% in Q3
- Bol.com launched a French language version to expand its market opportunity in Belgium in Q3
- Albert Heijn remodeled 31 stores to its new fresh and technology focused format in Q3, and will complete 110 stores by 2020; stores are performing well
- Increased online delivery capacity with 2 new home delivery fulfillment centers at Albert Heijn and 1 in Greece in Q3

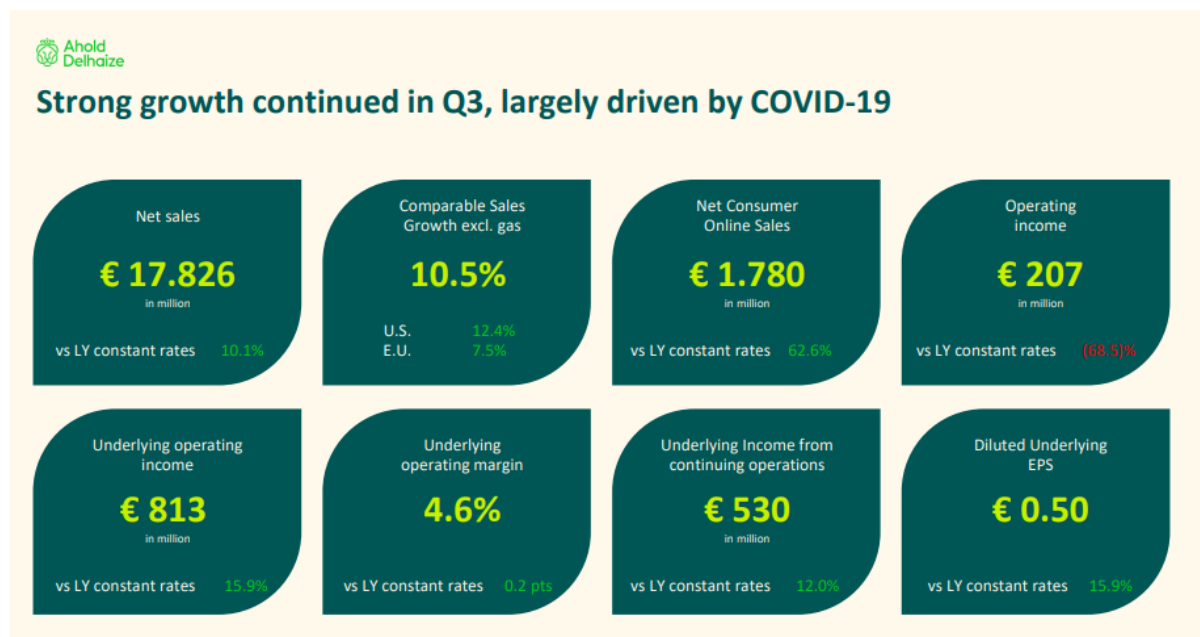


Ahold stock analysis - Source: [Q3 2020 Investor presentation](#)

Taking about margins, let's look at the financials.

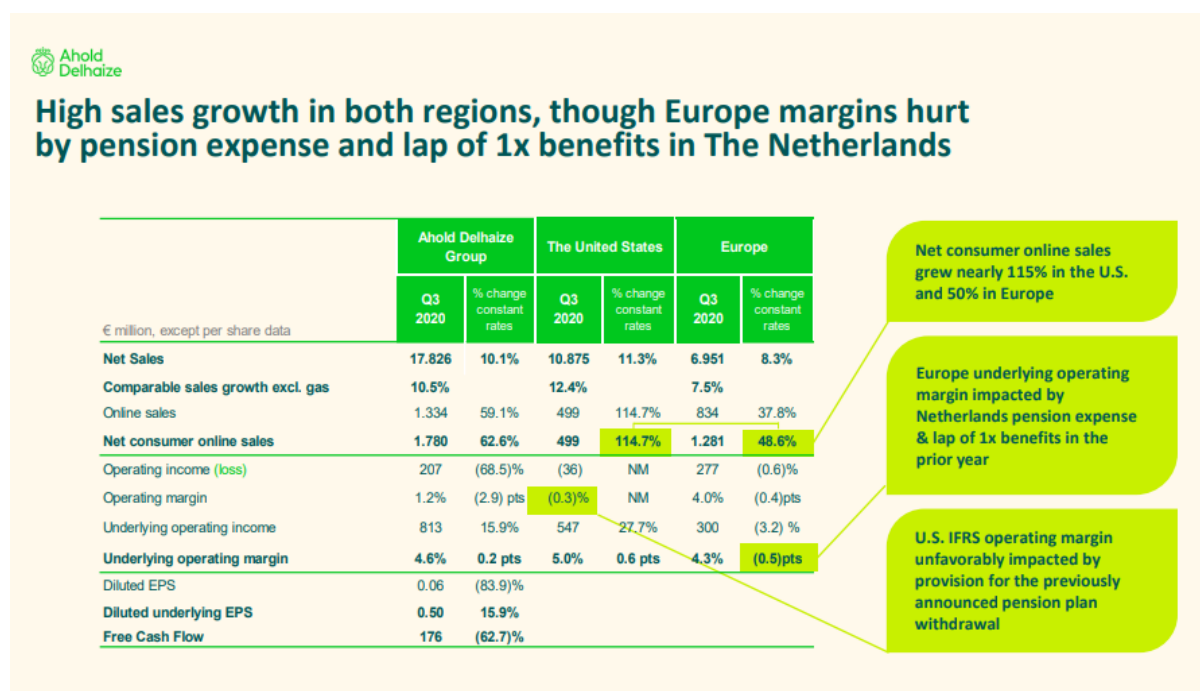
Ahold stock analysis – financials

As it has been the case for other retailers, Ahold experienced a significant boost thanks to COVID. Operating income was hit by pension expenses but underlying income from operations in Q3 2020 was 530 million EUR.



Ahold stock analysis - Source: [Q3 2020 Investor presentation](#)

The pension charge:



Ahold stock analysis - Source: [Q3 2020 Investor presentation](#)

The guidance for 2020 is strong but will likely be less strong for 2021 as things could finally normalize.



Raising underlying EPS 2020 again due to strong YTD performance

- We are increasing underlying EPS guidance to high 20% (previously low-to-mid-20%) due to our strong YTD performance
- Free Cash Flow outlook unchanged at over €1.7 billion, net of Q4 payment for U.S. pension withdrawal
- The underlying operating margin in 2020 is still expected to be higher than last year
- Capital expenditure guidance is maintained at ~€2.5 billion and reflects our accelerated investments in digital and omnichannel capabilities
- Remain committed to our dividend policy and share buyback program in 2020; announcing a new €1 billion share buyback for 2021

	Full-year outlook	Underlying operating margin ¹	Underlying EPS	Save for Our Customers	Capital expenditures	Free cash flow ²	Dividend payout ratio ³	Share buyback ⁴
Updated Outlook	2020	Higher than 2019	High-20% growth	€600 million	~ €2.5 billion	> €1.7 billion	40-50%	€1 billion
Previous Outlook	2020	Higher than 2019	Low-to-mid-20% growth	€600 million	~ €2.5 billion	> €1.7 billion	40-50%	€1 billion

1. No significant impact to underlying operating margin from the 53rd week, though the 53rd week should benefit net sales for the full year by 1.5-2.0%. Comparable sales growth will be presented on a comparable 53-week basis. As previously communicated, the margin includes a dilution of €45 million in transition expenses from the U.S. supply chain initiative, and an increased non-cash service charge of €45 million for the Netherlands employee pension plan, resulting from lower discount rates in the Netherlands.
 2. Excludes M&A
 3. Calculated as a percentage of underlying income from continuing operations
 4. Management remains committed to the share buyback program, but given the uncertainty caused by COVID-19, they will continue to monitor macroeconomic developments. The program is also subject to changes in corporate activities, such as material M&A activity

Ahold stock analysis - Source: [Q3 2020 Investor presentation](#)

The balance sheet looks strong with little long-term debt apart from leasing obligations.

Consolidated balance sheet

€ million	September 27, 2020	December 29, 2019
Assets		
Property, plant and equipment	10,612	10,519
Right-of-use asset	7,437	7,308
Investment property	774	883
Intangible assets	11,816	12,060
Investments in joint ventures and associates	224	229
Other non-current financial assets	664	661
Deferred tax assets	264	213
Other non-current assets	53	49
Total non-current assets	31,843	31,920
Assets held for sale	24	67
Inventories	3,394	3,347
Receivables	1,810	1,905
Other current financial assets	584	317
Income taxes receivable	23	39
Prepaid expenses	274	178
Cash and cash equivalents	6,308	3,717
Total current assets	12,418	9,570
Total assets	44,261	41,490
Equity and liabilities		
Equity attributable to common shareholders	13,282	14,083
Loans	3,948	3,841
Other non-current financial liabilities	8,681	8,716
Pensions and other post-employment benefits	741	677
Deferred tax liabilities	671	786
Provisions	914	724
Other non-current liabilities	58	74
Total non-current liabilities	15,013	14,818
Accounts payable	6,339	6,311
Other current financial liabilities	5,925	3,257
Income taxes payable	224	82
Provisions	744	349
Other current liabilities	2,734	2,591
Total current liabilities	15,966	12,590
Total equity and liabilities	44,261	41,490
Year-end U.S. dollar exchange rate (euro per U.S. dollar)	0.8598	0.8947

Ahold stock analysis – balance sheet – Source: Q3 2020 Earnings

The company announced a new 1 billion EUR buyback for 2021 which is a big positive alongside the 1 billion EUR that will likely be spent for dividends.

If the company can keep making 1.8 billion in free cash flows as it has been doing since the Delhaize merger, the expected return for shareholders through buybacks and dividends is a good 6.6%. If they manage to grow another 2% per year, we are already up to 8.6% which is a staggering return in the current zero rate environment.

Ahold stock valuation and expected return

I have used the cash flows and applied a 2% growth rate with a 12 terminal multiple on cash flows and that leads me to a 6% investing return from current market levels. If the company manages to grow at faster rates, returns will be higher but if hard discounters keep pressuring margins and the online battle intensifies, we could also see declining cash flows and lower multiples.

AHOLD

												Terminal Value	Growth rate		
Scenario 1 normal case	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	2%	next 5 years	
		1.70	1.73	1.77	1.80	1.84	1.88	1.90	1.91	1.93	1.95	1.97	23.44	1%	5 to 10 years
	PV(6%)		1.64	1.57	1.51	1.46	1.40	1.34	1.27	1.21	1.16	1.10	13.09	6%	Discount rate
	INTRINSIC VALUE		26.75										12.0	Terminal multiple	

												Terminal Value	Growth rate		
Scenario 2 best case in EUR	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	3%	next 5 years	
		1.70	1.75	1.80	1.86	1.91	1.97	2.03	2.09	2.15	2.22	2.28	33.27	3%	5 to 10 years
	PV(6%)		1.65	1.61	1.56	1.52	1.47	1.43	1.39	1.35	1.31	1.28	18.58	6%	Discount rate
	Present value sum		33.14										15.0	Terminal multiple	

												Terminal Value	Growth rate		
Scenario 3 worst case in EUR	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	0%	next 5 years	
		1.70	1.70	1.70	1.70	1.70	1.67	1.63	1.60	1.57	1.54	12.54	-2%	5 to 10 years	
	PV(6%)		1.60	1.51	1.43	1.35	1.27	1.17	1.09	1.00	0.93	0.86	7.00	6%	Discount rate
	Present value sum		19.22										8.0	Terminal multiple	

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.6	26.75	16.05
Scenario 2 (best case)	0.2	33.14	6.63
Scenario 3 (worst case)	0.2	19.22	3.84
Sum		26.52	

SVEN CARLIN

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Ahold stock valuation – Source: Sven Carlin (downloadable template)

There are also risks, hard discounters like Lidl and Aldi keep putting pressure on margins, both in Europe and the US, we all know online is not a business where you can reach profitability easily and the demographics trends don't work in favour either.

I think that Ahold is a good business, has a moat in the Netherlands for sure and Bol.com is a promising business so there is definitely value there. What I will do is add these retail stocks to my list of stocks to follow and compare in the future for investing opportunities. For now, I have better.

4	Kroger	KR	24.36	20.18	0.83	12-Jan-21	WATCH	USD Billions	Good business, safe industry, good return in the high single digits, great for swi
5	Sprouts F	SFM	2.38	2.19	0.92	12-Jan-21	WATCH	USD Billions	Good business, focused on growth but with declining operating margins which i
6	AHOLD	AMS:AD	26.68	20.23	0.76	14-Jan-21	WATCH	EUR Billions	Good business, BOL.COM is high growth, high cash flows, but typical retail risks

Excerpt from my watch list – SFM and Kroger look cheaper than Ahold – Source: Research Platform

All in all, Ahold has been around since 1887 so it is likely it will still be around in the next 100 years. Given the dividends, the cash flows, the market position especially in Europe, it will likely be a good investment.

Perhaps there could be extra returns if the company decides to sell its American operations while the USD is still strong. Time will tell, I am sure it will be interesting to follow and I hope this analysis helps in defining whether you should consider Ahold in your portfolio.