August 16, 2012

Europe | Germany | Retail/Wholesale

DR. KALLIWODA
RESEARCH GmbH

Initiating Coverage

BUY

Target price: EUR 30.50

Industry:	Consumer, non-cyclical
Country:	Germany
ISIN:	DE0007257503
Bloomberg:	MEO GR
Reuters:	MEOG.DE
Website:	www.metrogroup.de

Last Price:		22.90
	High	**Low**
Price 52 W.:	39.28	12.14
Market Cap. (EURm)		7483.49
No. of shares (m)		326.79
Avg. daily volume (m)		1.57

Shareholders

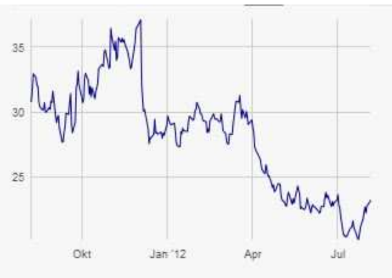
Haniel / Schmidt-Ruthenbeck	50.01%
Beisheim	9.97%
Free float	40.02%

Performance

4 Weeks	-6.52%
13 Weeks	-1.13%
26 Weeks	-24.06%
52 Weeks	-37.44%
YTD	-21.36%

Dividend

	in EUR	in %
2008	1.18	5.15%
2009	1.18	5.15%
2010	1.35	5.90%
2011	1.35	5.90%



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METRO AG

Highly attractive for conservative investors

- With its business segments Metro Cash & Carry, Real, Media-Saturn and Galeria Kaufhof, Metro AG is today the third-largest retailer and wholesaler worldwide. In Europe, it is the leader of the consumer electronics market. Redcoon, an online retailer of mainly consumer electronics, in which Metro bought a 90% stake in 2011 for c. €125m, is present in 10 European countries and has yearly sales of more than €430m.

- The retail and wholesale markets are characterized by a strong dependence on the economic cycle and intensive competition, especially by online shops and discounters such as Aldi in Europe and Family Dollar in the US. In addition, the internet and corresponding smartphone applications have made price comparisons very easy. For 2012, the research firm GfK forecasts a growth of the retail market in Germany by c. 1%. For the e-commerce segment, the Centre of Retail Research expects +13% in Germany, +16.1% in Europe and +12.8% in the US.

- Metro's H1/12 results were weak in our view. Although revenues increased by 2% y-o-y to €31.5bn, EBIT and net income went down significantly (-85.1% to €61m and -378.4% to €-103m respectively). This was a consequence of weak consumer demand due to the sovereign debt crisis in Europe, intensive competition, lowering of prices as well as investments in stores.

- We initiate coverage of Metro AG with a 12-months price target of €30.50 (70% DCF, 30% peer group) and a Buy rating. We recommend an investment in the stock due to Metro's strong focus on fast-growing regions CEE and Asia, growing share of high-margin online sales and own brands, low multiples valuation and a dividend yield of 5.7%. Key risk factors remain however the European debt crisis and intensifying competition.

EURbn	2008	2009	2010	2011	2012E	2013E
Net sales	67.96	65.53	67.26	66.70	67.37	69.05
EBITDA	3.34	3.08	3.59	3.43	2.33	3.09
EBIT	1.99	1.68	2.21	2.11	1.00	1.73
Net income	0.40	0.38	0.85	0.63	0.15	0.47
EPS	1.23	1.17	2.60	1.93	0.46	1.43
BVPS	17.81	17.58	19.30	19.47	18.58	18.66
RoE	6.91%	6.63%	14.09%	9.96%	2.39%	7.66%
EBIT margin	2.92%	2.57%	3.29%	3.17%	1.48%	2.51%
P/E	18.66	19.54	8.80	11.86	50.25	16.07
P/Tangible BVPS	4.04	4.25	3.34	3.23	3.73	3.68
EV/EBITDA	4.22	4.58	3.92	4.11	6.05	4.56

Company Analysis

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1 Company profile

Headquartered in Düsseldorf in Western Germany, Metro AG is one of the largest retail and wholesale companies in the world. The company, which was founded in 1963 by the brothers Ernst Schmidt and Wilhelm Schmidt-Ruthenbeck, operates 2,209 stores in 33 countries in Europe, Africa and Asia (as of 30 June 2012). It has established a portfolio of sales brands, which serve private and commercial customers: Metro Cash & Carry (self-service wholesaler), Real (hypermarkets with food and non-food products), Media Markt (consumer electronics stores), Saturn (consumer electronics stores), Redcoon (online retailer of mainly consumer electronics), and Galeria Kaufhof (department stores). As of 30 June 2012, Metro employed in total 248,333 people worldwide.

2 SWOT

Strengths	Weaknesses
- Number 3 retailer/wholesaler worldwide and number 1 retailer of consumer electronics in Europe - Strong presence in Eastern Europe and Asia, which are the most profitable, respectively fastest-growing regions for Metro - Sales per sqm are showing a positive trend; thus measures to improve productivity have proven effective - Metro has already secured the refinancing of bonds worth EUR 1.1bn, which are due in 2012 - Due to the acquisition of Redcoon online sales increased from €54m in H1/11 to €328m (1% of total sales) - Dividend yield of 5.7% - Metro is being controlled by the Haniel and Schmidt-Ruthebeck families	- Current ratio remains below 1x - Net gearing was 112.3% at the end of June 2012 - Dispute with founder of Media-Saturn Erich Kellerhals over blocking minority (Metro holds 75% of the shares, Kellerhals 22%) - Low EBITDA margins compared to most peers - Very late move into online business - High price transparency of the internet hits margins - Real has so far not reached its target EBIT margin of 2-3%; in 2011 it had 1.2% - Despite several bidders, Metro's management did not sell Galeria Kaufhof, which could have reduced its debt significantly - Goodwill amounted to 68.1% of equity as of 30/06/2012
Opportunities	**Threats**
- Expansion in fast-growing countries in Eastern Europe, Asia and Africa - Further cost savings and efficiency improvements (reduction of personnel costs, lower CAPEX etc.) - Better consumer sentiment from 2013 - Potential value of Metro's property portfolio - Potential sale of Galeria Kaufhof stores and special dividend therefrom - Higher share of high-margin own brands (H1/12E: c. 12%) - Much lower restructuring expenses from 2012 (in the last three years more than EUR 800m) - Further growth of Cash & Carry segment due to the delivery service, which was launched in 2009 (in 2011 it grew by c. 50% y-o-y) - Redcoon, which Metro acquired in 2011, should help to increase share of high-margin online business further	- Economic slowdown due to debt crisis in Europe - Risks associated with exchange rate fluctuations - High competitive pressure from discounters and online shops - Loss of key employees - Liquidity risks - Potential negative impact on Metro's share price from a sale of shares by Haniel, which face liquidity problems - Potential negative impact on Metro's image from food scandals

3 Valuation

In order to account for current market valuations, we have valued Metro by using a weighted average of our DCF model (70%) and peer group (30%). Our 12-months price target for the stock equals €30.50, which implies an upside of 33.2% at current level.

DCF model

in EURbn	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net sales	**67.37**	**69.05**	**70.71**	**72.41**	**74.07**	**75.70**	**77.29**	**78.92**	**80.49**
(y-o-y change)	1.0%	2.5%	2.4%	2.4%	2.3%	2.2%	2.1%	2.1%	2.0%
Operating profit	1.00	1.73	2.33	2.46	2.52	2.46	2.51	2.49	2.58
(operating margin)	1.5%	2.5%	3.3%	3.4%	3.4%	3.3%	3.3%	3.2%	3.2%
NOPLAT	**0.50**	**0.87**	**1.17**	**1.24**	**1.26**	**1.24**	**1.26**	**1.25**	**1.29**
+ Depreciation & amortisation	1.33	1.36	1.40	1.43	1.46	1.49	1.52	1.56	1.59
= Net operating cash flow	1.83	2.23	2.57	2.66	2.73	2.73	2.79	2.81	2.88
- Total investments (Capex and WC)	-1.59	-1.61	-1.65	-1.69	-1.73	-1.75	-1.79	-1.82	-1.86
Capital expenditure	-1.59	-1.66	-1.70	-1.73	-1.76	-1.79	-1.83	-1.86	-1.89
Working capital	0.01	0.05	0.04	0.04	0.04	0.05	0.04	0.04	0.03
= Free cash flow (FCF)	0.24	0.62	0.91	0.98	1.00	0.98	1.00	0.99	1.02
PV of FCF's	**0.24**	**0.56**	**0.77**	**0.76**	**0.72**	**0.66**	**0.62**	**0.58**	**0.55**

PV of FCFs in explicit period	5.46
PV of FCFs in terminal period	10.28
Enterprise value (EV)	**15.73**
+ Net cash / - net debt	-6.61
- Minorities	-0.03
Shareholder value	**9.10**
Number of shares outstanding (bn)	**0.33**
WACC	**7.6%**
Cost of equity	9.6%
Pre-tax cost of debt	6.0%
Normal tax rate	49.8%
After-tax cost of debt	3.0%
Share of equity	70.0%
Share of debt	30.0%
Fair value per share in EUR (today)	**27.84**
Fair value per share in EUR (in 12 months)	**29.96**

WACC \ Terminal EBIT margin	0.2%	1.2%	2.2%	3.2%	4.2%	5.2%	6.2%
3.6%	-26.49	36.41	99.31	162.22	225.12	288.02	350.93
4.6%	-16.18	19.56	55.29	91.02	126.75	162.48	198.21
5.6%	-12.14	11.69	35.53	59.36	83.19	107.02	130.85
6.6%	-10.24	6.99	24.23	41.46	58.69	75.93	93.16
7.6%	-9.31	3.78	16.87	**29.96**	43.05	56.14	69.22
8.6%	-8.88	1.39	11.67	21.95	32.22	42.50	52.77
9.6%	-8.74	-0.48	7.78	16.05	24.31	32.57	40.83

Source: Dr. Kalliwoda Research GmbH

Peer Group Analysis

Our peer group comprises seven listed retailers and wholesalers from France, UK, Poland, the Netherlands and the US:

(1) *Carrefour SA:* Carrefour SA, which is based in Boulogne-Billancourt in France, operates a network of hypermarkets, supermarkets, maxi discount stores, convenience stores and cash-and-carry outlets under the following brand names: Carrefour, Carrefour Express, Carrefour Market, Champion GS, GB, Dia, Ed and Minipreco. It also offers e-commerce services. Carrefour owns numerous wholly-owned and partially-owned subsidiaries mainly in Europe, but also in Asia and the Americas. In fiscal-year 2011, the company generated revenues of EUR 82.8bn.

(2) *Tesco PLC:* Tesco, which is headquartered in Cheshunt/UK, operates a chain of retail and wholesale stores in Europe, North America and Asia. With c. 5,400 outlets, it is the fourth largest retailer worldwide after Wal-Mart, Carrefour and Metro. In fiscal-year 2011/12, the company reported total sales of GBP 60.9bn.

(3) *Ahold NV:* Koninklijke Ahold NV is a Dutch retail group, which through subsidiaries operates supermarkets, wine and liquor stores, convenience stores, online daily needs ordering and delivery platforms, drugstores and pharmacies. Its brands include Albert Hein in the Netherlands and Belgium; Etos, Gall & Gall, and albertn.nl in the Netherlands; Albert / Hypernova in the Czech Republic and Slovakia; Giant Carlisle, Giant Lanover, Stop & Shop New England, Stop & Shop New York Metro as well as the online business The Peapod. The company also holds a 60% interest in ICA AB (Sweden) and a 49% interest in JMR - Gestao de Empesas de Retalo, SGPS SA (Portugal). In fiscal-year 2011, Ahold generated total revenues of EUR 30.3bn.

(4) *Eurocash S.A.:* Eurocash S.A., which is based in Komorniki/Poland, is a leading Polish distributor of food products, household chemicals, alcohol, and tobacco products (fast moving consumer goods - FMCG). The company operates under the following brands: Eurocash Cash & Carry - a national network of discount cash & carry type warehouses; Delikatesy Centrum - a franchise chain of retail stores operating under the brands ”Delikatesy Centrum” and “System Franczyzowy IGA”; Tradis Distribution Group – active distribution and franchise systems, which in 2011 was acquired from Emperia Holding S.A.; Eurocash Dystrybucja and Eurocash Gastronomia - supply restaurant chains, hotels, and petrol stations; KDWT - active distribution of tobacco products and fast moving consumer goods; Premium Distributors - wholesale and retail distribution of alcoholic beverages. In fiscal-year 2011, Eurocash S.A. had total sales of PLN 10bn.

(5) *Wal-Mart Stores Inc.:* Wal-Mart, which is based in Bentonville/Arkansas, is the global leader of the retail market. The company was founded in 1962 and is today the largest retail chain in the US. It is also present in 27 foreign markets including Canada, Mexico, Japan, China, the UK and South Africa. With c. 2.2m employees and 2011 sales of USD 447bn, Wal-Mart is also the largest company worldwide.

(6) *Best Buy Co. Inc.:* Best Buy, which is headquartered in Richfield/Minnesota, is a multinational retailer of consumer electronics, computing and mobile phone products, entertainment products, appliances and related services. The company, which was founded in 1966, operates retail stores and call centers, and conducts online retail operations under a range of brand names, such as Best Buy (BestBuy.com, BestBuy.ca), Best Buy Mobile (BestBuyMobile.com), The Carphone Warehouse (CarphoneWarehouse.com), Five Star, Future Shop (FutureShop.ca), Geek Squad, Magnolia Audio Video, Pacific Sales and The Phone House (PhoneHouse.com). In fiscal-year 2011/12, Best Buy generated revenues of USD 50.7bn.

(7) *Target Corp.:* Target, which is based in Minneapolis/Minnesota, is the second-largest retailer in the US. Apart from the US, it is also present in Canada through Zellers. As of January 2012, the company had 1,763 stores in the US and 189 in Canada. In fiscal-year 2011/12, Target generated sales of USD 69.9bn.

	EV/Sales		EV/EBITDA		EV/EBIT		P/E		EBITDA margin	Net gearing	P/BVPS
Company	**2012E**	**2013E**	**2012E**	**2013E**	**2012E**	**2013E**	**2012E**	**2013E**	**Latest**	**Latest**	**Latest**
Carrefour S.A. (EUR)	0.15	0.15	3.23	3.10	5.92	5.60	10.97	10.13	1.52%	119.71%	0.65
Tesco PLC (GBP)	0.50	0.48	6.45	6.03	9.16	8.53	9.41	8.68	8.50%	46.28%	1.44
Ahold NV (EUR)	0.37	0.35	5.29	4.98	8.35	7.88	9.90	9.25	6.83%	30.31%	1.94
Eurocash S.A. (PLN)	0.40	0.37	13.89	11.75	17.70	14.61	22.94	17.54	1.61%	227.29%	9.63
Wal-Mart Stores Inc. (USD)	0.64	0.61	8.37	7.95	10.93	10.42	15.22	13.97	7.51%	75.31%	3.66
Best Buy Co. Inc. (USD)	0.15	0.15	2.57	2.62	3.75	3.94	5.02	4.89	5.39%	34.75%	1.68
Target Corp (USD)	0.78	0.74	7.65	7.27	10.88	10.24	14.09	12.51	10.75%	105.75%	2.53
Median	***0.40***	***0.37***	***6.45***	***6.03***	***9.16***	***8.53***	***10.97***	***10.13***	***6.83%***	***75.31%***	***1.94***
Metro Group AG (EUR)	0.23	0.23	4.54	4.35	7.34	6.94	11.63	10.68	1.96%	130.33%	1.17
Premium/Discount	*-41.87%*	*-38.36%*	*-29.57%*	*-27.89%*	*-19.85%*	*-18.61%*	*6.03%*	*5.48%*			
Fair value Metro Group (EUR)	**38.48**										

Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Knowledge

According to our peer group, Metro currently trades at a significant discount to its peers. In our view, this could be partly explained by the company's below-median profitability, its high net gearing and the ongoing legal dispute with the founder of Media-Saturn. The peer-group-based fair value of Metro amounts to €38.48.

4 H1/12 financial results and outlook

Revenues

In H1/12, Metro generated total sales of €31.5bn, which were 2% higher y-o-y despite shorter Easter business and less trading days (in contrast to 2011 first week of Easter was in Q1). In our view, it is particularly positive that sales per sqm remained flat or increased y-o-y in most segments. Thus, management's measures to improve productivity are showing effects.

Between January and June 2012, sales growth was driven especially by the largest segment Metro Cash & Carry (2.8% y-o-y to €15.2bn). The segment continued to benefit from (1) the delivery service, which was introduced in 2009 and increased sales by over 40% to €1.1bn and (2) dynamic growth in Asia/Africa (+25.8% y-o-y). In the second-largest segment Media-Saturn, which in H1/12 accounted for 30.2% of total sales, revenues only grew by 2.3% y-o-y to €5bn, which however was caused by the sale of Media-Saturn France in H1/11. Online sales of consumer electronics increased sharply from €54m in H1/11 to €328m due to the acquisition of the online retailer Redcoon.

In terms of geographic split, most of the growth was generated in Eastern Europe and Asia/Africa, where revenues advanced by 2.5% and 27% respectively y-o-y. In Western Europe (excl. Germany) sales decreased by 1.7% due to the negative impact of the sovereign debt crisis on consumer spending.

H1/12 results vs. previous year

in EURbn	H1 2012	H1 2011	H1/12 vs H1/11
Net sales	**31.49**	**30.87**	2.0%
EBITDA	**0.88**	**1.06**	-17.1%
EBITDA margin	*2.8%*	*3.4%*	
EBIT	**0.06**	**0.41**	-85.1%
EBIT margin	*0.2%*	*1.3%*	
Net income	**-0.10**	**0.04**	-378.4%
Net margin	*-0.3%*	*0.1%*	

Source: Company data, Dr. Kalliwoda Research GmbH

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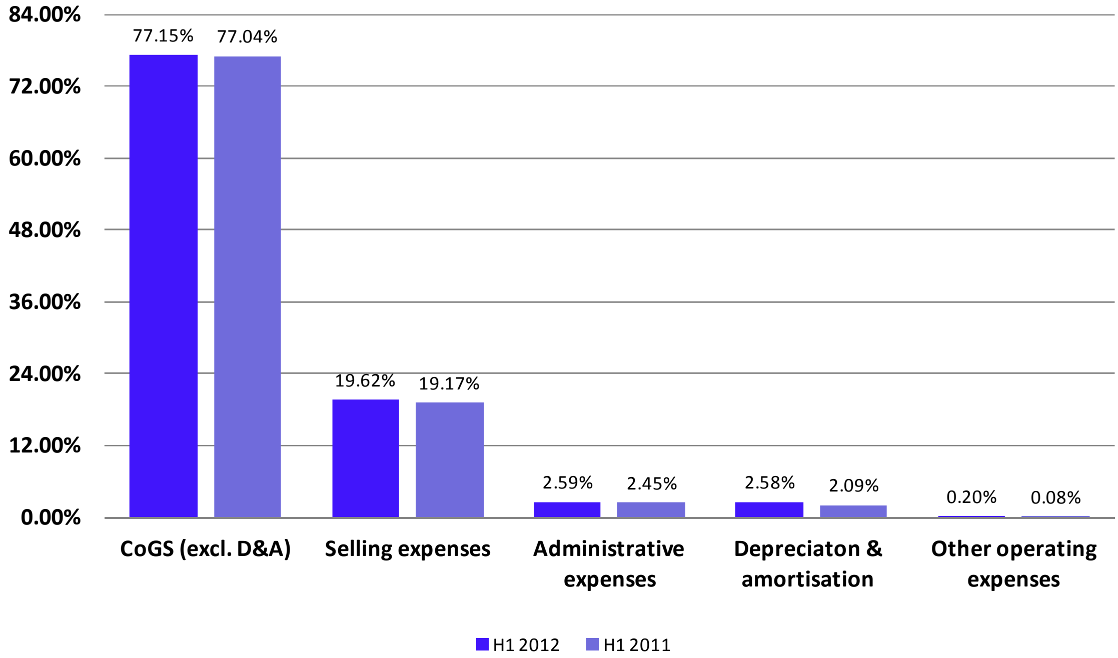
Sales split H1/12 vs. previous year

in EURbn	H1 2012	H1 2011
Metro Cash & Carry	**15.24**	**14.82**
(% of net sales)	*48.4%*	*48.0%*
Sales/sqm (EURm)	*2.74*	*2.74*
EBIT margin	*1.4%*	*2.0%*
Real	**5.33**	**5.32**
(% of net sales)	*16.9%*	*17.2%*
Sales/sqm (EURm)	*1.75*	*1.73*
EBIT margin	*-0.1%*	*-0.2%*
Media-Saturn	**9.52**	**9.31**
(% of net sales)	*30.2%*	*30.1%*
Sales/sqm (EURm)	*3.26*	*3.38*
EBIT margin	*-0.8%*	*0.2%*
Galeria Kaufhof	**1.39**	**1.40**
(% of net sales)	*4.4%*	*4.5%*
Sales/sqm (EURm)	*0.97*	*0.95*
EBIT margin	*-1.7%*	*-2.2%*
Others	**0.02**	**0.03**
(% of net sales)	*0.1%*	*0.1%*
Total net sales	**31.49**	**30.87**

Source: Company data, Dr. Kalliwoda Research GmbH

Profitability

Share in sales H1/12 vs. H1/11



Source: Company data, Dr. Kalliwoda Research GmbH

Despite higher sales y-o-y, Metro's EBIT and net income decreased compared to H1/11. EBIT went down from €410m in H1/11 to €61m and net income from €37m to €-103m respectively. The reasons were a difficult economic environment, especially in Southern Europe, business expansion and investments into existing stores in order to improve customer value. In some countries such as the Czech Republic and Hungary sales were also negatively impacted by VAT increases, which the respective governments used to improve their budgetary situation.

The share of CoGS increased compared to H1/11, which in our view shows the competitive environment, in which Metro operates. However, most other expenses could be reduced as percentage of sales, resulting from efficiency improvements.

Balance Sheet and Cash Flow

As of 30 June 2012, the most important positions on Metro's balance sheet were tangible assets (€12.2bn) and trade payables (€10.2bn) from the company's suppliers. Tangible assets mainly comprise land, property and corresponding equipment and machines, which are owned by Metro.

At the end of June 2012, Metro's financial debt amounted to €11bn and comprised short-term borrowings of €3.2bn, long-term borrowings of €6.8bn as well as pension provisions of €1bn. With cash and financial assets of €4.4bn, the company's net debt totalled €6.6bn. The net gearing amounted to 112.3%.

In H1/12, Metro generated an operating cash flow of €-2.9bn (H1/11: €-3.3bn), which despite lower net income improved y-o-y. The reasons were lower investments into working capital, which went down from €3.6bn to €3bn due to improved inventory and supplier management. The cash flow from investing increased from €-415m to €-453m, while the cash inflow from financing went up from €582m in H1/11 to €1.8bn as the company already re-financed all bonds, which are due in 2012. In total, cash and equivalents at the end of June 2012 went down by €1.6bn compared to the previous year.

Outlook

Due to the negative impact of the sovereign debt crisis on the economy and consumer spending we remain cautious when it comes to the short-term prospects for Metro's business. With a share of 30.4% in H1/12, Western Europe is Metro's second most important market after Germany and the company is active in all the countries (Spain, Greece, Portugal, Italy), which have particularly serious problems with high indebtness. As we do not see reasons why H2 should be much better than the first half of the current fiscal year, our 2012 forecasts are lower than the company's guidance (positive sales growth, EBIT of €2.4bn).

From next year, we expect that Metro will be able to benefit from a better economic environment and recovering consumer demand in all its keys markets. In addition, it should be able to report higher margins due to a lower cost base, improvements in productivity as well as a higher share of online sales and own brands. For 2013 and 2014, we forecast a sales growth of 2.5% and 2.4% y-o-y respectively with an EBIT margin of 2.5%-3.3%. Despite the ongoing business expansion, especially in fast-growing Eastern Europe and Asia, we believe that the yearly CAPEX will remain between €1.6bn and €1.9bn in the next years.

In order to focus on most promising business areas and reduce its significant net debt of €6.6bn, we expect that Metro will conduct disinvestments in the coming years. In our view, this will be own property, but we also expect that the company will again try to sell its Galeria Kaufhof department stores, which were its least profitable segment in H1/12. Also, management could in our view decide to sell the Real stores (at least in Germany), which have failed to reach the target EBIT margin of 2-3% and had lowest profitability in 2011 and 2010.

Although we think that Metro constitutes an attractive investment opportunity at current level – the stock currently trades at historic lows and has a dividend yield of 5.7% – we see significant risks, namely (1) the debt crisis, which in our view will not be solved quickly (2) the highly competitive retail segment, which will keep Metro's operating margins only between 3% and 3.5% in the future and (3) the ongoing dispute between Metro and the founder of Media-Saturn Erich Kellerhals, which in the worst-case scenario could even lead to a deconsolidation of the subsidiary.

Our forecasts 2012E-2014E

in EURbn	2012E	2013E	2014E
Net sales	**67.37**	**69.05**	**70.71**
EBITDA	**2.33**	**3.09**	**3.73**
EBITDA margin	*3.5%*	*4.5%*	*5.3%*
EBIT	**1.00**	**1.73**	**2.33**
EBIT margin	*1.5%*	*2.5%*	*3.3%*
Net income	**0.15**	**0.47**	**0.73**
Net margin	*0.2%*	*0.7%*	*1.0%*

Source: Dr. Kalliwoda Research GmbH

Sales split according to segments and regions 2012E-2014E

in EURbn	2012E	2013E	2014E
Metro Cash & Carry	**31.60**	**32.46**	**33.30**
(% of net sales)	*46.9%*	*47.0%*	*47.1%*
Real	**11.33**	**11.60**	**11.86**
(% of net sales)	*16.8%*	*16.8%*	*16.8%*
Media-Saturn	**20.68**	**21.16**	**21.64**
(% of net sales)	*30.7%*	*30.7%*	*30.6%*
Galeria Kaufhof	**3.45**	**3.50**	**3.55**
(% of net sales)	*5.1%*	*5.1%*	*5.0%*
Others	**0.31**	**0.33**	**0.35**
(% of net sales)	*0.5%*	*0.5%*	*0.5%*
Total net sales	**67.37**	**69.05**	**70.71**
Germany	**26.06**	**26.64**	**27.21**
(% of net sales)	*38.7%*	*38.6%*	*38.5%*
Western Europe	**20.21**	**20.61**	**21.00**
(% of net sales)	*30.0%*	*29.9%*	*29.7%*
Eastern Europe	**17.38**	**17.95**	**18.53**
(% of net sales)	*25.8%*	*26.0%*	*26.2%*
Asia/Africa	**3.72**	**3.85**	**3.98**
(% of net sales)	*5.5%*	*5.6%*	*5.6%*

Source: Dr. Kalliwoda Research GmbH

5 Business description

Metro AG, which is based in Düsseldorf, is the third-largest retailer and wholesaler worldwide, after US-based Wal-Mart Stores Inc. and French Carrefour SA. The company, which was founded in 1963, operates in 33 countries in Europe, Asia and Africa. At the end of March 2012, Metro had 2,202 stores with a total selling space of 13m square metres. As of 31 March, it employed more than 248k people worldwide.

Below is a description of Metro's business units/brands:

Metro Cash & Carry is the world's leading player in the cash & carry sector. Its brands Metro and Makro operate in 33 countries throughout Europe, Asia and Africa. The wholesale stores offer specific products and services for commercial clients such as hotels, restaurants, catering firms, independent retailers, service providers and public authorities.

Real is a leader in the hypermarkets sector in Germany. It is also present in Poland, Russia, Romania, Turkey and the Ukraine. Real operates stationary stores as well as an online store, which sell both fresh food and non-food products.

Media Markt/Saturn/Redcoon is the market leader of the consumer electronics segment in Europe. Media Markt and Saturn stores exist in 16 countries, whereas Redcoon, the online store which was bought by Metro in 2011, is currently active in 10 countries.

Galeria Kaufhof is a leading chain of department stores in Germany and Belgium, where it is present under the name Galeria Inno. It also operates an online store.

Metro Properties is Metro's real estate company. It currently owns 687 retail properties as well as 153 trade-related real estate assets, whose value it increases through active portfolio management. Its activities include planning new stores, development and construction of retail properties as well as energy management on behalf of Metro's stores.

Sales split according to segments and regions 2009-2011

in EURbn	2011	2010	2009
Metro Cash & Carry	**31.16**	**31.10**	**30.61**
(% of net sales)	*46.7%*	*46.2%*	*46.7%*
Sales/sqm (EURm)	*5.65*	*5.81*	*5.79*
EBIT margin	*3.6%*	*3.5%*	*2.6%*
Real	**11.23**	**11.50**	**11.30**
(% of net sales)	*16.8%*	*17.1%*	*17.2%*
Sales/sqm (EURm)	*3.64*	*3.70*	*3.55*
EBIT margin	*0.8%*	*0.9%*	*0.3%*
Media-Saturn	**20.60**	**20.79**	**19.69**
(% of net sales)	*30.9%*	*30.9%*	*30.1%*
Sales/sqm (EURm)	*7.15*	*7.35*	*7.48*
EBIT margin	*2.4%*	*2.4%*	*3.1%*
Galeria Kaufhof	**3.45**	**3.58**	**3.54**
(% of net sales)	*5.2%*	*5.3%*	*5.4%*
Sales/sqm (EURm)	*2.34*	*2.42*	*2.36*
EBIT margin	*2.7%*	*3.9%*	*1.7%*
Others	**0.26**	**0.29**	**0.39**
(% of net sales)	*0.4%*	*0.4%*	*0.6%*
Total net sales	**66.70**	**67.26**	**65.53**
Germany	**25.87**	**26.13**	**26.51**
(% of net sales)	*38.8%*	*38.9%*	*40.5%*
Western Europe	**20.86**	**21.53**	**20.93**
(% of net sales)	*31.3%*	*32.0%*	*31.9%*
Eastern Europe	**16.95**	**16.88**	**15.77**
(% of net sales)	*25.4%*	*25.1%*	*24.1%*
Asia/Africa	**3.03**	**2.72**	**2.32**
(% of net sales)	*4.5%*	*4.0%*	*3.5%*

Source: Company data, Dr. Kalliwoda Research GmbH

6 Profit and loss statements

Profit and loss statement - METRO AG						
	Fiscal year					
Figures in EURbn	2008	2009	2010	2011	2012E	2013E
Revenue split						
Metro Cash & Carry	*33.14*	*30.61*	*31.10*	*31.16*	*31.60*	*32.46*
Real	*11.64*	*11.30*	*11.50*	*11.23*	*11.33*	*11.60*
Media Markt & Saturn	*18.99*	*19.69*	*20.79*	*20.60*	*20.68*	*21.16*
Galeria Kaufhof	*3.61*	*3.54*	*3.58*	*3.45*	*3.45*	*3.50*
Others	*0.58*	*0.39*	*0.29*	*0.26*	*0.31*	*0.33*
Total reveues	**67.96**	**65.53**	**67.26**	**66.70**	**67.37**	**69.05**
CoGS (less D&A expenses)	-52.29	-50.27	-51.49	-51.38	-51.87	-53.10
Gross profit	**15.66**	**15.26**	**15.77**	**15.32**	**15.49**	**15.95**
Other operating income	1.40	1.31	1.63	1.69	1.72	1.76
Selling expenses	-12.22	-11.85	-12.17	-11.93	-13.14	-12.60
Administration costs	-1.43	-1.59	-1.59	-1.59	-1.60	-1.64
Depreciation & Amortization	-1.35	-1.40	-1.38	-1.32	-1.33	-1.36
Other operating expenses	-0.08	-0.05	-0.05	-0.06	-0.15	-0.37
EBIT	**1.99**	**1.68**	**2.21**	**2.11**	**1.00**	**1.73**
Net financial result	-0.57	-0.63	-0.58	-0.64	-0.65	-0.64
Income before income taxes and minority interes	**1.41**	**1.05**	**1.63**	**1.47**	**0.35**	**1.09**
Income taxes	-0.42	-0.53	-0.69	-0.73	-0.17	-0.54
Result from discontinued operations	-0.43	0.00	0.00	0.00	0.00	0.00
Minority interests	-0.16	-0.14	-0.09	-0.11	-0.03	-0.08
Net income / loss	**0.40**	**0.38**	**0.85**	**0.63**	**0.15**	**0.47**
EPS	1.23	1.17	2.60	1.93	0.46	1.43
DPS	1.18	1.18	1.35	1.35	1.35	1.35
Change y-o-y						
Total reveues	n.a	-3.57%	2.64%	-0.83%	1.00%	2.50%
CoGS (less D&A expenses)	n.a	-3.87%	2.42%	-0.20%	0.95%	2.37%
Gross profit	n.a	-2.55%	3.35%	-2.88%	1.15%	2.95%
Other operating income	n.a	-6.58%	24.48%	3.87%	2.00%	2.00%
Selling expenses	n.a	-3.00%	2.69%	-2.01%	10.14%	-4.07%
Administration costs	n.a	11.43%	-0.25%	0.13%	1.00%	2.50%
Depreciation & Amortization	n.a	3.25%	-1.15%	-4.64%	1.00%	2.50%
Other operating expenses	n.a	-36.84%	6.25%	25.49%	136.37%	146.07%
EBIT	n.a	-15.31%	31.53%	-4.43%	-52.75%	73.25%
Net financial result	n.a	9.93%	-7.92%	10.15%	1.56%	-1.54%
Income before income taxes and minority interests	n.a	-25.58%	55.24%	-9.63%	-76.35%	212.79%
Income taxes	n.a	25.24%	30.70%	5.48%	-76.30%	212.79%
Result from discontinued operations	n.a	-100.00%	n.a	n.a	n.a	n.a
Minority interests	n.a	-13.38%	-36.76%	27.91%	-76.35%	212.79%
Net income / loss	n.a	-4.49%	121.93%	-25.76%	-76.40%	212.79%
EPS	n.a	-4.88%	122.22%	-25.77%	-76.39%	212.79%
DPS	n.a	0.00%	14.41%	0.00%	0.00%	0.00%
Share in total revenues						
Total reveues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
CoGS (less D&A expenses)	-76.95 %	-76.71 %	-76.55 %	-77.04 %	-77.00 %	-76.90 %
Gross profit	23.05 %	23.29 %	23.45 %	22.96 %	23.00 %	23.10 %
Other operating income	2.06 %	1.99 %	2.42 %	2.53 %	2.56 %	2.55 %
Selling expenses	-17.98 %	-18.09 %	-18.10 %	-17.88 %	-19.50 %	-18.25 %
Administration costs	-2.10 %	-2.42 %	-2.36 %	-2.38 %	-2.38 %	-2.38 %
Depreciation & Amortization	-1.99 %	-2.13 %	-2.05 %	-1.97 %	-1.97 %	-1.97 %
Other operating expenses	-0.11 %	-0.07 %	-0.08 %	-0.10 %	-0.22 %	-0.54 %
EBIT	2.92 %	2.57 %	3.29 %	3.17 %	1.48 %	2.51 %
Net financial result	-0.84 %	-0.96 %	-0.86 %	-0.96 %	-0.96 %	-0.93 %
Income before income taxes and minority interests	2.08 %	1.60 %	2.42 %	2.21 %	0.52 %	1.58 %
Income taxes	-0.62 %	-0.81 %	-1.03 %	-1.10 %	-0.26 %	-0.79 %
Result from discontinued operations	-0.63 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Minority interests	-0.23 %	-0.21 %	-0.13 %	-0.16 %	-0.04 %	-0.12 %
Net income / loss	0.59 %	0.58 %	1.26 %	0.95 %	0.22 %	0.67 %

7 Balance sheets

Balance sheet - METRO AG						
	Fiscal year					
Figures in EURbn	2008	2009	2010	2011	2012E	2013E
Assets						
Cash and cash equivalents	3.87	4.00	4.80	3.36	4.78	4.64
Inventories	7.00	7.11	7.46	7.61	7.65	7.83
Trade accounts and notes receivables	0.45	0.54	0.53	0.55	0.56	0.57
Financial assets	0.01	0.04	0.00	0.12	0.12	0.12
Other receivables	3.44	3.40	3.14	3.31	3.35	3.43
Assets held for sale	0.23	0.12	0.23	0.22	0.00	0.00
Current assets	**15.00**	**15.20**	**16.16**	**15.17**	**16.46**	**16.60**
Property, plant and equipment	12.52	12.24	12.48	12.66	13.11	13.39
Other intangible assets	0.55	0.50	0.44	0.45	0.46	0.47
Goodwill	3.96	3.99	4.06	4.05	4.06	4.06
Investment properties	0.13	0.13	0.24	0.21	0.22	0.23
Financial assets	0.14	0.11	0.25	0.08	0.00	0.00
Other receivables and assets	0.45	0.46	0.44	0.47	0.47	0.49
Deferred tax assets	1.05	1.03	1.00	0.90	0.86	0.72
Non-current assets	**18.81**	**18.46**	**18.91**	**18.82**	**19.19**	**19.36**
Total assets	**33.81**	**33.67**	**35.07**	**33.99**	**35.64**	**35.96**
Liabilities						
Trade payables	13.84	14.05	14.39	14.27	14.33	14.60
Provisions	0.52	0.56	0.53	0.53	0.54	0.55
Financial liabilities	3.45	1.49	1.75	1.61	2.40	2.30
Other liabilities	2.16	2.20	2.46	2.50	2.52	2.59
Income tax liabilities	0.27	0.27	0.29	0.39	0.40	0.41
Liabilities related to assets-held-for-sales	0.15	0.00	0.19	0.00	0.00	0.00
Current liabilities	**20.38**	**18.57**	**19.62**	**19.30**	**20.19**	**20.44**
Provisions for pensions and similar commitments	0.96	0.98	1.02	1.03	1.04	1.06
Other provisions	0.53	0.50	0.47	0.48	0.48	0.49
Financial liabilities	5.03	6.74	6.53	5.84	7.00	6.90
Other liabilities	0.62	0.67	0.76	0.76	0.76	0.78
Deferred tax liabilities	0.22	0.22	0.21	0.16	0.00	0.00
Long-term liabilities	**7.37**	**9.11**	**8.99**	**8.25**	**9.28**	**9.24**
Total liabilities	**27.75**	**27.68**	**28.61**	**27.55**	**29.47**	**29.68**
Shareholders equity	**5.81**	**5.75**	**6.31**	**6.36**	**6.07**	**6.10**
Minority interests	0.25	0.24	0.15	0.07	0.10	0.18
Total equity and liabilities	**33.81**	**33.67**	**35.07**	**33.99**	**35.64**	**35.96**

Company Analysis

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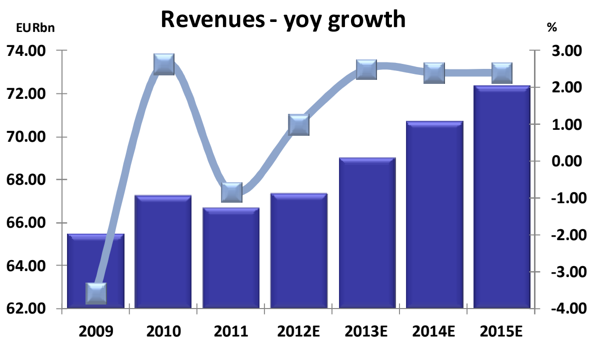
8 Cash flow statements

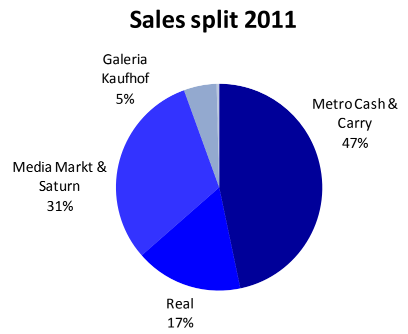
Cash flow statement - METRO AG						
	Fiscal year					
Figures in EURbn	2008	2009	2010	2011	2012E	2013E
Net income	0.40	0.38	0.85	0.63	0.15	0.47
Depreciation	1.35	1.40	1.38	1.32	1.33	1.36
Change of working capital	0.29	0.13	-0.28	-0.18	0.01	0.05
Others	0.60	0.64	0.56	0.38	-0.11	0.15
Net operating cash flow	**2.65**	**2.55**	**2.51**	**2.15**	**1.38**	**2.03**
Cash flow from investing	**-1.74**	**-1.16**	**-0.96**	**-1.13**	**-1.81**	**-1.66**
Free cash flow	0.91	1.39	1.55	1.01	-0.44	0.37
Cash flow from financing	**-0.40**	**-1.27**	**-0.73**	**-2.44**	**1.87**	**-2.87**
Change in cash	0.43	0.12	0.80	-1.45	1.44	-2.51
Cash, start of the year	3.44	3.87	4.00	4.80	3.35	7.15
Cash, end of the year	3.87	4.00	4.80	3.35	4.78	4.64

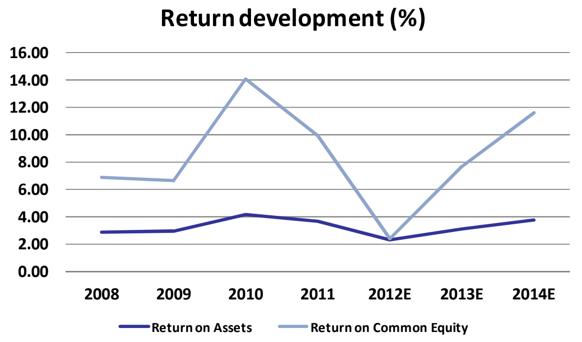
9 Financial ratios

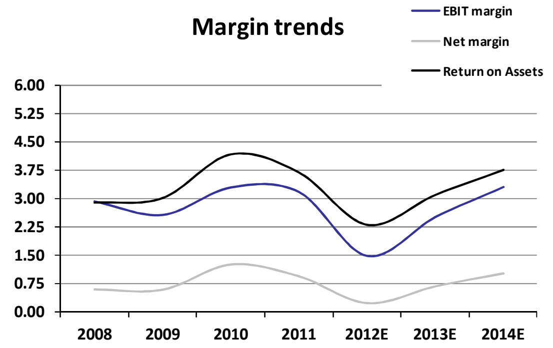
Fiscal year	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Gross margin	23.05%	23.29%	23.45%	22.96%	23.00%	23.10%	23.20%	23.30%
EBITDA margin	4.91%	4.70%	5.34%	5.14%	3.45%	4.48%	5.27%	5.37%
EBIT margin	2.92%	2.57%	3.29%	3.17%	1.48%	2.51%	3.30%	3.40%
Net margin	0.59%	0.58%	1.26%	0.95%	0.22%	0.67%	1.03%	1.08%
Return on equity (ROE)	6.91%	6.63%	14.09%	9.96%	2.39%	7.66%	11.63%	11.97%
Return on assets (ROA)	2.88%	3.01%	4.16%	3.68%	2.29%	3.09%	3.75%	3.83%
Return on capital employed (ROCE)	10.34%	5.50%	8.22%	7.24%	3.24%	5.60%	7.37%	7.58%
Net debt (in EURbn)	5.56	5.18	4.50	5.00	5.53	5.50	4.57	4.34
Net gearing	95.76%	89.99%	71.29%	78.49%	91.16%	90.17%	71.63%	64.76%
Equity ratio	17.17%	17.09%	17.99%	18.72%	17.03%	16.95%	17.46%	18.00%
Current ratio	0.74	0.82	0.82	0.79	0.82	0.81	0.85	0.86
Quick ratio	0.21	0.25	0.27	0.21	0.27	0.26	0.29	0.30
Net interest cover	3.46	2.66	3.81	3.30	1.54	2.70	3.67	3.91
Net debt/EBITDA	1.67	1.68	1.25	1.46	2.38	1.78	1.23	1.12
Tangible BVPS	5.67	5.38	6.86	7.09	6.15	6.22	7.11	8.07
Capex/Sales	n.a	-1.66%	-2.58%	-2.20%	-2.69%	-2.41%	-2.40%	-2.39%
Working capital/Sales	-7.25%	-7.63%	-8.29%	-7.82%	-7.75%	-7.64%	-7.52%	-7.40%
EV/Sales	0.21	0.22	0.21	0.21	0.21	0.20	0.20	0.19
EV/EBITDA	4.22	4.58	3.92	4.11	6.05	4.56	3.78	3.62
EV/EBIT	7.10	8.38	6.37	6.67	14.11	8.15	6.04	5.72
P/Tangible BVPS	4.04	4.25	3.34	3.23	3.73	3.68	3.22	2.84
P/E	18.66	19.54	8.80	11.86	50.25	16.07	10.31	9.56
P/FCF	8.21	5.38	4.82	7.39	-17.20	20.42	6.23	13.93

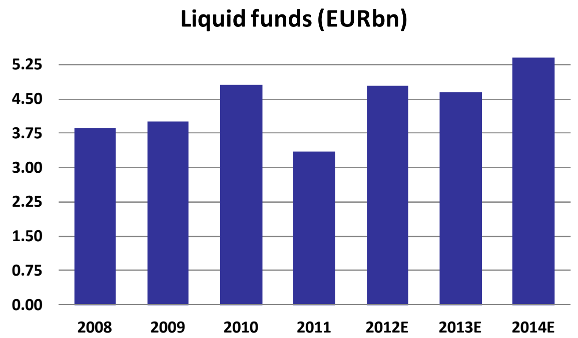
Source: Company data, Dr. Kalliwoda Research GmbH

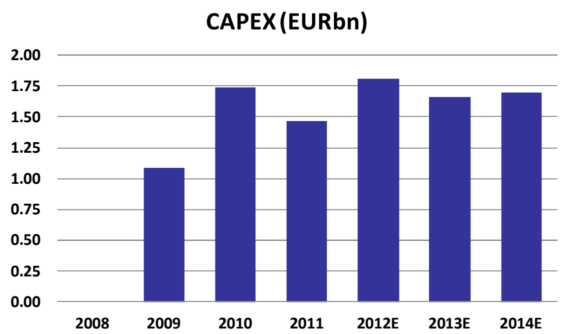


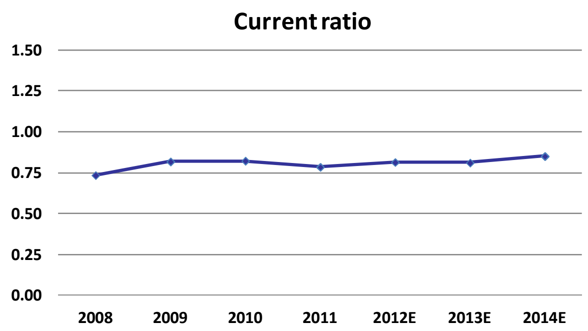


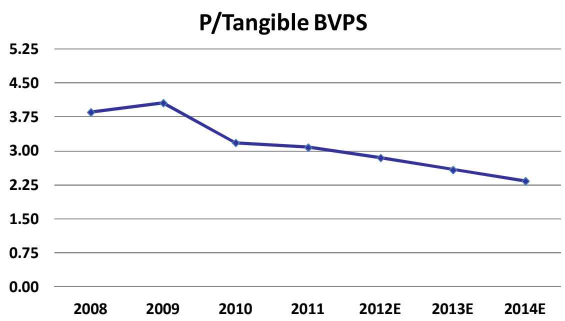












Source: Company data, Dr. Kalliwoda Research GmbH

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AKKUMULIEREN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen 5% und 10% aufweisen	**ACCUMULATE**
HALTEN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen 5% und - 5% aufweisen	**HOLD**
REDUZIEREN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen - 5% und - 10% aufweisen	**REDUCE**
VERKAUFEN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung von mindestens - 10 % aufweisen	**SELL**

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