

UPDATE 4-Casino shares boosted as boss Naouri buys time for retail empire

Written by Administrator
Friday, 24 May 2019 02:43 -

* Rallye under protection from creditors for six months

* Move gives time to restructure debt, Casino shares up 12 pct

* Investors say move does not solve all group's problems (Adds analysts comments on dividend, debt)

By Dominique Vidalon

PARIS, May 24 (Reuters) - Shares in French retailer Casino surged more than 10% on Friday after controlling shareholder Jean-Charles Naouri won some respite as his debt-laden Rallye investment vehicle was placed under protection from creditors.

Investors and analysts, however, said the move did not solve all of Rallye or Casino's problems and that the impact on the complex ownership structure remained uncertain.

A Paris commercial court on Thursday placed Rallye, the parent company of Casino, under protection from its creditors for at least six months.

Rallye has net debt of 2.9 billion euros (\$3.2 billion) and Casino net debt of 2.7 billion euros.

Rallye's main asset is its 51.7 percent stake in Casino. Rallye in turn is controlled by Fonciere Euris, Finatis and Euris, all in the hands of Casino chairman and CEO Naouri.

Under the safeguard procedure the servicing of bank and bond debt is suspended while the group works on a plan to reorganise its debt and potentially reschedule it up to 10 years.

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As part of negotiations with creditors, some of Rallye's debt could be converted into equity.

"We cannot rule out the possibility of seeing Mr Naouri lose control of his whole galaxy," said Bryan Garnier analyst Clement Genelot.

Shares in both Casino and Rallye have fallen by roughly 20 percent so far in 2019, and their slump on the stock market has drawn the attention of some hedge funds.

Casino shares jumped as much as 12 percent while Rallye shares slumped 61 percent when they resumed trading on Friday.

Casino Chief Financial Officer David Lubek told a conference call that Rallye's move had no impact on the operations or strategy of a company that has more than 12,000 stores worldwide.

MUDDY WATERS

Casino, whose credit rating was pushed further into junk status by Standard & Poor's in March and was also downgraded by Moody's in April, has embarked upon asset sales to cut its debt and ease concerns over it and Rallye's position.

Casino, which controls Brazilian retailer Grupo Pao de Acucar (GPA), this month said it was reviewing strategic options in Latin America.

Dividends from Casino are used to maintain Rallye's debt interest payments, which makes it hard for Casino to reduce its own leverage.

Casino shares held by Rallye are also pledged as collateral to banks in order for Rallye to obtain more financing. So the more Casino's shares fall, the less room Rallye has to move.

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“That Rallye is temporarily protected from repaying its liabilities does not prevent Casino from continuing to pay dividends, even if the amount may be down,” Bryan Garnier wrote.

Kepler Cheuvreux said in a note that a 10-year debt rescheduling would impact Casino’s future dividend policy.

It would imply that “Casino will pay more dividends over 10 years (although they could cut dividend first in the short-term), which is not in the interest of the minority shareholders,” it said.

Meanwhile short-seller Muddy Waters, a long-term critic of the company, called the news “a resounding vindication of the warnings we sounded”.

It also said this “likely marks the beginning of the end for this financing structure, which has been a parasite on Casino for years”.

Casino declined to comment on the statement. (\$1 = 0.8938 euros)

Additional reporting by Sudip Kar-Gupta Editing by Richard Lough and Keith Weir

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