

The Kroger Co.

F4Q beat reflects ID sales and gross margin upside; Reaffirm Buy

Maintain Rating: BUY | PO: 65.00 USD | Price: 50.49 USD

F4Q adj. EPS well above Street, -0.8% IDs also ahead

KR's F4Q adj. EPS of \$1.34 (incl. +20c from extra week) was above BofA \$1.12 and Street \$1.13 estimates. ID sales ex-fuel of -0.8% (ahead of BofA -1.0% and Street -1.3%) reflected the impact of KR's termination of its agreement with Express Scripts (without which, IDs would have been +0.1%). Digital sales were +10% y/y (delivery sales +24%), with KR's digital business reaching \$12bn for the full year.

Gross margin (ex-fuel) +13bp y/y despite price investments

FIFO gross margin (excl. fuel and extra week) was +13bp y/y reflecting benefits from strong Our Brands performance, sourcing benefits and lower supply chain costs, partially offset by price investments and higher shrink. OG&A ratio (adj. and excl. fuel and extra week) was +40bp y/y as planned wage investments, an adjustment for self-insurance expenses and KR's decision to contribute an incremental \$40mn to multi-employer pension plans offset benefits from cost savings execution and lower incentive plan costs.

F25 EPS guidance implies upside vs. Street

KR initiated F25 guidance for adj. EPS in the range of \$4.30-4.50, which implies upside vs. current consensus of \$4.28. KR also guided for F25 ID sales ex-fuel of +0.25-1.75% and adj. operating profit of \$4.6-4.8bn. Expected Capex of \$3.4-3.6bn should be focused on stores (245 remodels, 35 new fuel centers and 30 major store projects incl. new stores, relocations and expansions), consumer/product initiatives (incl. end-to-end fresh implementation) and digital (customer experience & personalization) as well as cost-out/waste reduction efforts and supply chain.

See KR well-positioned into 2024; Reaffirm Buy

We reaffirm our Buy and see KR well-positioned into 2024 as we think shoppers will continue to favor value and variety (incl. in price points and higher-margin private label items) as consumers are still adjusting to grocery prices that are up +25% vs. pre-pandemic (see our latest [Tracking Food at Home Inflation update](#)). We see further support for KR's market share trends from strong digital execution as well as its fuel rewards/loyalty program. Moreover, we see margin support for KR from likely continued growth in alternative profit streams (\$1.3bn in F24 led by KR Precision Marketing), improving digital profitability and strong cost savings execution.

07 March 2024

Equity

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Stock Data

Price	50.49 USD
Price Objective	65.00 USD
Date Established	15-Jun-2023
Investment Opinion	B-1-7
52-Week Range	42.10 USD - 50.65 USD
Mkt Val (mn) / Shares Out (mn)	36,517 USD / 723.3
Free Float	92.3%
Average Daily Value (mn)	246.61 USD
BofA Ticker / Exchange	KR / NYS
Bloomberg / Reuters	KR US / KR.N
ROE (2024E)	29.2%
Net Dbt to Eqty (Jan-2023A)	125.3%
ESGMeter™	High

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Key terms:

IDs = identical store sales

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Price objective basis & risk

The Kroger Co. (KR)

Our PO of \$65 is based on roughly 15x our F2025E EPS of \$4.45, a premium to conventional supermarket peers given our outlook for continued momentum from fresh, Our Brands, personalization & seamless initiatives, but a discount to the Food Retailers & Discount Stores group avg. (18-20x) given KR's lack of general merchandise offering that we think supports a higher multiple for key digital competitors.

We see upside to KR's valuation from strategic initiatives (including fresh, Our Brands & digital), alternative profit streams & continued cost savings execution.

Downside risks to our PO are greater-than-expected headwinds from pharmacy, fuel, the build-out of the Ocado network, and employee wage/healthcare benefits as well as potential for deflation or accelerating industry promotions.

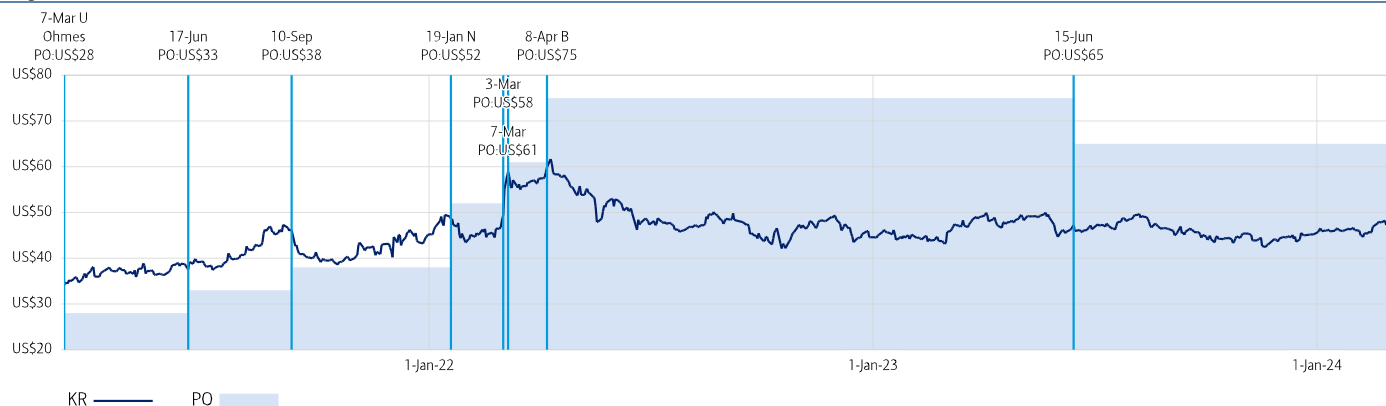
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The Kroger Co. (KR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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