

CBD

Improving operating trends offset by high funding costs

Maintain Rating: UNDERPERFORM | PO: 3.50 BRL | Price: 4.27 BRL

Food deflation, high rates, net loss misses consensus

Grupo Pao de Acucar (GPA) reported a 4Q2023 continued operations loss per share of R\$(0.32), missing a R\$(0.22) consensus, vs a prior-year loss of R\$(1.01), due to higher funding costs, despite operating improvements. Calendar-adjusted same store sales (SSS) ex-fuel rose 3.6% (Pão de Açucar +4.2%, Proximity +5.6%, Extra Mercado +2.0%), a sequential deceleration across concepts as food inflation deflation intensified in the quarter.

Gross/EBITDA margins up 305/284 bp, respectively

Gross margin of 25.7% expanded 3.1ppt y/y on a greater share of perishables across concepts and better terms with suppliers, more than offsetting higher SG&A (18.8% of sales in 4Q23 vs 17.4% in 4Q22). Adj. EBITDA margin (ex. R\$89.9mn in other expenses) of 7.7%, expanded 2.8ppt y/y. Net financial expenses grew 134.2% to R\$168mn, eclipsing operating strides.

Food inflation forecast to exceed overall inflation in 3Q24

Trough food deflation may have occurred in 4Q23. El Niño weather conditions are already triggering January food inflation of 0.7%, and we now look for food inflation to exceed the overall Brazilian consumer price index in 3Q24 and end the year at about 4.8% (Exhibit 4).

Administration may reprioritize tax debtors

We continue to perceive GPA to carry excess tax contingency risk, particularly as the current administration struggles to fund its budget priorities. Efforts to pass new taxes, terminate extensions or end recently approved breaks have found stiff congressional opposition. Efforts to target Brazil's largest tax debtors, however, would require no approval, and could rekindle GPA contingency concerns, in our view. GPA reported total contingencies (probable and possible) of R\$18.3bn, or 15.9x its market cap (Exhibit 3). We reaffirm our Underperform rating on the shares.

Estimates(Dec) (BRL)	2021A	2022A	2023E	2024E	2025E
EPS	2.98	0.01	(3.21)	(1.53)	(1.01)
EPS Change (YoY)	-63.3%	-99.7%	NM	52.3%	34.0%
DPS	2.08	0.59	0.31	0	0
ADR EPS (US\$)	0.55	0	(0.64)	(0.31)	(0.20)
ADR DPS (US\$)	0.54	0.19	0.06	0	0
Valuation (Dec)					
P/E	1.4x	427.0x	NM	NM	NM
Dividend Yield	48.7%	13.8%	7.3%	0%	0%
EV / EBITDA*	3.1x	13.2x	9.5x	6.8x	5.8x
Free Cash Flow Yield*	95.9%	-356.4%	-174.0%	-81.9%	8.8%

* For full definitions of *IQmethod*SM measures, see page 7.

23 February 2024

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Stock Data

Price (Common / ADR)	4.27 BRL / 0.80 USD
Price Objective	3.50 BRL / 0.70 USD
Date Established	19-Sep-2023 / 19-Sep-2023
Investment Opinion	C-3-9 / C-3-9
52-Week Range	3.15 BRL - 7.29 BRL
Market Value (mn)	1,153 BRL
Free Float	58.7%
Average Daily Value	7.92 USD
Shares Outstanding (mn)	270.1 / 270.1
BofA Ticker / Exchange	GPSAF / SAO
BofA Ticker / Exchange	CBD / NYS
Bloomberg / Reuters	PCAR3 BZ / PCAR3.SA
ROE (2023E)	-12.8%
Net Dbt to Eqty (Dec-2022A)	41.2%

GPA = Grupo Pão de Açucar

SSS = Same Store Sales

y/y = year-over-year

q/q = quarter-over-quarter

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Refer to important disclosures on page 8 to 11. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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iQprofileSM CBD

iQmethodSM – Bus Performance*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	5.5%	0.6%	1.1%	3.0%	3.5%
Return on Equity	5.9%	-6.9%	-12.8%	-13.2%	-9.9%
Operating Margin	3.3%	-3.3%	0.1%	2.4%	2.8%
Free Cash Flow	1,107	(4,112)	(2,007)	(945)	102

iQmethodSM – Quality of Earnings*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	3.1x	NM	NM	NM	NM
Asset Replacement Ratio	0.7x	1.7x	1.0x	0.7x	0.7x
Tax Rate	NM	34.5%	23.0%	27.5%	32.6%
Net Debt-to-Equity Ratio	36.6%	41.2%	191.9%	275.7%	311.0%
Interest Cover	0.9x	-0.4x	0x	0.5x	0.6x

Income Statement Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Sales	51,291	17,321	19,417	21,498	23,471
% Change	0.1%	-66.2%	12.1%	10.7%	9.2%
Gross Profit	12,949	4,302	4,807	5,430	5,977
% Change	-5.8%	-66.8%	11.7%	13.0%	10.1%
EBITDA	3,810	898	1,252	1,734	2,050
% Change	-19.6%	-76.4%	39.4%	38.5%	18.2%
Net Interest & Other Income	(1,321)	(677)	(1,268)	(1,155)	(1,186)
Net Income (Adjusted)	801	(863)	(955)	(414)	(272)
% Change	-63.2%	NM	-10.7%	56.7%	34.2%

Free Cash Flow Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	803	3	(867)	(413)	(273)
Depreciation & Amortization	2,115	1,028	1,098	1,050	1,159
Change in Working Capital	192	(2,753)	(1,125)	(7)	610
Deferred Taxation Charge	0	0	(95)	(157)	(131)
Other Adjustments, Net	(611)	(663)	48	(668)	(482)
Capital Expenditure	(1,392)	(1,726)	(1,066)	(750)	(780)
Free Cash Flow	1,107	-4,112	-2,007	-945	102
% Change	-61.0%	NM	51.2%	52.9%	NM
Share / Issue Repurchase	9	2	0	0	0
Cost of Dividends Paid	(780)	(265)	(84)	0	0
Change in Debt	(455)	(3,034)	272	(355)	(636)

Balance Sheet Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	8,274	3,752	3,099	1,799	1,265
Trade Receivables	831	417	335	370	304
Other Current Assets	8,768	24,390	3,968	4,559	4,533
Property, Plant & Equipment	19,598	6,844	6,405	7,281	7,350
Other Non-Current Assets	11,972	8,437	9,030	9,498	9,713
Total Assets	49,443	43,840	22,837	23,507	23,166
Short-Term Debt	1,470	1,001	1,421	1,271	637
Other Current Liabilities	15,081	16,746	5,689	6,409	6,940
Long-Term Debt	12,806	8,408	8,093	8,606	8,702
Other Non-Current Liabilities	3,706	3,951	4,290	4,290	4,290
Total Liabilities	33,062	30,106	19,493	20,576	20,570
Total Equity	16,381	13,733	3,344	2,930	2,596
Total Equity & Liabilities	49,443	43,839	22,837	23,507	23,166

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Supermarkets/Food Retailers

Company Description

Grupo Pao de Acucar (CBD) is a leading food retailer in Brazil. The company operates in Brazil and owns 13% of Colombia's food retail leader, Exito. Through Exito, the company has exposure to Colombia, Uruguay and Argentina. CBD also owns a 34% stake in Casino's French eCommerce affiliate, Cnova N.V. and a 17.9% stake in Financeira Itau CBD (FIC), a joint venture with Itaú Unibanco. CBD is effectively controlled by French retailer Casino. 1 share = 1 ADS.

Investment Rationale

GPA faces competition from ambulatory farmer's markets and super fresh concepts in core trade areas as debt service and occupancy costs limit its ability to invest in value propositions. Scale loss following the spin-off of its Assai cash-and-carry unit and the sale of its hypermarkets, also appears to be compounding its troubles in creating competitive value propositions, particularly as more aggressively priced concepts open in or near core markets or leverage eCommerce to extend trade areas.

Stock Data

Average Daily Volume	9,114,800
Shares / ADR	1.00

Exhibit 1: GPA - 4Q23 summary income statement

Adj. EBITDA margin of 7.7%, Net loss of R\$87mn; BRL mn

	4Q22	4Q23	% Chg	BofA	vs Est	Cons	vs. Cons
Same-Store-Sales, ex-Fuel	7.3%	3.6%		4.5%		5.1%	
Net Revenue	4,900	5,257	7.3%	5,296	-0.7%	5,380	-2.3%
Gross Profit	1,108	1,349	21.8%	1,356	-0.5%	1,349	0.0%
EBITDA	(77)	314	NMF	347	-9.6%	382	-17.7%
Adj. EBITDA¹	238	404	70.1%	397	1.7%	409	-1.2%
Operating Profit	(349)	29	NMF	74	-61.0%	113	290.7%
Pre-Tax Income	(421)	(139)	-67.0%	(94)	-32.4%	(183)	31.6%
Net Income	(1,060)	(301)	-71.6%	(37)	-87.8%	(58)	-80.6%
Net Income Cont. Ops.	(271)	(87)	-67.9%	(37)	-57.8%	(58)	-32.8%
EPS	(3.93)	(1.11)	-71.7%	(0.14)	-87.8%	(0.22)	414.9%
EPS - Cont. Ops	(1.01)	(0.32)	-68.0%	(0.14)	-57.8%	(0.22)	48.8%
Gross Margin	22.6%	25.7%	305 bp	25.6%	6 bp	25.1%	58 bp
Adj. Expense Ratio	17.8%	18.0%	22 bp	18.1%	-12 bp	17.5%	49 bp
Adj. EBITDA Margin	4.8%	7.7%	284 bp	7.5%	19 bp	7.6%	8 bp
EBITDA Margin	-1.6%	6.0%	755 bp	6.6%	-58 bp	7.1%	-112 bp
Operating Margin	-7.1%	0.6%	768 bp	1.4%	-85 bp	2.1%	-155 bp
Net Margin	-21.6%	-5.7%	1,591 bp	-0.7%	-503 bp	-1.1%	-464 bp
Net Margin Cont. Ops.	-5.5%	-1.7%	388 bp	-0.7%	-96 bp	-1.1%	-57 bp

1: Adjusted for other income & expenses (R\$89mn in 4Q23 and R\$315mn in 4Q22)

Source: Company filings, Visible Alpha, BofA Global Research

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Exhibit 2: GPA Consolidated Income Statement

7.3% growth in Net revenue; BRL, mln

	4Q22	4Q23	% Chg
Net revenue	4,901.0	5,257.0	7.3%
Cost of revenues	(3,793.0)	(3,909.0)	3.1%
Gross profit	1,108.0	1,348.0	21.7%
Gross margin (%)	22.6%	25.6%	303 bp
Selling expenses	(702.0)	(834.0)	18.8%
% of revenue	-14.3%	-15.9%	-154 bp
General & Administrative expenses	(152.0)	(154.0)	1.3%
% of revenue	-3.1%	-2.9%	17 bp
Other operating income (expenses)	(560.0)	(345.0)	-38.4%
% of revenue	-11.4%	-6.6%	486 bp
Equity income	(45.0)	15.0	NMF
% of revenue	-0.9%	0.3%	120 bp
Total operating expenses	(1,459.0)	(1,318.0)	-9.7%
% of revenue	-29.8%	-25.1%	470 bp
Operating income	(351.0)	30.0	NMF
Operating margin (%)	-7.2%	0.6%	773 bp
Net financial income (expense)	(72.0)	(169.0)	134.7%
Pre-tax income	(423.0)	(139.0)	-67.1%
Income tax	150.0	53.0	-64.7%
Effective tax rate (%)	35.5%	38.1%	267 bp
Net Income Cont. Ops	(271.0)	(87.0)	-67.9%
Discontinued operations	(788.0)	(215.0)	-72.7%
Net income	(1,059.0)	(302.0)	-71.5%
Net margin	-21.6%	-5.7%	1586 bp

Source: Company filings, BofA Global Research

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Contingencies

Exhibit 3: Possible, probable and settled contingencies total about R\$18.3bn

PCAR Contingencies; BRL mn

	2018	2019	2020	2021	2022	2023
Probable (Provisioned)						
Taxes	84	4	849	779	1,761	1,108
Other Taxes	595	0	0	0	0	0
Labor	231	319	280	336	658	802
Civil and Other	62	68	104	200	194	238
Regulatory	15	17	0	0	0	0
Total Probable	987	408	1,233	1,315	2,613	2,148
% Chg Y/Y	21.6%	-58.7%	202.2%	6.7%	98.7%	-17.8%
Possible (Not Provisioned)						
INSS (Social Security Tax)	453	453	473	576	616	699
Income/Social Contribution Taxes	1,177	1,055	579	756	830	261
Income Tax on Casino Goodwill	1,317	1,409	1,432	1,467	1,922	2,425
COFINS, PIS ¹ and IPI	2,430	2,022	2,940	4,662	4,625	5,921
ICMS	7,357	6,773	5,572	5,660	5,901	6,367
Real Estate/Property Taxes and Other	290	123	143	142	131	128
Other (Civil)	585	403	374	327	356	350
Total Possible	13,609	12,238	11,513	13,590	14,381	16,151
% Chg Y/Y	4.7%	-10.1%	-5.9%	18.0%	5.8%	12.3%
Total Contingencies (Probable + Possible)	14,596	12,646	12,746	14,905	16,994	18,299
% Chg Y/Y	5.7%	-13.4%	0.8%	16.9%	14.0%	7.7%

1: The PIS (Program of Social Integration) and COFINS (Contribution for the Financing of Social Security) are federal taxes based on the companies' revenues

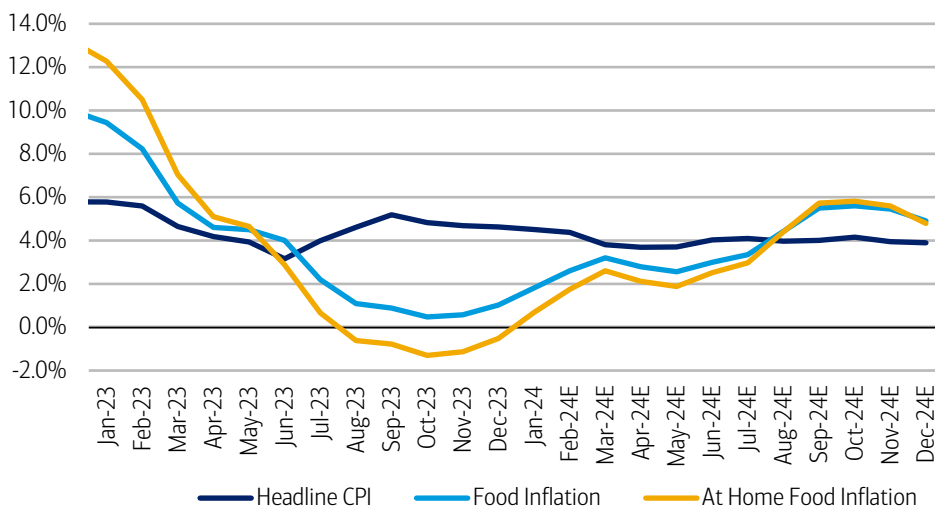
Source: Company filings, BofA Global Research

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Food inflation returning, forecast to exceed overall CPI by year-end

Exhibit 4: At-home food inflation expected to end 2024 at 4.8%

IPCA: Overall CPI vs Food inflation, % Chg. y/y



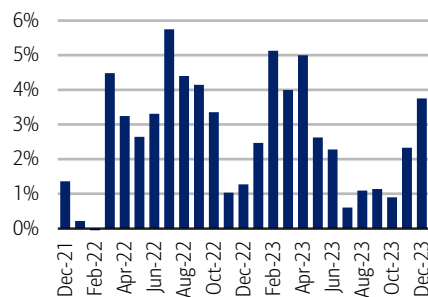
Source: IBGE, MCM Consultores, BofA Global Research

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Brazil macroeconomic indicators

Exhibit 5: Economic activity accelerating

IBC-BR, % chg y/y

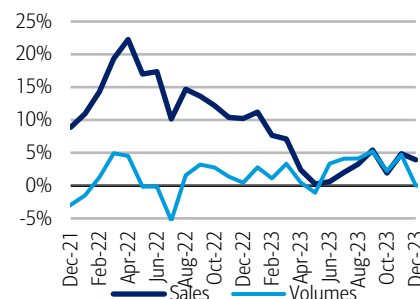


Source: Banco Central do Brasil

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Exhibit 6: Retail sales entirely driven by inflation

Nominal retail sales and volumes ex. auto and construction, % chg y/y

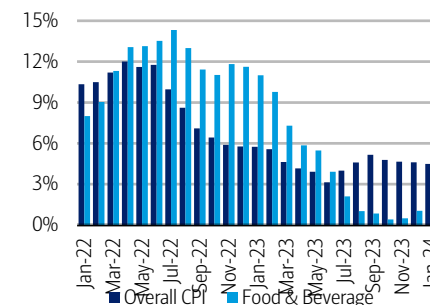


Source: IBGE

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Exhibit 7: Food and beverage inflation accelerated to +1.8% y/y in January; -0.8% y/y deflation in at-home food

CPI: total vs. food, % chg y/y

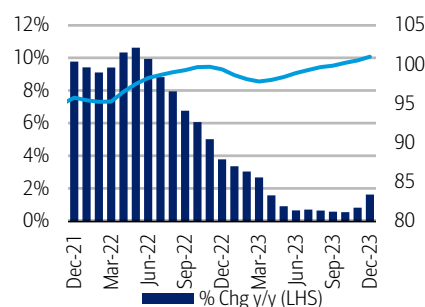


Source: IBGE

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Exhibit 8: Brazilian job growth improving, +1.6% y/y in December

Employment, mln of inhabitants and % chg y/y

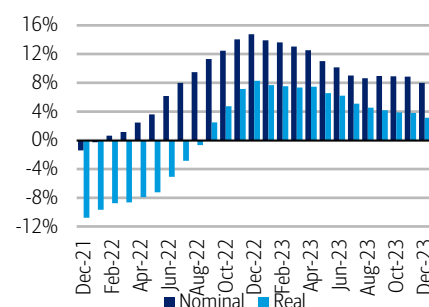


Source: IBGE

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Exhibit 9: Real wages up 3.1% y/y in December

Real vs. nominal wages, % chg y/y

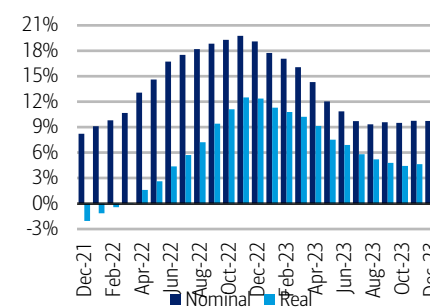


Source: IBGE

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Exhibit 10: Wage growth driving real salary mass expansion

Real vs. nominal salary mass, % chg y/y

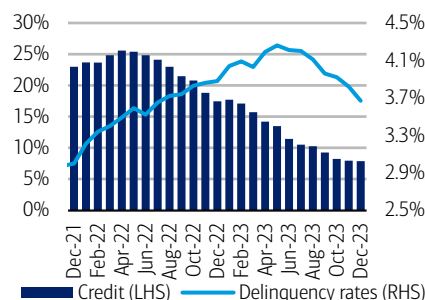


Source: IBGE

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Exhibit 11: Credit grow slowing; delinquency rates down from recent highs

Consumer credit growth and > 90-day delinquency rate

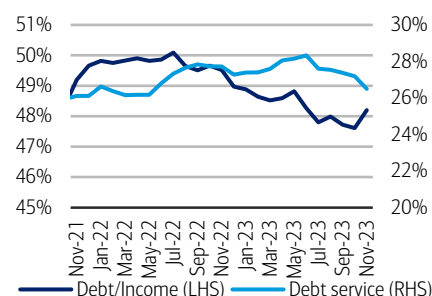


Source: Banco Central do Brasil

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Exhibit 12: Consumers appear to be deleveraging; debt service at 26.5% of aggregate income in last print

Indebtedness and interest burden, % of disposable income

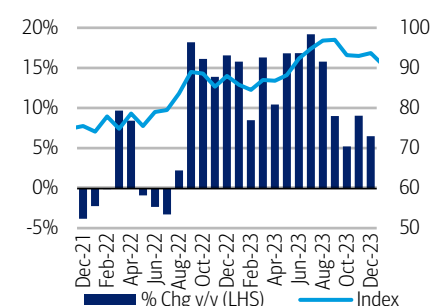


Source: Banco Central do Brasil

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Exhibit 13: Consumer confidence weakened slightly in December, but still up 9% y/y

Total consumer confidence



Source: FGV

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Price objective basis & risk

CBD (GPSAF/CBD)

Our R\$3.50 (ADR US\$0.70) price objective is based on a discounted cashflow analysis to equity for Brazilian food retail operations, and market value for PCAR3's remaining 13% stake in Grupo Exito. Our 2023 cashflow assumptions include R\$300mln from the related party sale of PCAR's 34% Cnova stake. We further adjust our objective with a net present value estimate of PCAR3's outstanding contingencies.

Downside risks to our price objective are erosion in the value of GPA's stake in Grupo Exito, macroeconomic weakness, an erosion in market sentiment, consumption sluggishness, higher interest rates, tax or regulatory changes, electricity rationing, contingencies or other liabilities, competition, execution challenges, dilutive acquisitions, corporate governance and adverse consolidation events.

Upside risks to our price objective are stronger investor sentiment, stronger demand, lower interest rates, more benign competition, better execution, favorable industry consolidation, and favorable tax or regulatory changes.

Analyst Certification

We, Robert E. Ford Aguilar, CFA, Vinicius Pretto and Wellington Santana, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Latin America - Consumer Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alsea	ALSSF	ALSEA* MM	Robert E. Ford Aguilar, CFA
	Arcos Dorados	ARCO	ARCO US	Robert E. Ford Aguilar, CFA
	Arezzo & Co	XARZF	ARZZ3 BZ	Robert E. Ford Aguilar, CFA
	Assaí Atacadista	XFCXF	ASAI3 BZ	Robert E. Ford Aguilar, CFA
	Assaí Atacadista	ASAI	ASAI US	Robert E. Ford Aguilar, CFA
	Chedraui	GCHEF	CHDRAUIB MM	Robert E. Ford Aguilar, CFA
	CVC	CVCBF	CVCB3 BZ	Robert E. Ford Aguilar, CFA
	FEMSA	FMX	FMX US	Robert E. Ford Aguilar, CFA
	FEMSA	FMXUF	FEMSAUBD MM	Robert E. Ford Aguilar, CFA
	Grupo Carrefour Brasil	XLDPF	CRFB3 BZ	Robert E. Ford Aguilar, CFA
	Grupo SOMA	XNASF	SOMA3 BZ	Robert E. Ford Aguilar, CFA
	Hypera Pharma	XHPYF	HYPE3 BZ	Robert E. Ford Aguilar, CFA
	Kimberly-Clark de México	KCDMF	KIMBERA MM	Robert E. Ford Aguilar, CFA
	Lojas Quero-Quero	XZUXF	LJQQ3 BZ	Robert E. Ford Aguilar, CFA
	Mercadolibre	MELI	MELI US	Robert E. Ford Aguilar, CFA
	Natura &Co Holding SA	XZVAF	NTCO3 BZ	Robert E. Ford Aguilar, CFA
	Natura &Co Holding SA	NTCO	NTCO US	Robert E. Ford Aguilar, CFA
	RaiaDrogasil S.A.	RAIAF	RADL3 BZ	Robert E. Ford Aguilar, CFA
	Smartfit	XSMRF	SMFT3 BZ	Robert E. Ford Aguilar, CFA
	Track & Field	XWZRF	TFCO4 BZ	Robert E. Ford Aguilar, CFA
	Vivara	XUVZF	VIVA3 BZ	Robert E. Ford Aguilar, CFA
NEUTRAL				
	Alpargatas S.A.	SRDDF	ALPA4 BZ	Robert E. Ford Aguilar, CFA
	Cencosud	XCSCF	CENCOSUD CI	Robert E. Ford Aguilar, CFA

Latin America - Consumer Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Falabella	XDIYF	FALAB CI	Robert E. Ford Aguilar, CFA
	Magazine Luiza	MGZZF	MGLU3 BZ	Robert E. Ford Aguilar, CFA
	Multilaser	XMTLF	MLAS3 BZ	Robert E. Ford Aguilar, CFA
	Petz	XUXUF	PETZ3 BZ	Robert E. Ford Aguilar, CFA

UNDERPERFORM

	CBD	CBD	CBD US	Robert E. Ford Aguilar, CFA
	CBD	GPSAF	PCAR3 BZ	Robert E. Ford Aguilar, CFA
	El Puerto de Liverpool	ELPQF	LIVEPOLC MM	Robert E. Ford Aguilar, CFA
	Grupo Casas Bahia SA	GBXPF	BHIA3 BZ	Robert E. Ford Aguilar, CFA
	Lojas Renner SA	LORPF	LREN3 BZ	Robert E. Ford Aguilar, CFA
	Soriana	ONZBF	SORIANAB MM	Robert E. Ford Aguilar, CFA
	Walmex	WMMVF	WALMEX* MM	Robert E. Ford Aguilar, CFA
	Walmex	WMMVY	WMMVY US	Robert E. Ford Aguilar, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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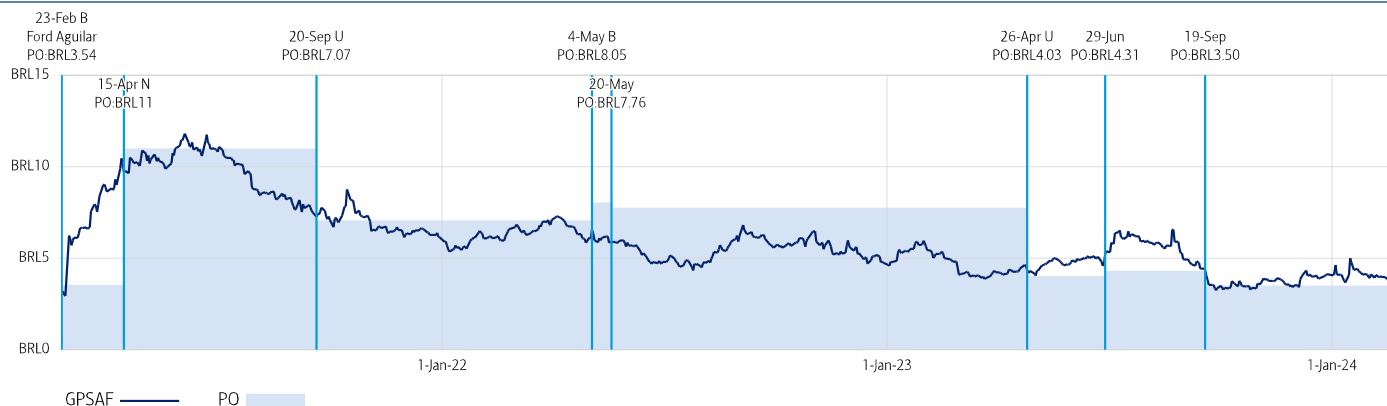
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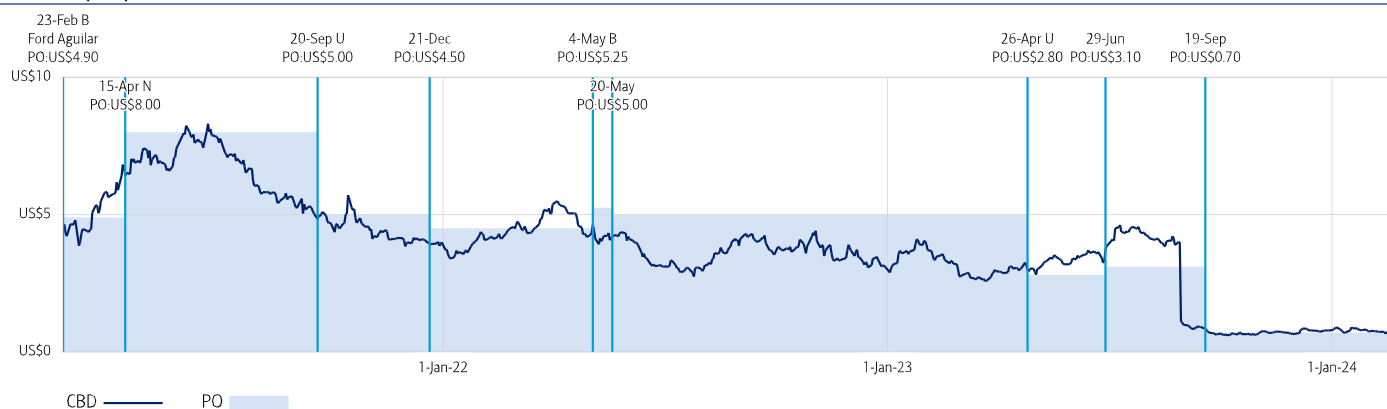
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Pao de Acucar (GPSAF) Price Chart



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Pao de Acucar (CBD) Price Chart



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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
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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