Exit the dragon?

Investors may force the world's second- largest retailer to retreat to Europe.

At a crossroads – Imaginechina

In Chinese, Carrefour happens to mean "Every Happy Family", a piece of luck which has doubtless contributed to the French firm's success in China, where it has operated since 1995. In Brazil, too, a market which Carrefour entered in 1975, the company is treated like a local and vies for leadership with a Brazilian firm. The group's businesses in Brazil and China are substantial, fast-growing and produce generous returns on investment. Now, however, to the dismay of executives at the firm, two big shareholders are reportedly pushing for a sale of the Asian and Latin American businesses.

Colony Capital, an American private-equity firm which specialises in property, and Bernard Arnault, chairman of LVMH, a luxury-goods group, first invested in Carrefour in 2007, and now own more than 13% of its shares and around 20% of its voting rights, mainly through a joint holding company called Blue Capital. Like many activist investors, they were caught out by the crisis: Carrefour's share price has fallen from around €50 ($67) when they made their purchases to €30 today. Their original aim was to spin off Carrefour's property portfolio, which would have brought a one-off gain, but plummeting property values undermined the plan.

Selling Carrefour's Asian and Latin American businesses could bring in as much as €13 billion, and would result in a special dividend for shareholders of around €10 per share after tax and some reduction in debt, estimates Philippe Suchet of Exane BNP Paribas, a brokerage firm. Wal-Mart, an American firm which is the world's biggest retailer and is already present in Brazil and China, would probably be willing to pay a high price. Such a sale, however, would limit Carrefour to low-growth European markets, in several of which it is struggling. In France, which accounted for 44% of its sales in 2008, Carrefour is trying to overhaul its hypermarkets, where sales have dropped recently. In Spain the group is fighting a price war and its Italian and Belgian businesses are both being restructured. "Selling Asia and Latin America would ruin the group's growth prospects, and would not benefit shareholders beyond the one-off cash payment," says Mr Suchet.

Executives at the firm and other shareholders in Carrefour are now waiting to see whether Blue Capital will force through a sale. According to one person close to the firm, the Chinese government is already angry about reports of a possible sale. Chinese officials have tried to maintain a careful balance between Carrefour, Wal-Mart and local retailers, and would probably obstruct a sale to Wal-Mart. A year ago, after reports that Carrefour planned a similar sale, China's sovereign-wealth fund, China Investment Corporation, studied the possibility of buying part of the French group.

Carrefour's chief executive, Lars Olofsson, who was appointed last year with Blue Capital's blessing, stated in June that Brazil and China, along with Russia, where Carrefour recently opened new stores, and India, where the group is looking for a partner, were priorities for expansion. The firm reiterated on October 7th that it had no plans to sell its operations in emerging markets. If the activists push for a sale, there may be a battle on the board. Such a fight would give activist investors even more of a bad name than they already have in corporate Europe.

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