

El Super SSS Fall Faster than Trump's Approval Ratings

- Chedraui shares fell nearly 2% after reporting disappointing 1Q17 results
- Weak US results stood out, as same store sales fell a staggering -4.4%
- US EBITDA fell by over 22% during the quarter
- Company officials blamed food price deflation and negative consumer sentiment related to Donald Trump—even as new Chedraui connections to Trump emerged

In a call with investors earlier today, El Super CEO Carlos Smith emphasized 1Q US sales growth of 11.4% sales growth in pesos, though he failed to point out that this growth was almost entirely due to the 11.32% decline in the value of the peso relative to the dollar over the past year. In dollar terms, same store sales in the US experienced the largest same store sales decline in over seven years, falling -4.4% during the quarter. Smith attributed a large part of the stunning decline to a “10% deflation in produce” though government statistics showed declines in produce at less than half that rate during the quarter.

Smith also pointed, as he did after the previous quarter, to the election of Donald Trump as US president and to the “fear and anxiety” among the immigrant community which impacted traffic in stores. After several questions from analysts concerning the sales impact in the US, Grupo Chedraui CEO Antonio Chedraui stated he was “very enthusiastic on the future, very focused on the US and already seeing recovery signs.”

Clearly, any serious focus on the US would involve addressing the massive consumer boycott targeting El Super stores. Through the end of 1Q17, picket lines at 25 El Super Stores (43%) have engaged nearly 2.9 million customers and turned away over 300,000 of them.

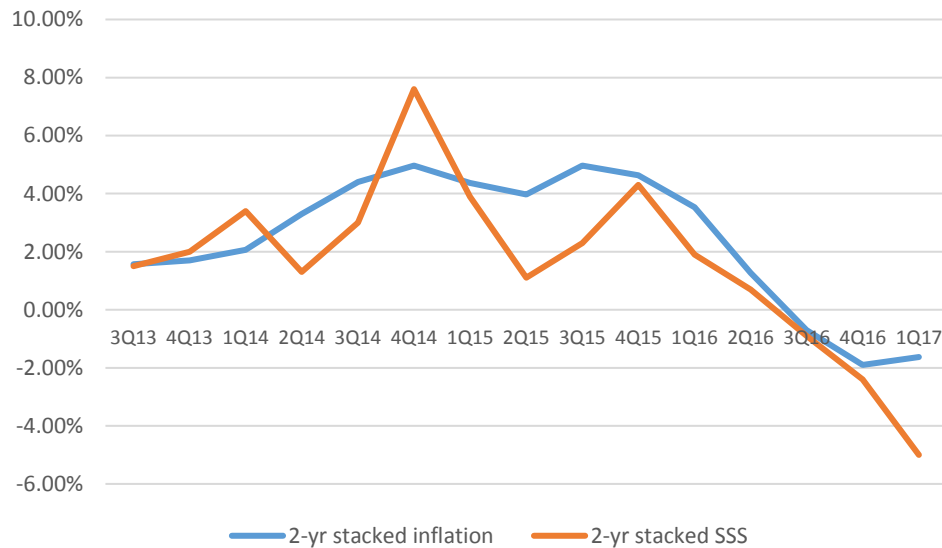
El Super Boycott

<u>Through 3/31/2017</u>	<u>Total</u>
Customers engaged	2,878,956
Customers turned away	309,851

Same store sales at El Super have been positive in only two out of nine quarter since the start of the boycott in 1Q15, and also consistently lower than the rate of food inflation.

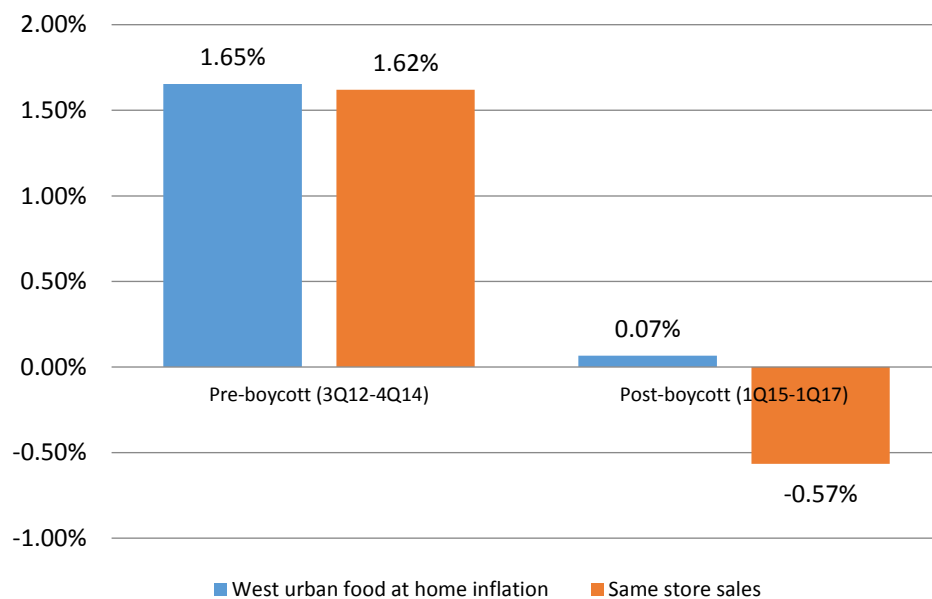
Given that company officials specifically cited deflation in explaining the dramatic decline in same store sales, we think it's notable that not only have same store sales at El Super been below the rate of inflation since the start of the boycott, but, significantly, in the most recent quarter the two begin to move in opposite directions.

West Urban Food Inflation vs El Super Same Store Sales: 2-yr Stacked



The pattern is even clearer when we look at average same store sales growth and inflation prior to the boycott and after the boycott:

El Super Boycott Impact: Inflation vs SSS

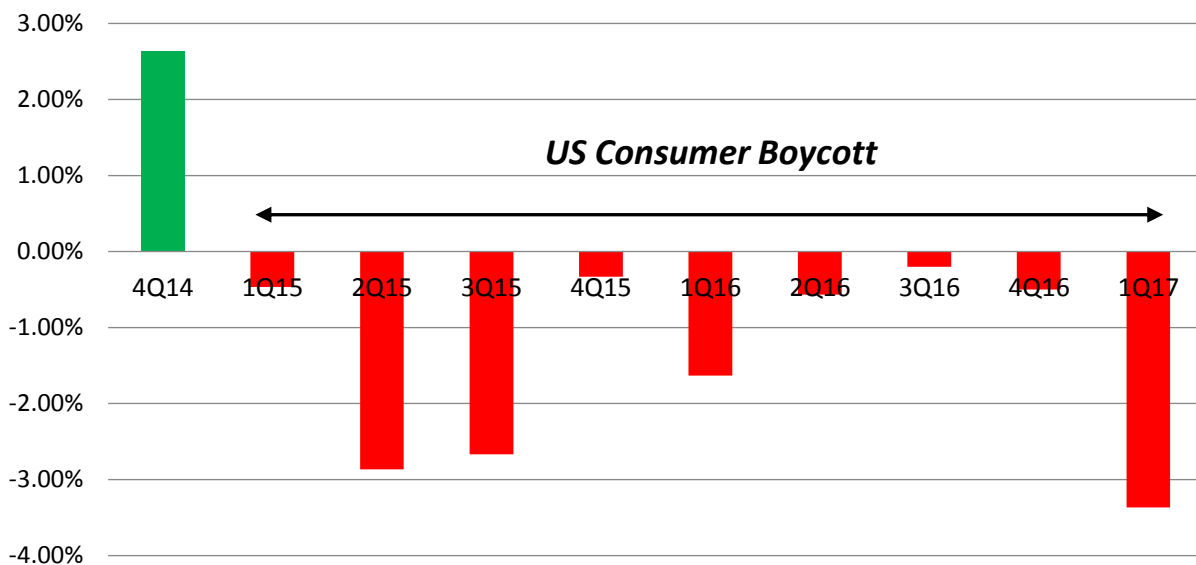


But the most interesting picture yet is the one that emerges when we strip food price inflation/deflation out of El Super's same store sales. What emerges is a clear indication of consistently declining customer traffic throughout the period of the consumer boycott.

Negative Customer Traffic Throughout Boycott

Implied Customer Traffic, 2yr-Stacked

El Super same store sales minus West Urban Food at Home inflation



As we pointed out last quarter, the El Super brand has likely suffered in the immigrant communities concerned about Donald Trump after the company received [negative attention](#) in Spanish language media in the US as a result of revelations of financial contributions made by an El Super official to the Trump campaign. New [revelations](#) Thursday morning that former Chedraui director Alejandro Ramírez Magaña owns a \$9.5 million apartment on the 61st floor of Trump Tower in New York City are unlikely to improve El Super's brand among Mexican immigrants. Ramírez Magaña [stepped down](#) from the Chedraui board after being targeted by protesters concerned about labor conditions at El Super stores.