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The ATDBCN EUR 3.901 2033 issue stands out from the crowd in the IG consumer space

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Recommendation on ATDBCN EUR 3.901 2033 senior issue: Buy

We see up to 0.9pt of relative upside for the issue over the next three months

- **The ATDBCN 2033 issue trades cheap to its own issuer curve:** It yields c. 4.2% and trades 12bp back of its secondary issuer curve, which we attribute to technical factors. It was issued as recently as April and we assume this discount will fade as the bond becomes increasingly seasoned to year end.
- **Alimentation Couche-Tard ('Couche-Tard') should trade at least in line with lower rated Tesco.** The ATDBCN 2033 issue trades 15bp back of the 2022-23 EUR issuer curve of lower rated Tesco. Based purely on fundamentals, then Couche-Tard should trade inside Tesco. Even if we adjust for the overhang of the credit's North American domicile on its bond valuation, we nevertheless see fair value as being, at the very least, in line with Tesco. This infers potential upside of close to 0.9pt for the ATDBCN 2033 issue.
- **The ATDBCN EUR 2033 issue trades wide of or in line with weaker rated consumer credits.** The issue is trading broadly in line with Carrefour and Kraft Heinz, wide of the issuer curve of Magnum and wide of and in line with the issuer curves of cyclical credits H&M and El Corte Ingles SA respectively.
- **Couche-Tard ranks as a stronger credit than many of its consumer peers.** Couche-Tard stands out as substantially larger in terms of market capitalisation than peers we discuss in this publication and benefits from a far stronger adjusted margin than Carrefour and Tesco and a higher margin relative to same-rated Ahold. We would also highlight General Mills and Carrefour as weakly placed for their lower S&P ratings, while the business profile of Kraft Heinz is at risk of downgrade at S&P, an event which we assume could pressure its current rating.
- **Acquisitive but with a good track record of successfully integrating sizeable bolt-on deals, followed by relatively quick deleveraging.** This has helped Couche-Tard secure credibility with raters, which together with bondholders, can derive comfort from the company's track record of reverting back to its 2-2.5x leverage target following sizeable acquisitions.
- **Acquisition of Zabka Group, Poland's largest convenience retailer, can be absorbed within the group's current ratings.** S&P assumes a rise in Couche-Tard's adjusted leverage, pro forma for the acquisition, to 3.2x from 2.1 at FY 2025-26 under a full ownership scenario and that it can delever to a level of c. 2.5x, comfortably inside the 3x downgrade threshold for the BBB+ rating, within two years of transaction close. Couche-Tard is similarly well positioned in respect to its Baa1 Moody's rating.

We can offer 10mn of ATDBCN 3.901 2033 issue (XS3327698711) at B+103 / Z+91

We target 10-15bp of relative spread tightening

Rational for the trade. The ATDBCN 3.901 2033 issue is mispriced in our view and we attribute this to the bond being a relatively recent and sizeable (€750mn) new issue. We assume the bond's valuation will eventually converge upon its well-seasoned senior issuer curve, as this technical fades. The lower end of the range of our target takes into account the impact future issuance in euros, tied to the group's Polish acquisition, could have in limiting the potential for outperformance in the very near term. In the absence of this then our target is 15bp, equivalent to c.0.9pt in price terms.

Relative Value

We support a BUY recommendation on the ATDBCN 2033 issue and target at least 10bp of spread compression towards its own issuer curve over the next three months, while we see scope for it to eventually compress by as much as 15bp towards Tesco, supported by our fundamental preference for higher rated Couche-Tard, which would deliver 0.9pt of relative upside for this issue.

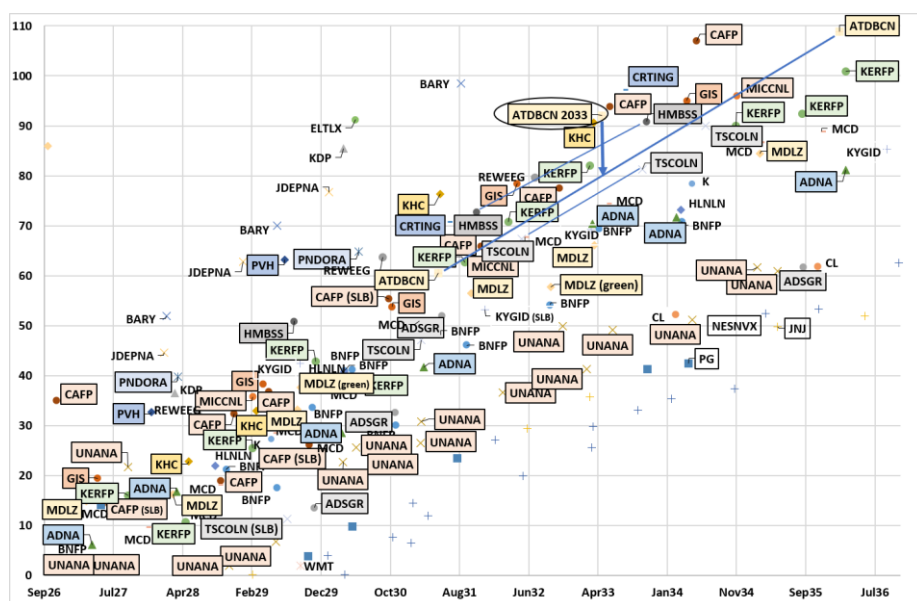
Across the relatively expensive consumer sector, we view the ATDBCN 2033 issue as offering one of the most attractive low risk opportunity in the IG EUR consumer sector.

Strong ESG credentials: Benefits from a solid AA ESG rating from MSCI.

Underperformance versus Tesco since issuance. From the day following its issuance, which had come at a meaningful discount to its secondary curve, the ATDBCN 2033 issue has underperformed the TSCOLN 2031, 2032 and 2033 issues by 10bp, 2bp and 5bp respectively

All things come to those who wait: The chart below highlights that the ATDBCN 2033 issue trades very cheap compared to the ATDBCN 2031 and 2036 issues, as well as to the consumer peers we highlight in this publication. We attribute its cheap level to technical factors and see no reason for this to persist as the bond becomes increasingly seasoned. We accordingly assume this sizeable discount offered by the issue will fade away over the next three months.

CONSUMER EUR CASH SCATTER (Z-SPREAD)



Source: MUFG Securities EMEA PLC, Bloomberg; 3rd September 2026

Reasons why we consider the valuation of the ATDBCN 2033 to be compelling:

It offers as attractive yield: For a bond approaching 6.5 years in maturity issued by a strong Baa1 Stbl/BBB Stbl credit in a defensive sector, then we view the c.4.2% yield offered by the ATDBCN 3.901 2033s as very attractive

It trades cheap to its own issuer curve. The ATDBCN 2033 issue offers a 31bp spread pick for an extension in maturity of just below two years relative to the ATDBCN 2031 issue, while it trades 12bp cheap to its issuer curve.

It trades cheap to lower rated Tesco. The ATDBCN 2033 issue is trading 15bp cheap to the Tesco issuer curve. Based on fundamentals, we believe Couche-Tard should trade inside Tesco, a view supported by its stronger credit ratings. Even after taking into account the North American domicile of the credit, then we would argue that the ATDBCN 3.901 2033 issue should trade at least in line with lower-rated Tesco, which would imply relative upside of c.0.9pt for the issue.

It offers value versus European food retail peers Carrefour and Ahold. The ATDBCN Apr 2033 trades broadly in line with the CAFB May 2033 issue of lower rated Carrefour, a credit which we would highlight as currently weakly positioned for its BBB rating at S&P coming into this year in respect to its FFO/debt (27.4% vs. 30% required) for FY 2025. It also trades 22bp back of the same rated, longer dated ADNA 2034 issue of Ahold, which notably benefits from a material exposure to the U.S. East Coast, with the US representing c.57% of its FY 2025 revenue base.

Trades wide of more cyclical, lower rated consumer peers. Kraft Heinz has been under a lot of investor and ratings scrutiny recently. Its plans to break up the group have been put on hold, while S&P has warned that it could downgrade the assessment of its business profile unless its operating trends improve, an event which could put its current BBB rating at risk, albeit we would add that the Kraft Heinz's leverage ratio was comfortably positioned for the 'current' requirements its BBB rating at LTM H1 2026. General Mills has continued to struggle to generate organic growth and is relatively weakly placed for its BBB rating at S&P. H&M, as a fast fashion apparel retailer, and El Corte Ingles SA, a Spanish department store and retail operator, are vulnerable to a higher level of cyclical business risk than Alimentation Couche-Tard, which is reflected in its business profile assessment at S&P of 'Satisfactory', which compares to a superior 'Strong' ranking in the case of Couche-Tard.

Despite the above perspectives, the ATDBCN 3.901 Apr 2033 issue trades wide of the issuer curves of lower rated credits General Mills, H&M and the Magnum Ice Cream Co, while it trades broadly in line with both the lower rated Kraft Heinz March 2033 issue and the issuer curve of lower rated El Corte Ingles.

Alimentation Couche-Tard ranks strongly on fundamentals in comparison to consumer peers

Geographically diversified, albeit with a dominant exposure to the attractive US market: Canada-based Alimentation Couche-Tard is far more geographically diversified outside of its domestic market than Tesco and Carrefour. It also benefits in particular from a dominant US footprint which represented around 57% and 63% of group revenues and gross profit respectively during FY 2025-26, with its business profile benefiting from a focus upon the 'in favour' convenience store format, which is anchored by its defensive food retail offering, in contrast to its European food retail peers, which have a more heterogeneous store format offering, including hypermarkets. Couche-Tard also benefits from a more captive demand support for its retail offering given the typical co-location of its stores alongside gas/petrol stations. If directly comparing the credit to Tesco, then we would argue that it is more stably

positioned as an investment in the near term, given its heavy reliance on the UK (UK & ROI represented 96% of Tesco's FY 2025-26 adj. profit) in view of the country's recent change in PM, which raises an element of political uncertainty in the near term in respect to the UK's evolving business and fiscal policy, together with the associated risk of a potential rise in the volatility of UK asset prices.

Strong equity valuation, as well as strong and stable credit ratings: Amongst the consumer credit we discuss in this publication, Couche-Tard benefits from the highest market capitalisation (equivalent to c.€47bn) and is almost four times larger than Carrefour based on this metric. We further note that the credit has only experienced upgrades since securing an inaugural credit rating of BB- from S&P in 2003, following its expansion into the US and acquisition of Circle K, while it has benefited from upgrades from both Moody's and S&P as recently as 2023. Further bondholder reassurance can be derived from Couche-Tard's robust credit profile, with the group strongly positioned in respect to its Baa1/BBB+ ratings ahead of its expected takeover of Poland's Zabka Group, with both S&P and Moody's quick to effectively reaffirm its ratings in response to the associated takeover announcement.

We assume this deal is executed, with CVC Capital Partners, Partners Group and Zabka Group's key executive managers, who own in aggregate 57% of Zabka shares, having already entered into separate hard irrevocable undertakings to tender their shares into Couche-Tard's takeover offer, which amounts to a total equity consideration of up to PLN32.62bn (equivalent to c.US\$8.6 billion). Assuming a full take up of the offer and taking into account the most recent results of both parties, then we see reported net debt / LTM adj. Ebitda rising on a pro forma basis for the proposed transaction to c.2.9x from 1.8x at Q1 2027-28, which is in line with management's own guidance of c.3.0x and which we view as being comfortably consistent with S&P's assumption of its adjusted leverage rising to c.3.2x on a pro forma basis for the deal.

Superior operating margins (excluding fuel sales) compared to European food retail peers: Alimentation Couche-Tard stands out as having the strongest S&P adjusted EBITDA margin across the food retail peers presented in the peer comp table presented below; its 9.2% margin was well above that of Tesco (6.9%) and Carrefour (5.3%), and ahead of that of Ahold (8.0%), which reflects Couche-Tard's focus on the relatively more profitable convenience format.

To further emphasise this point, then Couche-Tard's reported gross margins of 18.9% and 17.9% for FY 2025-26 and FY 2024-25 respectively were far in excess of Tesco's margins of 7.6% and 7.7% respectively during the corresponding periods, reflecting a consistent differential between the two which has averaged c.11% over the past few fiscal years, albeit the differential between their operating margins is far narrower, as convenience stores typically have to absorb higher labour and real estate costs per square foot in comparison to larger formats.

While Carrefour's reported gross margin is similar to that of Couche-Tard, this does not take into account the dilutive effect of the latter's much higher exposure to fuel sales. Focussing on the US, then Couche-Tard's high merchandise & service gross margin (which reflects its convenience stores but excludes fuel) of c.34.4% unsurprisingly contrasts sharply with the c.15% margin of its road fuel business, for the period FY 2025-26. Couche-Tard naturally has a much high proportion of its US stores co-located with petrol stations (up to 90%) in comparison to Carrefour's French stores or Tesco's UK stores (broadly around 20%). Accordingly, if one strips out the impact of dilutive gas/petrol sales on the gross margin, then Couche-Tard's retail format is clearly far more profitable than that of its European peers, which reflects upon its pure focus on convenience as opposed to the volume formats which form a material part of the mix for the others.

Couche-Tard's greater exposure than food retail peers to gas sales does not represent a material relative negative from a credit perspective in the current climate

While Couche Tard's higher exposure to fuel sales against the backdrop of elevated prices may have negatively affected investor sentiment towards its recently issued ATDBCN 2033 issue, we would positively highlight that while gas sales purchases have tended to decline in times of exceptionally high gas prices in the past, this dynamic does also tend to encourage drivers to make more frequent trips with smaller average gas purchases made, which can in turn benefit its convenience store demand. Furthermore, the sustained high gas price over recent months, supported by the group's fuel supply chain, was seen to have provided an earnings tailwind in the group's recent fiscal Q1 2026-27 earnings, as a substantial rise in its fuel gross margin, together with record fuel sales (+33%), which far outweighed same store fuel volume declines (US: -1.6%, Europe & other regions: -4.3%; Canada: +1.1%), helped to deliver a 15% advance in the group's road transportation fuel gross profit to \$1.84bn, which came ahead of the gross profit contributed by the merchandise & service business, which rose by a far more limited 3.3% to \$1.72bn, in the period.

While the conflict between the US and Iran has yet to be resolved, an eventual full reopening of the Strait of Hormuz would be expected to drive a material decline in WTI from its current level and provide relief to consumers that have had to suffer a material spike in average unleaded gasoline prices, which at a current level of \$4.12 per gallon (source: AAA), remains over a third higher than its pre-conflict level. By contrast, a sustained high gas price through the next few months could reasonably be expected to further weigh upon the US consumer and spending, with Couche-Tard CEO Alex Miller noting post the group's fiscal Q1 release that sales of certain categories, such as packaged soft drinks, salty snacks, packaged sweets and confectionery, had remained softer than their historical level as "consumers become more deliberate in what they put in their baskets". Nevertheless, same-store merchandise revenue rose 1.7% in the US and by 1.2% in Europe during the period.

Currently strongly positioned for ratings. We calculate that Couche-Tard's S&P adjusted debt/Ebitda ratio improved to <1.9x at LTM Q1 2026-27 from 2.1x at FY 2025-26, which has positioned it exceptionally strongly relative to the threshold for its BBB+ rating at S&P of 3x. The credit was even more strongly positioned at Moody's at FY 2025-26, where its Moody's adjusted gross leverage ratio of 2.4x compared to a rating's threshold of no more than 3.5x. By contrast, General Mills and Carrefour are currently somewhat weakly placed for their S&P ratings, while the business profile of Kraft Heinz is at risk of being lowered, which could in turn pressure its rating.

Couche-Tard's adj. leverage of 2.1x at FY 2025-26 ranked as marginally better than that of Ahold (2.2x) and Tesco (2.3x), and far superior to that of Carrefour (2.7x), at their fiscal year ends, but this looks set to change

While we calculate that Couche-Tard's adj. leverage fell further to <1.9x through its fiscal Q1 2026-27 period, the assumed acquisition of Zabke Group will nevertheless be expected to see Couche-Tard's adjusted leverage rise to substantially above that of Ahold and Tesco, and above that of Carrefour, in the near term, assuming the company succeeds in securing a high take up of its share tender offer.

However, Couche-Tard's leverage will be expected to quickly revert back to previous levels over the two years following the acquisition's close. Reassurance in respect to this expectation can be taken from the company's explicit target of maintaining a leverage ratio of 2-2.5x, with management having established a track record of returning the company to its target range relatively quickly following sizeable acquisitions.

We view the proposed Zabka Group acquisition as having significant strategic merit

The Zabka Group acquisition appears strategically rational. It will serve to diversify the group's geographical footprint, while transforming Couche-Tard's presence in Central and Eastern Europe by leveraging off Zabka's leading position in Poland and growing footprint in Romania. While the company's offer is all cash for up to 100% of the Zabka Group, the rise in reported pro forma leverage assumed by management of up to c.3x from 2x at FY 2025-26 appears comfortably manageable, while the implied 7.5x EV / 2026E Adj. Ebitda multiple (inclusive of synergies) appearing moderate. Over US\$250mn in run rate synergies have been identified and targeted to be fully realised by the third year following closing.

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UK and EU Market Abuse Regulation ("MAR") investment recommendation additional information:

Date and time of completion of the recommendation: 03/09/2026 at 4.40pm BST

Document issued by: Darren Hook, Director, Credit Sector

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