

## Rémy Cointreau

Price EUR62.50

China is improving!

Fair Value EUR72 (+15%)

BUY

The Q3 sales release showed an improvement in consumption trends in Greater China. In value terms, depletions stabilised over 9M after dropping mid single digit in H1, implying a high single digit/low double digit growth rate in Q3. The cognac market is in better health as private consumption is normalising. Rémy Cointreau also benefited from its new marketing campaign "One Life/Live Them". We maintain our Buy recommendation.

## ANALYSIS

- Cognac consumption in Greater China is showing improvement.** Volume depletions increased mid single digit over 9M 2015/16 while they were flattish in H1. **In value terms, depletions stabilised over 9M after dropping mid single digit in H1, implying a high single digit/low double digit growth rate in Q3. This was mainly driven by Mainland China (+2/3% in 9M), while Hong Kong and Macau remained in decline.** The cognac market is in better health as private consumption is normalising. Rémy Cointreau also benefited from its new marketing campaign "One Life/Live Them". Club (intermediate quality) is gaining market share, as is Louis XIII. The group expects the 9M depletion trend to continue in Q4. Following a double digit drop in H1, sell-in to Greater China stabilised in Q3, not helped by the early timing of the Chinese New Year (25-30% of shipments were made in Q3 2015/16, as in Q3 2014/15).
- The US and the EMEA were also better. Value depletions (excluding VS) in the US were up 14.3% in Q3. This was driven by the continued success of Rémy Martin.** The brand's volume depletions (excl.VS) rose 17.9% over the quarter. Cointreau also showed good momentum, both in on-trade and off-trade. In EMEA, the triple digit sales growth in Africa (4% of group sales) offset the weak performance of Russia/CIS (depletions down double digit over 12M). Western Europe is improving, with low single digit growth in sell-out driven by Germany, France, Belgium and the UK.
- Estimates. Rémy Cointreau said that Q4 is expected to be stronger than Q3. Our estimate calls for 8% organic sales growth next quarter, implying -0.1% over the year (+0.4% previously).** The group should continue to benefit from the ramp-up of the new distribution contracts in China and a normalising trend in Cointreau. Partner Brands should remain impacted by the loss of the champagne brands in the US.

## VALUATION

- At yesterday's share price, the stock is trading on EV/EBIT multiples of 20.1x EV/for 2015/16e and 18.2x for 2016/17e, 15% and 11% above the peer average. This compares to a 10-year historical premium vs peers of 16%.

## NEXT CATALYSTS

- 2015/16 sales will be released on 19th April

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|                            | RCO FP      |
|----------------------------|-------------|
| Bloomberg                  | RCOP.PA     |
| Reuters                    | 73.1 / 50.9 |
| 12-month High / Low (EUR)  | 3,046       |
| Market Cap (EUR)           | 3,516       |
| Ev (BG Estimates) (EUR)    | 163.3       |
| Avg. 6m daily volume (000) | 11.6%       |
| 3y EPS CAGR                |             |

|                | 1 M   | 3 M   | 6 M    | 31/12/15 |
|----------------|-------|-------|--------|----------|
| Absolute perf. | -2.7% | 4.1%  | -7.1%  | -5.3%    |
| Food & Bev.    | -4.1% | -2.2% | -6.1%  | -6.0%    |
| DJ Stoxx 600   | -8.0% | -9.4% | -18.4% | -10.2%   |

| YEnd Mar. (EURm) | 03/15 | 03/16e | 03/17e | 03/18e |
|------------------|-------|--------|--------|--------|
| Sales            | 965.1 | 1,042  | 1,069  | 1,113  |
| % change         |       | 7.9%   | 2.6%   | 4.1%   |
| EBITDA           | 175   | 193    | 210    | 223    |
| EBIT             | 156.0 | 174.9  | 191.4  | 204.5  |
| % change         |       | 12.1%  | 9.5%   | 6.8%   |
| Net income       | 94.6  | 105.1  | 117.9  | 131.3  |
| % change         |       | 11.1%  | 12.1%  | 11.4%  |

|                  | 03/15 | 03/16e | 03/17e | 03/18e |
|------------------|-------|--------|--------|--------|
| Operating margin | 16.2  | 16.8   | 17.9   | 18.4   |
| Net margin       | 18.0  | 10.1   | 11.0   | 11.8   |
| ROE              | 8.8   | 10.5   | 11.6   | 13.1   |
| ROCE             | 15.6  | 0.0    | 0.0    | 0.0    |
| Gearing          | 43.4  | 46.9   | 42.3   | 38.8   |

| (EUR)           | 03/15 | 03/16e | 03/17e | 03/18e |
|-----------------|-------|--------|--------|--------|
| EPS             | 1.95  | 2.17   | 2.43   | 2.71   |
| % change        | -     | 11.2%  | 12.1%  | 11.4%  |
| P/E             | 32.1x | 28.8x  | 25.7x  | 23.1x  |
| FCF yield (%)   | 0.3%  | 3.3%   | 4.1%   | 4.4%   |
| Dividends (EUR) | 1.53  | 1.74   | 1.95   | 2.13   |
| Div yield (%)   | 2.4%  | 2.8%   | 3.1%   | 3.4%   |
| EV/Sales        | 3.6x  | 3.4x   | 3.3x   | 3.1x   |
| EV/EBITDA       | 20.1x | 18.3x  | 16.6x  | 15.4x  |
| EV/EBIT         | 22.5x | 20.1x  | 18.2x  | 16.8x  |

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|         |  |
|---------|--|
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NEUTRAL ratings 30,8%

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