

13th January 2016

A spicier dish

Food industry

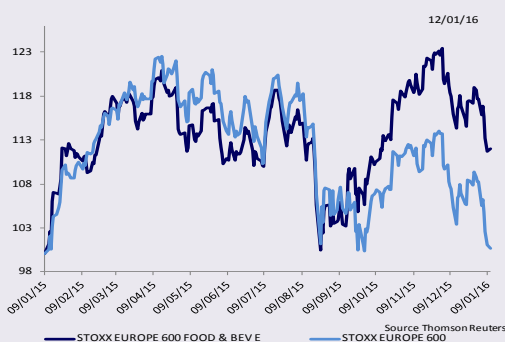
DANONE		BUY		FV EUR74 vs. 69
Bloomberg	BN FP	Reuters		DANO.PA
Price	EUR58.74	High/Low		67.48/53.1
Market cap.	EUR38,472m	Enterprise Val		EUR45 484m
PE (2015e)	20.0x	EV/X (2015e)		15,6x

NESTLE		NEUTRAL initiated		CHF76
Bloomberg	NESN VX	Reuters		NESZn.VX
Price	CHF70.25	High/Low		76.75/64.8
Market cap.	CHF223,985m	Val. Enterprise		240 353 MCHF
PE (2015e)	21,2x	EV/X (2015e)		17,3x

■ **The business environment has deteriorated for major food groups that are facing constant political intervention and an accumulation of regulations. They are also overwhelmed by sociological changes with the ramp-up in e-commerce and e-advertising, the increase in away-from-home consumption (AFH) and above all the emergence of the Millennial generation. In contrast, some newly created brands have managed to make the most of these developments.** In order to face these challenges, major groups in the sector have two options that have mixed results: reformulating products or acquiring small, dynamic companies.

■ **Only 16% of Danone's portfolio is based in high-risk categories, i.e. those affected negatively by the above-described changes in the food industry. This concerns yoghurts sold in Europe (excluding CIS). The group has mapped out a specific plan to restore their performance and has set credible financial targets. The first results have been positive with a return to growth for Actimel, a stabilisation in trends for Activia and an increase in the gross margin of the yoghurts division in Europe (+140bp in H1 2015 excluding the milk price effect). In contrast, Nestlé is not only exposed to risk categories for 25%, but the strong measures implemented by the Swiss group only concern 8% of its sales.**

■ **This analysis strengthens our positive conviction on Danone. We reiterate our Buy recommendation and have increased our Fair Value to EUR74 in order to take account of the roll-over of our estimates and the 1% increase in our EPS forecasts for the next three years. The Swiss group seems to be facing far larger challenges. Besides, its theoretical upside (+8%, Fair Value of CHF76) is low. So we are initiating coverage of the stock with a Neutral recommendation.** Despite the excellent performance enjoyed over the past three months, Danone's 12m forward P/E only stands at 20.1x (based on a consensus 2.5% lower than our estimates) compared with 20.4x for Unilever and 21.2x for Nestlé (our expectations are 1.6% below consensus).



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