

Danone

Price EUR60.91

More positives than negatives

Fair Value EUR74 (+21%)

BUY

The 2016 top line guidance is a slight disappointment. The group anticipates organic sales growth of 3-5% whereas the consensus was at 4-5% (and we expect 4.5%). However, this should not mask other positive news: 1/ stronger-than-expected bottom line guidance (solid vs slight), 2/ a beginning of a recovery in yoghurts (acceleration in organic sales growth and strong margin improvement) and 3/ a very good performance in Early Life Nutrition (+6% in Q4 vs consensus: +3.4%).

ANALYSIS

- Q4 sales rose 2.2% to EUR5,379m, globally in line with expectations (consensus: EUR5,317m and our estimate: EUR5,381m). Organic sales growth over the quarter stood at 3.6% (volumes: +1.3%), implying +4.4% in 2015, in the middle of the group's guidance range (between 4% and 5%). The deceleration in Q4 vs Q3 (+4.6%) was mainly due to the waters division. The good news was that yoghurts improved, up 2.6% organically in Q4 after +0.6% in Q3. The trading operating margin grew 32bps (+17bps in organic terms) to 12.91% (consensus: 12.9% and our estimate: 13%) benefitting from the low milk price environment and the group's initiatives, especially in the yoghurts division which posted a margin up 67 points to 9.95%, above expectations (our estimate: +9.7%). Underlying fully diluted EPS increased 11.8% to EUR2.93 (consensus: EUR2.89 and our estimate: EUR2.93).
- Details by division:
 - Yoghurts (49% of group sales): Q4 sales rose 2.6% (consensus: +2% and our estimate: +2.5%) thanks to a favourable basis of comparison in Europe (end of PRGM) and the category's return to growth in North America.
 - Early Life Nutrition (22% of group sales): sales rose 6%, well above consensus expectations (consensus: +3.4% and our estimate: +2%), despite a tough comparison base (+28.1% in Q4 2014).
 - Waters (22% of group sales): Unsurprisingly, the trend deteriorated sharply due to destocking of the mizone brand in China. Over the quarter, organic sales were up 1.9% (consensus: +3.9%) vs +6.8% in Q3.
 - Medical nutrition (7% of group sales): Sales grew 6.8% in organic terms in Q4 (consensus: +7.7% and our estimate: +7%), in line with Q3 (+6.9%). This was driven by strong performances in all geographical areas, especially in ALMA and in Europe.
- Free cash flow excluding exceptional items rose 9.1% to EUR1,529m. Net debt increased EUR35m to EUR7,799. The group announced that it will propose a dividend of EUR1.60, up 6.6% YoY (dividend yield: 2.6%).
- Danone has released its guidance for 2016. The group said 1/ organic sales should increase by 3-5%, in line with our expectation (+4.5%) but with a wider range than was expected (4-5%) and 2/ trading operating margin should post a solid improvement (our estimate: +50bps to 13.5%) while a slight one was anticipated.

VALUATION

- At yesterday's share price, the stock is trading on 2016e and 2017e P/E of 19.1x and 17.2x, 6% and 9% below the peer average, respectively.

NEXT CATALYSTS

- Q1 2016 sales on 19th April
- Shareholders' meeting on 28th April

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	BN FP
Bloomberg	DANO.PA
Reuters	67.5 / 53.1
12-month High / Low (EUR)	39,893
Market Cap (EUR)	46,906
Ev (BG Estimates) (EUR)	1 764
Avg. 6m daily volume (000)	10.5%
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.2%	-6.3%	7.6%	-2.2%
Food & Bev.	-1.5%	-8.8%	5.7%	-5.1%
DJ Stoxx 600	-1.9%	-13.1%	-8.2%	-9.3%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	21,144	22,430	23,157	24,529
% change		6.1%	3.2%	5.9%
EBIT	2,662	2,922	3,120	3,407
% change		9.7%	6.8%	9.2%
Net income	1,561	1,776	1,932	2,139
% change		13.8%	8.8%	10.7%

	2014	2015e	2016e	2017e
Operating margin	12.6	13.0	13.5	13.9
Net margin	7.4	7.9	8.3	8.7
ROE	9.6	11.1	15.8	16.3
ROCE	9.8	10.8	11.5	12.6
Gearing	66.1	55.9	50.2	42.2

(EUR)	2014	2015e	2016e	2017e
EPS	2.62	2.93	3.19	3.53
% change	-	12.0%	8.8%	10.7%
P/E	23.3x	20.8x	19.1x	17.2x
FCF yield (%)	3.9%	4.3%	4.7%	5.3%
Dividends (EUR)	1.50	1.68	1.83	2.02
Div yield (%)	2.5%	2.8%	3.0%	3.3%
EV/Sales	2.3x	2.1x	2.0x	1.9x
EV/EBIT	17.9x	16.1x	14.9x	13.4x



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