

Danone

Price EUR63.37

A successful test

Fair Value EUR71 vs. EUR74 (+12%)

BUY

In our view Danone has passed the test on the two elements the market was watching: 1/ improvement in the performance of yoghurts in Q4 (sales up 2.6% organically vs +0.6% in Q3), showing that the group is on track with its plan to turn around the division and 2/ improvement in the group's profitability (EBIT margin of 12.91% in 2015, with 9.95% at the yoghurts). We have cut our 2016 EPS estimate by 4% due to FX and reduced our Fair Value to EUR71.

ANALYSIS

- The focus was on the recovery in yoghurts and improvement in the group's profitability.** Yoghurt sales grew 2.6% organically in Q4, exceeding market expectations (+2.0%) and strongly accelerating vs Q3 (+0.6%). Volumes showed a sequential improvement over the year. **The group is starting to reap the fruits of the reorganisation of its European activities. Activia (30% of yoghurts sales in Europe) was only down mid single digit in 2015 vs a high single digit decline 18 months ago, and Actimel (15% of yoghurts sales in Europe) has been broadly stable since Q4 2014.** Next year, the group will continue its efforts on these two brands. Activia will be relaunched at the end of Q3 2016 while Actimel's packaging is to be changed and a new marketing campaign rolled out (Stay Strong). **The group has reiterated its goal to stabilise Europe by the end of 2016. The performance of yoghurts in North America (15% of yoghurt sales) was a positive surprise: in Q4 the region picked up materially on the back of the group's investments (focus on portability/expansion of consumption occasions...) and the strong potential of the category in the country (the naturality trend). Trading operating margin in the yoghurts division rose 24bps in organic terms (+67bps in reported to 9.95%) thanks to the favourable milk price environment and the group's initiatives in terms of rationalisation of the portfolio and cost efficiencies. At the group level, the margin rose 32bps to 12.91% (+17bps in organic). This was no non-event as it put an end to five years of decline.**
- Outlook for 2016 and change in estimates.** Danone has given cautious top line guidance for next year: it expects organic sales growth of between 3% and 5% while the consensus was far closer to 4-5%. To justify this, the group mentioned volatile economic conditions with deflationary consumer trends in Europe, volatile currencies in emerging markets and difficulties specific to a few major markets such as the CIS, China and Brazil. **We have revised our organic sales growth slightly downwards for 2016: +4% vs +4.5% previously. H2 is expected to be better than H1** which should be affected by a tough comparison base at the Early life nutrition division and the destocking of Mizone (water) in China. The group said that Mizone should return to a normalised growth level (between +5% and +10%) in H2. **Bottom line guidance was far more appealing.** The group indicated that the trading operating margin in 2016 should be "solid" in organic terms, which means better than the improvement in 2015 ie +17bps. **We now forecast a 31bps organic increase in the 2016 trading operating margin (+22bps previously).** Taking into account FX effects and the deconsolidation of Dumex in China (each of these is set to add 20bps), **our 2016 EBIT margin stands at 13.66%. We have cut our 2016 EPS estimate by 4% due to FX.**

	Bloomberg	BN FP
	Reuters	DANO.PA
	12-month High / Low (EUR)	67.5 / 53.1
	Market Cap (EUR)	41,504
	Ev (BG Estimates) (EUR)	48,534
	Avg. 6m daily volume (000)	1 774
	3y EPS CAGR	8.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.3%	-1.9%	12.0%	1.8%
Food & Bev.	-1.3%	-8.4%	5.9%	-5.0%
DJ Stoxx 600	-3.1%	-13.8%	-9.3%	-10.4%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	21,144	22,412	21,888	23,115
% change		6.0%	-2.3%	5.6%
EBIT	2,662	2,893	2,989	3,238
% change		8.7%	3.3%	8.3%
Net income	1,561	1,756	1,840	2,021
% change		12.5%	4.8%	9.8%

	2014	2015e	2016e	2017e
Operating margin	12.6	12.9	13.7	14.0
Net margin	7.4	7.8	8.4	8.7
ROE	9.6	11.0	15.1	15.5
ROCE	9.8	10.7	11.1	12.0
Gearing	66.1	56.1	49.7	42.2

(EUR)	2014	2015e	2016e	2017e
EPS	2.62	2.93	3.04	3.34
% change	-	11.9%	3.7%	9.8%
P/E	24.2x	21.6x	20.8x	19.0x
FCF yield (%)	3.7%	4.1%	4.8%	4.8%
Dividends (EUR)	1.50	1.68	1.74	1.91
Div yield (%)	2.4%	2.6%	2.7%	3.0%
EV/Sales	2.3x	2.2x	2.2x	2.0x
EV/EBIT	18.5x	16.8x	16.0x	14.6x



VALUATION

- At yesterday's share price, the stock is trading at 20.8x P/E 2016e and 19.0x P/E 2017e, globally in line with the peer average.

NEXT CATALYSTS

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

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