

11th February 2016

Food & Beverages

## Pernod Ricard

Price EUR99.58

Another strong quarter

Fair Value EUR122 (+23%)

BUY-Top Picks

H1 2015/16 results came out globally in line with market expectations. Organic sales growth over the first half of the year stood at 3.3% (consensus and our estimate: +2.9%), implying an improving trend in Q2 (+3.5%) vs Q1. H1 EBIT rose 2.6% organically (consensus: +2.8% and our estimate: 1.5%) as the improvement in pricing (+1% in H1 2015/16) and the tight management of costs partly offset the negative geographic mix and the increase in A&P and structure costs. Asia-ROW showed a nice acceleration due to China (earlier timing of the Chinese New Year), while the trends in Americas and Europe remained solid.

### ANALYSIS

- H1 2015/16 sales increased 7.3% to EUR4,958m (consensus: EUR4,961m and our estimate: EUR5,034m), thanks to FX tailwinds of 4.8%. The organic sales growth over the first half of the year stood at 3.3% (consensus and our estimate: +2.9%), implying an improving trend in Q2 vs Q1. H1 EBIT amounted to EUR1,438m (consensus: EUR1,443m and our estimate: EUR1,482m), up 5.8% on a reported basis and 2.6% organically (consensus: +2.8% and our estimate: 1.5%). The improvement in pricing (+1% in H1 2015/16) and the tight management of costs partly offset the negative geographic mix and the increase in A&P and structure costs. The reported margin declined 40bps to 29%.
- Asia-ROW showed a nice acceleration due to China, while the trends in Americas and Europe continued to be solid. The details by region are provided below:
  - ✓ Asia-ROW (40% of group's sales): Organic sales were up 8.8% in Q2 vs +0.8% in Q1. In China, the group reported a 2% organic sales decline in H1 following a 9% organic sales decline in Q1, which implies a very strong rebound in Q2. This is reported to be due to a positive technical effect related to the earlier timing of the Chinese New Year. Pernod Ricard said that the overall improvement in the country remained challenging. India continued to grow very strongly (+14% in H1).
  - ✓ Americas (28% of group's sales): Organic sales rose 2% over the last quarter. The group benefitted from a very strong positive technical effect in Brazil due to shipments before the implementation of an excise duty hike at the beginning of December. In the United States, organic sales grew 3% in H1. In the country, Absolut is improving gradually, while the group's whiskeys continued to show a very good momentum.
  - ✓ Europe (32% of group's sales): Q2 organic sales dropped 0.6%, strongly decelerating vs Q1 (+3.1%). Spain, the UK and Germany were reported to be solid. France was in negative territory in Q2 due to the tough commercial environment. The Travel Retail remained challenging, while the comparison base was highly unfavourable this quarter in Russia.
- Free cash from recurring operations increased 10% to EUR544m. Net debt rose EUR237m to EUR9,258m, implying a net debt/EBITDA ratio of 3.6x (3.5x at the end of June 2015). The group has confirmed its guidance of FY organic EBIT growth between 1% and 3%. We maintain our estimates waiting for the analysts' meeting at 9am CET.

### VALUATION

- At yesterday's share price, the stock is trading at 14.8x EV/EBIT 2015/16 and 14.1x EV/EBIT 2016/17, 13% and 12% below the peers' average.

### NEXT CATALYSTS

- EMEA conference call on March 14<sup>th</sup>
- Q3 2015/16 sales on April 21<sup>st</sup>

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	RI FP
Bloomberg	PERP.PA
Reuters	117.3 / 88.3
12-month High / Low (EUR)	26,431
Market Cap (EUR)	34,990
Ev (BG Estimates) (EUR)	579.1
Avg. 6m daily volume (000)	8.6%
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.4%	-6.7%	-9.6%	-5.3%
Food & Bev.	-1.0%	-7.0%	-3.8%	-6.0%
DJ Stoxx 600	-7.7%	-16.2%	-21.2%	-13.8%

YEnd Jun. (EURm)	06/15	06/16e	06/17e	06/18e
Sales	8,558	9,006	9,332	9,770
% change		5.2%	3.6%	4.7%
EBITDA	2,456	2,721	2,803	2,939
EBIT	2,238	2,360	2,448	2,587
% change		5.5%	3.7%	5.7%
Net income	1,329	1,478	1,583	1,700
% change		11.2%	7.1%	7.4%

	06/15	06/16e	06/17e	06/18e
Operating margin	26.2	26.2	26.2	26.5
Net margin	10.1	15.7	16.3	16.7
ROE	6.6	10.0	10.5	10.6
ROCE	8.8	11.4	11.6	12.0
Gearing	67.9	60.2	55.4	48.6

(EUR)	06/15	06/16e	06/17e	06/18e
EPS	4.99	5.55	5.95	6.39
% change	-	11.2%	7.1%	7.4%
P/E	20.0x	17.9x	16.7x	15.6x
FCF yield (%)	4.4%	4.6%	5.2%	5.4%
Dividends (EUR)	1.80	2.02	2.16	2.32
Div yield (%)	1.8%	2.0%	2.2%	2.3%
EV/Sales	4.1x	3.9x	3.7x	3.5x
EV/EBITDA	14.4x	12.9x	12.3x	11.5x
EV/EBIT	15.8x	14.8x	14.1x	13.1x



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NEUTRAL ratings 29,1%

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