

Pernod Ricard

Price EUR92.89

This was clearly an overreaction

Fair Value EUR117 vs. EUR122 (+26%)

BUY-Top Picks

Bloomberg	RI FP
Reuters	PERP.PA
12-month High / Low (EUR)	117.3 / 88.3
Market Cap (EUR)	24,655
Ev (BG Estimates) (EUR)	33,365
Avg. 6m daily volume (000)	588.1
3y EPS CAGR	5.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.4%	-13.8%	-12.9%	-11.7%
Food & Bev.	-4.3%	-11.0%	-5.6%	-8.9%
DJ Stoxx 600	-10.8%	-19.8%	-22.9%	-17.0%

YEnd Jun. (EURm)	06/15	06/16e	06/17e	06/18e
Sales	8,558	8,794	8,894	9,309
% change		2.8%	1.1%	4.7%
EBITDA	2,456	2,658	2,678	2,806
EBIT	2,238	2,306	2,340	2,471
% change		3.0%	1.4%	5.6%
Net income	1,329	1,400	1,451	1,566
% change		5.3%	3.7%	7.9%

	06/15	06/16e	06/17e	06/18e
Operating margin	26.2	26.2	26.3	26.5
Net margin	10.1	15.2	15.6	16.1
ROE	6.6	9.6	9.8	10.0
ROCE	8.8	11.1	11.1	11.5
Gearing	67.9	61.7	58.2	52.5

(EUR)	06/15	06/16e	06/17e	06/18e
EPS	4.99	5.26	5.45	5.88
% change		5.4%	3.7%	7.9%
P/E	18.6x	17.7x	17.0x	15.8x
FCF yield (%)	4.7%	4.3%	4.6%	5.0%
Dividends (EUR)	1.80	1.91	1.98	2.14
Div yield (%)	1.9%	2.1%	2.1%	2.3%
EV/Sales	3.9x	3.8x	3.7x	3.5x
EV/EBITDA	13.7x	12.6x	12.3x	11.6x
EV/EBIT	15.0x	14.5x	14.1x	13.2x



China disappoints. The group said that its value depletions were down 4-5% in H1, in line with last year, and continues to expect this trend over the remainder of the year. The market was clearly expecting a more positive outlook from the management following Rémy Cointreau's comments on January 21st. But elsewhere there were good news. In the United States, the underlying performance of Pernod Ricard is improving and the gap with the market is narrowing. This is driven by Absolut: its value depletions were only down 1% in H1 2015/16 (Nielsen data) vs -3.2% in 2014/15. Our Fair Value is cut to EUR117 only due to FX. Buy recommendation maintained.

ANALYSIS

- China disappoints.** The group posted 2% organic sales decline in the country in H1, a strong improvement vs Q1 (-9%) and implying a return to positive territory in Q2. This drove 8.8% organic sales growth in Asia/ROW over the quarter, well ahead of the market expectations (+3.1%). **The group said that its value depletions were down 4-5% in H1, in line with last year, and expects this trend to continue over the remainder of the year (no change from what the group said at the release of its full-year results). The market was clearly expecting a more positive outlook from the management following Rémy Cointreau's comments on January 21st.** As a reminder, this group reported high-single-digit/low-double-digit growth in value depletions over the past quarter and mentioned an overall improvement of the consumption environment. **One possible explanation of Pernod Ricard's difficulties in China is the tougher comparison base it is facing vs its competitors.** The group posted a much better performance than its peers last year. **We maintain our estimate of 4% organic sales decline in China in 2015/16, in line with the current depletions trend.**
- The US was the bright spot in this release.** Sales growth moderated in Q2 after a positive shipment phasing effect in Q1. But the spirits market is well oriented, with its value growth estimated at +5%. **The underlying performance of Pernod Ricard is improving and the gap with the market is narrowing. This is driven by Absolut: its value depletions were only down 1% in H1 2015/16 (Nielsen data) vs -3.2% in 2014/15. The core brand (75% of the brand's sales in the US) even stabilized.** This is the result of all the initiatives taken by the group: increase in the dedicated salesforce (x3), new packaging, adjustment in pricing, increase in A&P expenditures. The group is well on track in its plan to stabilize the brand medium term. **The two key whiskies in the US market continued to perform strongly in H1: Jameson +24% and the Glenlivet: +9% (Nielsen data).**
- Better in Europe. The region came back into negative territory due to technical effects.** Sales in Russia dropped 6% in H1 on tough comps (overshipments in Q2 2014/15). The merger of the back offices between Pernod and Ricard at the end of 2014/15 negatively impacted France in H1. These two markets should stabilize over the remainder of the year. **The underlying trend is improving in the West. The UK and Germany are showing good momentum. Spain accelerated vs 2014/15 (+2%). Restated for the merger of the back offices, France would have dropped only 1%.** This appears to be a good performance given that the market saw a 30% decline in the on-trade channel due to the terror attacks in November.
- Cut in estimates due to FX.** Our organic forecasts are broadly unchanged. In organic terms, we expect 2.7% organic sales growth in 2015/16 and a stable EBIT margin. **We decrease our EBIT estimates by 2% in 2015/16 and 4.5% in 2016/17 due to FX. Our Fair Value is revised downwards from EUR122 to EUR117.**

VALUATION

- At yesterday's share price, the stock is trading at 14.5x EV/EBIT 2015/16 and 14.1x EV/EBIT 2016/17, 12% and 9% below the peers' average.

NEXT CATALYSTS

- EMEA conference call on March 14th / Q3 2015/16 on April 21st



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