

## Sector View

## Food industry

	1 M	3 M	6 M	31/12/15
Food & Bev.	1.4%	0.4%	-2.8%	-2.8%
DJ Stoxx 600	4.1%	4.2%	-7.2%	-4.6%

\*Stoxx Sector Indices

## Companies covered

DANONE	BUY	EUR70
NESTLE	BUY	CHF80

## Mead Johnson's Q1 16 sales: reiterating preference for Nestlé over Danone

During its conference call, Mead Johnson said that the unofficial flows affected by the tax hikes in China have already slowed down. Danone was much more optimistic during its conference call, qualifying the impact as minimal. The US company confirmed that more measures are in the pipeline of the Chinese authorities. In this context of uncertainty, we maintain our preference for Nestlé over Danone.

## ANALYSIS

- Yesterday Mead Johnson released Q1 16 results above market expectations.** Sales amounted to USD962.1m (consensus: USD945m), down 12% in reported and 6% in organic (-6% in Q4 15). This implies 8% drop in volumes and 2% increase in price/mix. EPS (non GAAP) reached USD0.87, 4% above consensus (USD0.84). **The group confirmed its full year guidance of 1/ growth ex-FX between 0% and 2% and 2/ EPS (non-GAAP) between USD3.48 and USD3.60.** By region, sales in North America/Europe declined 1% ex-FX as market share pressure and promotional activities in the US offset the good momentum in the European markets. In LATAM, the company posted 6% sales decline ex-FX, impacted by the macro weakness in the region and a temporary suspension of shipments to Venezuela. Finally, in Asia, sales decreased 9% ex-FX due to tough price competition. **Mead Johnson has introduced a fully imported portfolio in China which is growing strongly and now accounts for 45% of sales in the country. Its local portfolio in the country is stabilizing.**
- The company said that it is still assessing the full effects of the tax changes for the cross border e-commerce. As a reminder, taxes on C2C were raised from 10% to 15% and taxes in free trade zones increased from 10% to 12%, with the elimination of a number of exemptions. **In Mead Johnson's view, there is already a slowdown of the unofficial flows. The group has confirmed what Nestlé and Danone previously said: more measures are in the pipeline of the Chinese authorities. Danone is clearly the most exposed to the cross border C2C (an estimated 7% of the group's EBIT). In this context of uncertainty, we maintain our preference for Nestlé over Danone.**

## VALUATION

- At yesterday's share price, Danone and Nestlé are respectively trading at 20.9x and 20.8x P/E 2016e.

## NEXT CATALYST

- Nestlé will hold its Investors seminar on May 24<sup>th</sup>/25<sup>th</sup>

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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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