

**Danone**

Price EUR62.32

**Waters driving better than expected organic performance**

Fair Value EUR70 (+12%)

BUY

**Q1 2016 reported sales came out globally in line with consensus. They declined 3% to EUR5306m (consensus: EUR5,323m and our estimate: EUR5,342m). But the organic sales growth was better than expected at +3.5% (consensus: +3.2% and our estimate: +3.1%). This was driven by Waters which rose 3.9% (consensus: +2% and our estimate: +2.5%). We note that Yoghurts was strong, with organic sales up 2.3% over the quarter.**

**ANALYSIS**

- Q1 2016 sales declined 3% to EUR5,306m (consensus: EUR5,323m and our estimate: EUR5,342m). The organic sales growth stood at 3.5% (consensus: +3.2% and our estimate: +3.1%), in line with the Q4 2015 trend (+3.6%) and the full year guidance (3-5%). The price/mix rose 2.7%, while the volumes grew 0.8%. By division:
  - ✓ **Fresh Dairy Products (49% of group's sales):** Organic sales were up 2.3% in Q1 (consensus: +2% and our estimate: +2.5%), driven by the US. This country confirmed the recovery observed in H2. The group said that it continues to make good progress in Europe and its objective remains to stabilize the region by the end of this year.
  - ✓ **Early Life Nutrition (21% of group's sales):** This division posted 4.8% organic sales growth (consensus: +5.2% and our estimate: +4%). The deceleration vs Q4 2015 (+6%) had been well flagged by the group, which had indicated a normalization of the Chinese imports from Europe at the release of its full year results.
  - ✓ **Waters (21% of group's sales):** Organic sales increased 3.9% in Q1, better than expected (consensus: +2% and our estimate: +2.5%). The growth was sustained for both plain water and aquadrinks. The group confirmed that the destocking of the Mizone brand in China should be over in H2.
  - ✓ **Medical Nutrition (7% of group's sales):** Organic sales increased 6.6% (consensus: +6.7% and our estimate: +6%), driven by all regions.
- Danone has confirmed its annual guidance which is 1/ organic sales growth between 3% and 5% and 2/ a solid improvement in trading operating margin. Our own estimates call for 4% organic sales growth over the year and 30bps organic improvement in the trading operating margin. We make no change to these estimates before the conference call at 9am CEST.

**VALUATION**

- At yesterday's share price, the stock is trading at 20.5x P/E 2016e vs 20.8x for Nestlé and 21.5x for Unilever.

**NEXT CATALYSTS**

- Mead Johnson will release its Q1 2016 sales on April 28<sup>th</sup>
- Danone will hold its Shareholders' Meeting on April 28<sup>th</sup>

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Bloomberg	BN FP
Reuters	DANO.PA
12-month High / Low (EUR)	67.5 / 53.1
Market Cap (EUR)	40,817
Ev (BG Estimates) (EUR)	47,846
Avg. 6m daily volume (000)	1 685
3y EPS CAGR	8.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	6.2%	7.0%	0.1%
Food & Bev.	1.4%	4.7%	1.9%	-2.1%
DJ Stoxx 600	0.7%	4.7%	-5.2%	-5.9%

YEnd Dec. (EURm)	2014	2015	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	2015	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	2015	2016e	2017e
EPS	2.62	2.93	3.04	3.34
% change	-	11.9%	3.7%	9.8%
P/E	23.8x	21.3x	20.5x	18.7x
FCF yield (%)	3.8%	4.2%	4.9%	4.9%
Dividends (EUR)	1.50	1.68	1.74	1.91
Div yield (%)	2.4%	2.7%	2.8%	3.1%
EV/Sales	2.3x	2.1x	2.2x	2.0x
EV/EBIT	18.2x	16.5x	15.8x	14.4x



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