

21st April 2016

Food & Beverages

Pernod Ricard

Price EUR103.70

Worse than expected decline in China

Fair Value EUR113 (+9%)

BUY

Pernod Ricard's Q3 2015/16 sales came out 2% below market expectations at EUR1,855m (consensus: EUR1,890m and our estimate: EUR1,858m), down 3.4%. The FX effect turned out to be more negative than expected. But organic sales growth was also disappointing at 0.8% (consensus: +1.2% and our estimate: +0.1%). This reflects a very negative technical effect in China as the group shipped in advance for the Chinese New Year.

ANALYSIS

- Q3 reported sales dropped 3.4% to EUR1,855m (consensus: EUR1,890m and our estimate: EUR1,858m). Organically they were only up 0.8% (consensus: +1.2% and our estimate: +0.1%) due to a negative technical effect in China. This is a strong deceleration vs H1 (+3.3%). By region:
 - ✓ **Asia-ROW (40% of group's sales):** Organic sales were down 5.4% in Q3, well below expectations (consensus: +1% and our estimate: -1%). This was due to a worse than anticipated decline in China. The group had shipped in Q2 for the Chinese New Year. The performance of India remained very strong, with organic sales up 14% this quarter.
 - ✓ **Americas (28% of group's sales):** The region surprised positively (consensus: 1.8% and our estimate: 0%), with organic sales up 11.1% over the quarter. A positive shipment phasing in the US more than offset a very strong decline in Brazil (the excise duty hike at the beginning of December boosted Q2 sales).
 - ✓ **Europe (32% of group's sales):** Organic sales growth stood at 1.6% in Q3 (consensus: 1.9% and our estimate: +2%), helped by the Easter timing and easy comps in Russia. Spain continued to perform very strongly while France remained very sluggish.
- The group has confirmed its full-year guidance for organic EBIT growth between 1% and 3%. It also indicated that the FX impact on EBIT should be flat to slightly positive this year (vs +EUR20m previously).

VALUATION

- At yesterday's share price, the stock is trading at 15.9x EV/EBIT 2015/16e and 15.6x EV/EBIT 2016/17e, 16% and 10% below the peer average.

NEXT CATALYSTS

- Conference call at 9am CEST
- Campari's Q1 2016 sales on 9th May

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	RI FP
Bloomberg	PERP.PA
Reuters	117.3 / 88.3
12-month High / Low (EUR)	27,524
Market Cap (EUR)	36,228
Ev (BG Estimates) (EUR)	495.1
Avg. 6m daily volume (000)	4.5%
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.6%	7.0%	4.9%	-1.4%
Food & Bev.	3.3%	7.7%	3.4%	-0.3%
DJ Stoxx 600	2.6%	8.8%	-3.3%	-4.1%

YEnd Jun. (EURm)	06/15	06/16e	06/17e	06/18e
Sales	8,558	8,759	8,860	9,160
% change		2.4%	1.1%	3.4%
EBITDA	2,456	2,630	2,638	2,735
EBIT	2,238	2,280	2,301	2,405
% change		1.9%	0.9%	4.5%
Net income	1,329	1,380	1,422	1,516
% change		3.9%	3.1%	6.6%

	06/15	06/16e	06/17e	06/18e
Operating margin	26.2	26.0	26.0	26.3
Net margin	10.1	15.0	15.3	15.8
ROE	6.6	9.5	9.6	9.7
ROCE	8.8	11.0	10.9	11.2
Gearing	67.9	61.7	58.1	52.2

(EUR)	06/15	06/16e	06/17e	06/18e
EPS	4.99	5.18	5.34	5.69
% change		3.9%	3.1%	6.6%
P/E	20.8x	20.0x	19.4x	18.2x
FCF yield (%)	4.2%	3.9%	4.2%	4.5%
Dividends (EUR)	1.80	1.89	1.94	2.07
Div yield (%)	1.7%	1.8%	1.9%	2.0%
EV/Sales	4.3x	4.1x	4.0x	3.9x
EV/EBITDA	14.9x	13.8x	13.6x	13.0x
EV/EBIT	16.3x	15.9x	15.6x	14.7x



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