

Pernod Ricard

Price EUR98.65

More difficulties in China than anticipated

Fair Value EUR107 vs. EUR113 (+8%)

BUY

The release contained some good news. Growth in the US, western Europe and India was strong, but China proved to be particularly weak. Management reported a deterioration in the underlying trend and now forecasts a 7% decrease in value depletions in the country in 2015/16 vs the previous guidance for -4/5%. Sales in the country are expected to be down 10% over the year vs the previous guidance for a mid to high single digit decline. We have cut our estimates by 4% on average over the next three years. Our Fair value is adjusted downwards to EUR107.

ANALYSIS

- **Some good news in the US/Western Europe/India. The US spirits market continues to grow strongly**, at around 6.4% over 9M 2015/16 (*Nielsen data*), and Pernod Ricard is closing the gap with the market. **Management said that organic sales growth over the year in the country should be between 3% and 4% (our estimate: +3%)**, accelerating vs last year when they were flat. **Western countries are picking up**, in particular Spain (5% of group's sales) which grew high single digit every quarter since the beginning of this fiscal year. **In Asia, India remained very strong**, with organic sales up 14% in Q3.
- **10% organic sales decline in China in 2015/16. Over the last couple of days, the stock has benefitted from positive comments from LVMH and Rémy Cointreau on China. We had flagged that this should not be extrapolated to Pernod Ricard as 1/ the group shipped in its Q2 2015/16 for the Chinese New Year and 2/ it has scotch in its Chinese portfolio (20% of its sales in the country), a category which is still declining double digit. But the news coming from China are worse than expected.** The Chinese New Year was reported to be soft. **The underlying trend has deteriorated. Pernod Ricard anticipates value depletions to be down 7% in 2015/16 vs the previous guidance of -4/5%. In terms of organic sales growth, it said that a 10% decline over the year is likely.** This compares to the previous guidance of a mid to high single digit drop. The difference between organic sales decline and value depletions decline is due to excess inventory in the trade at the end of 2014/15. **Pernod Ricard also indicated that it will not be able to increase prices in China.**
- **Q4 2015/16 should be weak.** We forecast 1% organic sales decline in Q4 due to: 1/ the reversal of shipment loading in the US in Q3, 2/ an unfavourable comparison base in France as the group overshipped in Q4 2014/15 before the merger of Pernod's and Ricard's IT systems, 3/ an organic sales decline of 10% in China, in line with what the group said during the conference call, and 4/ destocking in South East Asia (Vietnam, Indonesia, Malaysia...).
- **EPS cut by 4% on average over the next three years. We now forecast 1.7% organic sales growth in 2015/16, with: +1.5% in Asia/ROW, +3.3% in Americas and +0.6% in Europe. We also revise downwards our estimate for organic EBIT growth for the year, at +1% vs +2% previously. This puts us at the low end of the group's guidance (1/3%)** which was confirmed yesterday. We expect FX effects to be flat this year. This is in line with comments from Pernod Ricard, which flagged yesterday a flat to slightly positive effect on 2015/16 EBIT (vs +EUR20m previously). **In all, we have adjusted downwards our EPS estimates by 4% on average over the next three years.**

VALUATION

- Our Fair Value is adjusted downwards to EUR107. At yesterday's share price, the stock is trading at 15.5x EV/EBIT 2015/16e and 15.2x EV/EBIT 2016/17e, 17% and 12% below the peer average.

NEXT CATALYSTS

- Campari: 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)	26,184
Market Cap (EURm)	34,738
Ev (BG Estimates) (EURm)	507.5
Avg. 6m daily volume (000)	2.8%
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.0%	-1.6%	0.1%	-6.2%
Food & Bev.	2.0%	4.6%	2.4%	-1.7%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

YEnd Jun. (EURm)	06/15	06/16e	06/17e	06/18e
Sales	8,558	8,693	8,797	9,089
% change		1.6%	1.2%	3.3%
EBITDA	2,456	2,595	2,583	2,663
EBIT	2,238	2,247	2,249	2,336
% change		0.4%	0.1%	3.9%
Net income	1,329	1,343	1,365	1,443
% change		1.0%	1.6%	5.7%

	06/15	06/16e	06/17e	06/18e
Operating margin	26.2	25.8	25.6	25.7
Net margin	10.1	14.7	14.8	15.2
ROE	6.6	9.1	9.0	9.1
ROCE	8.8	10.9	10.7	10.9
Gearing	67.9	60.0	55.1	50.0

(EUR)	06/15	06/16e	06/17e	06/18e
EPS	4.99	5.04	5.13	5.42
% change	-	1.1%	1.6%	5.7%
P/E	19.8x	19.6x	19.2x	18.2x
FCF yield (%)	4.4%	4.4%	4.3%	4.5%
Dividends (EUR)	1.80	1.83	1.86	1.97
Div yield (%)	1.8%	1.9%	1.9%	2.0%
EV/Sales	4.1x	4.0x	3.9x	3.7x
EV/EBITDA	14.3x	13.4x	13.3x	12.7x
EV/EBIT	15.7x	15.5x	15.2x	14.5x



Analyst :
Virginie Roumage
33(0) 1.56.68.75.22
vroumage@bryangarnier.com

Sector Team :
Nikolaas Faes
Loïc Morvan
Antoine Parison
Cédric Rossi

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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