

## Pernod Ricard

Price EUR96.50

## Feedback from roadshow

Fair Value EUR107 (+11%)

BUY

The group has reiterated what it said during the conference call, namely that it sees no turnaround for cognac or scotch in China. However, there was some good news elsewhere. In the US, Absolut is headed in the right direction and now has the same weight as Jameson. The lifting of the embargo against Cuba is a catalyst. Europe is also improving, especially the key Spanish market. Trends in the UK, Germany, and Poland are better.

## ANALYSIS

- Asia-ROW.** Pernod Ricard's cognac depletions are down slightly (flattish for Moët Hennessy and Rémy Martin). **The group said that no cognac player is really gaining shares. Most of the performance difference with competitors is due to the weight of scotch in the portfolio (20% of sales in China).** This category was not well established when the anti-extravagance policy was implemented. **Pernod Ricard has reduced its exposure to the contracted outlets, which now account for only 5% of the group's volumes** (we think this should be a double digit figure for Moët Hennessy and Rémy Martin). Some of these contracts were unprofitable as a result of the group's lack of clout in negotiations with these big clients. **The group sees no inflection for cognac or scotch and expects no margin improvement in the country.** Over the long term, the group should benefit from diversification in consumption thanks to its comprehensive portfolio (vodka, champagne, wines, Irish whiskey...). In India, Pernod Ricard generates volumes that are four times lower but profits three times higher than its closest competitor. **The margin in India is about 3/4 of the margin in China and improves year after year. The implementation of the GST system could be a risk or an opportunity.** This could add a supplementary layer of taxes or simplify the current system.
- Americas.** Pernod Ricard is increasing its investments in the US partly thanks to the lower resources invested in Europe. Absolut is key to end the loss of market share in the US. The goal is not to make the brand grow in line with the category but to stabilise it. This is unlikely to occur for three years. The problem of Absolut is its low brand equity with Millennials. A new marketing campaign focused on authenticity was launched at the beginning of April and the first feedback is positive. In addition, Pernod Ricard now has 800 dedicated sales i.e. three times more than in the past. **Jameson now has the same weight as Absolut i.e. 25% of the group's US sales and is the most profitable brand in the country. It continues to premiumise and is now USD3 above Jack Daniel's which used to be the main competitor. The lifting of the embargo against Cuba remains a positive catalyst.** The US accounts for 40% of the global rum market. **Pernod Ricard will be in a position to premiumise the rum category in the country and is set to benefit from the rebellious Cuban image of Havana Club.** Elyx, Avion and Martell are also critical investments in the country. The group believe it can take some market share in cognac but it will need some time. Its market share is currently just 1% (16% for prestige).
- Europe.** Spain has clearly recovered and grew 8% over the first nine months of the year. **The country represents 4% of the group's sales and has a margin in the mid forties (i.e. the same as in the US).** The recovery is driven by gin which accounts for 40% of the market but whiskies are also better. The UK is also doing well, as is Germany. **France is much more complicated, with a market down slightly in underlying terms.** Negotiations with retailers are tough. There is also a huge technical effect this year since there are only 50 weeks of sales vs 54 last year as the merger of Pernod's and Ricard's IT systems was implemented at the beginning of 2015/16. **In the East, Poland is recovering while Russia remains tough. Note that last year, the country's margin remained above the group average despite the FX effect.**

## VALUATION

- At yesterday's share price, the stock is trading at 15.2x EV/EBIT 2015/16e and 15x EV/EBIT 2016/17e, 18% and 11% below the peer average.

## NEXT CATALYSTS

- Campari: Q1 2016 sales on 9th May

	RI FP
Bloomberg	PERP.PA
Reuters	117.3 / 88.3
12-month High / Low (EUR)	25,613
Market Cap (EURm)	34,168
Ev (BG Estimates) (EURm)	510.7
Avg. 6m daily volume (000)	2.8%
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.0%	-6.5%	-6.9%	-8.3%
Food & Bev.	1.4%	1.2%	-0.9%	-2.6%
DJ Stoxx 600	2.4%	3.0%	-5.8%	-4.7%

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	19.3x	19.1x	18.8x	17.8x
FCF yield (%)	4.5%	4.5%	4.4%	4.6%
Dividends (EUR)	1.80	1.83	1.86	1.97
Div yield (%)	1.9%	1.9%	1.9%	2.0%
EV/Sales	4.0x	3.9x	3.8x	3.7x
EV/EBITDA	14.1x	13.2x	13.1x	12.5x
EV/EBIT	15.5x	15.2x	15.0x	14.3x



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