

20th April 2016

Food & Beverages

Rémy Cointreau

Price EUR75.11

Better prospects going forward

Fair Value EUR75 vs. EUR72 (0%)

BUY

Cognac consumption trends in China in Q4 confirmed the improvement we saw in Q3. Depletions over the quarter were up mid single digit in volume terms (flat in value) and the Chinese New Year was reported to be solid. The trend also remained very strong in the US driven by 1738. Excluding VS, volume depletions in the country rose 18.9% over the past 12 months. Overall, Rémy Cointreau should show more consistency in 2016/17 due to a lack of negative technical effects. We have upgraded our EPS estimates by 4% on average for the next three years and adjusted our Fair Value to EUR75.

ANALYSIS

- Better consumption trends for cognac in China. Q4 depletions were flat in value and up mid single digit in volume, confirming the improvement we saw in Q3.** The inflection was led by Mainland China and Taiwan, while Hong Kong and Macau remained soft. Management said that the cognac market rose slightly in volume terms and dropped slightly in value terms. **The Chinese New Year was reported to be solid, in line with LVMH's comments.** We think Hennessy was the clear winner of this festive period. But Rémy Martin also won some market share, especially in the intermediate plus category (*Club*). The good news is that Rémy Cointreau thinks it can increase prices in this category by 2-3% in 2016/17. So far it was struggling just to maintain its prices in China. **The group aims to be positive in terms of sell in 2016/17, after a low double digit decline this year.**
- Cognac to remain very strong in the US. Volume depletions of Rémy Martin (excl VS) in the US were up 18.9% over the past 12 months. This was mainly driven by 1738** (intermediate plus category) but the group mentioned that Louis XIII picked up nicely. The question mark concerns Martell's comeback in the US market which could strengthen competition since Pernod Ricard is currently intensifying its investments behind the brand in the country. So far this does not seem to have jeopardised Rémy Martin and Hennessy's positions. **On a global basis, underlying sales at Rémy Martin were up 5% in 2015/16 and management said that this performance is possible next year.**
- Acceleration in Liqueurs & Spirits next year. Sales of Liqueurs & Spirits declined 1.5% organically in 2015/16 after +7.2% in 2014/15. This was due to the situation in Russia, Greece and travel retail. The trend should accelerate next year.** The acquisition of Grand Marnier by Campari is theoretically a threat to Cointreau. Nevertheless, its is worth noting that while Cointreau volumes were up mid single digit over the past 12 months, the performance of Grand Marnier remained sluggish and we think that Campari will need some years to restore the brand.
- More consistency in 2016/17. The group should not suffer from negative technical effects in 2016/17.** 2015/16 was impacted by the strategic withdrawal from the VS cognac category in the US, the change in the route to market in Canada/Australia/China, the loss of the distribution champagne contracts in the US, and the tough comps for Cointreau in the US (in H1). The performance of Rémy Cointreau will be much more consistent throughout 2016/17. **The group will announce its full-year results on June 9th. We forecast 3% organic EBIT growth.**

VALUATION

- We have upgraded our EPS estimates by 4% on average for the next three years following yesterday's beat and the better prospects for 2016/17. Our DCF points to a Fair Value of EUR75.** At yesterday's share price, the stock is trading at 20.7 EV/EBIT 2016/17e, 14% above the peer average. This compares to a 10-year historical premium vs its peers of 18%.

NEXT CATALYSTS

- Pernod Ricard: Q3 2015/16 on 21st April, Rémy Cointreau: 2015/16 results on 9th June

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Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	75.1 / 50.9
Market Cap (EUR)	3,660
Ev (BG Estimates) (EUR)	4,152
Avg. 6m daily volume (000)	118.4
3y EPS CAGR	14.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	16.9%	24.0%	23.5%	13.8%
Food & Bev.	3.4%	5.2%	3.3%	-0.3%
DJ Stoxx 600	2.2%	4.9%	-4.1%	-4.5%

YEnd Mar. (EURm)	03/15	03/16e	03/17e	03/18e
Sales	965.1	1,051	1,136	1,204
% change		8.9%	8.1%	6.0%
EBITDA	175	192	219	238
EBIT	156.0	174.1	199.6	217.6
% change		11.6%	14.7%	9.0%
Net income	94.6	104.6	123.7	140.5
% change		10.6%	18.2%	13.6%

	03/15	03/16e	03/17e	03/18e
Operating margin	16.2	16.6	17.6	18.1
Net margin	18.0	10.0	10.9	11.7
ROE	8.8	10.7	13.0	15.6
Gearing	43.4	50.3	49.7	50.6

(EUR)	03/15	03/16e	03/17e	03/18e
EPS	1.95	2.16	2.55	2.90
% change	-	10.6%	18.2%	13.6%
P/E	38.5x	34.8x	29.4x	25.9x
FCF yield (%)	0.2%	2.2%	2.8%	3.1%
Dividends (EUR)	1.53	1.73	2.04	2.28
Div yield (%)	2.0%	2.3%	2.7%	3.0%
EV/Sales	4.3x	4.0x	3.6x	3.4x
EV/EBITDA	23.6x	21.6x	18.9x	17.3x
EV/EBIT	26.5x	23.9x	20.7x	18.9x



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