Carlsberg

Price DKK638.00

Q1 release underlines solid execution of new plans

Fair Value DKK600 vs. DKK500 (-6%) **NEUTRAL vs. SELL**

Bloomberg	CARLB DC
Reuters	CARCb.CO
12-month High / Low (DKK)	648.5 / 490.6
Market Cap (DKKm)	97,163
Ev (BG Estimates) (DKKm)	153,038
Avg. 6m daily volume (000)	353.1
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.9%	12.0%	15.1%	4.2%
Food & Bev.	0.5%	2.7%	-4.4%	-3.4%
DJ Stoxx 600	1.3%	6.7%	-10.6%	-8.1%

YEnd Dec. (DKKm)	2015	2016e	2017e	2018e
Sales	65,354	64,108	65,441	
% change		*-1.9%*	*2.1%*	
EBITDA	12,614	12,234	12,940	
EBIT	7,940	7,560	8,314	
% change		*-4.8%*	*10.0%*	
Net income	4,557	4,051	4,767	
% change		*-11.1%*	*17.7%*	

	2015	2016e	2017e	2018e
Operating margin	12.1	11.8	12.7	
Net margin	7.0	6.3	7.3	
ROE	10.5	8.8	9.7	
ROCE	5.5	5.6	6.2	
Gearing	79.9	71.1	57.9	

(DKK)	2015	2016e	2017e	2018e
EPS	29.78	26.48	31.16	
% change	-	*-11.1%*	*17.7%*	
P/E	21.4x	24.1x	20.5x	
FCF yield (%)	7.6%	3.1%	5.6%	
Dividends (DKK)	6.48	6.48	6.80	
Div yield (%)	1.0%	1.0%	1.1%	
EV/Sales	2.4x	2.4x	2.3x	
EV/EBITDA	12.3x	12.5x	11.5x	
EV/EBIT	19.5x	20.2x	17.9x	

A slight miss on revenue by 1% is not material given the small and volatile nature of Q1 for Carlsberg. However, we are impressed by the seemingly quick progress the company is making on its efficiency improvement programme and the strategy to balance profitability with chasing market share. We will need to increase our profit outlook for that and already move the fair price to DKK600 (from DKK500) and the recommendation to Hold (from Sell).

Carlsberg started the year well with organic revenue growth of 2% driven by a price/mix of 4%. Volumes were in line with the consensus and net revenue was 1% below (DKK13,011m vs DKK13,155m) but we would not make much of it given the small (and volatile) nature of Q1. However, we are impressed about the seemingly quick progress of the strategy to balance profits better with market share and with the execution of the cost efficiency programme. We will adjust our figures for that and move already the fair price to DKK600 (from DKK500) and the recommendation to Hold (from Sell)

ANALYSIS

- The volume decline was largest in Western Europe where volumes declined by 7%, but with a price/mix improvement of 3%, net revenue decline was limited to 3%. In a flat Western European market, the company's volume decline was caused by the delisting at Tesco, the withdrawal from bigger contracts where the company was not making much money, in Finland and Poland. The delisting and withdrawals are testimony of the company's new policy to balance profitability with market share and did lead to the 3% improvement in price/mix.
- In Eastern Europe, Carlsberg managed a 6% organic growth in volumes and is on the back of easy compass last year when it took, in Russia, significant measures to reduce stock levels at distributors, reflecting the market decline and the further shift from traditional to modern trade. Nevertheless, the company warned that the underlying trend in Russia, Ukraine and Kazakhstan is still a mid-single digit decline. Because of the high inflation in Russia and Ukraine, price/mix was up 12% leading to an organic growth of net revenues by 20%. Reported net revenue declined by 2% due to a significantly negative currency impact.
- In Asia, volumes were flat and revenue grew organic by 5%. Reported net revenue declined by 1% due to a negative currency impact. Some Asian markets (like India and Nepal) continued growing whilst the Chinese beer market was down by 3-4%. With a 25% volume growth, the Tuborg brand continues to drive volume and revenues in Asia.
- In its release this morning the company updated on the execution of its efficiency improvement plan. On supply chain, by the end of Q1 2016 Carlsberg had cut approximately 950 SKUs from the tail. In China, in the last 12 months it has closed eight breweries and continues to work on its network. On operational efficiency, by the end of Q1, white-collar headcount reduction was about 2,000. On shared services, it is now in the process of moving a significant amount of back-office work to an external service provider in India. On operating cost management, after the first quarter, 12 of 15 cost groups have spending better than target across all regions and entities.
- Carlsberg kept its outlook for the year for low-single-digit percentages organic operating profit growth. Furthermore based on today's spot rates, it is now expecting a negative translation impact of DKK 550m compared to its previous expectation of DKK 600m balancing the positive impact of the strengthening of some major Eastern Europe currencies with the weakening of some Asian and Western European currencies.

VALUATION

- The stock is trading at 20.5x 2017 earnings which is in line with the sector.

NEXT CATALYSTS

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Stock rating

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