

3rd May 2016

Food & Beverages

Rémy Cointreau

Price EUR72.32

The glass is filling up (full report published today)

Fair Value EUR80 vs. EUR75 (+11%)

BUY

We have revised our EBIT margin for 2019/20 upwards from 18.7% to 20% to take into account margin improvement in China, strong growth in the highly profitable US market and good progress with the strategic plan. Our Fair Value is adjusted to EUR80. We maintain our Buy recommendation.

ANALYSIS

- Wind in the sails in the highly profitable US market.** The US, which we estimate accounts for as much as 42% of the group's EBIT, is growing very strongly, with value depletions up 16.2% in 2015/16. Rémy Cointreau is benefitting from the success of cognac and its Liqueurs & Spirits portfolio is pretty immune to the craft trend. We estimate that the group's organic sales in the country should increase 9% next year, with cognac up 11% and Liqueurs & Spirits up 5%. Over the longer term, high single-digit growth looks sustainable.
- China returning to growth in 2016/17.** Rémy Cointreau ended the year 2015/16 with depletions stable in value and up mid-single digit in volume. This implies a strong improvement vs H1 when they were down mid-single digit in value and stable in volume. It was mainly driven by Club but we think that Louis XIII may have returned to growth last year. In our view, EBIT margin in the country could have declined more strongly than the market thinks and now stands at the group level. In 2016/17, we expect organic sales growth in the country, in line with the group's comments, and an improvement in EBIT margin prompted by the better trading environment, the return to growth of Louis XIII and a potential catch-up effect.
- Good news going forward.** 2015/16 organic EBIT growth is likely to exceed expectations (1-2%). Our own estimate is for +4.5% vs +3% previously. The full results are due out on 9th June. We have revised EBIT margin upwards between 2016 and 2020 to stand at 20% in 2019/20 (vs 18.7% previously), at the high end of the group's guidance, driven by margin improvement in China, strong growth in the highly profitable US market and good progress with the strategic plan.

VALUATION

- Our DCF now points to a Fair Value of EUR80. We maintain our Buy recommendation.

NEXT CATALYSTS

- Pernod Ricard will hold its conference call on Asia on May 31st

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Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	75.1 / 50.9
Market Cap (EURm)	3,525
Ev (BG Estimates) (EURm)	4,015
Avg. 6m daily volume (000)	120.0
3y EPS CAGR	15.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.9%	8.8%	13.9%	9.6%
Food & Bev.	0.0%	-4.0%	-4.5%	-4.3%
DJ Stoxx 600	2.4%	2.0%	-9.4%	-6.7%

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	194	221	244
EBIT	156.0	176.2	202.1	223.9
% change		13.0%	14.7%	10.8%
Net income	94.6	106.1	125.4	144.9
% change		12.2%	18.1%	15.6%

	03/15	03/16e	03/17e	03/18e
Operating margin	16.2	16.8	17.8	18.6
Net margin	18.0	10.1	11.0	12.0
ROE	8.8	10.8	12.9	15.1
ROCE	15.6	0.0	0.0	0.0
Gearing	43.4	50.1	46.8	42.1

(EUR)	03/15	03/16e	03/17e	03/18e
EPS	1.95	2.19	2.59	2.99
% change	-	12.2%	18.2%	15.6%
P/E	37.1x	33.0x	28.0x	24.2x
FCF yield (%)	0.2%	2.3%	2.9%	3.4%
Dividends (EUR)	1.53	1.40	1.40	1.40
Div yield (%)	2.1%	1.9%	1.9%	1.9%
EV/Sales	4.1x	3.8x	3.5x	3.3x
EV/EBITDA	22.9x	20.7x	18.0x	16.1x
EV/EBIT	25.6x	22.8x	19.7x	17.5x



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