

15th June 2016

Food & Beverages

Danone

Price EUR60.00

Stronger margin increase thanks to fewer investments in emerging markets

Fair Value EUR71 vs. EUR70 (+18%)

BUY

The company has indicated that the EBIT margin should grow 50-60bps organically this year, while the organic sales growth should be at the low end of the group's guidance (3-5%). Emerging countries, especially China, are weaker than expected and, consequently, the group has decided to allocate less resources to these markets. We now expect EBIT margin to increase 52bps vs our previous forecast of +30bps. We have also adjusted downwards our organic sales growth forecast, from +4% to +3.2%. Our Fair Value is upgraded from EUR70 to EUR71.

	BN FP
Bloomberg	DANO.PA
Reuters	66.3 / 53.1
12-month High / Low (EUR)	39,354
Market Cap (EUR)	46,534
Ev (BG Estimates) (EUR)	1 551
Avg. 6m daily volume (000)	7.7%
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.1%	-6.1%	-1.6%	-3.7%
Food & Bev.	-3.0%	-2.9%	-3.4%	-6.1%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	22,412	21,661	22,834	24,271
% change		-3.4%	5.4%	6.3%
EBIT	2,892	2,989	3,245	3,518
% change		3.4%	8.6%	8.4%
Net income	1,791	1,852	2,031	2,234
% change		3.4%	9.7%	10.0%

	2015	2016e	2017e	2018e
Operating margin	12.9	13.8	14.2	14.5
Net margin	8.0	8.6	8.9	9.2
ROE	10.2	15.4	15.7	15.9
ROCE	10.7	10.8	11.6	12.4
Gearing	61.6	55.5	46.8	38.8

(EUR)	2015	2016e	2017e	2018e
EPS	2.93	3.04	3.33	3.66
% change	-	3.6%	9.6%	10.0%
P/E	20.5x	19.8x	18.0x	16.4x
FCF yield (%)	4.2%	4.4%	4.6%	4.9%
Dividends (EUR)	1.60	1.66	1.82	2.00
Div yield (%)	2.7%	2.8%	3.0%	3.3%
EV/Sales	2.1x	2.1x	2.0x	1.9x
EV/EBIT	16.3x	15.6x	14.1x	12.8x

ANALYSIS

- Guidance is now for 50/60bps organic increase in 2016 EBIT margin.** Previously the group was expecting a "solid" improvement, with "solid" meaning higher than in 2015 (+17bps in organic). Our estimate is for 52bps organic improvement vs +30bps before. **The company has decided to allocate fewer resources in emerging countries (Russia, Brazil, Argentina, China) which are weaker than expected. We think the new difficulties the group are facing concern much more China (7% of group's sales) than Russia (7% of group's sales), Brazil (4% of group's sales), and Argentina (6% of group's sales) which have been difficult for some time.**
- Waters and Baby Food are tough in China. The group appears more cautious than before about the recovery of the Chinese brand Mizone in H2.** It had previously indicated that destocking would be over in the second half of the year and Mizone would return to a pace of growth in line with the non-alcoholic beverages market (5-10%). **Besides, the regulation of Baby Food in China is ongoing.** It should come into force in May 2017 for C2C e-commerce and Danone needs to rebalance its business model towards cross-border B2C.
- CFO said that 2016 organic sales growth should be in the low end of the group's guidance (3-5%).** We revise downwards our estimate to +3.2% vs +4% previously. Organic sales growth in Q2 should be above Q1 driven by yoghurts and Baby Food. But H2 should post a material deceleration. We maintain our estimate of 5.6% organic sales growth in 2017.
- Targets for 2020 are maintained.** The group continues to expect organic sales growth above 5% by 2020, with Yoghurts between 3-5%, Waters and Baby between 7-10% and Medical nutrition between 6-8%. The EBIT margin of Yoghurts is still expected to grow more than 200bps in organic over the 2015-2020 period.

VALUATION

- Our DCF now points to a Fair Value of EUR71. At yesterday's share price, the stock is trading at 19.8x P/E 2016e vs 20.4x for Nestlé and 20.1x for Unilever.

NEXT CATALYSTS

- H1 results due on July 28th

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