

10th June 2016

Food & Beverages

Rémy Cointreau

Price EUR74.19

Confidence reiterated

Fair Value EUR80 (+8%)

BUY

This release has confirmed our confidence in the company's recovery in 2016/17. Management reiterated that the performance in China should improve materially and should support margin expansion, as well as the increase in weight of exceptional spirits (>USD50). We think yesterday's share price reaction can be explained by profit taking moves ahead of a weak Q1. We maintain our Buy recommendation and our Fair Value of EUR80.

| | |
|----------------------------|-------------|
| Bloomberg | RCO FP |
| Reuters | RCOP.PA |
| 12-month High / Low (EUR) | 76.8 / 50.9 |
| Market Cap (EUR) | 3,616 |
| Ev (BG Estimates) (EUR) | 4,077 |
| Avg. 6m daily volume (000) | 107.4 |
| 3y EPS CAGR | 14.6% |

ANALYSIS

- EBIT is set to rise 8% organically in 2016/17.** Guidance provided for next year was unsurprisingly vague. The group said it expects to deliver growth in EBIT at constant FX and scope in 2016/17, the same target given in June 2015. **But the recovery is ongoing. We maintain our estimate for 8% organic EBIT growth after +6.1% in 2015/16. This is in line with the consensus and the CEO said that she is comfortable with this level.** This growth is set to stem from an acceleration in organic sales growth in the US and China and the company's move upmarket.
- The group's CEO reiterated her confidence in an improvement in China next year. This should be driven by a more favourable comparison base and a normalization of private consumption.** As a reminder, the group's depletions stabilised in value terms in 2015/16 and the group previously indicated that they should return to growth in the year to come. We expect organic sales in China to rise 3% in 2016/17. This should support further margin expansion. **During the analysts' meeting yesterday, the company confirmed that China should positively impact gross margin next year.** In 2015/16, the drag was 20bp in organic. Note that the Americas is now the leading market for cognac, having gained 400bp over the year to 42%.
- 2015/16 was a successful first step in a five year plan. Exceptional spirits (>USD50) in 2015/16 accounted for 49% of group's sales, up 400bp vs 2014/15.** According to the group, we cannot assume the same kind of growth for 2016/17. Guidance is still for a weight of 60-65% by 2019/20. Rémy Cointreau continues to target EBIT margin of 18-20% by that date. The CEO stated that her goal is to return to a level of 20%, which can be seen as the norm in the industry, as soon as possible.
- The investment case remains intact.** Next year Rémy Cointreau should post one of the strongest organic sales growth levels within the spirits sector. Our estimate calls for +5.1%. The recovery is ongoing, with an improvement in China and an acceleration in the US (success of the cognac category and lack of the negative technical effects that impacted 2015/16). We think yesterday's share price reaction can be explained by profit taking moves before a weak Q1. The company confirmed that this quarter should be impacted by the advanced shipments made in Q4 2015/16 before the global hike in prices at the beginning of fiscal 2016/17. It also said that H2 should be stronger than H1.

VALUATION

- Our DCF points to a Fair Value of EUR80. At yesterday's share price, the stock is trading at 20.1x EV/EBIT 2016/17e and 17.9x EV/EBIT 2017/18e, 14% and 11% above the peer average.

NEXT CATALYSTS

- Q1 2016/17 sales on 20th July

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| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|------|-------|-------|----------|
| Absolute perf. | 1.4% | 15.9% | 12.0% | 12.4% |
| Food & Bev. | 1.9% | 1.7% | -2.7% | -2.1% |
| DJ Stoxx 600 | 2.4% | 0.6% | -6.3% | -6.7% |

| YEnd Mar. (EURm) | 03/15 | 03/16 | 03/17e | 03/18e |
|------------------|-------|-------|--------|--------|
| Sales | 965.1 | 1,051 | 1,101 | 1,167 |
| % change | | 8.9% | 4.8% | 6.0% |
| EBITDA | 178 | 196 | 220 | 243 |
| EBIT | 156.0 | 178.4 | 201.4 | 223.1 |
| % change | | 14.4% | 12.9% | 10.8% |
| Net income | 94.6 | 110.4 | 123.1 | 142.4 |
| % change | | 16.7% | 11.5% | 15.6% |

| | 03/15 | 03/16 | 03/17e | 03/18e |
|------------------|-------|-------|--------|--------|
| Operating margin | 16.2 | 17.0 | 18.3 | 19.1 |
| Net margin | 18.0 | 10.5 | 11.2 | 12.2 |
| ROE | 8.8 | 9.9 | 12.0 | 14.1 |
| ROCE | 15.6 | 16.5 | 17.3 | 18.0 |
| Gearing | 43.4 | 41.2 | 40.3 | 35.8 |

| (EUR) | 03/15 | 03/16 | 03/17e | 03/18e |
|-----------------|-------|-------|--------|--------|
| EPS | 1.95 | 2.28 | 2.54 | 2.94 |
| % change | - | 16.8% | 11.5% | 15.6% |
| P/E | 38.0x | 32.6x | 29.2x | 25.3x |
| FCF yield (%) | 0.2% | 3.0% | 2.8% | 3.3% |
| Dividends (EUR) | 1.53 | 1.40 | 1.40 | 1.40 |
| Div yield (%) | 2.1% | 1.9% | 1.9% | 1.9% |
| EV/Sales | 4.2x | 3.9x | 3.7x | 3.4x |
| EV/EBITDA | 22.9x | 20.8x | 18.4x | 16.4x |
| EV/EBIT | 26.2x | 22.9x | 20.1x | 17.9x |



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| | |
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