

11th July 2016

Food & Beverages

Danone

Price EUR64.04

No redemption (full report published today)

Fair Value EUR67 vs. EUR71 (+5%)

NEUTRAL vs. BUY

Our view is that the acquisition of WhiteWave is value destructive for shareholders and will prevent Danone from focusing on the improvement of its organic performance. We downgrade our recommendation to Neutral and our Fair Value to EUR67.

ANALYSIS

- **What we liked about Danone was the redemption case.** The group was operating a culture shift by **focusing on the improvement in the organic performance** rather than carrying out expensive and value destructive acquisitions. There was finally no redemption and history seems to be repeating itself.
- **The financial rationale is not compelling. The return on invested capital is just over 4% in 2017 while the WACC of Danone is around 7%.** During the conference call, the group said that this acquisition will decrease its ROIC by 200bps in 2017. It had previously committed itself to gradually improving the ROIC which tumbled following the acquisition of Numico in 2007. **It also goes without saying that the M&A track record of Danone is poor.** We have already mentioned Numico but there was also the Wahaha case. **But the main reason why we are negative on this acquisition is that Danone will have too much work.** We do not believe the group will be able to integrate WhiteWave's operations while in the same time improving the performance of yoghurts and handling the shrinkage of the grey market in China.
- The transaction is accretive on EPS (2016-2018 estimates revised upwards by 4% on average), which is not a surprise given the low interest rates. But the financial situation of Danone has deteriorated strongly. The net debt of the company will reach EUR18bn, implying a net debt/EBITDA ratio of 4.0x in 2017.

VALUATION

- Our beta rises from 0.82 to 0.95. **We downgrade our Fair Value to EUR67 and our recommendation to Neutral.**

NEXT CATALYSTS

- H1 results due on July 28th

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Distribution of stock ratings

BUY ratings 57.4%

NEUTRAL ratings 33.1%

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