

Danone

Price EUR65.70

A solid quarter

Fair Value EUR67 (+2%)

NEUTRAL

This morning, Danone unveiled a good set of results. Q2 organic sales rose 4.1% (consensus: +3.7% and our estimate: +3.8%), above the Q1 trend (+3.5%) thanks to an acceleration in all divisions excluding Waters. First-half margin rose 125bps to 13.37% (+93bps in organic) helped by easy comps. A conference call will be held at 9am CET.

ANALYSIS

- Q2 organic sales up 4.1% after +3.5% in Q1. Q2 sales amounted to EUR5,746m (consensus: EUR5,699m and our estimate: EUR5,720m), down 3% reportedly but up 4.1% on an organic basis (consensus: +3.7% and our estimate: +3.8%). This was slightly above the Q1 trend (organic sales up 3.5%) thanks to an acceleration in all divisions, excluding Waters.** Price/mix growth improved (+3.1% after +2.6% in Q1) while the volumes trend showed no change (+1% after +0.8% in Q1). **The EBIT margin increased 125bps in reported terms and 93bps organically to 13.37%. This was above forecasts (consensus: 12.92% and our estimate: 13.15%) thanks to easy comps** (a fire in a factory and the dumex adaptation costs in H1 2015) in the Early Life Nutrition division. EPS rose 11% to EUR1.52 (consensus: EUR1.46 and our estimate: EUR1.47). Free cash flow was up 29% to EUR742m due to the rise in sales and in operating margin and sound control of working capital. Net debt increased EUR497m to EUR8,296m.
- Better performance in Fresh Dairy Products. This division posted 3% organic sales growth in Q2** (consensus: +2.7% and our estimate: +2.8%), above the Q1 trend (+2.3%). Volumes did not show any improvement (-2.2% after -2.1% in Q1). The group said that the relaunch of Actimel and Danonino is starting to pay off and reiterated its goal to stabilise Europe by the end of the year. Excluding Europe, all the regions were showed growth.
- Slowdown in Waters. Q2 organic sales were up 2.7%** (consensus: +2.7% and our estimate: +3%), decelerating vs Q1 (+3.9%) due to tough comps (stocking ahead of the season in Q2 2015) and ongoing destocking at Mizone in China. Volumes rose 5.5% and the price/mix declined 2.8%. The group had previously indicated that destocking at Mizone should be over in the second half of the year and the brand should return to 5-10% sales growth in H2, in line with the non alcoholic beverages market in China.
- Organic sales of Early life Nutrition accelerating. Organic sales growth stood at 7.2% over the second quarter of the year (+4.8% in Q1),** above expectations (consensus and our estimate: +6%). Danone said that the trend in Europe deteriorated due to regulatory issues in China.
- No change in trend for Medical nutrition.** Q2 organic sales were up 7.1% (consensus and our estimate: +6.5%). Europe grew 5% and ALMA was up high single digit.
- Danone confirmed its annual guidance.** The group expects sales and EBIT margin to grow 3-5% and 50/60bps, respectively and on an organic basis. We maintain our 2016 estimates for 3.2% sales growth and a 52bp margin improvement before the conference call at 9am CET. We will pay attention to comments about 1/ the outlook for Waters and Early Life Nutrition in China, and 2/ the acquisition of WhiteWave.

VALUATION

- Our DCF points to a Fair Value of EUR67.

NEXT CATALYSTS

- Nestlé: H1 2016 results due on 18th August

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	BN FP
Bloomberg	DANO.PA
Reuters	66.3 / 53.1
12-month High / Low (EUR)	43,092
Market Cap (EUR)	61,507
Ev (BG Estimates) (EUR)	1 657
Avg. 6m daily volume (000)	9.4%
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.7%	4.5%	6.9%	5.5%
Food & Bev.	7.0%	3.2%	2.7%	0.4%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	22,412	21,785	26,621	28,000
% change		-2.8%	22.2%	5.2%
EBITDA	NM	NM	NM	NM
EBIT	2,892	2,978	3,698	4,056
% change		3.0%	24.2%	9.7%
Net income	1,791	1,828	2,077	2,343
% change		2.1%	13.6%	12.8%

	2015	2016e	2017e	2018e
Operating margin	12.9	13.7	13.9	14.5
Net margin	8.0	8.4	7.8	8.4
ROE	10.2	15.3	16.0	16.6
ROCE	10.7	10.8	13.1	14.1
Gearing	61.6	141.9	128.8	116.0

(EUR)	2015	2016e	2017e	2018e
EPS	2.93	3.00	3.40	3.84
% change	-	2.2%	13.6%	12.8%
P/E	22.4x	21.9x	19.3x	17.1x
FCF yield (%)	3.8%	3.9%	3.6%	4.1%
Dividends (EUR)	1.60	1.64	1.86	2.10
Div yield (%)	2.4%	2.5%	2.8%	3.2%
EV/Sales	2.3x	2.8x	2.3x	2.2x
EV/EBITDA	x	x	x	x
EV/EBIT	17.6x	20.7x	16.5x	14.9x



Analyst :
Virginie Roumage
33(0) 1.56.68.75.22
vroumage@bryangarnier.com

Sector Team :
Nikolaas Faes
Loïc Morvan
Antoine Parison
Cédric Rossi

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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