

## Diageo

Price 2,138p

## 2015/16 results: first take

Fair Value UNDER REVIEW)

NEUTRAL

2015/16 sales dropped 3% to GBP10,485m (consensus: GBP10,561m and our estimate: GBP10,479m), impacted by FX headwinds and disposals. The full year organic sales growth was strong at 2.8% (consensus: +2.8% and our estimate: +2.9%). This is an acceleration vs H1 (+1.8%) driven by North America, Europe/Russia/Turkey and Africa. Full year EBIT reached GBP3008m, down 2% on a reported basis, but 3% on an organic basis as the group benefited from a positive mix and procurement efficiencies.

## ANALYSIS

- 2015/16 sales dropped 3% to GBP10,485m (consensus: GBP10,561m and our estimate: GBP10,479m), impacted by FX headwinds and disposals. The full year organic sales growth was strong at 2.8% (consensus: +2.8% and our estimate: +2.9%). This is an acceleration vs H1 (+1.8%) driven by North America, Europe/Russia/Turkey and Africa. Volumes and price/mix were up respectively 1.3% and 1.5% in 2015/16, both improving vs H1. The full year EBIT amounted to GBP3008m (consensus: GBP3,008m and our estimate: GBP3,007m), down 2% reportedly and up only 3% on an organic basis. The group was impacted by the weak pricing environment an increase in marketing expenses in H2 as the group benefitted from a positive mix with the return to growth in North America and procurement efficiencies. The margin rose 123bps (+19bps in organic) to 27.10%. Adjusted EPS increased 1% to 89.4p.
- Analysis by region:
  - ✓ **North America:** Organic sales were up 3% over the year (consensus: +2.2% and our estimate: +2.8%), implying a strong acceleration vs H1 (-1.7%) driven by the innovation pipeline (Ciroc Apple) and strong performance of North American whiskeys (Crown Royal and Bulleit).
  - ✓ **Europe:** The organic sales growth stood at 4% in 2015/16 (consensus: +2.6% and our estimate: +2.9%), which implies an improvement vs H1 (+2.9%) on the back of price increases in Russia and improved momentum in Western Europe.
  - ✓ **Africa:** The region slightly improved in the second half of the year, with organic sales up 3% in 2015/16 (consensus and our estimate: +3.2%) after +2.5% in H1. This reflects an acceleration in South Africa, Africa Regional markets and East Africa, while the trend in Nigeria deteriorated.
  - ✓ **LAC:** Organic sales were up 1% in 2015/16 (consensus: +3.9% and our estimate: +1.5%), strongly decelerating vs H1 (+6.5%). This is not a surprise as the group had indicated it wrongly classified some Don Julio intercompany sales as external sales.
  - ✓ **Asia Pacific:** 2015/16 sales only increased 2% organically (consensus: +3.1% and our estimate: +3.5%), despite easy comps in Indonesia and South East Asia.
- Net debt decreased EUR892m to GBP8,635m. Free cash flow rose 7% to GBP2097m mainly due to by lower capex, increased operating profit before exchange, and lower interest payments. The group announced a 5% increase to its dividend per share to 59.2p, slightly below its usual policy of high single digit growth.

## VALUATION

- Our Fair Value is under review until we factor into our estimates the last FX changes and today's financial results.

## NEXT CATALYSTS

- A conference call will be held at 9am CET and followed by a Q&A session at 10h30.
- Diageo will hold a conference call at 9am CET, followed by a Q&A session at 10h30am CET
- Campari will publish its H1 2016 results on August 2<sup>nd</sup>

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Bloomberg	DGE LN
Reuters	DGE.L
12-month High / Low (p)	2,162 / 1,640
Market Cap (GBPm)	53,823
Ev (BG Estimates) (GBPm)	62,302
Avg. 6m daily volume (000)	4 580
3y EPS CAGR	3.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.7%	14.1%	14.5%	15.2%
Food & Bev.	7.0%	3.2%	2.7%	0.4%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

YEnd Jun. (GBPm)	06/15	06/16e	06/17e	06/18e
Sales	10,813	10,479	10,747	11,245
% change		-3.1%	2.6%	4.6%
EBITDA	3,390	3,322	3,541	3,795
EBIT	3,066	3,007	3,164	3,345
% change		-1.9%	5.2%	5.7%
Net income	2,225	2,201	2,331	2,500
% change		-1.1%	5.9%	7.2%

	06/15	06/16e	06/17e	06/18e
Operating margin	28.4	28.7	29.4	29.7
Net margin	23.8	22.0	23.6	23.3
ROE	24.0	21.1	20.9	20.8
ROCE	12.3	12.6	13.1	13.6
Gearing	102.9	81.2	71.7	61.2

(p)	06/15	06/16e	06/17e	06/18e
EPS	88.40	87.40	92.58	99.28
% change	-	-1.1%	5.9%	7.2%
P/E	24.2x	24.5x	23.1x	21.5x
FCF yield (%)	3.6%	2.8%	3.7%	4.1%
Dividends (p)	56.40	59.22	62.77	67.17
Div yield (%)	2.6%	2.8%	2.9%	3.1%
EV/Sales	5.9x	5.9x	5.8x	5.4x
EV/EBITDA	18.7x	18.8x	17.5x	16.1x
EV/EBIT	20.7x	20.7x	19.5x	18.3x



**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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## Distribution of stock ratings

BUY ratings 54,4%

NEUTRAL ratings 34,9%

SELL ratings 10,7%

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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
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