

Rémy Cointreau

Price EUR75.79

A solid underlying trend masked by negative technical effects

Fair Value EUR80 (+6%)

BUY

Yesterday's release confirms that the group is headed in the right direction. The United States continued to grow strongly and Greater China showed further improvement, with value depletions up mid single digit in Q1, while they were flat in 2015/16. We maintain our Buy recommendation and Fair Value of EUR80.

ANALYSIS

- Double-digit growth in the US. Value depletions accelerated, rising 18% in Q1 2016/17 after +15% in 2015/16.** The group said it is taking advantage of the change in its distribution network. It now has a bigger position than its distribution partners, which was not the case within the alliance it formed with Bacardi and Brown-Forman. Cointreau is benefitting from Cointreau Fizz activation programmes and lower competitive pressure following the acquisition of Grand Marnier by Campari. New listings are driving Bruichladdich's performance. Growth Rémy Martin also remained outstanding. We estimate that the brand's value depletions were running at +20% in Q1, ahead of the 2015/16 trend of 18%. The competitive environment in cognac does not seem to have deteriorated for Rémy Cointreau.
- A better than expected improvement in China.** Although the Q1 sales decline was significant (double digit) it does not reflect the trading environment and was due to stock loading moves ahead of price increases and the Chinese New Year. **The improvement in underlying consumption was strong and surprised us positively. Value depletions were up mid single digit in Q1 whereas they were flat last year.** The price/mix is now neutral (around -5% in 2015/16). Mainland China and Taiwan posted double-digit growth in value depletions while Hong Kong and Macau remained soft.
- Loss of the EPI champagne distribution contract in France, Benelux and Travel Retail. During the conference call, the group announced that it will stop distributing Charles Heidsieck and Piper Heidsieck in a number of markets ie France, Benelux and Travel Retail.** Management said this is set to decrease 2016/17 net sales by EUR20/25m (-2%). But the impact on EBIT should be very limited (-EUR1/2m) as these contracts have a very low profitability. This follows the terminations of the Edrington (2014/15) and EPI (2015/16) contracts in the US and is not a surprise. Partner brands are not core to the group's strategy and there is no penalty in spirits if a distribution contract is ended. We think the remaining distribution contracts (that could potentially be terminated in coming years to come) are of limited size.
- Change in estimates. We now expect 3.1% organic sales growth in 2016/17 vs +5% previously. This is the result of the loss of the distribution contract.** We maintain our estimates for the Cognac and the Liqueurs&Spirits divisions. Organic sales growth should accelerate over the remainder of the year due to the lack of negative technical effects that weighed on Q1 performance: timing of Easter, some destocking in China post the Chinese New Year and shipments ahead of global price hikes. **We have cut our forecast for full year EBIT by just 1%.**

VALUATION

- Our DCF still points to a Fair Value of EUR80. At yesterday's share price, the stock is trading at 20.8x EV/EBIT 2016/17e and 18.5x EV/EBIT 2017/18e, 14% and 11% above the peer average.

NEXT CATALYSTS

- 26th July: Shareholders' meeting of Rémy Cointreau and LVMH H1 2016 results
- 1st September: Pernod Ricard 2015/16 results

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Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	78.5 / 50.9
Market Cap (EUR)	3,694
Ev (BG Estimates) (EUR)	4,138
Avg. 6m daily volume (000)	101.5
3y EPS CAGR	13.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.4%	1.4%	26.4%	14.8%
Food & Bev.	4.3%	1.0%	8.8%	0.8%
DJ Stoxx 600	0.9%	-2.8%	5.7%	-6.8%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,051	1,069	1,133	1,214
% change		1.7%	6.1%	7.1%
EBITDA	200	220	244	270
EBIT	178.4	199.3	221.0	244.9
% change		11.7%	10.9%	10.8%
Net income	110.4	124.5	142.8	160.0
% change		12.8%	14.7%	12.1%

	03/16	03/17e	03/18e	03/19e
Operating margin	17.0	18.7	19.5	20.2
Net margin	10.5	11.6	12.6	13.2
ROE	9.9	11.5	13.5	14.6
ROCE	16.5	17.3	18.0	18.3
Gearing	41.2	41.1	38.1	31.6

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	2.27	2.56	2.93	3.29
% change	-	12.8%	14.7%	12.1%
P/E	33.4x	29.6x	25.8x	23.1x
FCF yield (%)	2.0%	2.8%	3.2%	3.7%
Dividends (EUR)	1.60	1.60	1.60	1.60
Div yield (%)	2.1%	2.1%	2.1%	2.1%
EV/Sales	4.0x	3.9x	3.6x	3.3x
EV/EBITDA	20.8x	18.8x	16.8x	14.9x
EV/EBIT	23.3x	20.8x	18.5x	16.5x



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