17th August 2016

Food & Beverages

Carlsberg

Price DKK679.00

Likely downgrade of full year consensus

Fair Value DKK600 (-12%) **SELL vs. NEUTRAL**

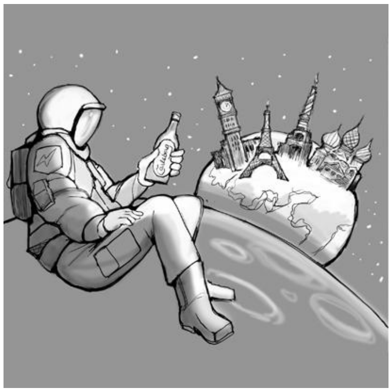
Bloomberg	CARLB DC
Reuters	CARCb.CO
12-month High / Low (DKK)	679.0 / 490.6
Market Cap (DKK)	103,620
Ev (BG Estimates) (DKK)	151,645
Avg. 6m daily volume (000)	259.1
3y EPS CAGR	6.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.8%	7.8%	12.3%	10.9%
Food & Bev.	0.4%	4.4%	7.0%	0.8%
DJ Stoxx 600	1.6%	2.6%	7.2%	-6.1%

YEnd Dec. (DKKm)	2015	2016e	2017e	2018e
Sales	65,354	63,690	64,956	66,415
% change		*-2.5%*	*2.0%*	*2.2%*
EBITDA	12,614	12,419	13,159	13,778
EBIT	7,940	7,745	8,535	9,194
% change		*-2.5%*	*10.2%*	*7.7%*
Net income	4,557	4,692	5,024	5,471
% change		*3.0%*	*7.1%*	*8.9%*

	2015	2016e	2017e	2018e
Operating margin	12.1	12.2	13.1	13.8
Net margin	7.0	7.4	7.7	8.2
ROE	10.5	10.2	10.1	10.2
ROCE	5.5	5.8	6.3	6.9
Gearing	79.9	71.4	57.7	44.3

(DKK)	2015	2016e	2017e	2018e
EPS	29.87	30.76	32.93	35.87
% change	-	*3.0%*	*7.1%*	*8.9%*
P/E	22.7x	22.1x	20.6x	18.9x
FCF yield (%)	7.1%	2.8%	5.5%	6.0%
Dividends (DKK)	6.48	6.48	6.80	7.14
Div yield (%)	1.0%	1.0%	1.0%	1.1%
EV/Sales	2.3x	2.4x	2.3x	2.1x
EV/EBITDA	12.1x	12.2x	11.2x	10.3x
EV/EBIT	19.2x	19.6x	17.3x	15.5x



We are downgrading our rating on Carlsberg from Neutral to Sell following the slightly lower than expected H1 results and the lack of upgrade in earnings outlook implicit in our and consensus figures.

Carlsberg reported this morning first half figures which came in below expectations. It delivered revenue of DKK 31.24bn vs consensus DKK 31.44bn (miss 1%), EBIT of DKK3,513m vs. consensus DKK3,541 (miss 1%) and adjusted net profit of DKK1,688m vs consensus of DKK1,758m (miss 4%). Organic revenue and EBIT growth was respectively 4% and 8%, which was ahead of consensus of 3% and 5%.

ANALYSIS

- H1 organic volume decline of -1% was in line with the much smaller Q1 (-2%). In H1 AB InBev delivered organic volume decline of -1.7%m Molson Coors' volumes were flat and Heineken's +4.1%.
- The top line miss was across all three regions (Western Europe, Eastern Europe and Asia), but the miss in operating profit mainly came from the non-distributed operating loss, which is driven by the higher marketing investments related to UEFA EURO 2016 (but the benefit of those higher marketing investments is in the devisional figures).
- The region that performed best was Western Europea that reported operating profit growth of 6% (9% organic) on flat revenues (organic +2%). Net revenue in Western Europe grew organically by 2% driven by a healthy price/mix of 3% as total volumes declined organically 1%. The positive price/mix was the result of the company's new value management approach. Positive price/mix together with efficiency improvements (funding the journey programme) drive the growth in operating profit. The good performance in the Nordic region with volume growth of 3-4% (ex Finland where they lost a big contract) and 'solid price/mix' also bodes well for Royal Unibrew (H1 results due on 24th August).
- In Eastern Europe organic revenue growth of 8% and organic EBIT growth of 19% is driven by inflation following the decline in the currencies (reported figures are down 15% and 10% respectively). Also the flat volumes is not really a good indicator as they include last year's Q1 impact of destocking and wholesalers. Indeed volumes in Q2 deteriorated to -3% compared to +6% in Q1.
- The Asia business continues a solid underluying trend. In Asia net revenue grew organically by 4% as a result of 7% price/mix offset by an organic volume decline of 3% (mainly because of the decline in Chinese volumes due to market decline and brewery closures). Reported net revenue declined by 4% due to a negative currency impact, mainly from China, Malawi, Malaysia and India. But the solid price/mix was due to premiumisation efforts on local power brands, reduction of lowpriced products in China and growth of the premium propositions. The latter was particularly positively impacted by the Tuborg brand, which grew 17%.
- For the full year, the company maintains its guidance of low-single-digit percentage organic growth in operating profit, but increases the expected negative translation impact on operating profit to around DKK -600m (previously DKK -550m), based on currency rates as at 15 August. It also increases the expected effective tax rate to 33% (previously 28%). On the back of this outlook guidance I would expect the consensus operating profit exectation of DKK8,356m (vs DKK8,457m) to come down by 2% to around DKK8,200m.

VALUATION

- Trading at 20.6x 2017 earnings is a significant premium on Heineken which is trading at 18.5x.
- Our fair value of DKK600 is based on a risk free rate of 1.6% and a risk premium of 7% and a long term growth rate of 3.5%. At DKK600 the stock would be trading at 18.2x 2017 earnings.

NEXT CATALYSTS

- 17 August 2016: conference call at 9 CET.
- 9 November 2016: Q3 trading statement.

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Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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BUY ratings 55.7% NEUTRAL ratings 33.6% SELL ratings 10.7%

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