

Rémy Cointreau

Price EUR74.35

It keeps getting better (full report published today)

Fair Value EUR84 vs. EUR80 (+13%)

BUY

The stock had a very strong performance over the past six months (+17% vs DJ Stoxx) but should continue to benefit from the positive momentum. The United States shows no signs of a slowdown and China keeps recovering. Besides, the premiumisation strategy is a success, with the weight of exceptional spirits increasing 400bps in 2015/16 to 49%. We maintain our Buy recommendation and raise our Fair Value to EUR84.

ANALYSIS

- **An attractive category.** Despite the anti-extravagance policy in China, global cognac sales posted a 10-year CAGR of 6.1%, vs +4.7% for the spirits market. Rémy Cointreau is close to being a pure player, with the category representing 62% of its sales. Growth in the US shows no sign of a slowdown. According to our estimate, cognac value depletions were running at +20% in Q1, ahead of the 2015/16 trend of 18%. China is recovering. In Q1, the improvement in value depletions was strong and surprised us positively. They were up mid single-digit in Q1 after a stabilisation in 2015/16.
- **Successful premiumisation strategy.** The group has indicated that its goal is to become the leader in exceptional spirits (retail price over USD50). This segment should account for 60-65% of its sales by 2019-2020. To reach this weight, it can improve price/mix organically or make some changes in its portfolio via acquisitions/disposals/end of distribution contracts. 2015/16 was a successful first step as the weight of exceptional spirits rose 400bps to 49%.

VALUATION

- **Fair Value lifted to EUR84.** The stock has been one of the best performers in our coverage universe. It outperformed the DJ Stoxx by 17% over the past six months. It is trading at 19.7x EV/EBIT 2016/17e and 17.6x EV/EBIT 2017/18e, 16% and 14% above the peers' average. This compares to a 10-year historical premium vs its peers of 18%. We have increased our EBIT forecasts by 4% on average over the next three years. Our Fair Value is adjusted upwards to EUR84 from EUR80.

NEXT CATALYSTS

- Q2 2016/17 sales on October 18th

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Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	80.4 / 50.9
Market Cap (EURm)	3,623
Ev (BG Estimates) (EURm)	4,077
Avg. 6m daily volume (000)	89.30
3y EPS CAGR	13.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.5%	3.4%	15.3%	12.6%
Food & Bev.	-3.5%	3.6%	1.8%	-1.9%
DJ Stoxx 600	-2.1%	3.6%	-1.0%	-7.4%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,051	1,076	1,140	1,232
% change		2.4%	6.0%	8.1%
EBITDA	200	227	252	284
EBIT	178.4	206.6	229.4	258.4
% change		15.8%	11.0%	12.6%
Net income	110.4	127.9	150.4	171.2
% change		15.9%	17.6%	13.8%

	03/16	03/17e	03/18e	03/19e
Operating margin	17.0	19.2	20.1	21.0
Net margin	10.5	11.9	13.2	13.9
ROE	9.9	12.0	14.4	16.0
ROCE	16.5	17.3	18.0	18.3
Gearing	41.2	42.4	40.2	34.0

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	2.27	2.50	2.94	3.35
% change	-	10.2%	17.6%	13.8%
P/E	32.8x	29.7x	25.3x	22.2x
FCF yield (%)	2.1%	2.6%	3.1%	3.6%
Dividends (EUR)	1.60	1.60	1.60	1.60
Div yield (%)	2.2%	2.2%	2.2%	2.2%
EV/Sales	3.9x	3.8x	3.5x	3.2x
EV/EBITDA	20.4x	18.0x	16.0x	14.0x
EV/EBIT	22.9x	19.7x	17.6x	15.4x



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