

18th October 2016

Food & Beverages

# Danone

Price EUR63.81

## Deteriorating sales trend

Fair Value EUR65 (+2%)

NEUTRAL

Q3 2016 sales decreased 1.8% to EUR5537m (consensus: EUR5.55bn and our estimate: EUR5.48bn). Organic sales growth stood at 2.1% (consensus: +2.4% and our estimate: +1.4%), implying a strong deterioration vs Q1 (+3.5%) and Q2 (+4.1%), which was driven by all divisions excluding Medical Nutrition. Volumes dropped 0.7% (consensus: +0.2% and our estimate: -0.6%) while price/mix rose 2.8% (consensus: +2.2% and our estimate: +2%).

### ANALYSIS

- Q3 2016 sales decreased 1.8% to EUR5537m (consensus: EUR5.55bn and our estimate: EUR5.48bn). Organic sales growth stood at 2.1% (consensus: +2.4% and our estimate: +1.4%), implying a strong deterioration vs Q1 (+3.5%) and Q2 (+4.1%), which was driven by all divisions excluding Medical Nutrition. Volumes dropped 0.7% (consensus: +0.2% and our estimate: -0.6%) while price/mix rose 2.8% (consensus: +2.2% and our estimate: +2%). By division:
  - Fresh Dairy Products** (49% of sales): Q3 organic sales were up 2.2% (consensus: +2.5% and our estimate: +1.5%) with volumes down 2.3% and price/mix up 4.5%. This represented a slowdown vs H1 (+2.3% in Q1 and +3% in Q2), reflecting the tough macroeconomic backdrop in LATAM and Russia and intense price competition in the US (because of weak milk prices).
  - Early Life Nutrition** (21% of group's sales): The division posted 1.7% organic sales growth in Q3 (consensus: +2.5% and our estimate: +1%), implying a strong deterioration vs the first half of the year (+4.8% in Q1 and +7.2% in Q2). Traders in the cross border C2C channel are currently destocking due to tougher regulations.
  - Waters** (22% of group's sales): Organic sales were down 0.1% in Q3 (consensus: +1% and our estimate: 0%), mainly due to destocking of Mizone. The non-alcoholic beverages market has slowed significantly in China and is now showing flat to up low-single-digit. Six months ago, it was running at 5-10%. Flooding in China also penalised the division's performance.
  - Medical Nutrition** (7% of group's sales): Organic sales increased 9.7% over the quarter (consensus and our estimate: +7%). Emerging countries, especially China and Brazil, continued to drive growth.
- Danone has confirmed its annual guidance for 1/ organic sales growth of between 3% and 5% and 2/ an improvement in EBIT margin of 50-60bps in organic. We currently expect organic sales and EBIT margin to rise 3% and 50bps in 2016. The group should provide more details on its outlook in the conference call scheduled for 9 am CET. The press release indicates that the destocking of Mizone and baby food products sold in the indirect channel should continue.

### VALUATION

- Our DCF points to a Fair Value of EUR65. At yesterday's share price, the stock is trading at 21.0x P/E 2016e and 20.0x P/E 2017e, globally in line with the peer average.

### NEXT CATALYSTS

- Nestlé will release its Q3 sales on 20th October.

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	BN FP
Bloomberg	DANO.PA
Reuters	70.3 / 58.1
12-month High / Low (EUR)	41,852
Market Cap (EUR)	60,166
Ev (BG Estimates) (EUR)	1 556
Avg. 6m daily volume (000)	6.5%
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.2%	-2.9%	2.7%	2.5%
Food & Bev.	-0.9%	-3.0%	-0.2%	-2.5%
DJ Stoxx 600	-0.1%	-0.1%	-1.6%	-7.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	22,412	21,899	25,880	27,252
% change		-2.3%	18.2%	5.3%
EBIT	2,892	2,980	3,493	3,775
% change		3.0%	17.2%	8.1%
Net income	1,791	1,871	1,966	2,180
% change		4.5%	5.1%	10.9%

	2015	2016e	2017e	2018e
Operating margin	12.9	13.6	13.5	13.9
Net margin	8.0	8.5	7.6	8.0
ROE	10.2	14.7	15.3	15.7
ROCE	11.0	12.4	14.0	14.8
Gearing	61.6	141.3	127.2	113.1

(EUR)	2015	2016e	2017e	2018e
EPS	2.93	3.04	3.19	3.54
% change	-	3.6%	5.1%	10.9%
P/E	21.8x	21.0x	20.0x	18.0x
FCF yield (%)	3.9%	4.3%	4.4%	4.7%
Dividends (EUR)	1.60	1.66	1.74	1.93
Div yield (%)	2.5%	2.6%	2.7%	3.0%
EV/Sales	2.2x	2.7x	2.3x	2.2x
EV/EBIT	17.2x	20.2x	17.0x	15.5x



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NEUTRAL ratings 31,2%

SELL ratings 12,1%

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