

27th October 2016

Food &amp; Beverages

**Diageo**

Price 2,190p

**Stronger FX tailwinds****Fair Value 2200p vs. 2100p (0%)****NEUTRAL**

**We raise our Fair Value from 2100p to 2200p to take into account more positive FX effects. We now expect the positive impact to be GBP1.6bn on sales and GBP540m on EBIT in 2016/17. Our previous forecasts called for GBP1.1bn on sales and GBP370m on EBIT, in line with the group's guidance communicated at the release of its 2015/16 results.**

**ANALYSIS**

- We adjust upwards our FX tailwinds for 2016/17. We now expect them to reach GBP1.6bn on sales and GBP540m on EBIT. Our previous forecasts called for a GBP1.1bn positive impact on sales and GBP370m on EBIT, in line with the group's guidance communicated at the release of its 2015/16 results. Our reported sales and EBIT estimates have been revised upwards by 4% and 5% on average over the next three years, respectively.

**Sales forecasts**

Bloomberg	DGE LN
Reuters	DGE.L
12-month High / Low (p)	2,268 / 1,745
Market Cap (GBP)	55,099
Ev (BG Estimates) (GBP)	62,108
Avg. 6m daily volume (000)	4 616
3y EPS CAGR	11.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	1.4%	16.5%	18.0%
Food & Bev.	-3.8%	-5.4%	-1.5%	-4.2%
DJ Stoxx 600	0.5%	0.1%	-1.6%	-6.6%

YEnd Jun. (GBPm)	06/16	06/17e	06/18e	06/19e
Sales	10,485	12,170	12,887	13,515
% change		16.1%	5.9%	4.9%
EBITDA	3,323	4,071	4,446	4,776
EBIT	3,008	3,645	3,931	4,168
% change		21.2%	7.9%	6.0%
Net income	2,242	2,673	2,922	3,137
% change		19.2%	9.3%	7.4%

	06/16	06/17e	06/18e	06/19e
Operating margin	28.7	29.9	30.5	30.8
Net margin	22.5	23.1	23.8	24.4
ROE	22.0	20.0	20.0	19.6
ROCE	12.1	14.0	14.8	15.5
Gearing	15.7	12.8	10.9	8.6

(p)	06/16	06/17e	06/18e	06/19e
EPS	89.04	106.16	116.04	124.59
% change		19.2%	9.3%	7.4%
P/E	24.6x	20.6x	18.9x	17.6x
FCF yield (%)	3.8%	4.6%	4.7%	5.2%
Dividends (p)	59.20	62.16	65.27	68.53
Div yield (%)	2.7%	2.8%	3.0%	3.1%
EV/Sales	6.1x	5.1x	4.7x	4.4x
EV/EBITDA	19.2x	15.3x	13.7x	12.5x
EV/EBIT	21.2x	17.0x	15.5x	14.4x

	2016/17e	2017/18e	2018/19e
<b>GROUP</b>			
Sales (GBPm)	12 170	12 887	13 515
Reported variation	16.1%	5.9%	4.9%
Organic variation	3.5%	4.2%	4.9%
FX variation	15.2%	1.7%	0.0%
Perimeter variation	-2.7%	0.0%	0.0%
<b>NORTH AMERICA</b>			
Sales (GBPm)	4 179	4 424	4 623
Reported variation	17.2%	5.9%	4.5%
Organic variation	3.5%	4.0%	4.5%
<b>EUROPE, RUSSIA, TURKEY</b>			
Sales (GBPm)	2 880	2 998	3 103
Reported variation	13.2%	4.1%	3.5%
Organic variation	2.8%	3.0%	3.5%
<b>AFRICA</b>			
Sales (GBPm)	1 534	1 637	1 735
Reported variation	9.5%	6.7%	6.0%
Organic variation	4.0%	5.0%	6.0%
<b>LATAM</b>			
Sales (GBPm)	1 002	1 074	1 138
Reported variation	16.1%	7.2%	6.0%
Organic variation	3.8%	5.0%	6.0%
<b>ASIA-PACIFIC</b>			
Sales (GBPm)	2 539	2 718	2 882
Reported variation	22.3%	7.1%	6.0%
Organic variation	4.0%	5.0%	6.0%
<b>CORPORATE</b>			
Sales (GBPm)	36	36	36



### EBIT forecasts

	2016/17e	2017/18e	2018/19e
<b>GROUP</b>			
<b>EBIT (GBPm)</b>	<b>3645</b>	<b>3931</b>	<b>4168</b>
Reported variation	21.2%	7.9%	6.0%
<b>Margin</b>	<b>29.9%</b>	<b>30.5%</b>	<b>30.8%</b>
Reported variation in bp	126	55	33
<b>NORTH AMERICA</b>			
<b>EBIT (GBPm)</b>	<b>1894</b>	<b>2024</b>	<b>2136</b>
Reported variation	22.1%	6.9%	5.5%
<b>Margin</b>	<b>45.3%</b>	<b>45.8%</b>	<b>46.2%</b>
Reported variation in bp	180	44	44
<b>EUROPE, RUSSIA, TURKEY</b>			
<b>EBIT (GBPm)</b>	<b>937</b>	<b>985</b>	<b>1030</b>
Reported variation	17.0%	5.1%	4.5%
<b>Margin</b>	<b>32.6%</b>	<b>32.9%</b>	<b>33.2%</b>
Reported variation in bp	107	32	32
<b>AFRICA</b>			
<b>EBIT (GBPm)</b>	<b>235</b>	<b>253</b>	<b>271</b>
Reported variation	10.9%	7.7%	7.0%
<b>Margin</b>	<b>15.3%</b>	<b>15.5%</b>	<b>15.6%</b>
Variation in bp	19	15	15
<b>LAC</b>			
<b>EBIT (GBPm)</b>	<b>227</b>	<b>244</b>	<b>259</b>
Reported variation	14.2%	7.2%	6.5%
<b>Margin</b>	<b>22.7%</b>	<b>22.7%</b>	<b>22.8%</b>
Variation in bp	-38	1	11
<b>ASIA-PACIFIC</b>			
<b>EBIT (GBPm)</b>	<b>524</b>	<b>571</b>	<b>617</b>
Reported variation	32.6%	9.0%	8.0%
<b>Margin</b>	<b>20.6%</b>	<b>21.0%</b>	<b>21.4%</b>
Variation in bp	160	37	40
<b>CORPORATE</b>			
<b>EBIT (GBPm)</b>	<b>-173</b>	<b>-147</b>	<b>-147</b>

Source of all tabs: Diageo, Bryan, Garnier & Co

### VALUATION

- We revise upwards our Fair Value from 2100p to 2200p.

### NEXT CATALYSTS

- The group will hold a conference call about North America on December 1<sup>st</sup>

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NEUTRAL ratings 31,8%

SELL ratings 11,5%

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