

Pernod Ricard

Price EUR109.75

Improving momentum

Fair Value EUR114 vs. EUR112 (+4%)

NEUTRAL

Yesterday Pernod Ricard published pretty solid results, even though they may have been somewhat inflated by easy comps in LATAM and France. The group confirmed it expects an improvement in China and further healthy growth in the United States. We revise upwards our EBIT estimates by 2% on average over the next three years due to FX. Our Fair Value is adjusted to EUR114. Neutral recommendation maintained.

ANALYSIS

- Improvement in China.** Sales in the country dropped 1% in Q1 after -9% in 2015/16. This reflected the good performance of the cognac portfolio which grew 3%. It remained driven by Noblige (VSOP) but Cordon Bleu (XO) showed a nice improvement, with sales now stable vs a double digit decline in Q4 2015/16. Pernod Ricard said that the first feedback from the Mid-Autumn festival was good but did not provide any figures. During its conference call, Rémy Cointreau reported that value depletions in the cognac market were up double digit during this event. **Whiskies continued to decline double digit in Q1** and are not expected to return to positive territory in 2016/17. **CFO said that he did not promise a return to growth in China this year (our estimate is for flat sales) but the country should definitely improve.** He targets mid single digit growth in the medium term.
- India slowing down.** The country only increased 8% in Q1 2016/17 (+18% in 2014/15 and +12% in 2015/16) and, according to management, this is the pace of growth we should expect for the full year. **The company is facing many regulatory challenges:** tax increase in Maharastra, distributor change in Punjab, Bihar prohibition... The GST system due to come into force in April 2017 is a risk for 2017/18. Spirits have been excluded, but not their inputs. Consequently, Pernod Ricard and its competitors in India will continue to suffer from tax inefficiencies, while facing an increase in input costs. The group is currently lobbying for 1) input costs to be excluded from the GST and/or 2) its prices to be increased. The group said its is confident in its ability to return to a double digit top line growth in India in the long term.
- Solid trend in the US.** The group posted 5% organic sales growth in the US in Q1. This was globally in line with underlying consumption which is at +4.8% according to Nielsen (52 weeks to September 2016). Jameson continued to grow double digit while the slight decline of Absolut (-1/2%) was consistent with the 2015/16 trend. The group confirmed its goal to stabilize the brand in the medium term. It has stepped up its investments behind it and reduced the number of flavours. The lifting of the US embargo remains a catalyst. The US represents 40% in value of the worldwide rum market.
- Outlook.** We expect 2.5% organic sales growth in 2016/17, accelerating vs last year (+1.8%). This takes into account an improvement in China, not completely offset by a slowdown in India and a deteriorated business environment in Africa/Middle East. The United States should continue to post solid growth at +4%. At the EBIT level, we expect 3.3% organic EBIT growth, in line with the group's guidance (2-4%). We have revised upwards our EBIT estimates over the next three years by 2% because of FX. The group's guidance is for a positive FX impact of EUR30m on EBIT in 2016/17.

VALUATION

- We revise upwards our Fair Value from EUR112 to EUR114.

NEXT CATALYST

- The group will hold its shareholders' meeting on 17th November

Bloomberg	RI FP
Reuters	PERP.PA
12-month High / Low (EUR)	109.8 / 91.6
Market Cap (EUR)	29,130
Ev (BG Estimates) (EUR)	37,415
Avg. 6m daily volume (000)	480.6
3y EPS CAGR	7.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.3%	9.4%	5.8%	4.3%
Food & Bev.	-1.2%	-2.4%	-1.4%	-1.7%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

YEnd Jun. (EURm)	06/16	06/17e	06/18e	06/19e
Sales	8,682	8,863	9,199	9,616
% change		2.1%	3.8%	4.5%
EBITDA	2,494	2,597	2,725	2,872
EBIT	2,277	2,376	2,495	2,632
% change		4.3%	5.0%	5.5%
Net income	1,380	1,476	1,592	1,706
% change		6.9%	7.9%	7.2%

	06/16	06/17e	06/18e	06/19e
Operating margin	26.2	26.8	27.1	27.4
Net margin	14.2	15.9	16.6	17.1
ROE	9.3	10.0	10.1	10.2
ROCE	6.7	11.4	11.7	12.0
Gearing	64.5	57.9	51.3	44.9

(EUR)	06/16	06/17e	06/18e	06/19e
EPS	5.20	5.56	5.99	6.42
% change	-	6.9%	7.9%	7.2%
P/E	21.1x	19.8x	18.3x	17.1x
FCF yield (%)	4.1%	4.5%	4.8%	5.0%
Dividends (EUR)	1.88	2.01	2.16	2.74
Div yield (%)	1.7%	1.8%	2.0%	2.8%
EV/Sales	4.4x	4.2x	4.0x	3.8x
EV/EBITDA	15.2x	14.4x	13.6x	12.7x
EV/EBIT	16.6x	15.7x	14.8x	13.9x



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