

Rémy Cointreau

Price EUR76.16

A good set of results**Fair Value EUR84 (+10%)****BUY-Top Picks**

The group reported a good set of results yesterday. The United States continued to grow strongly and China confirmed its improvement. Value depletions in the country were up mid single digit in Q2, in line with Q1. However this has triggered no upwards revisions to estimates. We maintain our Buy recommendation and our Fair Value of EUR84.

ANALYSIS

- The solid H1 trend reflected strong momentum in the US and improvement in Greater China and Russia. Western Europe proved to be broadly unchanged, while travel retail remained weak and Africa deteriorated. Rémy Cointreau warned that the Q2 performance should not be extrapolated to H2. We expect 3.7% organic sales growth in 2016/17 (+4.1% in H1). The group reiterated its guidance for EBIT growth at constant FX and scope. Our estimate calls for +9.5%.
- Sales in China returned to positive territory in Q2 after some destocking in Q1. Value depletions were up mid single digit in the quarter (no change in trend since the beginning of the fiscal year) thanks to better consumer confidence. Mainland China and Taiwan continued to drive the improvement, while Hong Kong and Macau remained soft. Rémy Cointreau reported that it gained share in Greater China. Club continued to outperform the group's other products but XO/XO+ showed some nice improvement. The Mid-Autumn festival appeared to be good. The company confirmed that both sell-in and depletions will be positive in China in 2016/17. The Chinese New Year is a bit earlier than last year, which could cause some sales transfer from Q4 to Q3. Note that growth in China was offset by some weakness in other Asian markets: Travel Retail (less spend per capita and more checks at Chinese border) and Japan (strong yen).
- The United States continued to grow strongly. The group's value depletions were up 13% over 6M and 12M. Weakness in the 3M trend (+6.7%) largely reflected destocking by retailers post price increases. The performance continued to be driven by cognac, with good momentum for 1738 and a recovery for Louis XIII. Growth in Cointreau and the Islay spirits remained sustained. But Mount Gay suffered from a drop in volumes of Eclipse following a new round of price increases.
- Europe, Middle East and Africa were a bit of a mixed bag. Russia/CIS had a good start to the year thanks to easy comps and an improvement in the consumer environment. Travel Retail moved into positive territory but this was mainly driven by the positive performance of partner brands. Trends were broadly unchanged in Western Europe and Eastern Europe, with the former broadly flat and the latter growing strongly. The deterioration in the environment in Africa was significant. The region moved into negative territory in H1, due to challenging macroeconomic factors in Nigeria not completely offset by strong business trends in South Africa.

VALUATION

- Our DCF still points to a Fair Value of EUR84. At yesterday's share price, the stock is trading at 20.6x EV/EBIT 2016/17e and 18.4x EV/EBIT 2017/18e, 15% and 15% above the peer average.

NEXT CATALYSTS

- Pernod Ricard will release its Q1 sales on 20th October

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Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	80.4 / 58.1
Market Cap (EUR)	3,785
Ev (BG Estimates) (EUR)	4,239
Avg. 6m daily volume (000)	92.50
3y EPS CAGR	13.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.6%	-1.0%	10.5%	15.4%
Food & Bev.	-0.3%	-2.5%	0.2%	-1.9%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,051	1,074	1,138	1,230
% change		2.2%	6.0%	8.0%
EBITDA	200	226	251	283
EBIT	178.4	205.4	228.0	256.9
% change		15.1%	11.0%	12.6%
Net income	110.4	127.1	149.4	170.1
% change		15.1%	17.6%	13.8%

	03/16	03/17e	03/18e	03/19e
Operating margin	17.0	19.1	20.0	20.9
Net margin	10.5	11.8	13.1	13.8
ROE	9.9	11.9	14.4	15.9
ROCE	16.5	17.3	18.0	18.3
Gearing	41.2	42.5	40.4	34.3

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	2.27	2.48	2.92	3.32
% change	-	9.5%	17.6%	13.8%
P/E	33.6x	30.7x	26.1x	22.9x
FCF yield (%)	2.0%	2.5%	3.0%	3.5%
Dividends (EUR)	1.60	1.60	1.60	1.60
Div yield (%)	2.1%	2.1%	2.1%	2.1%
EV/Sales	4.0x	3.9x	3.7x	3.4x
EV/EBITDA	21.3x	18.8x	16.8x	14.7x
EV/EBIT	23.8x	20.6x	18.4x	16.2x

**Analyst :**

Virginie Roumage
33(0) 1.56.68.75.22
vroumage@bryangarnier.com

Sector Team :

Nikolaas Faes
Loïc Morvan
Antoine Parison
Cédric Rossi

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Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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