

Carlsberg

Price DKK612.50

Q3 short of expectations but full year outlook revised upwards

Fair Value DKK600 (-2%)

SELL

Bloomberg	CARLB DC
Reuters	CARCb.CO
12-month High / Low (DKK)	679.0 / 518.5
Market Cap (DKKm)	93,593
Ev (BG Estimates) (DKKm)	138,658
Avg. 6m daily volume (000)	235.8
3y EPS CAGR	6.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.3%	-5.4%	-1.6%	0.0%
Food & Bev.	-4.2%	-6.6%	-1.6%	-6.6%
DJ Stoxx 600	-1.4%	-1.9%	1.0%	-8.4%

YEnd Dec. (DKKm)	2015	2016e	2017e	2018e
Sales	65,354	63,522	65,637	67,289
% change		-2.8%	3.3%	2.5%
EBITDA	12,614	12,276	12,879	13,392
EBIT	7,940	7,602	8,304	8,899
% change		-4.3%	9.2%	7.2%
Net income	4,557	4,439	5,108	5,561
% change		-2.6%	15.1%	8.9%

	2015	2016e	2017e	2018e
Operating margin	12.1	12.0	12.7	13.2
Net margin	7.0	7.0	7.8	8.3
ROE	10.5	9.4	10.1	10.1
ROCE	5.5	5.3	6.3	6.8
Gearing	79.9	62.1	47.9	36.0

(DKK)	2015	2016e	2017e	2018e
EPS	29.87	29.10	33.49	36.45
% change	-	-2.6%	15.1%	8.9%
P/E	20.5x	21.0x	18.3x	16.8x
FCF yield (%)	7.9%	5.1%	6.9%	6.5%
Dividends (DKK)	6.48	6.48	6.80	7.14
Div yield (%)	1.1%	1.1%	1.1%	1.2%
EV/Sales	2.2x	2.2x	2.0x	1.9x
EV/EBITDA	11.3x	11.3x	10.3x	9.6x
EV/EBIT	17.9x	18.2x	16.1x	14.4x

The Q3 trading statement looked a little shaky mainly because of weak Western European and Asian business. However, in Eastern Europe (Russia), Carlsberg seemed to become a more aggressive market leader being sharp on pricing allowing for much stronger than expected volume growth. The increase in full year guidance for organic operating profit growth of around 5% from low-single-digit percentage growth previously was already captured in our 5.4% growth. Carlsberg seems to be one of the few beverages stocks potentially to benefit from a Trump victory given its absence in the Mexican and US markets and a relatively friendly relationship between Trump and Putin (which could get Russia out of its isolation and have a positive impact on its economy). Nearly 20% of Carlsberg's operating profits come from Russia.

Carlsberg reported Q3 revenues this morning (organic growth of 1%) falling 2% short of expectations, with particularly weak scores in Western Europe (-3% v consensus) and Asia (-4%), but far better than expected in Eastern Europe (+7% v consensus). The Eastern European outperformance was mainly driven by far better volumes (+13%) as Carlsberg seemed to drive relative pricing down to gain some volume share momentum. For the full year, the company has increased its operating profit growth outlook to around 5% from low-single-digit percentage growth previously (we already have 5.4% growth in our model) and expects a translation impact of -DKK550m compared to previously -DKK600m.

ANALYSIS

- This morning Carlsberg reported net revenue of DKK17,535 which is a decline of 4% compared to Q3 last year (-4% after 9 months). Organic growth over the period was 1% with flat volumes and a 1% price/mix increase. The lower price/mix in Q3 compared to +4 ytd was mainly due to stronger growth in the licence business and better volumes in Eastern Europe. This improvement in Eastern European volumes came on the back of market share gains (a weak 5% growth in price/mix hints towards tough pricing), warm weather and sell-in of large-size PET bottles in Russia as Carlsberg will stop production of these in Q4.
- In Western Europe, the company did not do so well with volumes down by 4% in organic terms in a market that grew by 1-2%. Carlsberg did suffer from destocking in a number of markets following the UEFA EURO2016 sell-in in Q2 and from the reduction of margin-dilutive volumes at the end of last year in the UK and Finland and the beginning of this year in Poland. Adjusting for the latter, volumes would have been down by an estimated 1%, still underperforming the market.
- Net revenue in Asia grew organically by 2% (9M: +3%) as a result of the 4% price/mix (9M: +6%) and total organic volumes of -1% (9M: -2%). Volumes were down in China as they were impacted by the Eastern Assets brewery closures. Excluding China, Asian volumes grew organically by 4%. The positive price/mix was driven by both price increases and a positive product mix as premiumisation continued, in particular, with 13% growth at the Tuborg brand (India and China but also in Cambodia and Vietnam, where the brand was recently launched). Reported net revenue was down 6% (9M: -4%) due to a negative currency impact, mainly from China and Malaysia, and the disposal of Carlsberg Malawi.

VALUATION

- Our DKK600 Fair Value is based on a risk free rate of 1.7% and a risk premium of 7%.
- At 18.3x 2017, the stock trades exactly at the same multiple as Heineken. Its 2018 PE of 16.8x is also in line with Heineken's 16.9x and shows a discount to AB InBev's 19.6x.

NEXT CATALYSTS

- 8th February 2017: Full year results

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