

Pernod Ricard

Price EUR102.75

Getting better!

Fair Value EUR115 vs. EUR114 (+12%)

BUY vs. NEUTRAL

Organic sales should grow 2.7% in 2016/17, accelerating vs last year (+1.8%) thanks to a recovery in China and Europe while momentum in the United States should remain strong. We upgrade our recommendation to Buy and our Fair Value to EUR115 (full note to follow).

ANALYSIS

- A solid performance in the United States.** Sales in the US were up by 4% in 2015/16, having been flat in 2014/15. This growth rate is expected to continue in 2016/17. Irish whiskey Jameson and the single-malt scotch Glenlivet, accounting for 25% and 7% of sales in the United States respectively, remain the main growth drivers. These two brands saw their sell-outs increase by 23% and 9% last year. Although remaining in negative territory, the Absolut brand is showing signs of an improvement, depletions having declined by only 2% in 2015/16 following a 4% fall in 2014/15. This was the result of measures taken by the group: renegotiation of two distribution contracts, packaging changes, refocusing of the advertising campaigns around the notion of authenticity, reduction in the number of flavours, increased advertising expenditure, price reductions and expansion into super premium via Absolut Elyx. Pernod Ricard has reiterated its goal of stabilising Absolut in the medium term.
- A recovery in China not offset by a slowdown in India.** Chinese sales were down by only 2% in 2014/15 before posting a 9% decline in 2015/16. This deterioration was mainly due to whisk(e)y which posted double-digit falls while Martell cognac was just slightly negative thanks to a normalisation in private consumption, before returning to positive territory in Q1 2016/17 (+3%). At present, the performance remains driven by Noblige although Cordon Bleu is showing signs of an improvement. In our view, Pernod Ricard should manage to stabilise its sales in China this year. The pick-up in China should offset the slowdown in India. Sales in the country are expected to grow by only 8% in 2016/17, decelerating vs 2015/16 (+12%), as the group missed some sales during the Divaly celebration. The group should return to double digit growth in India in 2017/18.
- Europe is also showing signs of an improvement.** We are forecasting organic sales growth of 2% in 2016/17 in the region, an acceleration relative to 2015/16 (+1.1%), driven by Russia and France. Destocking came to an end in Russia last year and spirits consumption is now showing signs of a recovery. France should also be better due to the end to the negative technical effect that impacted last year's performance. Spain is expected to continue to grow strongly. The intelligence of the company's strategy during the crisis with, notably, the maintenance of advertising expenditure, enabled it to become the leader in Spain with market share of 24%.

VALUATION

- We have upgraded our recommendation to Buy and our Fair Value to EUR115. At yesterday's close, the share is trading at 14.9x 2016/17e EV/EBIT vs 16.6x for the peer group average and 15.9x for Diageo.

NEXT CATALYSTS

- The group should publish its H1 2016/17 results on 9th February

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| | |
|----------------------------|--------------|
| Bloomberg | RI FP |
| Reuters | PERP.PA |
| 12-month High / Low (EUR) | 110.3 / 91.6 |
| Market Cap (EUR) | 27,272 |
| Ev (BG Estimates) (EUR) | 35,556 |
| Avg. 6m daily volume (000) | 457.3 |
| 3y EPS CAGR | 7.7% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|-------|-------|----------|
| Absolute perf. | -1.8% | -2.1% | 8.2% | -2.3% |
| Food & Bev. | -6.9% | -9.6% | -5.5% | -9.2% |
| DJ Stoxx 600 | 0.9% | 0.0% | 1.8% | -6.9% |

| YEnd Jun. (EURm) | 06/16 | 06/17e | 06/18e | 06/19e |
|------------------|-------|--------|--------|--------|
| Sales | 8,682 | 8,899 | 9,253 | 9,673 |
| % change | | 2.5% | 4.0% | 4.5% |
| EBITDA | 2,494 | 2,612 | 2,748 | 2,897 |
| EBIT | 2,277 | 2,390 | 2,517 | 2,655 |
| % change | | 5.0% | 5.3% | 5.5% |
| Net income | 1,380 | 1,486 | 1,608 | 1,723 |
| % change | | 7.7% | 8.2% | 7.1% |

| | 06/16 | 06/17e | 06/18e | 06/19e |
|------------------|-------|--------|--------|--------|
| Operating margin | 26.2 | 26.9 | 27.2 | 27.5 |
| Net margin | 14.2 | 16.0 | 16.7 | 17.1 |
| ROE | 9.3 | 10.1 | 10.3 | 10.3 |
| ROCE | 6.7 | 11.5 | 11.8 | 12.1 |
| Gearing | 64.5 | 59.3 | 52.4 | 45.8 |

| (EUR) | 06/16 | 06/17e | 06/18e | 06/19e |
|-----------------|-------|--------|--------|--------|
| EPS | 5.20 | 5.60 | 6.05 | 6.49 |
| % change | - | 7.7% | 8.2% | 7.1% |
| P/E | 19.8x | 18.4x | 17.0x | 15.8x |
| FCF yield (%) | 4.4% | 4.8% | 5.2% | 5.4% |
| Dividends (EUR) | 1.88 | 2.03 | 2.18 | 8.83 |
| Div yield (%) | 1.8% | 2.0% | 2.1% | 8.6% |
| EV/Sales | 4.1x | 4.0x | 3.8x | 3.6x |
| EV/EBITDA | 14.4x | 13.6x | 12.8x | 11.9x |
| EV/EBIT | 15.8x | 14.9x | 13.9x | 13.0x |

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| | |
|---------|---|
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