

**Rémy Cointreau**

Price EUR74.34

**7% organic EBIT growth in H1****Fair Value EUR84 (+13%)****BUY-Top Picks**

**H1 2016/17 EBIT increased 15.9% to EUR123.9m, pointing to a margin of 24.1%, up 270bps YoY. This is above expectations (consensus: EUR119.3m and our estimate: EUR122.7m) thanks to FX. Organically EBIT grew 7% in H1 as the increase in communication investment was offset by favourable volumes and mix effects.**

**ANALYSIS**

- H1 2016/17 EBIT rose 15.9% to EUR123.9m, pointing to a margin of 24.1%, up 270bps YoY. This is ahead of expectations (consensus: EUR119.3m and our estimate: EUR122.7m) thanks to FX. Organically, EBIT grew 7% in H1 (consensus: +6.6% and our estimate: +7.3%) driven by Cognac and Liqueurs & Spirits which respectively rose by 9.1% (consensus: +7.4% and our estimate: +8%) and 8.6% (consensus: +6.3% and our estimate: +5%). The group stepped up its communication expenditures but this was offset by favourable volume and mix effects (with the success of the group's high-end products). Partner Brands dropped 15.8% on an organic basis as a result of the loss of the EPI distribution contracts in a number of European markets. Excluding non-recurring items, net EPS came out at EUR1.57, up 11.3% on a reported basis. Net debt declined EUR10.5m to EUR447.7m, pointing to a net debt/EBITDA ratio of 2.16x vs 2.29x at end-March 2016 and 2.53x at end-September 2015.
- The group released its Q2 sales on 18th October. They increased 6.2% to EUR294.8m, 4% above forecasts. Organic growth stood at 7.4% (consensus: +4.3% and our estimate: +3.3%), implying a strong improvement vs Q1 (flat sales). Cognac (62% of group's sales) grew 9.3% in Q2 after -0.5% in Q1 thanks to a 1/ return to growth in Greater China (marketing initiatives on Louis XIII) and a 2/ strong performance in the United States fuelled by the intermediary product 1738 Accord Royal. The performance of Liqueurs & Spirits (26% of sales) was also good, with organic sales up 10.1% in Q2 (-0.8% in Q1) thanks to Cointreau, Metaxa and the Islay Spirits. Finally, sales of Partner brands (12% of group's sales) fell 10.7% over the quarter because of the loss of the distribution contract for the EPI champagne brands in France, Benelux and Travel Retail.
- Guidance confirmed.** The group reiterated its objective to achieve organic EBIT growth over the year. Our current estimates for the year call for sales and EBIT to grow 3.7% and 7.7% respectively. We are making no changes before the analyst meeting at 9am CET.

**VALUATION**

- Our Buy recommendation and Fair Value of EUR84 remain unchanged.

**NEXT CATALYSTS**

- Diageo: conference call about North America on 1st December
- Pernod Ricard: conference call about Americas on 6th December

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Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	80.4 / 58.1
Market Cap (EUR)	3,694
Ev (BG Estimates) (EUR)	4,129
Avg. 6m daily volume (000)	93.30
3y EPS CAGR	12.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.7%	-5.6%	3.5%	12.6%
Food & Bev.	-8.1%	-10.3%	-6.3%	-10.0%
DJ Stoxx 600	-1.0%	-0.8%	1.2%	-6.8%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,051	1,076	1,145	1,227
% change		2.5%	6.4%	7.1%
EBITDA	200	227	250	282
EBIT	178.4	206.5	227.6	256.3
% change		15.7%	10.2%	12.6%
Net income	110.4	126.0	145.3	165.8
% change		14.1%	15.3%	14.1%

	03/16	03/17e	03/18e	03/19e
Operating margin	17.0	19.2	19.9	20.9
Net margin	10.5	11.7	12.7	13.5
ROE	9.9	11.6	13.7	15.2
ROCE	16.5	17.3	18.0	18.3
Gearing	41.2	39.9	37.9	31.9

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	2.27	2.46	2.84	3.24
% change	-	8.6%	15.3%	14.1%
P/E	32.8x	30.2x	26.2x	22.9x
FCF yield (%)	2.1%	2.6%	3.0%	3.5%
Dividends (EUR)	1.60	1.60	1.60	1.60
Div yield (%)	2.2%	2.2%	2.2%	2.2%
EV/Sales	4.0x	3.8x	3.6x	3.3x
EV/EBITDA	20.8x	18.2x	16.3x	14.3x
EV/EBIT	23.3x	20.0x	18.0x	15.8x



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BUY ratings 55,7%

NEUTRAL ratings 32,9%

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