

Royal Unibrew

Price DKK296.80

Solid 9m results priced in

Fair Value DKK306 vs. DKK325 (+3%)

NEUTRAL vs. BUY

Bloomberg	RBREW.DC
Reuters	RBREW.CO
12-month High / Low (DKK)	334.0 / 252.7
Market Cap (DKK)	16,057
Ev (BG Estimates) (DKK)	16,126
Avg. 6m daily volume (000)	74.10
3y EPS CAGR	8.2%

After a solid set of 9 month figures we are fine tuning our estimates through lowering operating profit and EPS forecasts for 2016 and 2017 by 1% as there is a touch less margin expansion than previously anticipated. We are also adjusting our fair value to DKK306 from DKK325 (-6%) which reflects us using a beta of 1 compared to 0.85 previously. Given the limited upside for the stock (and reflecting its strong performance vs other brewers), we downgrade the recommendation to Hold from Buy.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.6%	-6.9%	4.2%	6.0%
Food & Bev.	-8.1%	-10.3%	-6.3%	-10.0%
DJ Stoxx 600	-1.0%	-0.8%	1.2%	-6.8%

Royal Unibrew published this morning a solid set of results with revenues in Q3 up by 1.7% and 5.7% for the 3 months ytd. EBIT in the quarter increased by 2% and for the 9 months by 6.5%. 9 month figures are positively impacted by the much better weather in q2 this year compared to last year.

YEnd Dec. (DKKm)	2015	2016e	2017e	2018e
Sales	6,032	6,386	6,395	6,508
% change		5.9%	0.1%	1.8%
EBITDA	1,225	1,285	1,311	1,348
EBIT	917.0	974.7	1,000	1,038
% change		6.3%	2.6%	3.8%
Net income	711.4	770.5	791.7	821.2
% change		8.3%	2.8%	3.7%

ANALYSIS

- Net revenue for 9m 2016 increased by 6% to DKK 4,874m compared to DKK 4,610m in 2015 as net revenue was positively affected by the expanded cooperation with PepsiCo in Denmark and the Baltic countries as well as an extraordinary campaign activity in Finland. EBIT for 9m 2016 was DKK 825 million, which was DKK 50 million above the 2015 figure. EBIT margin increased by 0.1 percentage point to 16.9% for the period.
- The 0.1% increase is slightly below our expectation of a 0.3% increase which lead us to review downwards our full year expectation of EBIT margin increase to 0.1% (new operating profit forecasts are 1% lower than previously). As a result our 2016 EPS expectation is revised down by 1% to 14.4 (vs 14.5) and our 2017 EPS by 1% to 15.3 (vs 15.4).
- The previously announced net revenue and earnings outlook for the year is maintained. Earnings for 2016 are now expected in the upper end of the ranges indicated: Net revenue: DKK 6,275-6,450 million EBITDA: DKK 1,240-1,290 million EBIT: DKK 935-985 million

	2015	2016e	2017e	2018e
Operating margin	15.2	15.3	15.6	15.9
Net margin	11.8	12.1	12.4	12.6
ROE	24.2	27.2	29.5	32.2
ROCE	20.2	22.7	24.0	25.4
Gearing	40.3	39.4	44.2	48.3

VALUATION

- Our fair value for the stock of DKK325, is based on DCF using risk free of 1.6%, risk premium of 7% and beta of 0.85. Reflecting the trend in the stock market that has put the share prices of consumer staples under pressure, we are increasing the beta for Royal Unibrew to 1 (from 0.85) which lowers our fair value for the stock to DKK306 vs DKK321 (risk free remains at 1.6% and risk premium at 7%). The limited upside to fair value lead us to review the rating of the stock to Hold from Buy.

(DKK)	2015	2016e	2017e	2018e
EPS	12.93	14.40	15.28	16.39
% change	-	11.4%	6.1%	7.2%
P/E	23.0x	20.6x	19.4x	18.1x
FCF yield (%)	6.3%	6.0%	5.6%	6.1%
Dividends (DKK)	1.80	1.80	1.80	1.80
Div yield (%)	0.6%	0.6%	0.6%	0.6%
EV/Sales	2.7x	2.5x	2.5x	2.5x
EV/EBITDA	13.4x	12.5x	12.2x	11.9x
EV/EBIT	17.9x	16.5x	16.0x	15.4x

NEXT CATALYSTS

- 8 March 2017: Full year figures

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