

## Consumer, Brands &amp; Retail

26th March 2019

## DANONE

Consumer, Brands & Retail  
Food

## NEUTRAL

Fair Value EUR71(+2%)  
Share price EUR67.10  
EPS 3Y Cagr 9.1%

## ELN in China to penalise Q1

## A soft quarter ahead of us

Organic sales are only set to grow 0.8% in Q1, deteriorating sharply vs Q4 2018 (+2.4%), mainly due to Specialized Nutrition (29% of total sales), even though trends in Waters (18% of total sales) and EDP (53% of total sales) are also likely to be more moderate. Note that the FX impact should be broadly neutral on Q1 sales.

- Specialized Nutrition to return to negative territory due to ELN China

We expect sales to drop 1% in organic terms in Q1 (+1.1% in Q4 2018) due to early life nutrition (ELN) in China while ELN in the rest of the world and medical nutrition should remain solid. On our forecasts, ELN in China is set to decrease 15% in Q1 (vs a 2016-2018 CAGR of +25%) as a result of 1/ tough comps (Q1 2018 >50%), 2/ weak demographics, with a drop in the birth rate of 12% in 2018 (-4% in 2017), 3/ regulation which is causing some disturbances in the cross border C2C channel (30% of ELN sales in China) as it requires increased transparency from traders in terms of food safety, and 4/ lengthy procedures to approve innovations due to the reshuffling of the administration.

- EDP to remain penalised by the boycott in Morocco

Q1 organic sales are only set to rise 1%, implying a deceleration vs Q4 2018 (+1.5%) stemming from 1/ the boycott in Morocco, which should be annualised on 20th April and 2/ the later timing of Easter. This is set to partly wipe out improving trends in North America and Western Europe.

- Waters to remain solid despite some softness in China and France

We expect 3.5% organic sales growth in Q1, a touch below our forecast for the full year (+4.5%) due to 1/ some destocking of Mizone in China (20% of the division's sales) after a weak season and 2/ the Yellow Vest movement in France (12% of the division's sales).

## Minor changes to our FY forecasts

We now expect 2.9% organic sales growth in 2019, slightly below our previous estimate (+3%) but still in line with the group's guidance (around 3%). This is due to Waters, now expected to rise 4.5% (vs +5% previously and +5.3% in 2018) given the exclusion of Argentina from organic sales growth from Q1. We have made no change to our estimate for EDP. We see sales in this division rising 2.3% in 2019, accelerating vs 2018 (+0.1%). Similarly, we continue to expect 3% organic sales growth for Specialized Nutrition (+5.9% in 2018), even though we do not rule out a potential cut in this estimate as the year progresses. Note that the company thinks the ELN market in China could decelerate to a low to mid growth pace over the MT with Danone's growth higher than 5% due to more penetration and premiumisation (with extension towards goat's milk, organic, allergy products, a2 milk). EBIT margin should be up 60bp in 2019, helped by synergies (USD120m in 2019/2020) and savings (EUR700m in 2019/2020). This should be skewed towards H2, with H1 soft due to weak organic sales growth, a negative mix (with a poor performance in Specialized Nutrition) and the implementation of IAS 29 in Argentina.

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## Market Data

Bloomberg / Reuters	BN FP/DANO.PA
Market Cap.	EUR45,967m
E.V.	EUR62,921m
Free Float	98
Avg. Daily volume (6m)	1,636
12m high / low	69 / 60
Ytd Perf.	9.1%

	12/18	12/19e	12/20e	12/21e
Sales	24,651	25,577	26,522	27,665
% Change		3.8%	3.7%	4.3%
EBIT	3,562	3,869	4,256	4,491
% Change		8.6%	10.0%	5.5%
Net Income	2,304	2,487	2,784	2,974
% Change		7.9%	12.0%	6.8%
ROE	0.15	0.13	0.14	0.13

	12/18	12/19e	12/20e	12/21e
EV/Sales	2.4x	2.3x	2.1x	2.0x
EV/EBIT	16.6x	14.9x	13.2x	12.2x
EPS	3.56	3.86	4.33	4.62
% change		8.6%	12.0%	6.8%
P/E	18.9x	17.4x	15.5x	14.5x
Div Yield	2.9%	3.1%	3.5%	3.8%

Next Catalyst: Q1 2019 sales on 17th April

Last rating Change:

[2018-10-19, Deterioration in visibility](#)

Last FV Change:

[2019-2-21, 2019 to show no top line acceleration](#)

Last Reports:

[2019-2-21, 2019 to show no top line acceleration](#)

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NEUTRAL ratings 39%

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