

Consumer, Brands & Retail

17th April 2019

DANONE

| Consumer, Brands & Retail
| Food

NEUTRAL

Fair Value EUR71(+3%)
Share price EUR69.00
EPS 3Y Cagr 9.1%

All divisions decelerating

Organic sales only up 0.8% in Q1

Q1 sales rose 0.9% to EUR6,138m, in line with expectations (consensus and our estimate: EUR6,086m). In organic terms, sales grew 0.8% over the quarter (consensus: +0.7% and our estimate: +0.8%), deteriorating sharply vs Q4 2018 (+2.4%), due to all divisions. Specialized Nutrition was slightly better than anticipated but both EDP and Waters came out below consensus. Price/mix rose 3% while volume dropped 2.2%. Note the group said organic sales would have been up 1.5% without the boycott in Morocco.

Specialized Nutrition: ELN China dragging the performance

This division (29% of total sales) posted 0.4% organic sales growth in Q1 (our estimate: -1% and consensus: -1.4%), slowing down vs 2018 (+5.9%) and Q4 2018 (+1.1%) due to early life nutrition (ELN) in China, impacted by 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, 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. Note that both early life nutrition excluding China and medical nutrition registered a mid single digit increase.

EDP: penalized by the boycott in Morocco

At EDP (53% of total sales), Q1 organic sales only rose 0.2% (our estimate: +1% and consensus: +1.1%), implying a steep slowdown vs Q4 2018 (+1.5%) stemming from 1/ the boycott in Morocco, which should be annualised on 20th April, 2/ one less trading day in Europe and North America and 3/ portfolio pruning in North America. Good news is Q1 confirmed the stabilization of Europe.

Waters: solidity despite some deceleration

The Waters division (18% of total sales) posted 3.9% organic sales growth in Q1 (our estimate: 3.5% and consensus: +4.5%), below our forecast for the full year (+4.5%) and implying some deceleration we think results from 1/ a 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).

2019 guidance reiterated

Danone confirmed that in 2019 1/ organic sales growth should be around 3% and 2/ EBIT margin should be above 15%. We continue to expect sales to be up 2.9% in organic terms this year (consensus: +2.9%). 2019 EBIT margin should be up 60bp to 15.1% (consensus: 15.1%), helped by synergies (USD120m in 2019/2020) and savings (EUR700m in 2019/2020). This should be skewed towards H2, with H1 soft due to suffer from 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.	EUR47,269m
E.V.	EUR60,331m
Free Float	98
Avg. Daily volume (6m)	1,608
12m high / low	69.4 / 60.3
Ytd Perf.	12.2%

EURM	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	2.2x	2.0x
EV/EBIT	16.9x	15.3x	13.5x	12.5x
EPS	3.56	3.86	4.33	4.62
% change		8.6%	12.0%	6.8%
P/E	19.4x	17.9x	15.9x	14.9x
Div Yield	2.8%	3.1%	3.4%	3.7%

Next Catalyst : Conference call at 9am CET

Last rating Change:

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

Last FV Change:

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

Last Reports:

[2019-3-26, ELN in China to penalise Q1](#)



BRYAN, GARNIER & CO

Morning Text

- Bullet

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SELL ratings 7.4%

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