



## Consumer, Brands &amp; Retail

18th April 2019

## DANONE

| Consumer, Brands & Retail  
| Food

## NEUTRAL

**Fair Value** EUR70 vs. EUR71 (+1%)  
**Share price** EUR69.60  
**EPS 3Y Cagr** 8.5%

## The 2020 top-line guidance is at risk

## Q2 to show an acceleration

Group said Q2 should accelerate. This should be mainly due to EDP, which is expected to grow above 2% (+0.2% in Q1) notably thanks to 1/ the absence of one-off effects that impacted Q1 (one less trading day and the IT issue in Noram) and 2/ the annualization of the Moroccan boycott on April 20st (with the country expected to return to a double-digit growth rate afterwards). We do not see change in trends at Specialized Nutrition and Waters.

## Reaching top-line guidance looks complicated

The group's guidance for 2019 is achievable, but not easy (growth of around 3%). It implies an acceleration in H2 which should arise from EDP and Specialized Nutrition. We make no change to our forecast of 2.9% organic sales growth in 2019 (with +4.1% in H2 post +1.5% in H1). Our view is the 2020 guidance is clearly the most at risk given deceleration of the Chinese infant nutrition business and the pace of recovery of EDP. We only expect 3.7% organic sales growth in 2020, with EDP +3% (guidance of 4-5%), Waters +5.3% (guidance >5%) and Specialized Nutrition +4% (guidance >5%).

## Full-year EBIT margin expansion skewed towards H2

Company confirmed that EBIT margin should stand above 15% this year. This is feasible considering synergies related to Whitewave and savings (EUR350m expected in 2019). The sale of Earthbound Farm will also help the group meeting this objective. We keep unchanged our forecast of 15.1%, pointing to an increase of 60bp year-on-year, skewed towards H2 as a result of 1/ acceleration of top line, 2/ positive mix with the improvement of the Chinese infant nutrition business due to comps and 3/ the annualization of the implementation of IAS 29 in Argentina. H1 EBIT margin expansion should be only +35bp vs +110 in H2. In 2020, Danone targets an EBIT margin higher than 16% and our estimate calls for 16.1%.

## Neutral recommendation reiterated

The group has an attractive portfolio in a food industry marked by rising competition from local players, deflationary pressure at retailers and channel shifts with the surge in e-commerce. However, in the short-term, its organic sales growth should stand badly vs peers. We maintain our Neutral recommendation. We trim our Fair Value from EUR71 to EUR70 due to the sale of Earthbound Farm. The stock is trading at a P/E of 18.2x in 2019, below Nestlé (21.2x) and Unilever (20.1x), but this seems to us justified given the doubts about the reach of the 2020 guidance.

## Market Data

Bloomberg / Reuters	BN FP/DANO.PA
Market Cap.	EUR47,680m
E.V.	EUR60,478m
Free Float	98
Avg. Daily volume (6m)	1,603
12m high / low	70 / 60
Ytd Perf.	13.2%

EURM	12/18	12/19e	12/20e	12/21e
Sales	24,651	25,331	26,097	27,226
% Change		2.8%	3.0%	4.3%
EBITDA	NM	NM	NM	NM
% Change		ns	ns	ns
EBIT	3,562	3,840	4,189	4,419
% Change		7.8%	9.1%	5.5%
Net Income	2,304	2,466	2,736	2,923
% Change		7.0%	10.9%	6.8%
ROE	0.15	0.12	0.14	0.13

	12/18	12/19e	12/20e	12/21e
EV/Sales	2.5x	2.3x	2.2x	2.1x
EV/EBITDA	x	x	x	x
EV/EBIT	17.0x	15.4x	13.8x	12.7x
EPS	3.56	3.83	4.25	4.54
% change		7.7%	10.9%	6.8%
P/E	19.6x	18.2x	16.4x	15.3x
Div Yield	2.8%	3.0%	3.3%	3.6%

Next Catalyst : H1 2019 results on July 25<sup>th</sup>

Last rating Change:

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

Last FV Change:

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

Last Reports:

[2019-4-17, All divisions decelerating](#)

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- **Essential dairy and plant-based (EDP)**

The quarter was soft due one less trading day vs last year. Europe continued to be stable in Q1 2019, in line with Q4 2018, which is a very good news. This was helped by innovations, with for example the very successful launch of Activia shot (probiotics). But France was challenging. North America deteriorated this quarter due to intensifying competition, the discontinuation of some SKUs in premium dairy (10% of this segment's sales) and the one-off impact from IT integration. In yoghurts in North America, Danone continued to invest in growing segments such as plant-based, probiotics and low sugar products. Note that Europe and North America represent 2/3 of EDP sales. The rest of this division remained penalized by the boycott in Morocco (down 35% in Q1, in line with Q4) which compensated the return to growth of Brazil (for the second consecutive quarter). The performance of EDP was helped by plant-based, up mid to high single digit in the quarter. The European Alpro rose double digit thanks to innovations (group launched an ice cream last year that did very well) and geographic expansion towards South/Central Europe. Silk and So Delicious are expanding outside the US in Latin America. Note that on April 1st Danone has increased its ownership in Michel et Augustin which was the first investment of Danone Manifesto Ventures in 2016. As a result, from April 1st 2019, Danone will fully consolidate the results of the company.

- **Specialized Nutrition**

This division proved to be better than expected. Medical Nutrition (25% of the division's sales) grew mid single digit driven by a double digit growth in China supported by the demographics (with the ageing population) but also a positive growth in Europe (with strong momentum in Poland and the Netherlands). Early Life Nutrition was in negative territory (75% of the division's sales) because of China (30% of ELN sales) which dropped 15% 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 sales at Early Life Nutrition) 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. The indirect channel proved to be more challenging than the direct. Excluding China, Early Life Nutrition grew mid single digit as the very strong performance in South East Asia compensated the negative impact from Aptamil in the UK (remind the new formulation of the product was accused of making babies sick).

- **Waters**

The deceleration vs Q4 stemmed from 1/ the Yellow vest movement in France, 2/ the destocking of Mizone in China and 3/ the exclusion of Argentina from Q1 organic sales growth due to the implementation of IAS29. In the US, Evian delivered strong growth on back of expanded distribution and market share gains in convenience stores. Asia and Latam posted solid growth. At the opposite, Europe proved to be more moderate, despite strong performances in Poland and Denmark.

## DANONE

### NEUTRAL

<b>Fair Value</b>	EUR70 vs. EUR71 (+1%)
<b>Share price</b>	EUR69.60
<b>Market Cap.</b>	EUR47,680m
<b>EPS 3Y CAGR</b>	8.5%

<b>Simplified Profit &amp; Loss Account (EURm)</b>	2017	2018	2019e	2020e	2021e
Sales	24,812	24,651	25,331	26,097	27,226
<i>Change (%)</i>	13.1%	-0.6%	2.8%	3.0%	4.3%
<i>Like-for-like change (%)</i>	2.5%	2.9%	2.9%	3.7%	4.3%
Trading operating profit	3,537	3,562	3,840	4,189	4,419
<i>Change (%)</i>	17.0%	0.7%	7.8%	9.1%	5.5%
Operating income	3,729	2,741	3,690	4,189	4,419
Total financial expenses	-438	-348	-365	-325	-285
Income before taxes	3,292	2,393	3,325	3,864	4,134
Reported income tax	-842	-716	-943	-1,054	-1,131
Share of profit of associates	109	762	79	81	82
Net profit	2,559	2,440	2,361	2,891	3,085
Non-controlling interests	110	90	105	115	122
Net profit Group share	2,449	2,349	2,256	2,776	2,963
Underlying net income group share	2,186	2,304	2,466	2,736	2,923
<i>Change (%)</i>	14.4%	5.4%	7.0%	10.9%	6.8%
<b>Cash Flow Statement (EURm)</b>					
Cash flows from operating activities	3,086	3,918	3,759	4,074	4,324
Working capital variation	127	6	-40	-36	-29
Capex. net	-969	-986	-1,267	-1,305	-1,361
Other	95	0	0	0	0
Free cash flow excluding exceptional items	2,085	2,926	2,532	2,806	2,992
Exceptionals	-2	0	0	0	0
Free cash flow reported	2,083	2,232	2,532	2,806	2,992
M&A	-10,508	1,253	0	0	0
Dividends	-365	-510	-1,248	-1,347	-1,494
Other	889	-347	0	0	0
Net debt	15,372	12,744	11,460	10,001	8,502
<b>Balance Sheet (EURm)</b>					
Property, plant and equipment	6,005	5,390	5,390	5,390	5,390
Intangibles assets	24,945	25,194	25,446	25,701	25,958
Cash & equivalents	638	3,266	4,550	6,009	7,507
current assets	9,641	9,776	11,215	12,845	14,580
Total assets	44,267	44,064	45,783	47,696	49,719
L & ST Debt	19,508	17,889	17,076	17,076	17,076
Others liabilities	10,186	10,347	10,648	10,969	11,352
Shareholders' funds	14,502	16,156	18,140	20,314	22,601
Total Liabilities	29,694	28,236	27,724	28,045	28,428
<b>Ratios</b>					
Trading operating margin	14.3%	14.4%	15.2%	16.1%	16.2%
Reported tax rate	25.6%	29.9%	28.4%	27.3%	27.4%
Underlying net income group share	8.8%	9.3%	9.7%	10.5%	10.7%
ROE	16.9%	14.5%	12.4%	13.7%	13.1%
ROIC	10.3%	9.0%	9.6%	10.4%	10.9%
Gearing based on net debt	105%	79%	63%	49%	37%
Gearing based on net financial debt	101%	75%	63%	49%	37%
Pay out ratio	54.6%	54.6%	54.6%	54.6%	54.6%
Number of shares, diluted	627	643	643	643	643
<b>Data per Share (EUR)</b>					
Basic underlying EPS	3.48	3.56	3.84	4.26	4.55
Diluted underlying EPS	3.48	3.56	3.83	4.25	4.54
% change	12.4%	2.2%	7.7%	10.9%	6.8%
BVPS	23.12	25.11	28.19	31.57	35.12
Operating cash flows	4.92	6.09	5.84	6.33	6.72
FCF	3.32	4.55	3.94	4.36	4.65
Net dividend	1.90	1.94	2.09	2.32	2.48

Source: Company Data; Bryan, Garnier & Co ests.

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### Stock rating

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NEUTRAL ratings 43.6%

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