



Consumer, Brands & Retail

23rd April 2019

PERNOD RICARD

Consumer, Brands & Retail
Spirits

NEUTRAL

Fair Value EUR169 vs. EUR167 (+9%)
Share price EUR154.70
EPS 3Y Cagr 10.0%

Key markets to remain difficult in Q4

Americas: to remain impacted by destocking in the US in Q4

Travel Retail Americas was dynamic in Q3 while Latin America showed an improvement thanks to a return to growth in Mexico. But the US dropped by a low single digit figure, impacted by destocking. The group said the underlying trend in the country is broadly in line with the market at +4.5%. Jameson continued to perform strongly while the growth relays (ie Martell, Avion, Altos and The Glenlivet Founder's Reserve) grew double digit. Q4 should remain impacted by destocking.

Asia-R0W: another soft quarter expected in China and Korea

China slowed down in Q3 due to the early timing of the Chinese New Year. It was reported to be strong. Martell remained very dynamic across all price segments. The group lifted its prices for the brand by 5% at the beginning of February. Chivas continued to benefit from the relaunch campaign at end 2017. Premium brands performed strongly, especially Absolut and Jacob's Creek. The CFO said Q4 in China should be impacted by inventory management on Martell. Note the company has signed an agreement to distribute Domaine Barons de Rothschild in the country from 2019/20. India was also slower in the last quarter due to comps but underlying growth remained strong driven by Seagram Indian whiskeys. The group expects no significant disruption in India because of the general elections. Korea dropped double digit as a result of 1/ destocking of Imperial (50% of sales) ahead of distribution handover to Drinks International on 1st April, and 2/ organizational changes impacting Strategic International Brands. The country should remain penalizing until H1 2019/20.

Europe: France to suffer from the Egalim law next quarter

The UK was very dynamic in Q3 driven by spirits but wines returned to positive territory after the implementation of a value approach. Russia grew double digit. The negatives were Spain, where competition has intensified, and France and Germany, where the company's products were delisted from Leclerc and Rewe, respectively. In Q3 the group suffered in France from the delisting from Leclerc. The CFO confirmed the group is now reengaging with consumers, but a negative impact from the Egalim law in France is expected in Q4, with price increases (+10% on Ricard) causing volume losses.

Slight upgrade in our FV due to FX

The company reiterated its EBIT margin should increase by 50bp in organic terms this year. This will notably be achieved thanks to the completion of its EUR200m savings by the end of 2018/19, a year ahead of plan. Our estimates are in line with guidance, with 2018/19 sales and EBIT up 5.9% and 8%, on an organic basis and respectively. The top line should show a modest improvement in Q4, with organic sales expected to be up 4.5% post +2.5% in Q3 (+7.8% in H1). The group said FX should have a EUR20m positive impact on full year EBIT vs the previous guidance for -EUR30m. As a result, we lift our full year EPS by 2%. Our Fair value is raised to EUR169.

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Market Data

Bloomberg / Reuters	RI FP/PERP.PA
Market Cap.	EUR41,061m
E.V.	EUR48,461m
Free Float	79.4
Avg. Daily volume (6m)	440.7
12m high / low	160.8 / 129.4
Ytd Perf.	8.0%

EURM	06/18	06/19e	06/20e	06/21e
Sales	8,722	9,156	9,744	10,318
% Change		5.0%	6.4%	5.9%
EBITDA	2,640	2,781	3,017	3,258
% Change		5.3%	8.5%	8.0%
EBIT	2,358	2,552	2,773	3,001
% Change		8.2%	8.7%	8.2%
Net Income	1,511	1,648	1,826	2,009
% Change		9.1%	10.8%	10.0%
ROE	0.11	0.10	0.11	0.11

	06/18	06/19e	06/20e	06/21e
EV/Sales	5.5x	5.1x	4.7x	4.4x
EV/EBITDA	18.2x	16.9x	15.3x	13.9x
EV/EBIT	20.4x	18.5x	16.7x	15.1x
EPS	5.69	6.21	6.88	7.57
% change		9.1%	10.8%	10.0%
P/E	27.2x	24.9x	22.5x	20.4x
Div Yield	1.5%	1.8%	2.2%	2.5%

Next Catalyst: Asia conference call on 4th June

Last rating Change:

[2019-3-29, Soft Q3 ahead of us...after a strong share performance](#)

Last FV Change:

[2019-3-29, Soft Q3 ahead of us...after a strong share performance](#)

Last Reports:

[2019-4-18, Disappointing Q3 organic sales growth](#)

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NEUTRAL ratings 44%

SELL ratings 7.2%

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