



## Consumer, Brands &amp; Retail

18th July 2019

## RÉMY COINTREAU

| Consumer, Brands & Retail  
| Spirits

## BUY

Fair Value EUR133 vs. EUR130 (+3%)  
Share price EUR128.70  
EPS 3Y Cagr 15.7%

## No extrapolation from Q1 - fundamentals remain good

## A small quarter which is not meaningful for the rest of the year

The Q1 organic sales decline (-3%) is largely explained by the termination of distribution contracts in Czech Republic/Slovakia and in the US (impacting the Partner Brands division). Without this, the group would have posted organic growth of 2.6%. It would still have been well below last year's trend (+7.8%). Indeed, the performance was also dragged down by: 1/ negative phasing after the price increases (+3-5% on VSOP/Intermediate, +5-6% on XO and +7-10% on Louis XIII) taken at the beginning of April (impacting Cognac) and 2/ changes in route-to-market in Europe (impacting Liqueurs & Spirits), which caused some disruption.

## Cognac: suffering from negative phasing

Greater China showed single digit organic sales growth over the quarter. Both Mainland China and Taiwan were up double digit while Hong Kong suffered from the political situation and Macau was impacted by negative phasing after a significant price increase. The KTV measures affecting some Chinese cities (mainly in the South) had quite a marginal impact at the group level as they were compensated for by strong growth in e-commerce. Looking at the US, there was some softness, with organic sales only up low single digit. The phasing had a more negative impact in the country than in China.

## L&amp;S: heavily penalized by the revamping of distribution in Europe

The Botanist continued to grow double digit, driven by the US and Asia Pacific. Cointreau was mixed, with a sales acceleration in the US thanks to the new marketing campaign but some softness in Europe and Asia Pacific. Single Malt Whiskies grew fast in Asia Pacific and Travel Retail but were affected by tough comps in the US. Mount Gay and St Rémy were soft as a result of the premiumisation strategy. Finally, sales of Metaxa were in decline because of the change in distribution in Europe.

## Top line trend expected to accelerate post Q1

Growth should accelerate from Q2 driven by the US and China. The group said sales in China and the US should grow double digit and mid/high single digit respectively. We should still see some negative impact post Q1 at L&S from changes in distribution (but less than in Q1). The group's CFO refused to comment on market expectations for EBIT before the H1 results. We expect 3.4% organic sales growth this year with +11% for Cognac, +4% for L&S and -65% for Partner Brands. FY EBIT should expand by 11.4% in organic terms, implying accretion of 180bp. We raised our FV to EUR133 due to FX. Upside remains limited but this is a very common situation in the food & beverage sector due to the current low interest rate environment. We maintain our Buy recommendation as we expect the stock to outperform peers. The main risk is US import duties. The group reiterated, in this case, prices would be increased immediately. It has also started to build stocks in the US. We estimate that 93% of the group's US sales are imported. The exceptions are Westland and Mount Gay.

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## Market Data

Bloomberg / Reuters	RCO FP/RCOP.PA
Market Cap.	EUR6,454m
E.V.	EUR6,798m
Free Float	0%
Avg. Daily volume (6m)	87.30
12m high / low	EUR131.0 / EUR94.8
Ytd Perf.	30.1%

EURM	03/19	03/20e	03/21e	03/22e
Sales	1,126	1,180	1,283	1,390
% Change		4.8%	8.7%	8.3%
EBITDA	298.1	323.4	366.1	411.8
% Change		8.5%	13.2%	12.5%
EBIT	264.1	299.8	340.4	384.0
% Change		13.5%	13.5%	12.8%
Net Income	169.9	195.5	229.3	263.1
% Change		15.1%	17.3%	14.8%
ROE	0.12	0.14	0.14	0.15

	03/19	03/20e	03/21e	03/22e
EV/Sales	6.0x	5.8x	5.3x	4.9x
EV/EBITDA	22.8x	21.1x	18.6x	16.4x
EV/EBIT	25.7x	22.8x	20.0x	17.6x
EPS	3.22	3.71	4.35	5.00
% change		15.1%	17.3%	14.8%
P/E	39.9x	34.7x	29.6x	25.8x
Div Yield	2.1%	1.3%	1.3%	1.4%

## Next Catalyst: Q2 sales on 18th October

## Last rating Change:

[2019-4-25, A lot of positives in yesterday's release](#)

## Last FV Change:

[2019-4-25, A lot of positives in yesterday's release](#)

## Last Reports:

[2019-7-18, Below market expectations due to Liqueurs & Spirits](#)

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