



Q2 PREVIEW: EVEN IF CONSUMER OFF-TAKE IS FLAT, SALES WILL BE DOWN 3%

Pernod will report Q2 sales after market close on Thursday. Pernod over-shipped in Q2 2009, with shipments up 3% when depletions were flat. For Q2 2010 we expect a 3% organic decline, leaving H1 sales down 3.5% organic. Given the tough comp and the F10 currency headwind we see little short-term upside to the shares.

- Very tough comp for Q2:** Pernod's organic sales growth was strong in Q1 2009 (+7%). The slowdown began in Q2 2009. Diageo recorded zero sales growth in Q2; Pernod recorded +3%, leaving its H1 up 5% (see table below and detailed table on next page). However, Pernod now considers the +3% in Q2 2009 to have been the result of over-shipping and believes that, without this, the true depletion level would have been roughly flat. This provides a considerable headwind for Pernod when it reports Q2 2010 on Thursday 14 Jan.
- Q2 likely to be down 3% driven by tough comp and timing of Chinese New Year:** FY 2010 started with a 4% organic sales decline in Q1, which is not as severe as Diageo's 6% decline, especially as Pernod faced a tougher comp (+7% versus Diageo's comp of +6%). However, we expect Q2 sales to fall 3%, partly due to the tough comp (+3% a year ago, driven by over-shipping) and partly due to the later Chinese New Year, which will push shipments from December into January. We therefore forecast H1 sales will be -3.5% versus a +5% comp.
- Anything better than -3% in Q2 would signify a degree of consumer recovery in the Quarter** – but we do not expect this until Q3 or Q4.
- The comps ease in Q3 and Q4:** In Q3 2009, Pernod its destocking hit, reporting -12% organic sales decline in Q3 (underlying consumer off-take was -4%, and destocking was -8%). In Q4 09 sales fell 2%, leaving FY sales flat. For Q3 2010 we forecast +8%, a bounce-back from the 8% destocking hit in Q3 2009, boosted by the benefit of the later timing of Chinese New Year. We consider our forecasts to be realistic but we do not see much upside risk to them.

Rating	HOLD
Target Price (€)	63.00
Current price (€)	60.00
Market cap (€m)	15.6bn
52-wk range (€)	35.89–60.89

Year-end June (€m)	2009	2010E	2011E
Revenue	7,203	7,095	7,397
EBITDA	2,003	2,020	2,135
EBITA	1,846	1,865	1,974
PBT	1,227	1,372	1,513
Net profit	1,002	1,050	1,158
Net (debt)/cash	(10,927)	(10,166)	(9,523)
Net assets/(def)	7,615	8,518	9,354
Dil EPS (€)	4.24	3.99	4.41
DPS (€)	1.32	1.33	1.45
FCF (€)	4.40	3.80	3.90
P/E (x)	14.2	15.0	13.6
EV/EBITDA (x)	12.6	13.0	12.1
Net debt:EBITDA (x)	5.45	5.03	4.46
Interest cover (x)	3.0	3.8	4.3
ROIC (%)	8.9	7.2	7.6

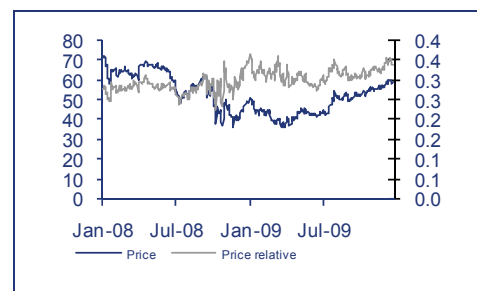
Figure 1: Organic Sales Growth, Historical and Forecast (forecast in bold italics)

Year-end June (%)	Q1	Q2	H1	Q3	Q4	H2	FY
FY 2009	7	3	5	-12	-2	-5	0
FY 2010	-4	-3	-3.5	8	5	6.5	1.5

Source: Pernod Ricard, Matrix Corporate Capital forecasts

Research

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DETAIL OF THE COMPS

The table below shows the comp that Pernod faces for H1 (not Q2) highlighted in pink. Note that this week Pernod will only report sales, not profits.

Figure 2: Pernod Ricard – Quarterly Data

	FY 07	H1 08	FY 08	Q1 09	H1 09	9M 09	FY 09	Q1 10
Group								
Net sales	9%	10%	9%	7%	5%	0%	0%	-4%
Gross margin	10%	13%	11%		6%		-1%	
AMP	9%	15%	12%		8%		-7%	
Operating profit	21%	15%	13%		8%		4%	
EPS	21%	19%	15%		13%		10%	
Asia/ROW								
Net sales	11%	11%	13%	7%	9%	3%	2%	3%
Gross margin	17%	18%	18%		14%		4%	
AMP	21%	16%	18%		11%		-5%	
Operating profit	39%	20%	18%		18%		7%	
Americas								
Net sales	12%	-1%	8%	9%	4%	0%	-1%	-2%
Gross margin	11%	-2%	11%		5%		-2%	
AMP	6%	6%	10%		3%		-4%	
Operating profit	21%	-5%	18%		7%		0%	
Europe excl. France								
Net sales	6%	7%	7%	7%	3%	-2%	-3%	-11%
Gross margin	7%	11%	7%		2%		-5%	
AMP	2%	14%	11%		8%		-14%	
Operating profit	12%	13%	7%		2%		-1%	
France								
Net sales	4%	8%	5%	1%	1%	1%	2%	-3%
Gross margin	2%	7%	6%		4%		2%	
AMP	4%	5%	6%		6%		-3%	
Operating profit	10%	12%	11%		7%		12%	

Source: Pernod Ricard

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Company	Disclosure
Pernod Ricard (RI)	None

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