



Q2 SLIGHTLY AHEAD OF EXPECTATIONS

Pernod's Q2 sales, reported yesterday evening, were down 2% organic in Q2, slightly better than our forecast of -3%. This leaves H1 down 3% versus our forecast of -3.5%. We have a far stronger assumption for H2, and as it is more demanding we will leave our FY forecast unchanged for now. Pernod reiterated Diageo's gloomy outlook for the USA, but Asia is improving. We retain our Hold rating and €63 TP and would wait for a lower entry point for the stock.

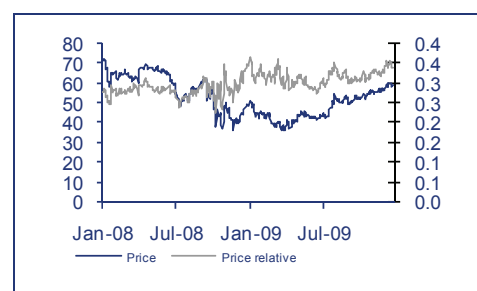
- Pernod's Q2 sales were broadly in line with forecast – marginally better, but not enough to excite the shares. The USA remains weak with lots of price promotions and continued decline in the on-trade. This echoes Diageo's comments in December and is in line with the view in our recent sector report.
- China is down due to the later timing of Chinese New Year which has pushed shipments from December to January. Other than China, Asia is showing signs of recovery, especially South Korea and Duty Free.
- Europe is showing some improvement. France is flat, Spain is still down. The main positive surprise is Russia, which is still down but the pace of decline is much more modest.
- We retain our HOLD rating at TP of €63.

Rating	HOLD
Target price (€)	63.00
Current price (€)	59.87
Market cap (€m)	15.8bn
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

Research

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Company	Disclosure
Pernod Ricard (RI)	None

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