WILL H1 2010 BE THE TURNING POINT IN PERNOD'S FORTUNES?

We forecast EBITA of €1,137m, just over 1% ahead of consensus. This includes an organic EBITA decline of 0.5% on the already-reported organic sales decline of -3%. Our net profit forecast is in line with consensus. Last week we declared our view that for Diageo, all the bad news was now in the past. It is possible that a similar trigger will occur this week for Pernod, although currency headwinds (versus tailwinds in Diageo's case) could hamper the story.

- **Q2 sales, reported on 15 Jan, were broadly in line with forecast –** marginally better, but not enough to excite the shares which have since fallen. The USA was weak with lots of price promotions and continued decline in the on-trade. China was down due to the later timing of Chinese New Year which pushed shipments from December to January. The rest of Asia showed signs of recovery, especially South Korea and Duty Free. Europe showed some improvement. France was flat, Spain down even further. The main positive surprise was Russia, where the pace of decline was much more modest.
- **We forecast sales of €3,858m,** comprising -2.9% organic growth, a currency hit of -€108m and a perimeter effect of -€124m. Our sales forecast is 1.8% below consensus, mainly due to our estimate of the impact of disposals (which will have little impact on the share price).
- **We forecast EBITA of €1,137m,** 1% ahead of consensus of €1,124m. This comprises -0.5% organic growth, a currency hit of -€36m and a perimeter effect of -€19m.
- However, our forecasts for interest and tax are slightly more bearish than consensus (interest -€270m vs. consensus -€257m, tax -€186m vs. consensus €180m). Therefore our net profit forecast is €673m, marginally below consensus of €678m.
- **Attention will focus on three items:** (1) The outlook statement, especially in the light of Diageo's reassuring comments a week ago. In particular, how was the Chinese New Year sell-in? (it is too recent to expect comments on consumer off-take), and has the improvement in Russia continued?; (2) Updated guidance on currency; (3) AMP trends – we expect a gradual rebuild of AMP and we expect this to only be a modest drag on earnings.
- **We retain our HOLD rating and TP of €63.** With the shares having fallen significantly since our initiation of coverage on 8 January, we will look to realign our TP with our rating following these results. To upgrade our rating we would wish to see clear evidence that the bad news is now behind Pernod.

Rating	HOLD
Target price (€)	**63.00**
Current price (€)	56.64
Market cap (€bn)	14.9
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)	13.5	13.2	12.3
EV/EBITDA (x)	12.5	12.7	11.8
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

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Company	Disclosure
Pernod Ricard (RI)	None

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