RÉMY COINTREAU

BEVERAGES

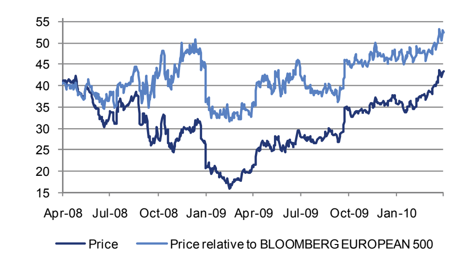
STRONG MOMENTUM – UPGRADE TO BUY

Rating	BUY
Target price (€)	**50.00**
Current price (€)	43.47
Market cap (€m)	2,095
EV (€m)	2,585
Sector	Beverages
Bloomberg	RCO FP Equity
52-wk range	21.00-44.75
Net debt (€m)	532

Rémy has proved the sceptics wrong – ourselves included. The transition from Maxxium to fully-controlled distribution has been achieved without margin erosion and with a major recovery in sales in Q4. It has three further quarters ahead of fairly easy comps, so we expect the Q4 revenue momentum to continue. This provides further upside risk to our EPS forecasts, which we raise by 13% today. The momentum should enable the shares to continue to outperform, so despite having had a strong run and now enjoying a premium rating, we upgrade from HOLD to BUY.

- **8.5% beat on the top line:** At €808m, Rémy Cointreau's 2010 FY sales beat consensus by 8.5%, including organic growth of 12%. In Q4 organic growth reached 100%, albeit comping against a Quarter a year ago that was depressed for three reasons: one-off repatriation of stock from its former distributor Maxxium; destocking in the market due to economic recession and credit risk; and a weak consumer offtake.
- **Analysis of the numbers:** Rémy had made clear that Q4 08/09 revenue was depressed by €60m, comprising €20m stock repatriation from Maxxium, €20m in-market destock, and €20m weak sales from consumer offtake. Q4 08/09 sales were €109.5m. By contrast, Q4 09/10 sales doubled to €219m. Adding back the €60m one-off impacts to Q4 08/09, the base would have been €169.5m. We had expected roughly this level of sales in Q4 09/10, i.e. recovery to a flat "underlying" level but with no additional growth. In fact Rémy achieved a further €49.5m of sales, or 29%, in the quarter. This was well beyond even the company's hopes.
- **We raise our EPS forecasts** by 12% for F10 and by 13% for F11. Revenues for F10 are €94m up on F09, of which €25m is due to the technical boost of higher transfer pricing (sales now being distributed in-house in some markets) – this portion is profitless as distribution costs are also up €25m. The underlying growth is therefore €69m, generating a gross profit of €40m at last year's gross margin. We estimate that A&P expenditure rose €37m and that the currency hit to profits was €7m, but the firm price/mix generated €30m growth. We therefore upgrade our EBITA forecast for F10 to €162m.
- **Growth was particularly strong in China**, although this is in part company-specific as in the same Quarter a year earlier Rémy was not investing and was pulling stock back from Maxxium, ahead of the transfer of distribution. Growth has also been strong throughout most of the rest of Asia. Europe was better than expected, with growth in UK, France and Germany – only Spain showed real weakness. The US has also seen some growth despite continued weakness in the on-trade. Duty Free also surprised us on the upside.

Year-end Jun EUR	2009A	2010E	2011E
Sales	714	808	851
EBITDA	152	179	203
EBITDA margin (%)	21.3	22.1	23.9
EBITA (m)	137	162	186
EBITA margin (%)	19.2	20.1	21.8
Interest	(31)	(23)	(23)
Pre-tax profit	106	139	163
Tax	(38)	(40)	(48)
Associates	3	0	0
Net profit (normalised)	71	99	115
EPS	1.52	2.09	2.43
EV/EBITDA (x)	17.0	14.5	12.6
P/E Ratio (x)	29.0	21.0	18.0



Research

Matthew Jordan +44 20 3206 7188 matthew.jordan@matrixgroup.co.uk

MATRIX

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CORPORATE CAPITAL

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Company	Disclosure
Remy Cointreau (RCO)	None

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Matrix Corporate Capital LLP
One Vine Street
London, W1J 0AH
+44 (0) 20 3206 7000