RÉMY COINTREAU

BEVERAGES

JAM POSTPONED

Rémy's underlying numbers were better than those suggested by the headlines. Stripping out the exceptionals, net profit came in at €94m, only €5m short of our forecast, and above consensus of €90m. Much of the growth in gross profit was reinvested into AMP, with only 7% growth sent to the EBIT line. Excited by the growth in the top line, Rémy's management plans a similar proportion of reinvestment this year. We therefore expect another strong year for the top line, but once again we have cut our margin expectations. The health of Rémy's brands and the quality of the company are strong, as witnessed by the accelerating top line. However, with our profit forecast now downgraded, the shares look expensive on 17.3x CY 2011 EPS. Is this level of valuation premium warranted by the high quality of the business? We are not convinced, and perceive better value elsewhere in the sector. We cut our target price from €50 to €41 and our rating from BUY to HOLD.

- **FY 2010 numbers far better than the headlines suggest:** Rémy's headline net profit of €86m, flat year-on-year, was suppressed by a one-off €7.5m charge (mostly restructuring the Champagne division), versus a one-off €14.9m gain (related to the Maxxium exit) a year earlier. Excluding these impacts, net profit grew from €71m to €94m, growth of 32%.
- **Reinvestment into AMP:** Rémy reinvested more into AMP than we had anticipated, so 12% sales growth was divided between 21% growth in AMP and just 7% organic growth in EBITA. This will no doubt fuel further top-line growth but sets back margin expectations once again. Prior to the one-off expenses mentioned above, EBIT was €140m versus our forecast of €160m.
- **We raise our 2011 revenue forecast due to currency but cut our EBITA and EPS forecasts:** Our FY 2011 revenue forecast rises from €851m to €894m, although some €50m of this €53m increase is the impact of currency. We cut our FY 2011 EBIT forecast from €186m to €163m and our EPS from €2.43 to €2.32.
- **High quality company – but not at any price:** Rémy's management actions in the last four years have turned out to be vindicated. The decision to leave Maxxium – while eye-wateringly expensive – has delivered a faster growth rate and has been achieved without 'dropping the ball' – which we had feared. The strong investment behind the brands, together with the heavy exposure to China, gives us confidence that Rémy will continue to grow its revenues by mid-single digits during these tough times, accelerating to high single digits when US economic recovery begins. However, after today's downgrade to EPS, the shares are on a CY 2011 P/E of 17.3x vs Diageo on 13.0x and Pernod on 14.4x. Notwithstanding the company's fundamental qualities, that looks a full price to us.

Research

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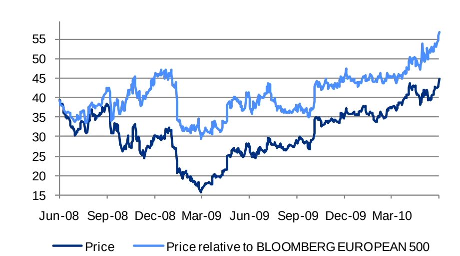
Rating	HOLD
Target Price (€)	**41**
Current Price	44.86
Market Cap (€m)	2,099
EV (€m)	2,619
Sector	Beverages
Bloomberg	RCO FP
52-wk Range	24.13-46.23
Net Debt (€m)	447

Year end March EUR	2010A	2011E	2012E
Sales	**808**	**894**	**950**
Gross profit	491	569	609
EBITDA	158	183	206
EBITA	**140**	**163**	**185**
EBITA Margin (%)	17.3	18.3	19.5
Interest	(22)	(20)	(18)
Pre-tax profit (norm)	**118**	**143**	**167**
Exceptionals	(8)	0	0
Pre-tax profit	**110**	**143**	**167**
Tax	(29)	(40)	(48)
Associates	8	9	10
Minorities	(3)	(3)	(3)
Net profit (norm)	**94**	**109**	**126**
Net profit	86	109	126
EPS (norm)	**1.99**	**2.32**	**2.68**
EPS	1.84	2.33	2.70
EV/EBITDA (x)	16.5	13.9	12.1
P/E Ratio (x)	22.5	19.3	16.7



MATRIX

11 JUNE 2010

INVESTMENT BANKING

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Company	Disclosure
Remy Cointreau (RCO)	None

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