

**BIC**

Price EUR129.00

**OPEX and CAPEX investments to pave the way for MT growth are a necessary evil**

Fair Value EUR122 vs. EUR130 (-5%)

**NEUTRAL**

Bloomberg	BB FP
Reuters	BICP.PA
12-month High / Low (EUR)	160.8 / 129.0
Market Cap (EURm)	6,183
Ev (BG Estimates) (EURm)	5,720
Avg. 6m daily volume (000)	45.30
3y EPS CAGR	7.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.4%	-14.4%	-15.7%	-14.9%
Consumer Gds	3.3%	-8.3%	-5.0%	-5.8%
DJ Stoxx 600	-0.3%	-13.5%	-15.1%	-10.1%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	1,979	2,242	2,353	2,468
% change		13.3%	5.0%	4.9%
Normalised IFO	370.0	432.0	431.4	460.4
IFO	369.3	439.9	426.9	455.9
% change		19.1%	-3.0%	6.8%
Net income	262.1	325.1	304.9	326.6
% change		24.1%	-6.2%	7.1%

	2014	2015e	2016e	2017e
IFO margin	18.7	19.6	18.1	18.5
Net margin	13.2	14.5	13.0	13.2
ROE	16.2	16.1	14.5	13.5
ROCE	17.8	18.4	15.5	14.8
Gearing	-19.5	-23.0	-17.8	-19.0

(EUR)	2014	2015e	2016e	2017e
EPS	5.47	6.79	6.37	6.82
% change		24.1%	-6.2%	7.1%
P/E	23.6x	19.0x	20.3x	18.9x
FCF yield (%)	3.8%	3.8%	3.4%	4.0%
Dividends (EUR)	2.85	5.90	3.25	3.40
Div yield (%)	2.2%	4.6%	2.5%	2.6%
EV/Sales	3.0x	2.6x	2.5x	2.3x
EV/EBITDA	15.8x	13.2x	13.4x	12.4x
EV/EBIT	15.9x	13.0x	13.6x	12.5x

During the analysts' presentation, management returned to the three "hot topics" that surprised investors yesterday: **1/** the cautious NIFO margin guidance was justified by significant R&D and marketing investments, **2/** the Chairman and CEO functions will be temporarily merged (up to two years) to give Bruno Bich and the Board time to find a successor for Mario Guevara and **3/** the strategic review of BIC Graphic should be completed by end 2016. Although we are convinced that these incremental brand support and capex investments are critical for MT growth, they will weigh on the group's profitability in the ST, justifying our ~9% downward revision to our FY16-17 NIFO assumptions, which leads to our new FV of EUR122 vs. EUR130. Neutral recommendation reiterated.

**ANALYSIS**

- **Why this overly cautious NIFO guidance for 2016? 1/** BIC will ramp up R&D in quality, performance and new technologies to increase the value-added of its offering. For instance new products account for 25% of Stationery sales (vs. 23% in 2010) and value-added products represent 61% of Shavers sales (vs. 49% in 2011). **2/ Incremental brand support** will enable BIC to protect or strengthen its market share, to support new launches and the group's development in emerging markets (Latin America, Africa). Management specified that these significant R&D and marketing investments will particularly weigh on profitability at Stationery and Shavers, two categories where the competition is stiffest.
- **BIC is also accelerating capex investments.** In parallel of these opex investments, the group has also decided to increase capex in 2016, which is expected to rise by 50% over 2015 to EUR180m! According to the CFO, this amount could become the new "normative level" for the next 2-3 years, driven by development capex. Indeed BIC will increase production capacities in all its three categories.
- **The new governance structure should not exceed two years.** After a few months of discussion, CEO Mario Guevara eventually decided to retire after the AGM in May. Consequently, the Chairman and CEO functions will be temporarily merged for the first time since 2005 and Bruno Bich will assume these two responsibilities and he confirmed that this solution should not exceed two years, which should be enough time for the Board to find the right CEO successor (his son Gonzalve Bich is in the short list).
- **Strategic review of BIC Graphic (Promotional Products).** The group's decision to conduct a strategic review of BIC Graphic given limited growth prospects in this industry was also breaking news! As shown in the table below, it is fair to say that this category performed below the group's expectations since it was consolidated in 2009, due to a tough market environment in hard goods and calendars, high exposure to Southern Europe which was hit hard by the crisis and a poor execution by the previous management.

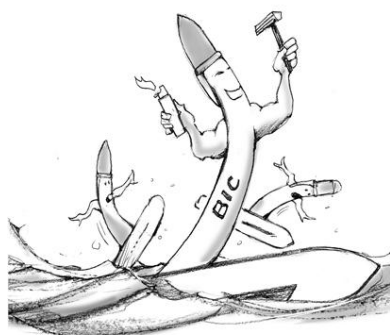
Should the group chooses to sell BIC Graphic (up to an EV/sales of 0.5x?), the potential dilutive impact would amount ~14% on our 2017e sales assumption, but only 3% on the group's NIFO given BIC Graphic's low profitability (2017e: 4%e vs. 21%e for Consumer Business).

**BIC Graphic performance over 2009-2015:**

EURm	2009	2015	2009-15 CAGR (%)
Net sales	288.4	319.3	1.7
Normalised IFO	30.1	10.4	-16.2
in % of sales	10.4	3.3	-710bp

Source: Company Data, BG ests

- **We reduce our FY16-17 NIFO assumptions by ~9% on average.** First of all, we nudge up slightly our LFL growth forecasts for 2016 (+5% vs. +4.5% previously) and for 2017 (+4.9% vs. +4.5%) to be aligned with the company's guidance of a "mid-single-digit growth". As for the profitability however, in light of this unexpected conservative margin target for 2016 (-100/-150bp decline), we decrease our FY16-17 NIFO assumptions by approx. 9%, representing a margin decline of 100bp to 18.3% for 2016 (vs. 20.3% prior to the yesterday's publication). For 2017, we believe the group should be able to expand its profitability by 40bp to 18.7% (vs. 20.5% previously) as some brand support and other investments carried out in 2016 might be leveraged in 2017.

*(To be continued next page)*

#### VALUATION

- The 8% fall in the share price yesterday was explained by the very conservative margin guidance for 2016. This correction reflects fairly our ~9% downward revision to our FY16-17 NIFO assumptions, leading to our new FV of EUR122 vs. EUR130.
- The stock now trades at 13.6x 2016e EV/EBIT, representing a 34% premium to its 2004-16 historical average. Neutral recommendation reiterated.

#### NEXT CATALYSTS

- Q1 16 Results on 27<sup>th</sup> April 2016 // AGM on 18<sup>th</sup> May 2016.

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