

## Groupe SEB

Price EUR85.25

SEB will use the same recipe to make sure 2016 is another successful year

Fair Value EUR105 (+23%)

BUY

Bloomberg	SK FP
Reuters	SEBF.PA
12-month High / Low (EUR)	96.9 / 65.3
Market Cap (EURm)	4,277
Ev (BG Estimates) (EURm)	4,700
Avg. 6m daily volume (000)	59.10
3y EPS CAGR	17.4%

The analysts' meeting was an opportunity for SEB to go deeper into the initiatives that drove top-line growth (+8% LFL) and profitability (op margin up 270bp LFL to 11.4%). Against the successful operating performance, management is confident it can more than offset the negative FX impact of EUR130-140m and guided for an increase in op profit in both reported and organic terms. This optimism was eventually shared by the market after a surprising negative reaction before the event. We leave our FY16 assumptions unchanged. Buy recommendation and FV of EUR105 confirmed.

## ANALYSIS

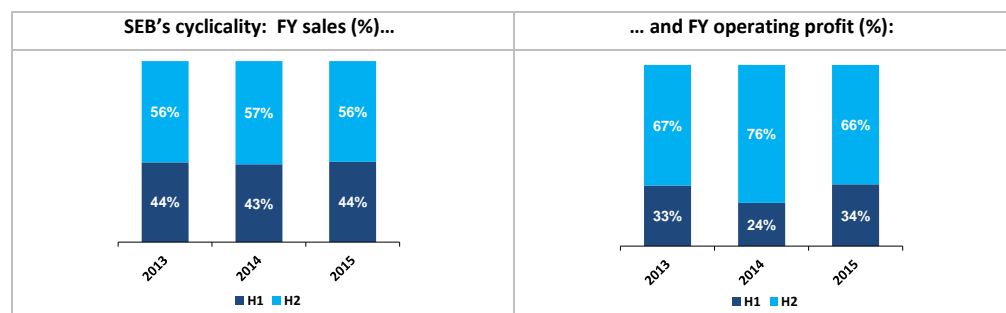
- **2015: a healthy and balanced top-line performance.** SEB achieved broad-based growth across the group's **eight categories** (all of them in positive territory) and across the **regions**: sales in mature countries (~54% of sales) increased 7% LFL and revenues in emerging markets were up 9% LFL, driven by China (+17% LFL) while the group held up well in Russia and Brazil (flat LFL in both markets). The **top 20 countries**, which account for 86% of sales, increased 9.3% LFL. All channels contributed to growth but it is worth highlighting the ~35% FX-n growth in **online sales** that now represent 15% of total revenue (vs ~12% the prior year).
- **2015 was a busy year in terms of loyalty programmes.** Indeed management admitted that LPs amounted to EUR130m in 2015, while the average is traditionally close to EUR80m, thanks to several partnerships across Europe (France and Germany mainly) and in Mexico. **These LPs contributed 1pp out of the 8% LFL growth.** For 2016, the group expects to be close to the normative level of EUR80m, leaving us comfortable with **our LFL growth assumption of 4.5%**.
- **Was the market disappointed by the cautious outlook?** Arguably some investors might have considered the outlook as too conservative at first sight. Note however, that SEB never provides quantified targets at this stage given low visibility and the **highly seasonal business** which is clearly weighted towards H2 (3-yr average: ~56% of FY sales and ~70% of FY op profit).

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.1%	-7.1%	6.8%	-9.9%
Consumer Gds	-2.4%	-10.0%	4.4%	-8.2%
DJ Stoxx 600	-5.4%	-14.8%	-6.4%	-12.5%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	4,253	4,770	4,976	5,228
% change		12.2%	4.3%	5.1%
EBITDA	368	430	473	504
EBIT	334.7	401.2	442.4	472.3
% change		19.9%	10.3%	6.7%
Net income	170.0	208.7	252.8	275.2
% change		22.8%	21.1%	8.9%

	2014	2015e	2016e	2017e
Operating margin	7.9	8.4	8.9	9.0
Net margin	4.0	4.4	5.1	5.3
ROE	11.9	14.9	15.3	15.2
ROCE	11.0	12.9	13.9	14.6
Gearing	26.2	23.5	13.8	5.2

(€)	2014	2015e	2016e	2017e
EPS	3.46	4.24	5.14	5.59
% change	-	22.8%	21.1%	8.9%
P/E	24.7x	20.1x	16.6x	15.2x
FCF yield (%)	5.1%	4.0%	6.1%	6.5%
Dividends (€)	1.44	1.57	1.75	1.95
Div yield (%)	1.7%	1.8%	2.1%	2.3%
EV/Sales	1.1x	1.0x	0.9x	0.8x
EV/EBITDA	12.9x	10.9x	9.6x	8.7x
EV/EBIT	14.1x	11.7x	10.3x	9.3x



Source: Company Data, BG ests

- **Is SEB able to fully offset the EUR130-140m FX headwind?** Admittedly, the anticipated negative FX impact for 2016 might frighten some investors as it is set to be the highest in five years (see table below), but management only confirmed the forecast that was communicated during the 2015 sales conference call on 19<sup>th</sup> January. Moreover SEB usually provides a precise assumption: e.g. the FX impact of EUR100m in 2015 was in line with the forecast delivered in February 2015.

EURm	2012	2013	2014	2015	2016e
FX impact	-33	-35	-94	-100	-130/-140

Source: Company Data, BG ests

In our opinion, rarely has management been so optimistic about the group's capacity to offset this negative FX impact in 2016 since SEB expects to achieve an increase in Op profit in both reported and organic terms. CEO Thierry de la Tour d'Artaise even declared that SEB would return to the record margin of 12% (2010) "quickly enough", as evidenced by the 11.4% operating margin achieved in 2015 (+270bp) excluding FX and despite a 16% LFL increase in advertising & marketing expenses.

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For 2016 we leave our margin assumption unchanged (+50bp to 9.5%). Indeed the company counts on: (i) a more flexible and lean cost structure which has been facing an unfavorable FX impact for the fifth year in a row, (ii) a even more harmful impact for its competitors which are producing virtually everything in Asia (vs. ~60% for SEB), (iii) its significant pricing power which enables SEB to increase prices in many markets and (iv) further sourcing and efficiency gains.

#### VALUATION

- The negative market reaction before the start of the Analysts' Meeting clearly surprised us in light of a solid top line/operating performance in 2015 and a quite optimistic op result guidance for 2016 (Op result to increase in reported terms despite the EUR130-140m FX headwind).
- However the optimistic message delivered by the management during the presentation eventually rubbed onto investors and the stock closed up 1.4%. We leave our FY16 assumptions unchanged and confirm our Buy recommendation with a FV of EUR105.

#### NEXT CATALYSTS

- Groupe SEB is to release its Q1 20 16 Sales on 28th April 2016.

#### 2015 vs. 2014: Op result bridge and margin tailwinds/headwinds:



Source: Company Data

#### 2016 targets:

	2013	2014	2015
Sales	+5.4%	+4.6%	+8.0%
ORfA	410 M€ +7% à LFL	368 M€ +13% LFL	428 M€ +43% LFL
Currency effect on ORfA	- 35 M€	- 94 M€	- 100 M€

**2016**

- ➔ Achieve another year of organic sales growth
- ➔ Ensure growth in OrfA despite currency effect currently estimated at -€130 / 140m

Source: Company Data

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**Analyst :**  
Cédric Rossi  
33(0) 1 70 36 57 25  
crossi@bryangarnier.com

**Consumer Analyst Team:**  
Nikolaas Faes  
Loïc Morvan  
Antoine Parison  
Virginie Roumage

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Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
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