

Beiersdorf

Price EUR79.57

Poor 2016 prospects in a softer market

Fair Value EUR80 vs. EUR82 (+1%)

NEUTRAL

Bloomberg	BEI GY
Reuters	BEIG.DE
12-month High / Low (EUR)	90.0 / 71.1
Market Cap (EUR)	18,046
Ev (BG Estimates) (EUR)	16,489
Avg. 6m daily volume (000)	0.90
3y EPS CAGR	11.7%

Although 2015 results were in line with market expectations thanks to a 70bp EBIT margin gain, investors were disappointed by the 2016 guidance with a relatively modest organic sales increase (3 to 4%) and a “slight” profitability increase. We are lowering our 2016 EBIT by 2.5% hence our new EUR80 FV (EUR82 previously).

ANALYSIS

- Few words on 2015 sales figures:** Within the Consumer division sales (up 3.6% last year), **Nivea** brand achieved a strong performance with a 4.5% sales increase driven by Nivea Deo, Nivea Shower and Nivea All-purposes cream. Consequently, the brand gained market shares in its key markets. Nevertheless, China remained challenging for the brand. **Eucerin** did even better with 5.4% sales growth. On the other hand, **La Prairie** underperformed with a modest 1.2% revenue increase (BDF CEO admitted that this performance was disappointing), while the Luxury Cosmetics market grew by 5.5% according to L’Oréal.
- In 2015, EBIT margin gained 70bp to 14.4%** with a particularly clear improvement for the Consumer division (+90bp to 13.9%) thanks to operating leverage following the top line performance. Meanwhile, Tesa figures are much less buoyant as the EBIT margin declined 20bp to 16.8%. It is true that this was versus a record 2014 year, but the performance was also affected by near-stable revenues (+0.4%). By geographic area and for the whole group, we highlight the 70bp margin increase in Europe to 17.9% and the +100bp gain in Asia (12%) while the improvement was even better in Americas (+130bp to 8.4%) despite a challenging environment in Brazil.
- Company guidance for 2016 seems relatively cautious.** Although management anticipates growing faster than the Cosmetic market, it expects to grow just 3-4%. Interestingly, in February 2015, it was guiding for a 2015 organic sales growth between 3 and 5%, before reducing its guidance in the 9m report at 3 to 4% and lastly achieving a “poor” 3% increase. This is also true for the Consumer division with an initial guidance of 3 to 5% sales increase and achieving +3.6%. Therefore, we understand the company’s cautious sales growth guidance for 2016. **This attitude is also driven by the group’s product mix, as Beiersdorf is mainly (not to say fully) exposed to the skin care segment which is currently the least dynamic one** within the Cosmetic market, while L’Oréal has a more balanced product mix with, for instance, 24% of French Group Cosmetics sales achieved with Make-up which is the most dynamic market segment.
- Nevertheless, it is worth noting that, at this stage, **market consensus already expects higher sales momentum (+4.3%) than the company guidance** and this is even more true for the Consumer business (+4.7% versus “+3 to 4% guidance”). In terms of EBIT, Beiersdorf’s management guidance is a “slight” increase” in terms of profitability while consensus already expects a 50bp margin gain to 14.9%.
- Following this guidance and also FX issues particularly with some emerging countries currencies as BRL or CNY, we are lowering our 2016 sales by 1.5% and our EBIT by 2.5%.** We have factored in a 1% negative FX effect on sales with a 3.5% organic sales growth (vs +4% previously) of which +3.7% for the Consumer branch and +3% for Tesa. Furthermore, we expect 2016 EBIT margin to increase by 30bp to 14.7%.

VALUATION

- Following new 2016 sales and EBIT assumptions, we are lowering our Fair Value from EUR82 to EUR80 and remain Neutral on the stock.

NEXT CATALYSTS

- Q1 2016 results to be reported on May 4th.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	1.7%	-10.8%	3.0%	-6.1%
Pers & H/H Gds	5.6%	-7.3%	-4.5%	-2.7%
DJ Stoxx 600	-0.3%	-13.5%	-15.1%	-10.1%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	6,285	6,686	6,875	7,160
% change		6.4%	2.8%	4.1%
EBITDA	1,026	1,132	1,179	1,250
EBIT	861.0	962.0	1,010	1,075
% change		11.7%	5.0%	6.4%
Net income	526.0	659.0	679.0	734.0
% change		25.3%	3.0%	8.1%

	2014	2015e	2016e	2017e
Operating margin	13.7	14.4	14.7	15.0
Net margin	8.4	9.9	9.9	10.3
ROE	14.5	16.7	0.0	0.0
ROCE	24.6	26.9	26.0	26.0
Gearing	-50.6	-49.1	-38.7	-39.5

(EUR)	2014	2015e	2016e	2017e
EPS	2.32	2.91	2.99	3.23
% change	-	25.3%	3.0%	8.0%
P/E	34.3x	27.4x	26.6x	24.6x
FCF yield (%)	0.7%	1.8%	2.1%	2.4%
Dividends (EUR)	0.70	0.70	0.75	0.75
Div yield (%)	0.9%	0.9%	0.9%	0.9%
EV/Sales	2.6x	2.5x	2.4x	2.2x
EV/EBITDA	16.2x	14.6x	13.8x	12.9x
EV/EBIT	19.3x	17.1x	16.1x	15.0x



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