

9th February 2016

Luxury & Consumer Goods

L'Oréal

Price EUR150.05

FY 2015 organic sales growth set to reach 3.7% with moderate profitability gain

Fair Value EUR182 (+21%)

BUY

Bloomberg	OR FP
Reuters	OREP.PA
12-month High / Low (EUR)	179.3 / 143.9
Market Cap (EUR)	84,028
Ev (BG Estimates) (EUR)	83,501
Avg. 6m daily volume (000)	760.6
3y EPS CAGR	7.8%

At the very beginning of 2015, L'Oréal's management guided for a significant 2015 sales and EBIT increase, partly thanks to a positive FX impact but with a "moderate" EBIT margin gain. 2015 results are due out on Thursday after trading and we expect FY sales to grow 3.7% organically with no material slowdown in Q4 and a 10bp EBIT margin gain to 17.4%. Buy recommendation maintained.

ANALYSIS

- L'Oréal is due to release its 2015 results (sales and profits) on Thursday (after trading) with an analysts' meeting to be held on Friday morning. **2015 sales should reach EUR25.15bn** (consensus: EUR25.1bn), **up 11.6% and 3.8% organically**. FX should add 6.7% to the sales increase. Cosmetics sales are expected to increase 3.8% organically. In Q4 alone, cosmetics revenues should have risen 3.7% organically following +3.8% in Q3 and on 9m. As such, we expect no clear slowdown in growth in Q4 vs Q3.
- By geographical area, growth is again set to be driven by **new markets** (+6.4% on FY) despite some slowdown in Q4 (+4.6% vs +4.8% in Q3) as the situation in **LATAM** and in **Asia** (particularly in Hong Kong, as there is no deterioration in MC in our view) remains challenging. In **western Europe**, we expect some slowdown in Q4 (+2.1% vs Q3 (+2.5%)), given the tougher comparison basis and more challenging environment following the Paris attacks on 13th November. On the other hand, we anticipate that the rebound perceived in Q3 in **North America** (+3.8%) should continue in Q4 (+3.7%). By division, the two winners are expected to be **Active Cosmetics** (+7.4%) and **Luxury Products** (+5.6%) despite some slowdown in Q4 for the latter as Travel Retail was probably affected by geopolitical issues particularly in WE. While L'Oréal probably gained market share in luxury products and active cosmetics and even in professional products (despite an almost stable market), it very likely lost some positions in the mass market, despite some regular improvement in recent quarters.

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.3%	-10.1%	-15.2%	-3.4%
Pers & H/H Gds	-0.8%	-10.8%	-12.5%	-6.8%
DJ Stoxx 600	-7.9%	-17.3%	-20.8%	-14.1%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	22,532	25,150	26,500	27,825
% change		11.6%	5.4%	5.0%
EBITDA	4,730	5,240	5,585	5,840
EBIT	3,890	4,380	4,705	4,940
% change		12.6%	7.4%	5.0%
Net income	3,128	3,480	3,755	3,947
% change		11.2%	7.9%	5.1%

	2014	2015e	2016e	2017e
Operating margin	17.3	17.4	17.8	17.8
Net margin	13.9	13.8	14.2	14.2
ROE	15.4	13.7	14.1	0.0
ROCE	20.7	22.4	23.0	23.2
Gearing	3.3	-2.3	-7.0	-11.0

(EUR)	2014	2015e	2016e	2017e
EPS	5.59	6.17	6.66	7.00
% change	-	10.5%	7.9%	5.1%
P/E	26.9x	24.3x	22.5x	21.4x
FCF yield (%)	3.3%	3.5%	3.7%	3.9%
Dividends (EUR)	2.70	3.10	3.35	3.65
Div yield (%)	1.8%	2.1%	2.2%	2.4%
EV/Sales	3.8x	3.3x	3.1x	2.9x
EV/EBITDA	17.9x	15.9x	14.7x	13.9x
EV/EBIT	21.8x	19.1x	17.5x	16.4x

Quarterly organic cosmetics sales growth by geographical area

Chge in %	H1 15	Q3 15	9M 15	Q4 15e	2015e
Western Europe	1.9	2.5	2.1	2.1	2.1
North America	2.7	3.8	3.0	3.7	3.2
New markets	6.3	4.8	5.8	4.6	5.5
Professional Products	3.5	2.5	3.2	3.2	3.2
Consumer Products	1.9	3.3	2.3	2.3	2.3
Luxury Products	6.7	4.2	5.8	5.1	5.6
Active Cosmetics	7.1	8.0	7.3	7.8	7.4
Cosmetics branch	3.8	3.8	3.8	3.5	3.7

Source : Company Data; Bryan Garnier & Co. ests.

- 2015 EBIT margin should grow "moderately" as initially guided by L'Oréal's management** in early 2015. Profitability is expected to gain no more than 10bp to 17.4% (consensus: EUR3.38bn). As in H1, EBIT margin remained almost stable at 18.1%, H2 profitability should increase close to 20bp. The main reason for this stable profitability is the FX rally since gross margin in EUR countries is higher, therefore prompting a negative mix. On the other hand, the relative weight of R&D costs will probably be lower as these costs are denominated in EUR. A&P should remain stable at 29.2% of sales thanks to higher digital investments.

VALUATION

- The stock is trading on EV/EBIT of 17.5x vs 19.5x for the historical average. EUR182 FV and Buy recommendation unchanged.

NEXT CATALYSTS

- FY 2015 results to be released on 11th February. Analysts' meeting the following morning.

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