

12th February 2016

Luxury & Consumer Goods

L'Oréal

Price EUR146.70

Stronger-than-expected sales growth in Q4; moderate EBIT margin improvement

Fair Value EUR182 (+24%)

BUY

Bloomberg	OR FP
Reuters	OREP.PA
12-month High / Low (EUR)	179.3 / 143.9
Market Cap (EUR)	82,152
Ev (BG Estimates) (EUR)	81,614
Avg. 6m daily volume (000)	773.3
3y EPS CAGR	7.0%

L'Oréal 2015 results are slightly above market expectations, with FY 3.9% organic sales growth (consensus: +3.7%), implying +4.2% in Q4 alone after +3.7% in Q3 and with 10bp EBIT margin gain to 17.4% (consensus: 17.5%). Dividend up 14.8% to EUR3.1. Ahead of this morning's analyst meeting, we maintain our Buy recommendation with an unchanged EUR182 FV.

ANALYSIS

- FY 2015 L'Oréal sales reached EUR25.26bn (consensus: 25.1bn), up 12.1% and 3.9% organically (consensus:+3.7%).** FX had a 7.2% positive impact on 2015 sales. **Cosmetics branch** sales grew 4.1% organically last year (consensus:+3.7%) of which +4.8% in Q4 alone (cs:+3.9%) following +3.8% in Q3 and 9M. By geographic area, it is worth noting the 3.5% increase in **North America** (27% of sales) of which +5% in Q4 following +3% on 9m and +3.8% in Q3, a clear acceleration in Q4. Even **Western Europe** (33% of sales) achieved a healthy performance (+2.3% on FY including +2.7% in Q4 after +2.5% in Q3) despite a more demanding comparison basis in Q4. In **New Markets** (40% of sales), revenues increased 6% on FY, implying +6.5% in Q4 after +4.8% in Q3 and +5.8% on 9M. Within New Markets area, we want to highlight the momentum recovery in Asia-Pacific (22% of sales) in Q4 (+5.5% after +3.3% in Q3) and in Eastern Europe (+10.8% following +9.4% in Q3) while momentum in LATAM remained under pressure (+2.2% versus +5.9% in Q3).
- Within the cosmetics branch, by division, the best performer in 2015 has been the Active Cosmetics (7.5% of sales) activity with a 7.8% revenues growth (+9.9% in Q4).** This division outperformed its market and did particularly well in New Markets (Asia and LATAM). On the other hand, **Consumer Products** (48% of sales) sales grew no more than 2.5% last year (despite some recovery in H2) which is disappointing as the market increased almost by 4%, this implies that this division is the only one within the group to loose market shares and for the second consecutive year. **Professional Products** and **Luxury products** grew respectively 3.4% and 6.1% in 2015, which implies for both division market share gains. LPD sales momentum even accelerated in Q4 (+6.8%) vs Q3 (+4.2%), despite tougher environment (negative impact of Paris tragic events in November).

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.2%	-13.6%	-15.5%	-5.5%
Pers & H/H Gds	-3.7%	-13.7%	-13.4%	-9.5%
DJ Stoxx 600	-10.8%	-19.8%	-22.9%	-17.0%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	22,532	25,257	26,030	27,332
% change		12.1%	3.1%	5.0%
EBITDA	4,730	5,248	5,475	5,757
EBIT	3,890	4,388	4,595	4,857
% change		12.8%	4.7%	5.7%
Net income	3,128	3,491	3,645	3,864
% change		11.6%	4.4%	6.0%

	2014	2015e	2016e	2017e
Operating margin	17.3	17.4	17.7	17.8
Net margin	13.9	13.8	14.0	14.1
ROE	15.4	13.7	14.2	0.0
ROCE	20.7	22.4	22.5	22.8
Gearing	3.3	-2.3	-6.7	-10.4

(EUR)	2014	2015e	2016e	2017e
EPS	5.59	6.18	6.45	6.84
% change	-	10.6%	4.4%	6.0%
P/E	26.3x	23.7x	22.7x	21.4x
FCF yield (%)	3.3%	3.6%	3.7%	3.9%
Dividends (EUR)	2.70	3.10	3.35	3.65
Div yield (%)	1.8%	2.1%	2.3%	2.5%
EV/Sales	3.7x	3.2x	3.1x	2.9x
EV/EBITDA	17.5x	15.6x	14.7x	13.8x
EV/EBIT	21.3x	18.6x	17.5x	16.4x

Quarterly Cosmetic sales organic sales growth by division and geographical area

Chge in %	H1 15	Q3 15	9M 15	Q4 15	2015
Western Europe	1.9	2.5	2.1	2.7	2.3
North America	2.7	3.8	3.0	5.0	3.5
New markets	6.3	4.8	5.8	6.5	6.0
Professional Products	3.5	2.5	3.2	4.0	3.4
Consumer Products	1.9	3.3	2.3	3.1	2.5
Luxury Products	6.7	4.2	5.8	6.8	6.1
Active Cosmetics	7.1	8.0	7.3	9.9	7.8
Cosmetics branch	3.8	3.8	3.8	4.8	4.1

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

- L'Oréal 2015 EBIT reached EUR4.39bn (consensus: EUR4.39bn) and grew 12.8%**, implying a "moderate" 10bp profitability gain, in line with initial management guidance! In H2 alone, EBIT margin gained 20bp after after having declined 10bp in H1. Gross margin gained 10p to 71.2%, despite negative FX moves (lower weight of EUR). On the other hand, A&P costs remained under control (stable at % of sales) thanks to higher weight of digital investments. (see table below). Lastly SG&A costs increased 10bp to 21.5%, consequence of some recent acquisitions as Carita and Decléor.
- The EBIT margin improvement came from luxury Products division (+20bp to 20.7%)** thanks to dynamic sales momentum and from Active Cosmetics (+20bp). Professional Products lower profitability (-10bp) is explained by Decléor and Carita first consolidation. CPD profitability declined 20bp to 20.1%. By geographical area,, it is worthnoting the profitability improvement in NA (+20bp to 18.9%) and in NM (+10bp to 19.7%), while it is stable in WE (22.7%).

VALUATION

- The stock is trading 17.5x 2016 EV/EBIT.

NEXT CATALYSTS

- Analyst meeting today at 9am.



P&L summary

EURm	2014	2015	chge %
Sales	22,532	25,257	12.1
Gross Profit	16,031	17,981	12.2
<i>as % of sales</i>	<i>71.1</i>	<i>71.2</i>	<i>10</i>
Research & Development	-761	-794	4.4
<i>as % of sales</i>	<i>3.4</i>	<i>3.1</i>	<i>-30</i>
Advertising & Promotion	-6,559	-7,359	12.1
<i>as % of sales</i>	<i>29.1</i>	<i>29.1</i>	<i>=</i>
SG&A	-4,821	-5,439	12.9
<i>as % of sales</i>	<i>21.4</i>	<i>21.5</i>	<i>10</i>
EBIT	3,890	4,388	12.8
<i>as % of sales</i>	<i>17.3</i>	<i>17.4</i>	<i>10</i>

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

Cosmetic branch EBIT margin by division

in %	2014	2015	chge bp
Professional Products Division	20.1	20.0	-10
Consumer Products Division	20.3	20.1	-20
Luxury Products Division	20.5	20.7	20
Active Cosmetics Division	22.7	22.8	10
Cosmetic branch	20.5	20.5	=

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

Cosmetic branch EBIT margin by geographical

in %	2014	2015	chge bp
Western Europe	22.7	22.7	=
North America	18.7	18.9	20
New markets	19.6	19.7	10
Cosmetic branch	20.5	20.5	=

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

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BUY ratings 61.9%

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