28th April 2016

Luxury & Consumer Goods

# BIC

Price EUR125.20

## Conference call feedback: some margin headwinds should ease off gradually

**Fair Value EUR119 (-11%)** **NEUTRAL**

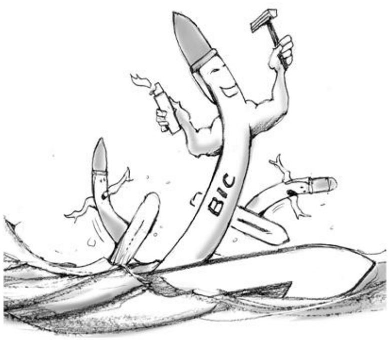
| | |
|---|---|
| Bloomberg | BB FP |
| Reuters | BICP.PA |
| 12-month High / Low (EUR) | 160.8 / 125.0 |
| Market Cap (EURm) | 5,996 |
| Ev (BG Estimates) (EURm) | 5,635 |
| Avg. 6m daily volume (000) | 49.50 |
| 3y EPS CAGR | 1.5% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | 3.0% | -8.7% | -6.4% | -11.7% |
| Consumer Gds | 1.7% | 2.0% | -4.3% | -3.3% |
| DJ Stoxx 600 | 3.6% | 2.4% | -7.6% | -5.1% |

| YEnd Dec. (EURm) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Sales | 2,242 | 2,304 | 2,418 | 2,527 |
| *% change* | | *2.8%* | *5.0%* | *4.5%* |
| Normalized IFO | 432 | 422 | 451 | 478 |
| IFO | 439.9 | 417.2 | 446.4 | 473.1 |
| *% change* | | *-5.2%* | *7.0%* | *6.0%* |
| Net income | 325.1 | 298.2 | 320.1 | 340.2 |
| *% change* | | *-8.3%* | *7.3%* | *6.3%* |

| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| IFO margin | 19.6 | 18.1 | 18.5 | 18.7 |
| Net margin | 14.5 | 12.9 | 13.2 | 13.5 |
| ROE | 17.3 | 15.3 | 14.5 | 13.6 |
| ROCE | 18.4 | 15.4 | 14.7 | 14.2 |
| Gearing | -24.2 | -18.4 | -18.3 | -19.5 |

| (EUR) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| EPS | 6.79 | 6.23 | 6.68 | 7.10 |
| *% change* | - | *-8.3%* | *7.3%* | *6.3%* |
| P/E | 19.7x | 19.8x | 18.5x | 17.4x |
| FCF yield (%) | 5.3% | 3.5% | 3.8% | 4.5% |
| Dividends (EUR) | 5.90 | 3.50 | 3.70 | 3.95 |
| Div yield (%) | 4.4% | 2.6% | 2.8% | 2.9% |
| EV/Sales | 2.7x | 2.6x | 2.5x | 2.3x |
| EV/EBITDA | 13.8x | 10.4x | 9.4x | 8.8x |
| EV/EBIT | 13.6x | 13.5x | 12.5x | 11.6x |




**No breaking news came out of the conference yesterday, although it was a good opportunity for management to explain FY guidance in further detail (e.g.: the FY NIFO margin target includes the negative impact from the special bonus). We have made minor adjustments to our FY16 assumptions, hence our FV is unchanged at EUR119 with a Neutral recommendation.**

### ANALYSIS

- **Robust Q1 growth levels in Stationery (+7.9%) and Shavers (+10.9%) are not extrapolable to the rest of the year.** Management declared that these two categories grew above internal expectations in Q1 but the group's FY guidance would not include further momentum of this level over the remainder of the year. **Stationery** sales increased in high single-digits in Europe and North America and MSD in Latin America. However the group remains quite cautious about prospects, especially in North America as it anticipates a competitive and promotional back-to-school season there. As for **Shavers**, BIC registered double-digit growth in Europe and in emerging markets, and a MSD increase in North America (+1.9 pts in value share to 27.3%), driven by new launches and brand support.
- **Cello Pens: domestic sales were up 10%.** This good performance confirmed that the brand has regained some traction since Q3, although growth was partly driven by promotions, as the Indian market remains highly competitive. The group continues to reshuffle the supply chain to raise quality standards.
- **We fine-tune our FY16 sales forecast.** We are nudging up our LFL growth assumption to 5.5% vs. 5% previously (CS was expecting 4.7% prior to the publication) and the group maintained its FY16 outlook for "mid single-digit" growth, which could seem cautious given the positive results from the step up in brand support, as highlighted by the better-than-expected Q1 LFL growth (+6.9% vs. CS of 3.8%). Indeed 5% LFL growth in 2016 would imply ~4.5% over the remaining three quarters after +6.9% in Q1. On the negative side, we retain a more harmful FX effect (-2.7% vs. -0.7% previously) given the significant fall of most of the Latin American currencies.
- **We are making no change to our FY16 NIFO assumption.** BIC also reiterated guidance for a 100-150bp decline over 2016, which includes the negative impact from the special bonus. Stripping out this one-off charge, the profitability dropped by 290bp to 17%, as incremental brand support and R&D expenses cost 80bp and 50bp respectively. **What to expect for the remainder of the year?** Management confirmed that these opex investments would remain in the same order of magnitude (i.e. ~130bp) but some pressure at the GM level (packaging costs, etc.) is expected to gradually ease off throughout the rest of the year. We expect a 100bp decline in the 2016 NIFO margin to 18.3%.

### VALUATION

- In our view, the 6.5% decrease in the share price yesterday was explained by the margin miss, as investors might have underestimated the significant increase in brand support. Still, we do not see any major downside risk to FY16 targets as the group is traditionally more conservative than the consensus.
- Despite sound fundamentals and an attractive yield, we maintain our Neutral recommendation mainly because of a stretched valuation, the stock trades at 13.5x 2016e EV/EBIT, representing a 33% premium to 2004-16 historical average.

### NEXT CATALYSTS

- AGM on 18th May 2016 // H1 Results on 4th August 2016.

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Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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