

19th April 2016

Luxury & Consumer Goods

**L'Oréal**

Price EUR160.45

**Q1 sales grew 4.2% organically, above expectations**

**Fair Value EUR177 (+10%)**

**BUY**

Bloomberg	OR FP
Reuters	OREP.PA
12-month High / Low (EUR)	179.3 / 143.9
Market Cap (EUR)	89,852
Ev (BG Estimates) (EUR)	88,192
Avg. 6m daily volume (000)	744.2
3y EPS CAGR	6.0%

**L'Oréal Q1 sales grew 1.8% in Q1 to EUR6.55bn (consensus: EUR6.48bn). Organically, sales increased 4.2% (consensus: +3.5%) and FX had a negative 2.8% impact. In Q1 16, the biggest positive surprise came from Consumer Products division whose sales grew 3.9% (cs:+2.5%), the highest level since Q2 2013. Management still expects that the following quarters should enjoy sales momentum acceleration thanks to a more aggressive innovation pipeline, which is quite encouraging. Buy recommendation reiterated with an unchanged EUR177 Fair Value.**

**ANALYSIS**

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.9%	9.7%	-3.4%	3.3%
Pers & H/H Gds	1.2%	7.9%	-0.5%	0.1%
DJ Stoxx 600	0.7%	4.7%	-5.2%	-5.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	25,257	26,030	27,332	28,561
% change		3.1%	5.0%	4.5%
EBITDA	5,248	5,490	5,782	6,141
EBIT	4,388	4,610	4,882	5,211
% change		5.1%	5.9%	6.8%
Net income	3,491	3,665	3,889	4,156
% change		5.0%	6.1%	6.9%

	2015	2016e	2017e	2018e
Operating margin	17.4	17.7	17.9	18.2
Net margin	13.8	14.1	14.2	14.6
ROE	13.7	14.2	13.9	13.8
ROCE	22.4	22.6	22.9	23.3
Gearing	-2.3	-6.7	-10.5	-13.6

(EUR)	2015	2016e	2017e	2018e
EPS	6.18	6.49	6.88	7.36
% change	-	5.0%	6.1%	6.9%
P/E	26.0x	24.7x	23.3x	21.8x
FCF yield (%)	3.3%	3.4%	3.6%	3.7%
Dividends (EUR)	3.10	3.35	3.60	3.90
Div yield (%)	1.9%	2.1%	2.2%	2.4%
EV/Sales	3.5x	3.4x	3.2x	3.0x
EV/EBITDA	17.0x	16.1x	15.1x	14.0x
EV/EBIT	20.4x	19.1x	17.8x	16.5x

- L'Oréal revenues increased slightly in Q1 (+1.8%) to EU6.55bn. Organically sales grew 4.2%** (consensus: +3.5%). FX had a negative 2.8% impact given some emerging country currencies decline as BRL. **Cosmetics branch** sales were up 4.2% while **The Body Shop** performance was better than feared with a 2.1% increase. The Cosmetics branch achieved a very resilient performance in Q1 despite a tough comparison basis in LATAM (+10% in Q1) and in Travel retail and despite a relatively poor product innovation pipeline that will likely be much more dynamic in Q2 and especially in H2. It is worth noting that management, during the conference call, reiterated that Q1 should still be the weakest quarter of 2016, even if Q1 organic sales growth is above market expectations. Moreover, in Q1, L'Oréal outperformed the market by close to 1.2x.
- By geographic area, we want to highlight, the resilience of **New Markets** (39% of Cosmetics sales) momentum (+6.1%) with a quite strong LATAM (+8.5%) despite tough comp in **LATAM** (+10% in Q1 15) and lower Brazil sales, but thanks to other LATAM countries all up double digit. LATAM accounts for 9% of Cosmetics sales. Beyond LATAM, New markets area has been also penalised by some weakness in **Asia** whose revenues increased 4.5% during Q1 with China sales up MSD. China is penalized by a flattish mass market, even if L'Oréal CPD sales grew around 3%, implying market share gains. On the other hand, **Western Europe** (33% of Cosmetics sales), has achieved a soft 2% sales increase (on an undemanding comp with +1.3% in Q1 15) penalized by a challenging situation in France with some deflation on Consumer Products division and pricing negotiations with retailers ended in February. The most dynamic countries in WE have been Spain, and UK. Lastly, **North America** (27% of Cosmetics sales) was the positive surprise of this release with a 4.3% sales increase on an acceleration at the Consumer Products division driven by make-up. In US, mass market was up 3.5% while L'Oréal CPD sales grew 4.5% with clear market share gains.
- By division, the best performance in Q1 has been achieved by **Luxury Products division** (30% of Cosmetics sales) thanks to a 5.5% sales growth although at a lower pace than in 2015 (+6.8%) which can be explained by Travel Retail slowdown (lower tourists flows since December 2015) while in Q4 2015 it had recovered slightly. Travel retail accounts for 6% of 2015 Cosmetics sales. **Active Cosmetics** division registered some sales momentum slowdown in Q1 (+4.5% vs +7.8% in 2015), due to a soft business in WE (less traffic in pharmacies). Management is confident that this division's sales momentum should accelerate in following quarters. La Roche Posay is still outperforming the division with a double-digit increase. **Consumer Products** (49% of Cosmetics sales) has been the other very positive surprise of this Q1 release. Actually sales grew 3.9% (consensus:+2.5%), which is the highest level since Q2 2013. Clearly, on this division, L'Oréal gained market shares in Q1 while it lost significant position in 2015 (sales up 2.5% versus +4% for the market) and in 2014. The improvement is coming mainly from New Markets and from North America but not from Western Europe (see above). Lastly, **Professional Products** business (14% of Cosmetics sales) confirmed in Q1 its better trend seen since Q2 15, even if Q1 16 (+2.5%) has been softer than FY 15 (+3.4%). This division is gaining significant market share on a better oriented market.
- Lastly, the current Vice-Pdt of the Consumer Products division, Mr Marc Menesgen, will retire at the end of the year and will be replaced, from September 1<sup>st</sup>) by Mr. Alexis Perakis-Valat, current CEO of Asia-Pacific area. He joined L'Oréal in 1995 and is 45 years old.

**VALUATION**

- We remain Buy on the stock with an unchanged €177 FV.

**NEXT CATALYSTS**

- H1 16 results will be reported at the end of July.



### Q1 Cosmetics sales organic growth by geographic area and by division

Chge in %	H1 15	Q3 15	9M 15	Q4 15	2015	Q1 16
Western Europe	1.9	2.5	2.1	2.7	2.3	2.0
North America	2.7	3.8	3.0	4.9	3.5	4.3
New markets	6.3	4.8	5.8	6.6	6.0	6.1
Professionnal Products	3.5	2.5	3.2	4.0	3.4	2.5
Consumer Products	1.9	3.3	2.3	3.1	2.5	3.9
Luxury Products	6.7	4.2	5.8	6.8	6.1	5.5
Active Cosmetics	7.1	8.0	7.3	9.9	7.8	4.5
<b>Cosmetics branch</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>4.9</b>	<b>4.1</b>	<b>4.2</b>

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

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