

## Groupe SEB

Price EUR96.74

## French Touch or Deutsche Qualität? Groupe SEB takes both!

Fair Value Under Review vs. EUR102

BUY

Bloomberg	SK FP
Reuters	SEBF.PA
12-month High / Low (EUR)	99.4 / 78.3
Market Cap (EURm)	4,853
Ev (BG Estimates) (EURm)	5,212
Avg. 6m daily volume (000)	48.00
3y EPS CAGR	13.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.7%	13.3%	4.3%	2.3%
Consumer Gds	-1.8%	1.5%	-8.2%	-5.2%
DJ Stoxx 600	-3.4%	2.7%	-11.5%	-8.0%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	4,770	4,949	5,200	5,459
% change		3.8%	5.1%	5.0%
EBITDA	428	470	504	549
EBIT	396.6	437.6	470.2	513.4
% change		10.3%	7.5%	9.2%
Net income	205.9	248.9	273.7	301.8
% change		20.9%	10.0%	10.3%

	2015	2016e	2017e	2018e
Operating margin	8.3	8.8	9.0	9.4
Net margin	4.3	5.0	5.3	5.5
ROE	13.2	15.8	15.7	15.5
ROCE	12.8	13.9	14.8	15.8
Gearing	16.5	19.1	9.1	0.0

(€)	2015	2016e	2017e	2018e
EPS	4.14	5.01	5.51	6.07
% change	-	20.9%	10.0%	10.3%
P/E	23.4x	19.3x	17.6x	15.9x
FCF yield (%)	6.5%	5.4%	5.8%	6.4%
Dividends (€)	1.54	1.65	1.80	2.00
Div yield (%)	1.6%	1.7%	1.9%	2.1%
EV/Sales	1.1x	1.1x	1.0x	0.9x
EV/EBITDA	12.1x	11.1x	10.0x	8.8x
EV/EBIT	13.0x	11.9x	10.7x	9.5x



They made it! Barely a few days after acquiring German based EMSA, Groupe SEB has announced its intention to buy WMF Group for a total amount of EUR1.585bn (excl. pension liabilities), entirely paid for in cash (a second piece of good news!). Based on our estimates, the net debt/EBITDA ratio of NewCo should be around 2.8x at the end-2016e and below 2x in 2018. In our view, the relatively high transaction multiple (2016e EV/EBITDA of 11.3x) is justified by leading positions (N°1 worldwide in professional coffee machines, N°1 in Germany in cookware) and a strong accretive impact on SEB's P&L on a full-year basis despite a cautious estimates and synergy plan (2017e: +20% on sales and >20% on EPS according to SEB). Conference today at 9:30am (Paris time). Buy recommendation and FV placed under review.

## ANALYSIS

- Group SEB won the sale process.** The total amount spent (EUR1.585bn) includes a purchase price of EUR1.020bn and net debt of EUR565m but strips out EUR125m in retirement and pension liabilities. Hence the offer of EUR1,585m values WMF at a 2016e EV/EBITDA multiple of 11.3x, which is in the higher range of the industry (2016e EV/EBITDA: 11.7x for SEB and 10.7x for De Longhi). However these attractive financial terms certainly enabled SEB to gain an advantage over the other bidders (household appliances makers like Haier, KingClean or De Longhi and some investment firms), especially since SEB is taking over the entire group, making WMF easier to sell from KKR's point of view (KKR bought WMF for EUR600m in 2012).
- A quick presentation of WMF Group.** In 2015, WMF achieved sales growth of 4% to EUR1.061bn. As shown in the table below, WMF Group's operations are organised into three business units: **(i) Consumer Products** (56% of total sales) encompass the tableware/cookware/kitchenware brands (~20% ms in cookware in Germany), **(ii) Coffee Machines** (37% of sales) for Hotels & Restaurants, WMF brands clearly lead the professional coffee market (~28% ms) and **(iii) Hotel Equipment** (7% of sales), which is mainly tableware for professionals. WMF has a solid presence in Europe (~75% of total sales), o/w 51% in Germany where it dominates the cookware market (20% ms), the remaining 25% share is equally split between the US, China, Japan and SK.

Consumer Products	Coffee machines	Hotel Equipment
2015 Sales: EUR591m (+1%)	EUR394m (+13%)	EUR75m (-16%)

- A profitable business.** In 2015, WMF achieved an adj. EBITDA margin of 11.1% in line with SEB's level (11.2% for SEB) despite modest top-line growth. The German group carried out a successful reorganisation of its Consumer Products division, particularly in its own retail in Germany (~40 of the 200 stores were modernised in 2015, another 40 expected this year). WMF expects adj. EBITDA of EUR140m for 2016 (+19%), certainly implying a further improvement in profitability.
- What is the rationale behind this transforming acquisition?** SEB's biggest acquisition ever will bring some significant competitive advantages: **(i)** a notable presence in tableware & kitchenware in which SEB had a tiny market share (~1-2% vs. ~20% for the global cookware market) prior to the EMSA and WMF deals, **(ii)** penetration of the "B2B" channel that offers new growth opportunities for the brand portfolio of SEB and **(iii)** a high potential for synergies (top line: complimentary geographical footprint, cross-selling opportunities in "BtoC" and "BtoB" channels / costs: sourcing, distribution, etc.), the group anticipates synergies of EUR40m/year from 2020.
- A significant accretive impact from 2017.** SEB expects this deal to be significantly accretive (>20%) on EPS. Pending more details to be communicated at the conference call, our early estimates lead to an accretive impact of: **(i)** ~20% at the top line level, **(ii)** ~23% on the adj. EBITDA (o/w EUR10m from synergies) and **(iii)** ~15% on EPS, which is more conservative than the group's objective.

## VALUATION

- Admittedly some question marks and a period of uncertainty are likely in the ST given the significant size of WMF (integration risks, high leverage ratio, etc.), but we clearly focus on the numerous positive points: **(i) no capital increase** that was feared by many investors, **(ii)** SEB will generate sales of approx. EUR6.1bn in 2016e (on a full-year basis) after integration of EMSA and WMF, **surpassing its main competitor Philips** (2015 sales of EUR5.3bn in the SHA division), **(iii)** SEB

has an **excellent track record in terms of integrating acquisitions** and **(iv) a significant accretive impact** despite cautious assumptions and a moderate synergy plan (only EUR40m by 2020).

- Pending the conference call today that should provide more details on financials, we leave our assumptions unchanged and are placing our FV under review. Naturally we confirm our Buy recommendation.

#### NEXT CATALYSTS

- Conference call today at 9.30 (Paris time) // H1 2016 Results on 25th July.

#### SEB 2015 P&L items prior and after acquisition:

EURm	SEB stand alone	SEB + WMF	Impact (%)
Sales	4,770	5,824	22
Adjusted EBITDA	533	651	22
Adj. EBITDA margin (%)	11.2	11.2	=

Source: Company Data, Bloomberg consensus

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