

25th May 2016

Luxury & Consumer Goods

Groupe SEB

Price EUR105.40

Conference Call Feedback: how WMF will transform Groupe SEB

Fair Value Under Review

BUY

Bloomberg	SK FP
Reuters	SEBF.PA
12-month High / Low (EUR)	105.4 / 78.3
Market Cap (EUR)	5,288
Ev (BG Estimates) (EUR)	5,646
Avg. 6m daily volume (000)	49.40
3y EPS CAGR	13.6%

Yesterday morning SEB's management provided further details on WMF's three divisions to better understand how they will drive sales and earnings momentum over the coming years. Despite a significant accretive impact (BG: +20% on top line and ~15% on EPS in 2017e), we understand that the business plan was built on conservative assumptions (+3-4% LFL, synergies of EUR40m/year from 2020). We will work on our new forecasts but our early estimates suggest there remains some upside potential, hence we keep our Buy recommendation.

ANALYSIS

- The Professional Coffee Machines (PCM) division is WMF's cash cow.** WMF has outperformed a rather dynamic global PCM market worth EUR1.5bn (sales CAGR 2013-15 of 10.4% vs. ~8% p.a.) and currently boasts market share of 28% and a relative market share of 1.9x vs. the no. 2 player. This leadership provides WMF strong pricing power, especially since barriers to entry are high (innovation, brand awareness) and the business is relatively resilient as recurring revenues (maintenance, spare parts) account for ~37% of the division's sales. Last but not least, WMF has a premium positioning (machines are sold from EUR3k to EUR10k) and is exclusively sold to professionals (McDonald's, Seven Eleven, Dunkin' Donuts, etc.). Consequently, we were not surprised to learn that this business is "very profitable" according to CFO Vincent Leonard.
- Consumer Products (CP): key positions in Germany and complimentary to SEB's cookware business.** After the integration of WMF, SEB is set to generate sales of EUR614m vs. EUR242m previously, with Germany becoming the group's no. 3 market in small domestic equipment. SEB is also to become a leading player in cookware as WMF brands were either no. 1 or no. 2 in their categories (cookware, kitchenware, see Fig. 3 next page), with a complimentary positioning as they are premium brands whilst Tefal is positioned more in the mid-tier segment. With 2015 pro-forma sales of EUR355m in kitchenware/bakeware/ovenware, the group is well on track to achieve its MT objective of EUR500m. In terms of synergies, this CP division harbours interesting levers (sourcing, purchasing, manufacturing), especially in own retail where SEB intends to leverage the ~200 stores through cross-selling (push its own brands, enlarge the offering).
- Cautious business plan at this stage.** Reassuringly, the expected accretive impacts and the deleveraging capacity of the NewCo (2016e net debt ratio of 2.8x to below 2x by 2018e) are based on conservative assumptions in our view: **1/** management is not expecting a major inflection point in WMF's sales growth trajectory (+3-4% LFL) despite interesting revenues synergies and **2/** SEB is sticking to a relatively cautious synergy plan (EUR40m p.a. from 2020) whereas sources of optimisation exist (sourcing, manufacturing, distribution, etc.), particularly WMF's working capital management that must be improved to approach SEB's level (~21% of 2015 sales). The profitability increase (2016e adj. EBITDA of EUR140m vs. EUR119m in 2015) is driven by the same drivers as SEB: product and price-mix (innovation, powerful brands) and efficiency gains.

	1 M	3 M	6 M	31/12/15
Absolute perf.	15.1%	23.6%	14.8%	11.4%
Consumer Gds	0.4%	5.6%	-4.9%	-3.1%
DJ Stoxx 600	-1.2%	7.5%	-8.4%	-5.9%

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	25.4x	21.0x	19.1x	17.4x
FCF yield (%)	6.0%	4.9%	5.3%	5.8%
Dividends (€)	1.54	1.65	1.80	2.00
Div yield (%)	1.5%	1.6%	1.7%	1.9%
EV/Sales	1.2x	1.1x	1.1x	1.0x
EV/EBITDA	13.1x	12.0x	10.9x	9.6x
EV/EBIT	14.1x	12.9x	11.6x	10.3x

VALUATION

- Further to this conference call, we believe that potential risks surrounding this acquisition are under control (cost of financing around 2%, no anti-trust risks, rapid deleveraging, SEB's proven track record in integrating new acquisitions, etc.), which confirms our positive stance on this "transforming" deal.
- Management confirmed it expects to complete the acquisition during the course of H2 2016. While we will update our forecasts in coming days, we maintain our Buy recommendation.

NEXT CATALYSTS

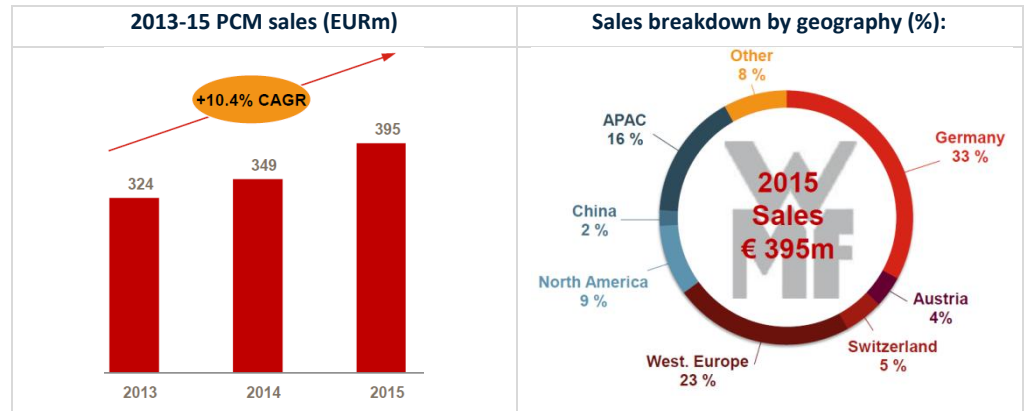
- Groupe SEB is due to report H1 results on 25th July.

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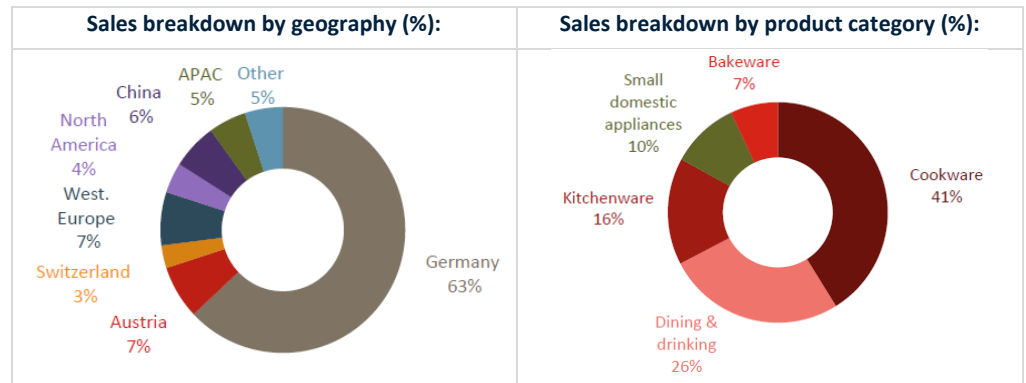
(To be continued next page)

Fig. 1: Professional Coffee Machine Division:



Source: Company Data

Fig. 2: Consumer Products Division:



Source: Company Data

Fig. 3: SEB is acquiring a group with solid positions in German-speaking cookware markets:

Segment	2015 MS in DACH	Ranking	Main products
Cookware	21%	#1	Pans Pots Pressure cookers
Kitchenware	10%	#3	Kitchen knives Kitchen gadgets
Bakeware	28%	#2	Baking pans Accessories
Dining & Drinking	38%	#1	Cutlery Dinnerware Beverageware

DACH stands for Germany, Austria and Switzerland

Source: Company Data



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