

25th July 2016

Luxury & Consumer Goods

# Groupe SEB

Price EUR114.55

Q2 and H1 results above expectations, bright outlook!

Fair Value EUR125 (+9%)

BUY

Bloomberg	SK FP
Reuters	SEBF.PA
12-month High / Low (EUR)	115.8 / 79.5
Market Cap (EURm)	5,747
Ev (BG Estimates) (EURm)	7,923
Avg. 6m daily volume (000)	52.90
3y EPS CAGR	25.1%

Sales amounted to EUR1.049bn in Q2 alone, matching the CS of EUR1.045bn, while organic growth of 6.9% topped the CS (+5%) and accelerated vs Q1 (+5.1%). Momentum remained driven by EMEA (+6%) and Greater China (+23.5%) Adj. EBIT reached EUR79m, or ~30% above expectations (CS: EUR61m), implying a significant 220bp-margin improvement to 7.5% (H1: +100bp to 7.9%). Ahead of the analysts' meeting, the group has fine-tuned its optimistic FY16 targets in light of this quite volatile environment. Buy recommendation and FV of EUR125 confirmed.

## ANALYSIS

- Solid growth in EMEA (+6% LFL).** Western Europe was up 5%: SEB delivered its 12th consecutive quarter of growth in **France** (+6.3% LFL) in both SDA and cookware. Momentum remained strong in **Germany** and **Spain** and improved in the UK after a weak Q1. The contraction in **Italy** was mostly due to the end of a loyalty programme (LP). In **Other Countries** (+8.5% LFL), sales in **Russia** were amazingly up 30% LFL in Q2 and **Central Europe** was up in the double-digits. However, the **Middle-East** has slowed down in Q2 after a buoyant start to the year.
- Sales in the Americas were down 6.9% LFL, with the gradual recovery in North America.** Following a Q1 marked by some destocking in cookware in the **U.S.**, trends have slightly improved in Q2 (almost flat LFL), as expected by the management. The activity was still subdued in **Canada** and the contraction in **Mexico** is explained by a LP that was not renewed. In **Latin America** (-3% LFL) the group faced deteriorating trends in **Brazil** (-15% LFL), mainly driven by the small electrical appliance category. Good performances were posted in other countries, especially in **Colombia**.
- Double-digit growth in Asia-Pacific (+16.8% LFL).** This momentum was largely driven by **Greater China** where sales grew by 23.5%, with a balanced performance between SDA and cookware. Hence Supor has clearly gained market share over H1. **Japan** and **South Korea** also grew above 10% this quarter but on the opposite, sales in **Thailand** and **Vietnam** were down.
- Adj. EBIT soared 46% to EUR79m, topping CS expectations by ~30% (EUR61m).** Hence the adj. EBIT margin improved 220bp to 7.5% (CS: 5.8%) after -10bp in Q1. Once again, the group benefited from a favourable price-mix effect, a positive sourcing impact and efficiency gains, which more than offset the negative FX impact of EUR16m (Q1: negative EUR45m). Note that the group is to maintain a negative forex impact over 2016 (EUR120m).
- Upbeat FY16 outlook fine-tuned.** Against this reassuring first half of the year, management detailed its two main targets for 2016, which strip out any future contribution from EMSA and WMF: **(i)** LFL growth should be "above 5%" (BG: +5% / CS: +5.5%) and **(ii)** a reported increase in adj. EBIT both in organic and reported terms. The consensus and ourselves are expecting EUR479m (+12%), implying a 60bp margin improvement to 9.6%.
- EMSA and WMF: a clearer view on the finalisation deadline?** Our estimates retain a consolidation of EMSA and WMF in Q3 and Q4 respectively. Of course all eyes will be on WMF, the largest acquisition in the group's history (EV: EUR1.710bn, sales of EUR1.061bn) enabling SEB to become the undisputed global leader in professional coffee machines (~28% market share). It has also strengthened its leadership in cookware, especially in German-speaking countries. Note that for 2017 we anticipate a positive scope effect of ~21% on the top line and an accretive impact of ~24% on adj. EBITDA and of ~20% on EPS.

## VALUATION

- Following this better-than-expected H1 publication and upbeat FY16 targets, we expect a positive market reaction this morning. In view of sound fundamentals for SEB stand-alone and limited risks surrounding these above-mentioned deals (excellent track-record with M&A, low cost of financing), we are clearly confident in the group's outlook! Buy recommendation and FV of EUR125 confirmed.

## NEXT CATALYSTS

- Analysts' Meeting today at 2.30pm (Paris time) // Analyst Day on 4th October.

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(see tables next page)

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.9%	25.1%	28.9%	21.1%
Consumer Gds	1.6%	1.9%	4.6%	-1.6%
DJ Stoxx 600	-0.3%	-2.3%	0.6%	-7.0%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	4,770	5,333	6,414	6,729
% change		11.8%	20.3%	4.9%
EBITDA	428	509	664	713
EBIT	396.6	474.3	622.0	669.0
% change		19.6%	31.1%	7.6%
Net income	205.9	258.1	357.1	403.5
% change		25.3%	38.4%	13.0%

	2015	2016e	2017e	2018e
Operating margin	8.3	8.9	9.7	9.9
Net margin	4.3	4.8	5.6	6.0
ROE	13.2	17.6	20.5	19.7
ROCE	12.8	8.6	10.7	11.4
Gearing	16.5	120.7	100.4	75.4

(€)	2015	2016e	2017e	2018e
EPS	4.14	5.19	7.18	8.12
% change	-	25.3%	38.4%	13.0%
P/E	27.7x	22.1x	15.9x	14.1x
FCF yield (%)	5.5%	3.8%	4.5%	7.0%
Dividends (€)	1.54	1.65	1.80	2.00
Div yield (%)	1.3%	1.4%	1.6%	1.7%
EV/Sales	1.3x	1.5x	1.2x	1.1x
EV/EBITDA	14.2x	15.6x	11.7x	10.5x
EV/EBIT	15.3x	16.7x	12.5x	11.2x



**Q2 and H1 2016 sales by region (new reporting):**

<b>% LFL growth</b>	<b>Q1 16</b>	<b>Q2 16</b>	<b>H1 16</b>
EMEA – Western Europe	4.3	5.0	4.7
EMEA – Others	7.4	8.5	7.9
<b>Total EMEA</b>	<b>5.3</b>	<b>6.0</b>	<b>5.6</b>
North America	-12.4	-6.9	-9.5
South America	4.3	-3.0	0.4
<b>Americas</b>	<b>-5.5</b>	<b>-5.3</b>	<b>-5.4</b>
China	12.5	23.5	17.2
Rest of Asia	3.1	2.4	2.7
<b>Asia-Pacific</b>	<b>10.1</b>	<b>16.8</b>	<b>13.1</b>
<b>Total Groupe SEB</b>	<b>5.1</b>	<b>6.9</b>	<b>6.0</b>

Source: Company Data

**Groupe SEB H1 2016 results:**

<b>EURm</b>	<b>H1 15</b>	<b>H1 16</b>	<b>% change</b>
Sales	2,113	2,164	2.4
Recurring EBIT	146	172	17.7
<i>In % of sales</i>	6.9	7.9	+100bp
Group net income	54	62	15.0

Source: Company Data



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