

25th July 2016

Luxury & Consumer Goods

L'Oréal

Price EUR174.55

Acquisition in the US

Fair Value EUR177 (+1%)

BUY

Bloomberg	OR FP
Reuters	OREP.PA
12-month High / Low (EUR)	178.2 / 143.9
Market Cap (EURm)	97,748
Avg. 6m daily volume (000)	683.2

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.6%	6.8%	16.0%	12.4%
Pers & H/H				
Gds	0.3%	3.1%	7.2%	2.1%
DJ Stoxx 600	-0.3%	-2.3%	0.6%	-7.0%
	2015	2016e	2017e	2018e
P/E	28.2x	26.9x	25.4x	23.7x
Div yield (%)	1.8%	1.9%	2.1%	2.2%

ANALYSIS

- L'Oréal has announced the acquisition of IT Cosmetics, one of the fastest growing prestige beauty brands in US. The brand focuses on skin care and also, not to say mainly, colour cosmetics (a fast growing segment with growth of around 10% in 2015) and is distributed through its own web site, select television shopping channels like QVC and TSC, and speciality stores including ULTA and Sephora. FY sales reached EUR170m in the last 12 months and more importantly, grew 56%! This is a "marginal" acquisition as additional sales account for 0.6% of FY 2016 group sales. The French group has been particularly active in acquisitions in the colour segment in the US over the past four years (Urban Decay in 2012 and Nyx in 2014).
- L'Oréal paid EUR1bn in cash for the company and has the financial means to carry out this deal. Indeed, net cash at end 2015 was EUR540m while 2015 FCF was close to EUR2.9bn. Moreover, given the brand's estimated profitability (close to group average of 17.5%), we assume this acquisition should be slightly accretive in Year 1.
- L'Oréal is also due to release HY results on Thursday. We expect sales to increase 4.3% organically thanks to a slightly less demanding comparison basis, but affected by a slowdown in travel retail in Europe and by poor weather conditions (sun products will likely be penalised).

VALUATION

- We remain at Buy on the stock with an unchanged EUR177 FV.

NEXT CATALYSTS

- HY results to be reported on the 28th July.

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