

L'Oréal

Price EUR174.95

H1 results slightly below expectations due to poor Body Shop performance

Fair Value EUR177 (+1%)

BUY

Bloomberg	OR FP
Reuters	OREP.PA
12-month High / Low (EUR)	178.2 / 143.9
Market Cap (EUR)	97,972
Ev (BG Estimates) (EUR)	96,312
Avg. 6m daily volume (000)	676.5
3y EPS CAGR	6.0%

L'Oréal's H1 2016 results were slightly below expectations with 4.2% organic sales growth (consensus: +4.5%), even if the Cosmetics branch performance (+4.4%) was much more in line with expectations. EBIT grew 1.7% to EUR2.36bn (consensus: EUR2.39bn), implying a 20bp profitability gain to 18.3%. Cosmetics branch margin improved 30bp.

ANALYSIS

- **The world Cosmetics market leader (12.5% world market share) has reported sales at EUR12.9bn (consensus: EUR12.93bn) with 4.2% organic growth (consensus: +4.5%).** This implies a 4.3% increase in Q2 alone following +4.2% in Q1. Cosmetics branch sales grew 4.4% organically in H1 (of which +4.6% in Q2 alone), Cosmetics branch performance was in line with the consensus. On the other hand, Body Shop revenues were down 3.2% in Q2 and again disappointed. Among the Cosmetics branches and by geographical area, we would highlight the slight slowdown in **western Europe** (33% of sales) which recorded a 1.7% sales increase in H1, of which +1.4% in Q2 (+2%), particularly penalised by the French market which has been difficult in all distribution channels while others countries were well oriented. In **North America** (27% of sales), revenues grew 4.6% in H1 including +4.9% in Q2 alone vs +4.3% in Q1. Note the outperformance in the mass market segment vs the market itself (particularly in the colour segment). Finally for **New Markets** (40% of sales), momentum picked up with a 6.8% revenues increase in H1 including +7.4% in Q2. Among the New Markets, we would highlight the **LATAM** performance (+13.3% in Q2), which confirmed the recovery seen in Q1 (+8.5%), thanks to Brazil which returned to positive territory. Asia-Pacific was well oriented (+4.8% in Q2)
- **By division, we would highlight the confirmation of the recovery in the Consumer Products division (50% of Cosmetics sales) with a 4.7% organic sales increase in Q2 following +3.9% in Q1.** In 2015, this division grew no more than 2.5%! Momentum was particularly strong in North America and New Markets while it remained challenging in WE. The Luxury Products division was penalised by France and lower Travel Retail.

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.8%	5.5%	14.5%	12.7%
Pers & H/H Gds	5.6%	1.9%	6.0%	2.2%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

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	28.3x	27.0x	25.4x	23.8x
FCF yield (%)	3.0%	3.1%	3.3%	3.4%
Dividends (EUR)	3.10	3.35	3.60	3.90
Div yield (%)	1.8%	1.9%	2.1%	2.2%
EV/Sales	3.9x	3.7x	3.5x	3.3x
EV/EBITDA	18.6x	17.5x	16.5x	15.3x
EV/EBIT	22.2x	20.9x	19.5x	18.1x

Quarterly organic sales growth (%)

Chge in %	9M 2015	Q4 2015	2015	Q1 2016	Q2 2016	H1 2016
Western Europe	2,1	2,7	2,3	2,0	1,4	1,7
North America	3,0	4,9	3,5	4,3	4,9	4,6
New markets	5,8	6,6	6,0	6,1	7,4	6,8
Professionnal Products	3,2	4,0	3,4	2,5	1,8	2,2
Consumer Products	2,3	3,1	2,5	3,9	4,7	4,3
Luxury Products	5,8	6,8	6,1	4,5	5,6	5,6
Active Cosmetics	7,3	9,9	7,8	5,5	5,7	5,0
Cosmetics branch	3,8	4,8	4,1	4,2	4,6	4,4

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

- **H1 2016 EBIT increased 1.7% to EUR2.36bn (consensus: EUR2.39bn). Profitability gained 20bp to 18.3% (+30bp for Cosmetics alone while TBS registered losses of EUR22m vs -EUR7m in H1 2015).** Margin improvement was driven by gross margin gains (+70bp to 72.4%) thanks to a positive forex impact, and better production efficiency. Beyond GM, it is worth noting higher A&P costs as a % of sales (29.4% vs 29.3% in H1 2015) and higher research investments (3.2% of sales vs 3% in H1 2015).
- Ahead of the conference call scheduled for this morning at 9am, we leave unchanged our FY 2016 estimates (+4.5% organic sales). Furthermore, we expect FY EBIT margin to gain 30bp to 17.7%.

VALUATION

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

NEXT CATALYSTS

- Conference call at 9am.

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