# BIC

Price EUR135.45

## Reassuring H2 outlook, but fairly priced in

**Fair Value EUR123 vs. EUR119 (-9%)** **NEUTRAL**

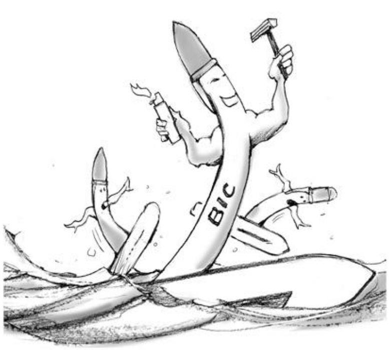
| | |
|---|---|
| Bloomberg | BB FP |
| Reuters | BICP.PA |
| 12-month High / Low (EUR) | 159.3 / 114.4 |
| Market Cap (EUR) | 6,493 |
| Ev (BG Estimates) (EUR) | 6,128 |
| Avg. 6m daily volume (000) | 69.40 |
| 3y EPS CAGR | 1.5% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | 6.4% | 9.0% | -6.6% | -10.7% |
| Consumer Gds | 1.6% | 4.6% | 4.8% | -2.0% |
| DJ Stoxx 600 | 2.4% | 1.8% | 2.8% | -7.6% |

| YEnd Dec. (EURm) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Sales | 2,242 | 2,300 | 2,414 | 2,523 |
| *% change* | | *2.6%* | *5.0%* | *4.5%* |
| NIFO | 432 | 425 | 451 | 477 |
| IFO | 439.9 | 420.8 | 446.2 | 472.9 |
| *% change* | | *-4.3%* | *6.1%* | *6.0%* |
| Net income | 325.1 | 300.7 | 320.0 | 340.1 |
| *% change* | | *-7.5%* | *6.4%* | *6.3%* |

| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| IFO margin | 19.6 | 18.3 | 18.5 | 18.7 |
| Net margin | 14.5 | 13.1 | 13.3 | 13.5 |
| ROE | 17.3 | 15.4 | 14.5 | 13.6 |
| ROCE | 18.4 | 15.5 | 14.7 | 14.1 |
| Gearing | -24.2 | -18.5 | -18.4 | -19.1 |

| (EUR) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| EPS | 6.79 | 6.28 | 6.68 | 7.10 |
| *% change* | - | *-7.5%* | *6.4%* | *6.3%* |
| P/E | 20.0x | 21.6x | 20.3x | 19.1x |
| FCF yield (%) | 5.2% | 3.5% | 3.8% | 4.3% |
| Dividends (EUR) | 5.90 | 3.50 | 3.70 | 3.95 |
| Div yield (%) | 4.4% | 2.6% | 2.7% | 2.9% |
| EV/Sales | 2.7x | 2.7x | 2.5x | 2.4x |
| EV/EBITDA | 14.0x | 14.4x | 13.5x | 12.6x |
| EV/EBIT | 13.7x | 14.6x | 13.6x | 12.7x |




**Although the NIFO margin topped expectations in Q2 (21.4% vs. CS of 19.3%), mainly driven by more favourable production costs, the Group's management maintained its cautious NIFO margin guidance given higher brand support and R&D expenses to sustain market share gains in all categories. We nudge up our FY16-17 estimates by 1% on average, leading to our new FV of EUR123 vs. EUR119, but we confirm our Neutral recommendation due to the stretched valuation.**

### ANALYSIS

- **Consumer Business: robust Europe, but soft North America.** The activity in the latter grew by 4.1% in Q1 and 3.4% in Q2 vs. (+10.1% and 9.8% respectively for Europe). While the difficult retail environment might be an initial explanation of this softness, we recall that the comparison bases in H1 for **Lighters** (HSD growth ahead of price hikes) and **Shavers** (DD growth) were quite challenging, which explains why the revenue in these two categories only increased LSD and MSD respectively. BIC must also deal with a tough US shavers market (H1: -4.3% in value terms), but the brand increased its market share (+2.2p in value share to 29% with regards to the one-piece shaver category), helped by incremental brand support and promotions (Shavers' NIFO margin was down 680bp to 13.4 excl. the impact of the special employee bonus).
- **BIC does not feel threatened by the ramp up in the online shaving business.** Over the past years, BIC has continuously gained market share vs. Gillette and Schick thanks to its notorious "value-for-money" image, even in value-added products (*BIC Soleil*, *Hybrid* range, etc.) which benefitted from trading-down. However, last month Unilever acquired fast-growing US online player Dollar Shave Club (for an estimated price of USD1bn => 2016e EV/sales of ~5x) which offers cheap razor blades that are directly shipped to consumers for a monthly fee. Whilst the management admits that competition is stiffer (=> higher brand support), it does not believe that online players could have a disruptive impact on the "traditional" business in the ST/MT.
- **BIC Graphic: operating improvements while the strategic review is underway.** Indeed this division has achieved its best H1 performance with 2.3% FX-n growth and despite its seasonality (H2: >60% of FY sales), BIC Graphic returned to profitability in Q2 (NIFO margin of 2.5% vs. -3% in Q2 15) thanks to a lower costs of production and a decrease in opex costs. Management confirmed that the strategic review was progressing according to plan.
- **FY16 outlook confirmed.** BIC still expects **mid-single-digit organic sales growth**, which implies market share gains in all categories and all markets. Our assumption for 2016 is at 5.4%, hence the same pace of growth as in H1 (+5.4%); note that the comparison base in H2 is consistent with H1. Despite a better-than-expected margin performance in Q2 (21.4% vs. CS of 19.3%e), **BIC maintains its relatively cautious NIFO margin guidance (i.e. -100 to -150bp vs. 19.3% in 2015)** to reflect the ramp up in R&D investments and brand support, aimed at strengthening market share (particularly in Stationery and Shavers). We nudge up our NIFO margin forecast (18.5% vs. 18.3% previously => -80bp vs. 2015) to reflect the sequential improvement in Q2.

### VALUATION

- The positive market reaction yesterday was explained by the positive surprise at the NIFO margin level. Even if some consider that the FY outlook is cautious, the stock might attract investors willing to play its good fundamentals and a proven-business model within the challenging macro environment. Despite a slight increase in our FV to EUR123, we remain capped by the high valuation (13.6x 2017e EV/EBIT => 43% premium to 2004-16 historical average).

### NEXT CATALYSTS

- Conference call today at 4:00pm (CET) // Q3 16 Results on 26th October 2016.

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