

1st August 2016

Luxury & Consumer Goods

**L'Oréal**

Price EUR170.25

Sales momentum acceleration expected in H2

Fair Value EUR177 (+4%)

**BUY**

Bloomberg	OR FP
Reuters	OREP.PA
12-month High / Low (EUR)	178.2 / 143.9
Market Cap (EURm)	95,340
Ev (BG Estimates) (EURm)	93,680
Avg. 6m daily volume (000)	681.8
3y EPS CAGR	6.0%

During Friday's conference call, L'Oréal CEO, Jean-Paul Agon, was quite confident in the group's prospects with an acceleration in sales momentum in H2 and a likely profitability improvement over the FY. We remain at Buy on the stock with an unchanged EUR177 FV.

**ANALYSIS**

- On Friday, L'Oréal's CEO and CFO hosted a conference call during which they reviewed H1 results. First of all, the cosmetic market remains quite dynamic with estimated world market growth between 3.5% and 4%, an estimation also valid over the full year, which is slightly better than the previous estimates of around 3.5%. Therefore, in H1, L'Oréal gained market share as it grew 1.1x the market. This is good news after the market share loss registered in 2015. Market share gains were particularly significant in WE (+1.7% versus +0.5% for the market) and in New Markets (+6.8% versus +5% for the market). By division, L'Oréal outperformed the mass market (+4.3% vs 4% for the market), which confirmed the Q1 trend and is also clearly good news after almost two years of underperformance. The luxury products division (+5.6%) continued to outperform its market (+5%). We would highlight the very buoyant e-commerce segment (+20% for the market but +33% for L'Oréal) which accounts for 6% of the group's sales. 30% of media investments were dedicated to digital (25% in H1 2015). By segment, again in H1 2016, sales growth was driven by make-up (25% of sales) thanks to a 12.4% revenue increase while skin care (30%) remained almost stable (+0.6%). The make-up market was particularly dynamic in the US, in Russia and in China. L'Oréal leads the global make-up mass market particularly thanks to Maybelline and L'Oréal Paris.
- In **Western Europe**, sales growth was clearly penalised by France (25% of WE sales or 7% of group sales) where sales fell 2.8%, while the UK and Spain were much more dynamic with sales respectively up 8% and 7%. In Q2, France was affected by strikes, bad weather conditions, the impact of terrorist attacks, and more importantly, the price war led by retailers (with no positive impact on volumes). YTD, mass market declined 3% in France. Excluding France, L'Oréal outperformed the WE market. In **North America**, L'Oréal gained clear market share in the mass market and in luxury (thanks to Urban Decay, Armani and Kiehl's). Performance in **Asia-Pacific** (+4.6% in H1) was penalised by HK (sales down 16%), despite very buoyant Korea (+10%) and Indonesia (+22%). Mainland China registered a 2.5% sales growth but up 5% excluding the **Magic** brand in a slowing market (mass and luxury markets were up respectively 3% and 5%). L'Oréal Luxe (up HSD) clearly outperformed the market in MC with a clear revenues increase at L'Oréal Paris, the first beauty brand there.
- For the full year**, we are making no change to our estimates with 4.5% organic sales growth. Our view is also confirmed by the acceleration expected by L'Oréal's CEO in H2. For the FY, L'Oréal's CEO expects for market growth of between 3.5% and 4% (even perhaps closer to 4%). Our 4.5% organic sales increase estimate assumes further market share gains as L'Oréal should grow by close to 1.2x the market. We have also left unchanged our EBIT margin estimates with a 30bp improvement to 17.7%, driven by higher gross margin (+60bp to 71.8%) as was the case in H1 (+70bp to 72.4%, including +40bp due to FX effect). The group's strategic focus is clearly the top line and market share gains. Profitability improvement is the logical consequence of a sales increase but it is not management's target.

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.1%	7.4%	8.1%	9.6%
Pers & H/H Gds	2.6%	4.2%	3.5%	2.6%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

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	27.5x	26.2x	24.7x	23.1x
FCF yield (%)	3.1%	3.2%	3.4%	3.5%
Dividends (EUR)	3.10	3.35	3.60	3.90
Div yield (%)	1.8%	2.0%	2.1%	2.3%
EV/Sales	3.8x	3.6x	3.4x	3.2x
EV/EBITDA	18.1x	17.1x	16.0x	14.9x
EV/EBIT	21.6x	20.3x	19.0x	17.6x



**VALUATION**

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

**NEXT CATALYSTS**

- Q3 sales to be reported mid October.

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