

26th September 2016

Luxury & Consumer Goods

**L'Oréal**

Price EUR169.70

**L'Oréal still gaining market share in the UK!**

**Fair Value EUR177 (+4%)**

**BUY**

Bloomberg	OR FP
Reuters	OREP.PA
12-month High / Low (EUR)	176.2 / 143.9
Market Cap (EURm)	95,032
Ev (BG Estimates) (EURm)	93,372
Avg. 6m daily volume (000)	562.0
3y EPS CAGR	6.0%

**Last week, L'Oréal hosted its Capital Market Days in the UK where it is the market leader with an 18.5% share after making constant market share gains (14.6% in 2006). In our view, L'Oréal UK has what it takes to reduce the gap with its market share in WE (20.5%). Buy and EUR177 FV maintained.**

**ANALYSIS**

- On Thursday and Friday, L'Oréal hosted its Capital Market Days dedicated to the UK cosmetics market and the group's market share gains in the country. The UK is the world's sixth-largest cosmetics market with a value of close to GBP5m, or around 3% of the worldwide market, on our estimates. Last year, in 2015, it grew by 2.5% compared with 3.8% for the world cosmetics market. Nevertheless, it clearly outperformed the western European market that remained almost unchanged with a poor 1% increase, implying that the UK grew more than 3x faster than WE. At this point, it is worth noting that 40% of the London population is non Caucasian. The UK cosmetics market is split by 45% for the mass market, with a clear domination of Boots that together with others drugstores has a 43% market share and is still well oriented, while the classic retailers (Tesco, Sainsbury...) have a 35% market share and showed sales down 3% last year.
- In this growing market, L'Oréal is the country leader with an 18.5% market share, which is far higher than the group average (12.5%) but also lower than in western Europe (20.5%).** Market share stood at 16.9% in 2014, but no more than 14.6% in 2006, thereby highlighting L'Oréal's ability to improve its competitive advantage. On average, the UK has accounted for one third of WE growth over the last five years. The UK is the group's fourth-largest country after the US, China and France. In the UK, 50% of the population has already used a L'Oréal group product, while this figure stands at 90% in France and 70% in Italy, thereby highlighting the fact that the French group still harbours upside for market share gains. In 2015, L'Oréal sales in the UK grew by 5.6% and the country was one of the best performers in this area along with Germany (+3.1%) and Spain (+3.6%). Positive momentum is still accelerating with 8% growth in H1 2016, with the upswing in performance stemming mainly from the huge success of make-up brand Nyx.
- L'Oréal's 18.5% market share in the UK is particularly strong in the mass market (20%),** while it is slightly disappointing in the luxury division (17%) in which L'Oréal is the challenger as Estée Lauder is by far the leader with a 23% market share. Nevertheless, the gap between the leader is narrowing having stood at 11 points in 2006 and was no more than six points last year. In the professional products division, L'Oréal also has a very significant market share (33% which was 26% in 2006).
- E-commerce is a clear driver of L'Oréal growth in the UK.** In 2015, e-commerce sales grew 24% and accounted for 7.5% of group sales but in H1 2016 (globally in 2015, e-commerce sales accounted for 5% of total group sales with a 38% increase), this segment momentum has even accelerated (there also partly thanks to Nyx) with a 33% increase and accounted for close to 9% of sales. In H1, e-commerce sales growth was even stronger in the consumer products division (+59%). This allowed the division to grow by 4.5%, 1.7x faster than the market. L'Oréal Paris is the first cosmetics brand in the UK and, paradoxically, the brand's sales in the UK are even higher than the level achieved by the brand in France! In this division, L'Oréal has grown 2.2x faster than the market on average and over the past 10 years.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.7%	0.7%	9.8%	9.3%
Pers & H/H Gds	-0.1%	0.9%	5.1%	2.6%
DJ Stoxx 600	2.2%	1.9%	2.2%	-4.9%

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	3.7x	3.6x	3.4x	3.2x
EV/EBITDA	18.0x	17.0x	16.0x	14.8x
EV/EBIT	21.5x	20.3x	18.9x	17.5x



**VALUATION**

- L'Oréal has gained 9% YTD** (BDF share price remained almost unchanged) or +15% vs the DJ Stoxx. We are maintaining our Buy recommendation as we are convinced that sales momentum should accelerate in H2 (+4.9%) vs H1 (+4.4%).

**NEXT CATALYSTS**

- Q3 sales to be reported on 3rd November.

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BUY ratings 72%

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