

26th October 2016

Luxury & Consumer Goods

Groupe SEB

Price EUR132.50

And the beat goes on!

Fair Value EUR140 vs. EUR132 (+6%)

BUY

Bloomberg	SK FP
Reuters	SEBF.PA
12-month High / Low (EUR)	132.5 / 81.9
Market Cap (EUR)	6,647
Ev (BG Estimates) (EUR)	8,817
Avg. 6m daily volume (000)	52.70
3y EPS CAGR	25.4%

Yesterday Groupe SEB unveiled Q3 sales of EUR1,204m (CS: EUR1,195m), up 6.8% reported on better-than expected LFL growth (+6.5% vs. CS of 5.4%e). The adj. EBIT reached EUR140m and topped expectations by 8%, representing 130bp-margin improvement to 11.6%. Against this favourable momentum, the Group raises its FY sales and adj. EBIT targets. We raise our FY16 estimates on SEB stand-alone (acquisition of WMF should be completed by the end of November), leading to our new FV of EUR140 vs EUR132 initially. Buy recommendation confirmed.

ANALYSIS

- Q3 sales up 6.8% to EUR1,204m.** Although sales were in line with the CS (1,195m), the **LFL growth** beat expectations (+6.5% vs. +5.4%e), showing a consistent performance over the first 9M (+6.2%). The **scope effect** amounted to 2% (OBH Nordica and EMSA) whilst the FX headwind eased off (-1.7% vs. -4.3% in H1).
- Solid growth in EMEA (+6.9% LFL).** **Western Europe** was up 4.6%, again driven by **France** (+4.6%) which achieved its 13th consecutive quarter of growth in both SDA and cookware. Sales grew in double-digits in **Germany** and in **Italy**, whilst trends were softer in **Spain** (LP activity last year) and in the UK. In **Other Countries** (+13.1% LFL), sales in **Russia** continued to be robust (helped by a LP), as well as in the Middle-East.
- Gradual recovery in the Americas (+2% vs. -5.4% in H1).** This improvement occurred in both regions: in **North America** (+1.4% vs. -9.5%), the US activity recovers from the destocking phase that affected H1 and the sales decline in **Canada** was reversed thanks to aggressive initiatives (marketing, promotional activity). In **Latin America** (+3% vs. +0.4%), trends in **Brazil** have relatively improved (slight decline vs. -15% in Q2) in challenging market conditions, but the Group was affected by transportation strikes in **Colombia**.
- Strong momentum in Asia-Pacific (+9.5% LFL).** As announced at H1 results, the 23.5% uplift in **China** over Q2 was partly driven by early shipments to anticipate the temporary closure of one of Supor's plants. Hence the sales "only" grew by 10.2% in Q3, but the 9M performance (+15%) gives a reliable picture of SEB's underlying trends in this market. Sales in **Japan** and **South Korea** continued to enjoy a solid development.
- Adj. EBIT (EUR140m) topped expectations by 8% (CS: EUR130m).** As a consequence, the adj. margin expanded 130bp to 11.6% thanks to a positive price-mix that more than offset the FX headwind (EUR43m). The step up in marketing expenses was also offset by other tailwinds (sourcing, efficiency gains).
- Groupe SEB raises FY16 outlook: (i)** LFL growth of 6% after 6.2% in 9M (previous guidance: "exceed 5%") and **(ii)** the adj. EBIT is expected to increase by 15% reported after +19% in 9M (previous target: "above 10%"). We consider this guidance to be a bit conservative as it would only imply +9% growth over Q4. Even if SEB accelerates further marketing expenses in Q4, we believe that the Group could keep a faster pace of growth. Groupe SEB still guides on a negative FX impact of EUR120m for this year. Prior to yesterday's publication, the CS was anticipating LFL growth of 5.8% and 13% growth of the adj. EBIT.
- We raise our FY16 assumptions by ~3%.** We nudge up our **LFL growth forecast** to 6.1% vs. 5.6%, implying +6% in Q4. As for our **adj. EBIT estimate**, we increase it by ~2.5% to reflect the revised guidance as well as the better-than-expected 9M performance.
- WMF acquisition expected to be completed by the end of November.** CFO Vincent Leonard confirmed that the operation is currently reviewed by the European Commission and its approval might be announced before the end of November. Hence WMF should be consolidated from December 2016. It is worth noting that our current FY16-17 assumptions are based on a consolidation starting in October, which would require some adjustments from our side in the coming weeks, but with no material impact on our valuation.

VALUATION

- In light of this solid performance and revised guidance, we expect a positive market reaction today even if the stock has already rallied ~40% ytd. Besides the solid underlying trends, we believe that investors' attention will now mainly be on the successful integration of WMF, which will be a key catalyst for next year.

(To be continued next page)

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.6%	8.0%	49.7%	40.1%
Consumer Gds	-2.4%	-2.3%	-0.4%	-3.5%
DJ Stoxx 600	-0.7%	0.6%	-1.0%	-6.2%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	4,770	5,337	6,420	6,737
% change		11.9%	20.3%	4.9%
Adj. EBIT	428	517.7	664.9	717.4
EBIT	396.6	482.6	622.6	673.1
% change		21.7%	29.0%	8.1%
Net income	205.9	265.4	357.5	406.5
% change		28.9%	34.7%	13.7%

	2015	2016e	2017e	2018e
EBIT margin	8.3	9.0	9.7	10.0
Net margin	4.3	5.0	5.6	6.0
ROE	13.2	18.1	20.4	19.8
ROCE	12.8	8.9	10.7	11.5
Gearing	16.5	119.9	99.7	74.9

(€)	2015	2016e	2017e	2018e
EPS	4.14	5.34	7.19	8.18
% change	-	28.9%	34.7%	13.7%
P/E	32.0x	24.8x	18.4x	16.2x
FCF yield (%)	4.8%	3.4%	3.9%	6.1%
Dividends (€)	1.54	1.65	1.85	2.05
Div yield (%)	1.2%	1.2%	1.4%	1.5%
EV/Sales	1.5x	1.7x	1.4x	1.2x
EV/EBITDA	16.3x	17.0x	13.0x	11.7x
EV/EBIT	17.6x	18.1x	13.8x	12.4x



NEXT CATALYSTS

- FY16 Sales to be released by the end of January 2017.

[Click here to download document](#)

Q1 sales by region (new reporting):

EURm	Q3 16	LFL growth (%)	9M 16	LFL growth (%)
EMEA – Western	416	4.6	1,148	4.7
EMEA – Others	154	13.1	438	9.6
Total EMEA	570	6.9	1,586	6.1
North America	160	1.4	374	-5.3
South America	105	3.0	243	1.4
Americas	265	2.0	617	-2.6
China	259	10.2	844	14.9
Rest of Asia	110	7.6	321	4.3
Asia-Pacific	369	9.5	1,165	11.9
Total Groupe SEB	1,204	6.5	3,368	6.2

Source: Company Data



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