

L'Oréal

Price EUR161.60

Q3 sales rebound (+5.6% for Cosmetics branch) above expectations

Fair Value EUR177 (+10%)

BUY

Bloomberg	OR FP
Reuters	OREP.PA
12-month High / Low (EUR)	176.2 / 144.3
Market Cap (EUR)	90,496
Ev (BG Estimates) (EUR)	88,836
Avg. 6m daily volume (000)	520.9
3y EPS CAGR	6.0%

L'Oréal 9m sales increased 4.7% organically to EUR19.05bn (consensus: EUR19bn). In Q3 alone, revenues were up 5.6% organically (consensus:+4.7%) versus +4.2% in H1. The Cosmetics branch achieved a dynamic performance with a 5.6% sales increase in Q3 (cs:+4.8%) alone following +4.6% in Q2. We reiterate our Buy recommendation with a EUR177 FV.

ANALYSIS

- 9m L'Oréal group sales rose 4.7% to EUR19.05bn (consensus: EUR19bn).** In Q3 alone, L'Oréal achieved a 5.6% revenue increase of which +5.6% for the Cosmetics branch (consensus: +4.8%). The Body Shop activity was still poor over 9m (+0.5%), despite a clear improvement in Q3 (+2.8%) versus Q2 (-3.2%). Q4 should also confirm the Q3 positive trend. Firing the conference call yesterday, L'Oréal's CEO confirmed that the global market should grow close to 4% in 2016 instead of between 3 and 4% as initially expected.
- By geographical area and for the Cosmetics branch,** note the strong sales rebound in **North America** (27% of cosmetics sales) in Q3 thanks to growth of 7.5% versus +4.6% in H1. This positive move was mainly driven by *i/Consumer Products* where L'Oréal is gaining some market share and *ii/L'Oréal Luxe* where the group again outperformed its market. Meanwhile, in **Western Europe**, revenues were up 2.2 % in Q3 after +1.7% in H1 and +1.4% in Q2, implying market share for WE. This performance was again driven by the UK (dd increase) and Germany while France remained a tough market (market decline in all channels, mainly in mass market and luxury, while Pharmacies were better). The decline in France was especially the consequence of a price war between mass retailers. For **New Markets**, momentum was again strong (+7.1% following +7.4% in Q2 and +6.8% in H1). Among these, we would highlight the slight slowdown in **Asia** in Q3 (+3.2% vs+4.6% in H1). On the other hand, in LATAM, sales were up 15% in Q3 vs +13.3% in Q2 and +10.8% in H1. Brazil was better oriented while other LATAM countries enjoyed further dynamic momentum.
- By division,** the Q3 Cosmetics branch sales performance was driven by **Luxury Products** (+9.3% in Q3 vs +5.6% in Q2) in particular with a strong performance in the US and in China, with market share gains in these two areas. Note also the confirmation of the recovery in the **Consumer Products** division (50% of Cosmetics sales) which outperformed its market thanks to a 4.7% increase, in line with the Q2 performance, driven by North America and New Markets.

Quarterly organic Cosmetics sales growth by division and region

Chge in %	2015	Q1 16	Q2 16	H1 16	Q3 16	9m 16
Western Europe	2.3	2.0	1.4	1.3	2.2	1.7
North America	3.5	4.3	4.9	4.6	7.5	5.6
New markets	6.0	6.1	7.4	6.8	7.1	7.0
Professional Products	3.4	2.5	1.8	2.2	0.9	1.8
Consumer Products	2.5	3.9	4.7	4.3	4.7	4.4
Luxury Products	6.1	5.5	5.6	5.6	9.3	6.8
Active Cosmetics	7.8	4.5	5.7	5.0	6.5	5.4
Cosmetics branch	4.1	4.2	4.6	4.4	5.6	4.8

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

- We are making no change to our global FY estimates as stronger organic sales growth (+5% vs +4.6% initially expected) with a clear acceleration in H2 vs H1 is likely to be offset by a deeper negative impact from currencies(-3.3%). Furthermore, we expect a 30bp margin gain to 17.7%, driven by gross margin.

VALUATION

- We reiterate our Buy recommendation with a EUR177 FV.

NEXT CATALYSTS

- FY 2016 results to be reported mid-February 2017.



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