



Consumer, Brands & Retail

14th February 2019

BIC

| Consumer, Brands & Retail
| HPC

NEUTRAL

Fair Value EUR92(+2%)
Share price EUR87.40
EPS 3Y Cagr -4.5%

BIC adapts to the digital and fast-changing environment

Underlying trends remain positive in most categories

As a BtoC player, BIC is quite impacted by the retail disruption that weighs on sell-in numbers (store closures, destocking, rise of DTC brands, etc.) but management pointed out that the **stationery and lighter markets** (EUR16bn and EUR5bn respectively) **were still robust**, driven by positive demographic trends and the emerging middle-class. On the contrary, the global wet shaver market (EUR12bn) is affected by negative trends (lower shaving frequency, higher replacement rates, price deflation).

In the three categories, BIC intends to gain further market share by accelerating **innovation and brand support** and through a **leaner and more agile organisation** in order to be more responsive to sudden consumer changes. Being more customer-centric is crucial for brands that used to have a “wholesale culture”. As an illustration, Nike, adidas and SEB have successfully achieved that transition.

Digitalisation goes beyond eCommerce

BIC expects its share of eCommerce to double to 10% of total sales by 2022 (implied CAGR: 18%). We assume that third party platforms (i.e. Amazon, Walmart.com, etc.) will represent the lion’s share.

Digitally Native Vertical Brands and Direct-to-Consumer are currently the winning approaches, as Gens Y and Z value direct brand engagement. Hence BIC wants to build-up that **direct relationship with at least 20% of its customers by 2022**, through social medias, eCommerce, forums, personalization options, etc. Obviously, this key target goes along with BIC’s objective of becoming more customer-centric.

Digitalization will clearly impact BIC’s entire organization, i.e. decision-making process (AI), supply chain, inventory management, etc.

Gradual ramp-up with a full impact expected from 2022

As shown on Fig. 1 next page, these initiatives will be gradually implemented and rolled-out over 2019-21 and their results should have a full impact from 2022 onwards. This 2022 Plan does not imply any rebound in capex (FY19: EUR130-140m vs. EUR150m in 2018) and management confirmed that additional growth drivers will be financed by annualised savings of EUR20m expected in 2022.

Minor forecast adjustments over FY19-20

We have nudged down our FY19 FX-n sales growth assumption to 2% vs. 3% initially in light of BIC’s FY19 guidance (“slight growth”) and taken into account the divestiture of BIC Sport. Our downward revision to our FY19 NIFO forecast is of the same magnitude (-1%). We now expect a 60bp-margin erosion to 17.5% vs. the target range of 16.5-18% unveiled by BIC. Note that BIC traditionally sets conservative guidance, as highlighted by the (small) beat in FY18 (18.1% vs. target of 17-18%). Consequently, we leave our Neutral rating and FV of EUR92 unchanged, we still feel that valuation is high given limited visibility and weak adj. earnings momentum.

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Market Data

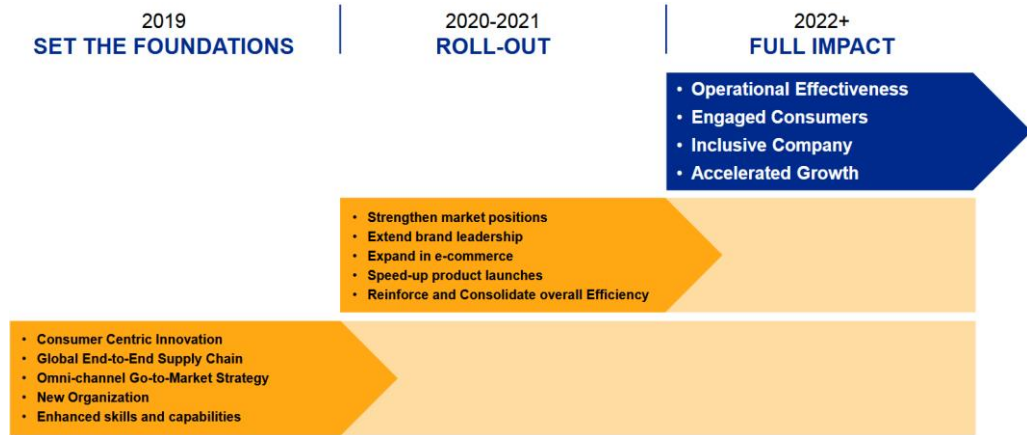
Bloomberg / Reuters	BB FP/BICP.PA
Market Cap.	EUR4 019
E.V.	EUR3 945
Free Float	67,6
Avg. Daily volume (6m)	114.3
12m high / low	97.5 / 72.3
Ytd Perf.	-2.0%

EURm	12/17	12/18	12/19	12/20
Sales	2,041	1,950	1,967	2,029
% Change		-4.5%	0.9%	3.1%
EBITDA	467.9	351.8	436.1	455.1
% Change		-24.8%	24.0%	4.3%
EBIT (IFO)	374.9	258.8	343.7	359.7
% Change		-31.0%	32.8%	4.7%
Net Income	287.2	173.4	251.1	262.6
% Change		-39.6%	44.8%	4.6%
ROE	0.18	0.14	0.13	0.13

	12/17	12/18	12/19	12/20
EV/Sales	1.9x	2.0x	1.9x	1.9x
EV/EBITDA	8.2x	11.0x	8.8x	8.4x
EV/EBIT	10.2x	14.9x	11.1x	10.6x
EPS	6.71	5.31	5.62	5.85
% change		-20.9%	5.8%	4.1%
P/E	13.0x	16.5x	15.6x	14.9x
Div Yield	3.9%	3.9%	3.8%	4.1%

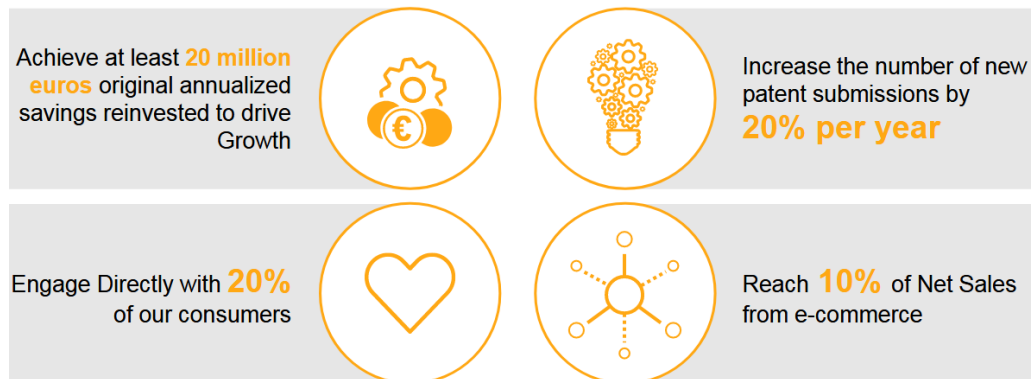
Next Catalyst: Q1 2019 Sales on 25th April

Fig. 1: 2022 Roadmap:



Source: BIC

Fig. 2: Main targets for 2022:



Source: BIC

BIC

NEUTRAL

Fair Value	EUR92(+2%)
Share price	EUR87.40
Market Cap.	EUR4 019
EPS 3Y CAGR	-4.5%

Income Statement (EURm)	2015	2016	2017	2018e	2019e	2020e
Revenue	1,993	2,026	2,041	1,950	1,989	2,051
Change (%)	0,01	0,02	0,01	(0,04)	0,02	0,03
Gross Profit	1,031	1,065	1,069	1,014	1,010	1,042
EBITDA	509	487	468	352	437	456
Normalised income from operations	419	409	400	352	349	364
Change (%)	0,13	(0,02)	(0,02)	(0,12)	(0,01)	0,04
Reported income from operations	424	403	375	259	344	360
Financial results	32,6	4,8	22,1	2,8	5,0	5,0
Pre-Tax profits	457	408	397	262	349	365
Tax	(136)	(123)	(103)	(88,2)	(97,6)	(102)
Profits from associates	0,0	0,0	0,0	0,0	0,0	0,0
Minority interests	(1,4)	0,0	0,0	0,0	0,0	0,0
Net profit	325	250	287	173	251	263
Change (%)	0,24	(0,23)	0,15	(0,40)	0,45	0,05
Cash Flow Statement (EURm)						
Operating cash flows	436	417	411	266	345	359
Change in working capital	24,0	62,8	9,5	(35,0)	15,0	23,6
Capex, net	121	181	175	150	135	130
Financial investments, net	(9,9)	(46,1)	(55,7)	9,7	9,9	30,8
Dividends	135	277	161	160	157	153
Other	38,1	168	139	20,0	10,0	0,0
Net debt	(448)	(222)	(205)	(166)	(183)	(205)
Free Cash flow	291	174	227	151	195	205
Balance sheet (EURm)						
Cash & liquid assets	458	273	210	171	189	210
Other current assets	953	1,157	974	933	950	978
Tangible fixed assets	511	567	633	783	918	1,048
Intangible assets	422	373	351	351	351	351
Other assets	193	204	186	186	186	186
Total assets	2,536	2,574	2,353	2,423	2,593	2,772
LT & ST debt	10,2	51,0	5,1	5,1	5,1	5,1
Other liabilities	676	730	644	638	640	644
Shareholders' funds	1,850	1,793	1,704	1,780	1,947	2,123
Total liabilities	2,536	2,574	2,353	2,423	2,593	2,772
Capital employed	1,672	1,662	1,697	1,812	1,962	2,116
Financial Ratios						
Gross Margin (% of sales)	0,52	0,53	0,52	0,52	0,51	0,51
Normalised IFO margin (% of sales)	0,21	0,20	0,20	0,18	0,18	0,18
IFO margin (% of sales)	0,21	0,20	0,18	0,13	0,17	0,18
Tax rate	0,30	0,30	0,26	0,34	0,28	0,28
Net margin	0,16	0,12	0,14	0,09	0,13	0,13
ROE (after tax)	0,17	0,14	0,18	0,14	0,13	0,13
ROCE (after tax)	0,18	0,17	0,16	0,09	0,13	0,12
Gearing	(0,24)	(0,12)	(0,12)	(0,09)	(0,09)	(0,10)
Pay out ratio	0,86	0,65	0,56	0,91	0,61	0,62
Number of shares, diluted	47,895	47,895	47,895	47,895	47,895	47,895
Per share data (EUR)						
EPS	6,9	5,3	6,2	3,8	5,5	5,8
Restated EPS (diluted)	6,8	5,4	6,7	5,3	5,6	5,8
% change	0,22	(0,20)	0,23	(0,21)	0,06	0,04
BVPS	38,6	37,4	35,6	37,2	40,7	44,3
Operating cash flows	9,1	8,7	8,6	5,6	7,2	7,5
FCF	6,1	3,6	4,7	3,2	4,1	4,3
Net dividend	5,9	3,5	3,5	3,5	3,4	3,6

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

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Stock rating

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