L'Oréal S.A. (LRLCF)

Updated November 5th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$476	**5 Year CAGR Estimate:**	3.1%	**Market Cap:**	$265.22 B
Fair Value Price:	$400	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date:**	04/27/2022[1]
% Fair Value:	119%	**5 Year Valuation Multiple Estimate:**	-3.4%	**Dividend Payment Date:**	04/29/2022
Dividend Yield:	1.1%	**5 Year Price Target**	$523	**Years Of Dividend Growth:**	21[2]
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	3.9%

Overview & Current Events

L'Oréal is one of the largest cosmetic conglomerates in the world, boasting a portfolio of 36 household brands. The company offers shampoos, hair and skincare products, shower gels, cleansers, styling and make-up products, perfumes, and other related goods, through some of the most recognized brands in the world. These include Garnier, Maybelline New York, Giorgio Armani Beauty, Kiehl's, Urban Decay, Biotherm, and Ralph Lauren. L'Oréal generates around $33 billion in annual sales and is based in Paris, France. All figures in this report have been converted to USD unless otherwise noted.

On October 25th, 2021, L'Oréal reported its first-nine-month-2021 results for the period ending September 30th, 2021. Revenues for the period came in at $26.7 billion, an 18% increase year-over-year due to the beaten-down results in the comparable period last year, following the pandemic outbreak. L'Oréal also recorded powerful e-commerce sales growth of 29.7%.

The Consumer segment, which was largely unaffected by the COVID-19 pandemic, grew 14.1% in Q3 vs. the prior-year period. Professional Products, L'Oréal Luxe, and Active Cosmetics divisions grew sales by 10.3%, 20.7%, and 29.0%, respectively. Further, all geographic zones grew in the double-digits year-to-date. The company did not disclose any of its profitability measures (only does so in H1 and full-year results), but based on these numbers, we continue to expect FY2021 EPS of $10, which also accounts for any potential headwinds in the EUR/USD rate over the next couple of months. In April, the company paid a dividend of €4.00, or €4.40 with the loyalty bonus (see below), suggesting FY2020's DPS at around $4.89. We expect an FY2021 DPS of around $5.20, not to be paid before April of 2022.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$5.34	$6.32	$6.82	$10.30	$6.43	$5.85	$7.68	$7.97	$7.51	$7.78	***$10.00***	***$13.07***
DPS	$2.60	$3.03	$3.44	$3.27	$3.37	$3.47	$4.26	$4.41	$4.32	$4.89	***$5.20***	***$6.64***
Shares[3]	598	605	608	585	565	565	564	563	563	562	***562***	***550***

L'Oréal's EPS and DPS, as shown in the table, have both been affected by FX over the past decade when expressed in U.S. dollars. The company's EPS and DPS have grown by around 4.3% and 7.3% over the last 10 years, though these rates are actually higher in the company's original Euro reporting. The company's EPS could keep growing at its current, very consistent rate, powered by organic growth, price increases, and the gross profit margin expansion due to its economies of scale. The company is a consumer staples behemoth not only in Europe but also globally, enjoying very predictable sales increases based on global demand trends. We are forecasting a 5.5% intermediate growth rate, which includes some potential FX headwinds in the future. Dividends are paid once annually. L'Oréal boasts one of the longest dividend growth records amongst European firms, with its latest dividend increase of 3.9% marking 21 years of annual increases

[1] Estimated dates based on past dividend dates.
[2] In its original, Euro declaration
[3] Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

(in Euro). The company offers a unique perk to its long-term shareholders. Those holding shares for at least two years receive a 10% "loyalty bonus" on its original dividend. We are forecasting DPS growth of around 5% in the medium.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	20.6	20.6	24.0	15.0	27.4	29.9	27.3	30.9	37.4	41.1	***47.6***	***40.0***
Avg. Yld.	2.4%	2.3%	2.1%	2.1%	1.9%	2.0%	2.0%	1.8%	1.5%	1.5%	***1.1%***	***1.3%***

L'Oréal's valuation has expanded significantly over the past decade. As a result, L'Oréal's yield has been in decline. This is primarily due to negative interest rates persisting in Europe, causing investors to overpay for high-quality companies such as L'Oréal. Additionally, the company's "loyalty bonus" discourages investors from selling their shares, furtherer sustaining the high valuation. We are using a fair value estimate of 40 times earnings. While such a significant valuation compression may be unlikely, we cannot ignore the potential of it occurring.

Safety, Quality, Competitive Advantage, & Recession Resiliency

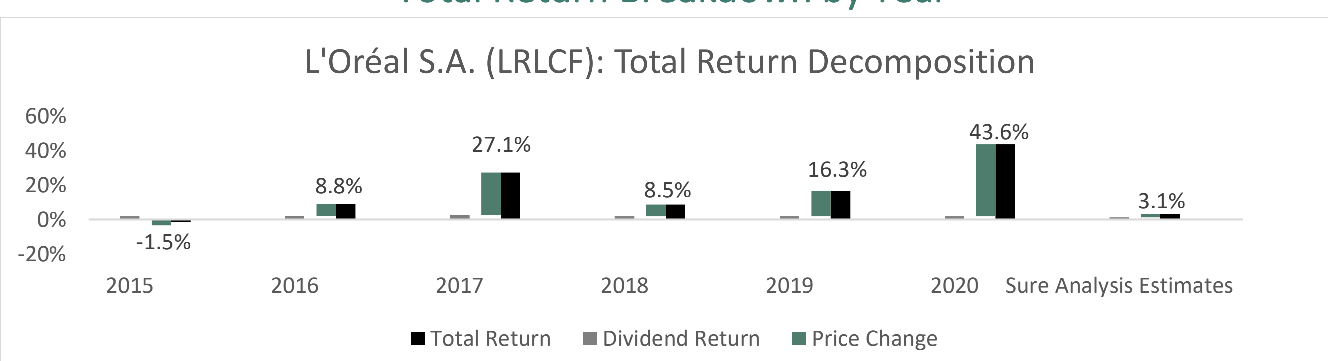
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	49%	48%	50%	32%	52%	59%	55%	55%	58%	63%	52%	***51%***

L'Oréal's dividend should be considered quite safe. The company benefits from consistent profitability, which allowed it to keep raising its payout even during the Great Financial Crisis. The payout ratio currently stands at a healthy level, around 52%. L'Oréal's competitive advantage lies in its sheer size, which has resulted in the company accumulating a significant market share. Its companies have massive brand values, generating consistent sales globally. Hence investors should expect a relatively stable performance even under a harsh recession, as was the case during 2007-2008. Finally, L'Oréal has almost zero long-term debt on its balance sheet, with a long-term debt/equity ratio of 4.1%. The company primarily self-funds its operations and capital expenditure requirements.

Final Thoughts & Recommendation

L'Oréal is one of the most respected European stocks, featuring an incredibly consistent record of shareholder returns. The company's capital returns have been growing for years without interruption, while its "loyalty bonus" program has been a phenomenal strategy to reduce share price fluctuations over time. However, the stock's valuation could prove to be a headwind in the future. Further, investors have compressed L'Oréal's yield to an all-time low of just 1.1%. Despite the company's decent growth metrics, total return potential comes in at just 3.1% per annum, assuming the valuation multiple were to normalize. It's also worth noting that France applies a considerable dividend withholding tax of 30% under typical circumstances, which could further decrease our expected returns. Shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	28,365	27,819	29,383	29,964	26,955	27,576	29,472	31,808	33,443	31,968
Gross Profit	20,206	19,606	20,911	21,319	19,193	19,753	21,138	23,151	24,415	23,366
Gross Margin	71.2%	70.5%	71.2%	71.1%	71.2%	71.6%	71.7%	72.8%	73.0%	73.1%
SG&A Exp.	14,610	14,156	14,923	15,134	13,511	13,835	14,848	16,259	17,102	16,315
D&A Exp.	857	801	1,020	1,139	1,008	1,530	1,380	1,310	2,192	2,316
Operating Profit	4,591	4,575	4,994	5,174	4,808	4,987	5,296	5,812	6,210	5,949
Operating Margin	16.2%	16.4%	17.0%	17.3%	17.8%	18.1%	18.0%	18.3%	18.6%	18.6%
Net Profit	3,400	3,687	3,929	6,530	3,659	3,437	4,056	4,600	4,198	4,069
Net Margin	12.0%	13.3%	13.4%	21.8%	13.6%	12.5%	13.8%	14.5%	12.6%	12.7%
Free Cash Flow	2,842	3,182	3,548	3,798	3,408	3,730	4,454	4,577	5,633	6,259
Income Tax	1,430	1,267	1,386	1,477	1,364	1,343	1,021	1,517	1,855	1,382

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	34,796	38,662	42,634	38,984	36,857	37,667	42,396	43,992	49,074	53,635
Cash & Equivalents	2,140	2,956	3,672	2,331	1,530	1,846	3,655	4,566	5,921	7,879
Accounts Receivable	3,881	4,036	4,174	4,010	3,966	4,167	4,707	4,556	4,578	4,319
Inventories	2,658	2,607	2,879	2,752	2,668	2,853	2,993	3,228	3,272	3,291
Goodwill & Int. Ass.	11,246	11,154	11,477	12,452	12,130	12,656	13,738	14,510	14,281	17,060
Total Liabilities	11,964	10,988	11,356	14,424	11,036	11,762	12,622	13,182	16,112	17,967
Accounts Payable	4,207	4,273	4,487	4,199	4,296	4,372	4,968	5,205	5,218	5,860
Long-Term Debt	1,411	312	420	3,110	822	1,311	1,400	1,413	953	1,064
Shareholder's Equity	22,828	27,668	31,270	24,555	25,817	25,902	29,771	30,803	32,955	35,660
D/E Ratio	0.06	0.01	0.01	0.13	0.03	0.05	0.05	0.05	0.03	0.03

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.2%	10.0%	9.7%	16.0%	9.6%	9.2%	10.1%	10.6%	9.0%	7.9%
Return on Equity	16.0%	14.6%	13.3%	23.4%	14.5%	13.3%	14.6%	15.2%	13.2%	11.9%
ROIC	14.8%	14.1%	13.2%	22.0%	13.5%	12.8%	13.9%	14.5%	12.7%	11.5%
Shares Out.	598	605	608	585	565	565	564	563	563	562
Revenue/Share	47.46	45.96	48.33	51.20	47.72	48.85	52.30	56.49	59.42	56.92
FCF/Share	4.76	5.26	5.84	6.49	6.03	6.61	7.90	8.13	10.01	11.14

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.