L'Oréal S.A. (LRLCF)

Updated October 21st, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$304	**5 Year CAGR Estimate:**	4.3%	**Market Cap:**	$163.5 B
Fair Value Price:	$262	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date:**	04/27/2023[1]
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-3.0%	**Dividend Payment Date:**	04/29/2023
Dividend Yield:	1.9%	**5 Year Price Target**	$342	**Years Of Dividend Growth:**	22[2]
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Sell

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 $36 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 20th, 2022, L'Oréal reported its Q3 for the period ending September 30th, 2022. Revenues for the period came in at $9.4 billion, 19.7% higher compared to last year, powered by strong growth across all segments. Management mentioned that the global beauty market remained dynamic, and consumers' appetite for beauty products is intact. FX tailwinds contributed significantly, as growth came in at 12% in constant currency terms.

The Consumer segment grew 19.1% (10% in cc) year-over-year, with its "premiumization" strategy and valorization contributing to the acceleration in growth. Professional Products, L'Oréal Luxe, and Active Cosmetics divisions grew sales by 15.7%, 15.8%, and 38.8% (4.3%, 4.6%, and 26% in cc), respectively, retaining fantastic momentum following their post-pandemic recovery.

The company did not disclose any of its profitability measures (only does so in H1 and full-year results), but based on its known H1 performance and Q3 sales numbers, we have raised our fiscal 2022 EPS forecast from $10.70 to $10.90.

The company paid a base dividend raise of 20% to €4.80, or €5.28, including the loyalty bonus (see below), implying a FY2021 dividend of around $5.76. No dividends are to be paid until next year. We do not speculate on next year's DPS.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$6.32	$6.82	$10.30	$6.43	$5.85	$7.68	$7.97	$7.51	$7.78	$10.06	***$10.90***	***$14.25***
DPS	$3.03	$3.44	$3.27	$3.37	$3.47	$4.26	$4.41	$4.32	$4.89	$5.76	***$5.76***	***$7.35***
Shares[3]	605	608	585	565	565	564	563	563	562	560	***536***	***500***

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 5.3% and 7.4% 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 massive scale capabilities that can dominate 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 20% marking 22 years of annual

[1] Estimates 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.

increases (in Euros). 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 the original dividend. We are forecasting DPS growth of around 5% through 2027.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	20.6	24.0	15.0	27.4	29.9	27.3	30.9	37.4	41.1	41.5	***27.9***	***24.0***
Avg. Yld.	2.3%	2.1%	2.1%	1.9%	2.0%	2.0%	1.8%	1.5%	1.5%	1.3%	***1.9%***	***2.2%***

L'Oréal's valuation expanded significantly between 2012 and 2021. As a result, L'Oréal's yield had been in decline. This was primarily due to ultra-low 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, further sustaining valuation premiums. That said, the stock's recent correction has pushed its valuation close to our fair value estimate. We are using a fair value estimate of 24 times earnings, implying the possibility of a further multiple compression, nonetheless.

Safety, Quality, Competitive Advantage, & Recession Resiliency

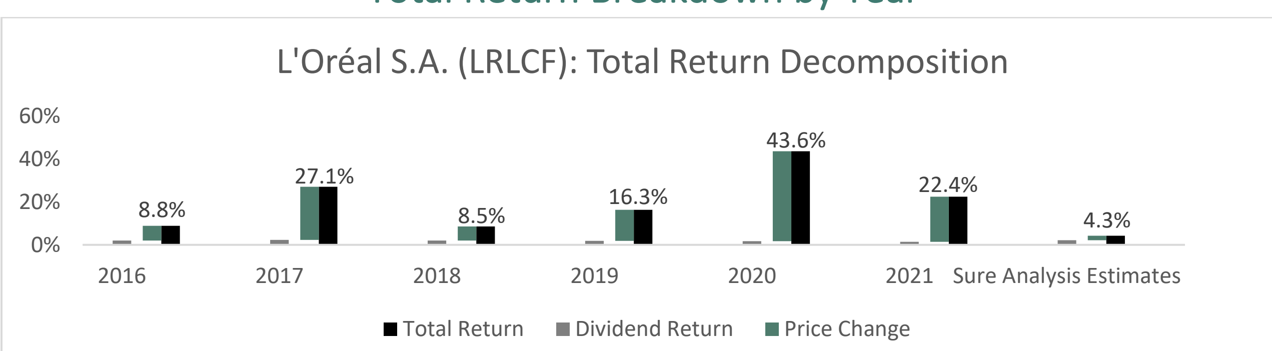
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	48%	50%	32%	52%	59%	55%	55%	58%	63%	60%	***53%***	***52%***

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 54%. 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 5.3%. 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 may still be a bit rich. Despite L'Oréal's impressive growth metrics, total return potential comes in at just 4.3% per annum as we expect its P/E ratio to ease further. It's also worth noting that France applies a considerable dividend withholding tax of 30% under typical circumstances, which could further diminish our expected returns. L'Oréal earns a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	27,819	29,383	29,964	26,955	27,576	29,472	31,808	33,443	31,968	38,208
Gross Profit	19,606	20,911	21,319	19,193	19,753	21,138	23,151	24,415	23,366	28,220
Gross Margin	70.5%	71.2%	71.1%	71.2%	71.6%	71.7%	72.8%	73.0%	73.1%	73.9%
SG&A Exp.	14,156	14,923	15,134	13,511	13,835	14,848	16,259	17,102	16,315	19,720
D&A Exp.	801	1,020	1,139	1,008	1,530	1,380	1,310	2,192	2,316	2,107
Operating Profit	4,575	4,994	5,174	4,808	4,987	5,296	5,812	6,210	5,949	7,289
Operating Margin	16.4%	17.0%	17.3%	17.8%	18.1%	18.0%	18.3%	18.6%	18.6%	19.1%
Net Profit	3,687	3,929	6,530	3,659	3,437	4,056	4,600	4,198	4,069	5,439
Net Margin	13.3%	13.4%	21.8%	13.6%	12.5%	13.8%	14.5%	12.6%	12.7%	14.2%
Free Cash Flow	3,182	3,548	3,798	3,408	3,730	4,454	4,577	5,633	6,259	6,689
Income Tax	1,267	1,386	1,477	1,364	1,343	1,021	1,517	1,855	1,382	1,710

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	34,796	38,662	42,634	38,984	36,857	37,667	42,396	43,992	49,074	48,700
Cash & Equivalents	2,140	2,956	3,672	2,331	1,530	1,846	3,655	4,566	5,921	3,073
Accounts Receivable	3,881	4,036	4,174	4,010	3,966	4,167	4,707	4,556	4,578	4,553
Inventories	2,658	2,607	2,879	2,752	2,668	2,853	2,993	3,228	3,272	3,586
Goodwill & Int. Ass.	11,246	11,154	11,477	12,452	12,130	12,656	13,738	14,510	14,281	16,460
Total Liabilities	11,964	10,988	11,356	14,424	11,036	11,762	12,622	13,182	16,112	21,990
Accounts Payable	4,207	4,273	4,487	4,199	4,296	4,372	4,968	5,205	5,218	6,870
Long-Term Debt	1,411	312	420	3,110	822	1,311	1,400	1,413	953	5,242
Shareholder's Equity	22,828	27,668	31,270	24,555	25,817	25,902	29,771	30,803	32,955	26,700
LTD/E Ratio	0.06	0.01	0.01	0.13	0.03	0.05	0.05	0.05	0.03	0.20

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	10.2%	10.0%	9.7%	16.0%	9.6%	9.2%	10.1%	10.6%	9.0%	10.6%
Return on Equity	16.0%	14.6%	13.3%	23.4%	14.5%	13.3%	14.6%	15.2%	13.2%	17.4%
ROIC	14.8%	14.1%	13.2%	22.0%	13.5%	12.8%	13.9%	14.5%	12.7%	15.8%
Shares Out.	598	605	608	585	565	565	564	563	563	560
Revenue/Share	47.46	45.96	48.33	51.20	47.72	48.85	52.30	56.49	59.42	68.24
FCF/Share	4.76	5.26	5.84	6.49	6.03	6.61	7.90	8.13	10.01	11.95

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

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