L'Oréal S.A. (LRLCF)

Updated February 9th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$415	**5 Year CAGR Estimate:**	6.4%	**Market Cap:**	$225 B
Fair Value Price:	$325	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	04/27/2023
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.8%	**Dividend Payment Date:**	04/29/2023
Dividend Yield:	1.6%	**5 Year Price Target**	$523	**Years Of Dividend Growth:**	23[1]
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 $41 billion in annual sales and is based in Paris, France. All figures in this report have been converted to USD unless otherwise noted.

On February 9th, 2023, L'Oréal reported its full-year results for the period ending December 31st, 2022. Revenues for the year came in at $41.3 billion, 18.5% 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 10.9% in constant currency terms.

The Consumer segment grew 14.6% (8.3% in cc) year-over-year, with all major brands outperforming the market. Professional Products, L'Oréal Luxe, and Active Cosmetics divisions grew sales by 14.6%, 18.6%, and 30.6% (11.8%, 10.7%, and 28% in cc), respectively, retaining fantastic momentum following their post-pandemic recovery.

Following improved margins driven by scale efficiencies, net income was $7.1 billion, up 22.6% compared to fiscal 2021. On a per-share basis, net income grew by 27.6% to $10.9, boosted further by a lower share count due to stock buybacks.

The company proposed a base dividend raise of 25% to €6.00, or €6.60, including the loyalty bonus (see below), implying an ex-bonus dividend of $6.48 for FY2022. We forecast FY2023 EPS of $13.00, but we do not speculate on FY2023's DPS.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$6.82	$10.30	$6.43	$5.85	$7.68	$7.97	$7.51	$7.79	$9.38	12.16	***$13.00***	***$20.94***
DPS	$3.44	$3.27	$3.37	$3.47	$4.26	$4.41	$4.32	$4.89	$5.46	$6.48	***$6.48***	***$9.74***
Shares[2]	608	585	565	565	564	563	563	562	560	535	***535***	***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 6.6% and 7.3% over the last 10 years, though these rates are actually higher in the company's original Euro reporting. Earnings should keep growing at a strong pace, powered by organic growth, price increases, and the gross profit margin expansion due to L'Oréal's 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 10% intermediate growth rate, assuming no impacts from FX. Dividends are paid once annually. L'Oréal boasts one of the longest dividend growth records amongst European firms, with its latest dividend increase of 25% marking 23 years of annual increases (in Euros). The company offers a unique

[1] In its original, Euro declaration
[2] Share count is in millions.

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 8.5% through 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	24.0	15.0	27.4	29.9	27.3	30.9	37.4	41.1	41.5	28.8	***31.9***	***25.0***
Avg. Yld.	2.1%	2.1%	1.9%	2.0%	2.0%	1.8%	1.5%	1.5%	1.3%	1.9%	***1.6%***	***1.9%***

L'Oréal's valuation has remained quite elevated over the past decade, as investors have been willing to pay a steep premium for the company's qualities, dominance, and consistent growth. Additionally, the company's "loyalty bonus" discourages investors from selling their shares, further sustaining valuation premiums. Even after expecting further growth in earnings in fiscal 2023, L'Oréal is trading at a hefty P/E of 31.9 currently. We believe shares are overvalued, but given the stock's ever-persistent tendency to retain a rich P/E, we cannot be certain that a multiple contraction will materialize anytime soon – especially with L'Oréal's growth being sustained. We are using a fair, more reasonable P/E of 25 in our estimates, nonetheless.

Safety, Quality, Competitive Advantage, & Recession Resiliency

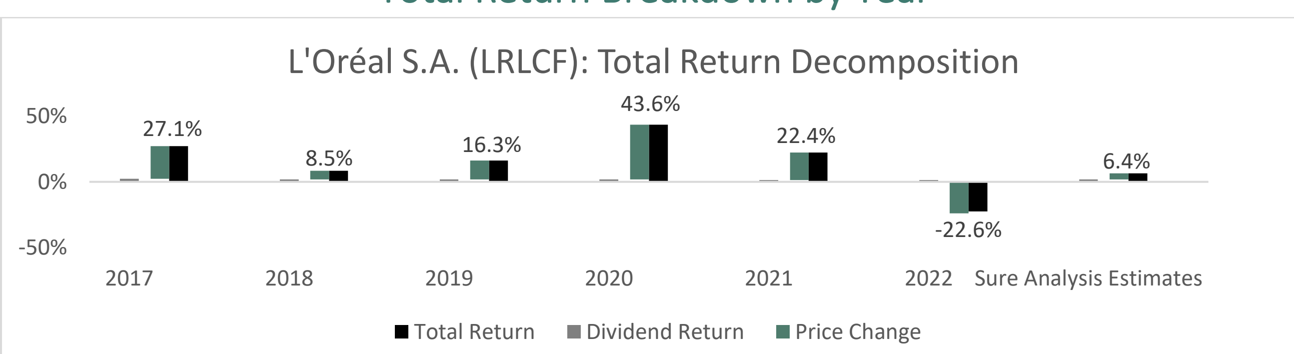
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	50%	32%	52%	59%	55%	55%	58%	63%	58%	53%	***50%***	***47%***

L'Oréal's dividend should be considered very 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 of around 50%. 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 very little long-term debt on its balance sheet, with a long-term debt/equity ratio of about 15%. 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. Total return potential comes in at 6.4% per annum, driven by 10% growth in earnings and the 1.6% dividend yield, offset by the possibility of a 4.8% annual valuation headwind. 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 hold rating.

Total Return Breakdown by Year



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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.

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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.