L'Oréal S.A. (LRLCF)

Updated October 24th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$381	**5 Year CAGR Estimate:**	10.3%	**Market Cap:**	$212.0 B
Fair Value Price:	$358	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	04/25/2025[1]
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.3%	**Dividend Payment Date:**	04/30/2025
Dividend Yield:	1.9%	**5 Year Price Target**	$576	**Years Of Dividend Growth:**	24[2]
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

L'Oréal is one of the largest cosmetic conglomerates in the world with a portfolio of 36 household brands. The French 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 $44 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 22nd, 2024, L'Oréal released its 9M results for the period ending September 30th, 2024. For the first nine months, sales came in at $35.0 billion, up 6% on a like-for-like basis (same product structure and constant currency) compared to the same period last year, powered by strong growth across all segments. Management stated that global beauty market growth has been normalizing, driven by easing pricing in developed markets. Despite this, underlying trends remain strong in Europe, North America, and emerging markets. Issues persist in China, but there is optimism that government stimulus could boost consumer confidence.

Division-wise, the Consumer division saw its sales grow by 6.4% year-over-year. Growth was driven by particularly strong performances in Europe and emerging markets, notably Brazil, Mexico, and India. Professional Products, L'Oréal Luxe, and Dermatological Beauty divisions grew sales by 5.8%, 3.4%, and 11.3%, respectively, retaining a robust momentum.

The company did not disclose any of its profitability measures (only does so in H1 and full-year results). We now project that full-year EPS will land close to $13.76.

As noted in our previous reports, the company had increased its dividend by 10% to €6.00, or $7.29, including the loyalty bonus (see below), which was paid in April. We do not speculate on FY2024's DPS to be paid in 2025.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$10.16	$6.33	$5.79	$7.62	$7.93	$7.47	$7.74	$9.34	$11.36	$12.72	***$13.76***	***$22.16***
DPS	$3.27	$3.37	$3.47	$4.26	$4.41	$4.32	$4.89	$5.46	$6.42	$7.29	***$7.29***	***$10.96***
Shares[3]	585	565	565	564	563	563	562	560	538	537	***534***	***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 13% and 11% over the last five years, respectively. 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

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[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.

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longest dividend growth records amongst European firms, with its latest dividend increase of 10% marking 24 years of annual 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 8.5% through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.0	27.4	29.9	27.3	30.9	37.4	41.1	41.5	28.8	32.1	***27.7***	***26.0***
Avg. Yld.	2.1%	1.9%	2.0%	2.0%	1.8%	1.5%	1.5%	1.3%	1.9%	1.7%	***1.9%***	***1.9%***

L'Oréal has traded at elevated multiples over the past decade, reflecting investors' willingness to pay a premium for its qualities, market dominance, and growth. The company's "loyalty bonus" discourages share sales, further contributing to sustained valuation premiums. That said, the valuation has normalized recently, and we no longer view L'Oréal as notably overvalued at its current levels. We are still utilizing a more reasonable P/E of 26 in our estimates, which we believe is a fair multiple for the French giant.

Safety, Quality, Competitive Advantage, & Recession Resiliency

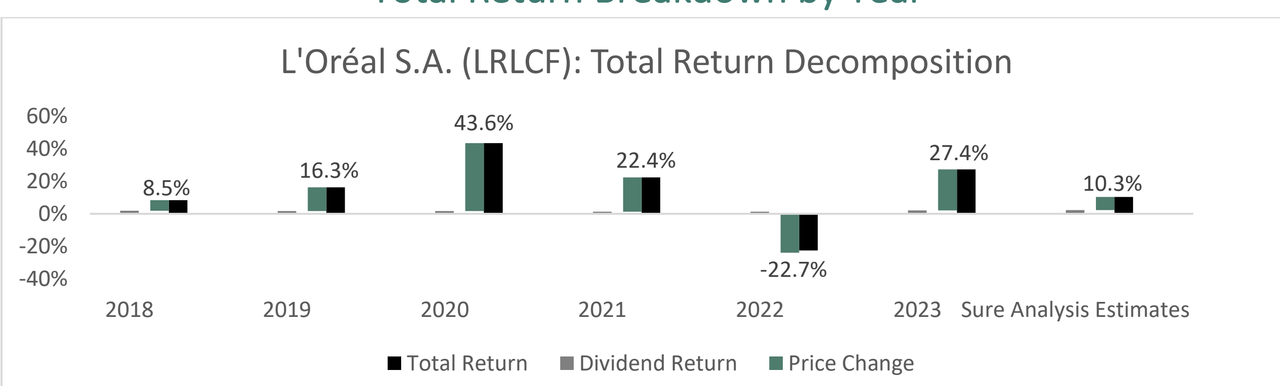
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	53%	60%	56%	56%	58%	63%	58%	57%	56%	***53%***	***49%***

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 53%. 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 17.6%. 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 10.3% per annum, driven by 10% growth in earnings and the 1.9% dividend yield, partially offset by the possibility of a 1.3% annual valuation headwind. It's worth noting that France applies a considerable dividend withholding tax of 30% under typical circumstances, which could hamper our expected returns. Still, L'Oréal earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	29,964	26,955	27,576	29,472	31,808	33,443	31,968	38,208	40,350	44,580
Gross Profit	21,319	19,193	19,753	21,138	23,151	24,415	23,366	28,220	29,190	32,930
Gross Margin	71.1%	71.2%	71.6%	71.7%	72.8%	73.0%	73.1%	73.9%	72.3%	73.9%
SG&A Exp.	15,134	13,511	13,835	14,848	16,259	17,102	16,315	19,720	20,130	22,720
D&A Exp.	1,139	1,008	1,530	1,380	1,310	2,192	2,316	2,107	1,620	1,857
Operating Profit	5,174	4,808	4,987	5,296	5,812	6,210	5,949	7,289	7,864	8,816
Operating Margin	17.3%	17.8%	18.1%	18.0%	18.3%	18.6%	18.6%	19.1%	19.5%	19.8%
Net Profit	6,530	3,659	3,437	4,056	4,600	4,198	4,069	5,439	6,018	6,695
Net Margin	21.8%	13.6%	12.5%	13.8%	14.5%	12.6%	12.7%	14.2%	14.9%	15.0%
Free Cash Flow	3,798	3,408	3,730	4,454	4,577	5,633	6,259	6,689	5,205	6,621
Income Tax	1,477	1,364	1,343	1,021	1,517	1,855	1,382	1,710	2,003	1,960

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	42,634	38,984	36,857	37,667	42,396	43,992	49,074	48,700	50,240	57,320
Cash & Equivalents	3,672	2,331	1,530	1,846	3,655	4,566	5,921	3,073	2,807	4,740
Accounts Receivable	4,174	4,010	3,966	4,167	4,707	4,556	4,578	4,553	5,100	5,629
Inventories	2,879	2,752	2,668	2,853	2,993	3,228	3,272	3,586	4,375	4,955
Goodwill & Int. Ass.	11,477	12,452	12,130	12,656	13,738	14,510	14,281	16,460	16,470	19,220
Total Liabilities	11,356	14,424	11,036	11,762	12,622	13,182	16,112	21,990	21,080	25,170
Accounts Payable	4,487	4,199	4,296	4,372	4,968	5,205	5,218	6,870	6,805	7,016
Long-Term Debt	420	3,110	822	1,311	1,400	1,413	953	5,242	4,322	7,559
Shareholder's Equity	31,270	24,555	25,817	25,902	29,771	30,803	32,955	26,700	29,150	32,140
LTD/E Ratio	0.01	0.13	0.03	0.05	0.05	0.05	0.03	0.20	0.15	0.24

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.7%	16.0%	9.6%	9.2%	10.1%	10.6%	9.0%	10.6%	12.2%	12.5%
Return on Equity	13.3%	23.4%	14.5%	13.3%	14.6%	15.2%	13.2%	17.4%	21.6%	21.8%
ROIC	13.2%	22.0%	13.5%	12.8%	13.9%	14.5%	12.7%	15.8%	18.4%	18.3%
Shares Out.	608	585	565	565	564	563	563	560	538	537
Revenue/Share	48.33	51.20	47.72	48.85	52.30	56.49	59.42	68.24	75.05	83.02
FCF/Share	5.84	6.49	6.03	6.61	7.90	8.13	10.01	11.95	9.68	12.33

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