

L'OCCITANE (973 HK)

Influential Celebrity Endorsement

Hong Kong | Cosmetics | Company report

19 May 2017

Investment Summary

- L'Occitane is a global cosmetics company. FY2016 annual report shows that L'Occitane has 2,924 retail locations and 1,463 stores operated directly by the Group.
- The products are made from natural ingredients. About 90% of their products contained at least 90% naturally derived ingredients.
- Own E-commerce channel continued to outperform. As compared to last year, the Group's own E-commerce channel grew by 11.8% at constant exchange rates, equivalent to 11.0% of the total retail sales.
- Celebrity endorsement is very influential. The company may cooperate with a more influential super-popular Asian star to be the second brand ambassador soon, and the celebrity endorsement may help the company achieve better online and offline sales in the future.

Accumulate

CMP HKD15.30
(Closing price as at 17 May 2017)
TARGET HKD17.00(+11.11%)

COMPANY DATA

O/S SHARES (MN) :	1,477.0
MARKET CAP (HKDMN) :	22,598
52 - WK HI/LO (HKD):	17.12/12.76

SHARE HOLDING PATTERN, %

Reinold Geiger	73.40
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Company Business

L'Occitane is a global, natural and organic ingredient-based cosmetics and well-being products retailer. The Group has four brands (L'Occitane en Provence, Melvita, Erborian and L'Occitane au Brésil) in its portfolio and is committed to developing and retailing high quality products that are rich in natural and organic ingredients of traceable origins and respect for the environment.

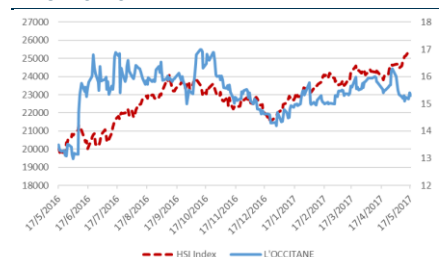
The GPM is high and maintained above 80% in recent years. The debt-to-assets ratio remained at about 28%.

The Group's net sales at reported rates were €1,323.2 million, grew by 3.2% over the same period last year, thanks to positive foreign currencies impact. At constant exchange rates, sales growth was 1.7%. The following chart shows the net sales breakdown of different markets in FY2017.

PRICE PERFORMANCE, %

	1M	3M	1Y
L'OCCITANE	-3.04	+2.00	+13.33
HSI	+4.25	+5.24	+25.72

PRICE VS. HSI



Source: Bloomberg, Phillip Securities (HK) Research

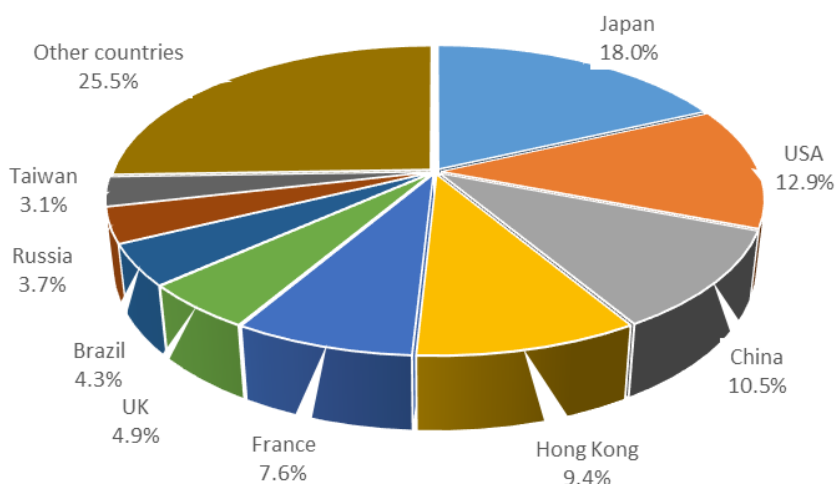
KEY FINANCIALS

EUR mn	FY15	FY16	FY17E	FY18E
Sales	1,178	1,283	1,323	1,403
Net Profit	122	110	118	132
EPS, EUR	0.083	0.075	0.080	0.090
PER, x	28.2	27.0	22.1	19.8
BVPS, EUR	0.58	0.58	0.63	0.69
P/BV, x	3.7	3.8	2.8	2.6
ROE, %	15.2	13.0	13.3	13.7

Source: Company reports, Phillip Securities Est.

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Source: Company reports, Phillip Securities (HK) Research

In FY2017, Brazil remained the fastest growing country with 18.4% growth, followed by China with 11.0% growth (both in local currencies). Japan posted a growth rate of 15.5% at reported rates due to strengthening Japanese Yen. Sales continued to improve in the UK, with dynamic growth in E-commerce, TV and wholesale channels.

Stores Worldwide

FY2016 annual report shows that L'Occitane had 2,924 retail locations and 1,463 stores operated directly by the Group (shown in the following picture). For FY2017, the Group maintained its selective global retail expansion with 51 net stores opened (FY2016: 79).



Source: Company reports, Phillip Securities (HK) Research

Made from Natural Ingredients

About 90% of their products contained at least 90% naturally derived ingredients. The company is also committed to avoiding all hazardous and potentially hazardous materials, ensuring that their customers enjoy products made at a high standard that is both environmentally friendly and safe.

Sales is Mainly Contributed by Sell-out Business Segment

Sales is mainly contributed by Sell-out business segment. The Sell-out business segment accounted for 75% of the Group's total sales in both FY2016 and FY2017 and the Sell-in business accounted for 25%. The Sell-out business prices are higher. The company will strengthen digital marketing in the future and interact more with young consumers to increase online and offline sales. L'Occitane has begun to cooperate with TMALL since December 2014.

Celebrity Endorsement Effect

In 2016, L'Occitane strategically cooperated with the famous host and singer Xue Zhiqian who is actively involved in different variety shows and he became the first brand ambassador in mainland China. Endorsement period is from end of October 2016 to 14 February 2017, covering "Double Eleventh Day" and Valentine's Day. The endorsement achieved very good results.

Celebrity endorsement is very influential and helps attract more young consumers. The company may cooperate with a more influential super-popular Asian star to be the second brand ambassador soon, and the celebrity endorsement may boost online and offline sales in the future.

E-Channel Business and Same Store Sales

Own E-commerce channel continued to outperform. As compared to last year, the Group's own E-commerce channel grew by 11.8% at constant exchange rates, equivalent to 11.0% of the total retail sales. On Double Eleventh Day last year, sales of L'Occitane's flagship store increased by about 70%. The development levels of E-commerce are different among different geographic areas. The percentage guidance of E-commerce business will be 25% of Sell-out business in the future.

The Group's same store sales for FY2017 decreased by 1.3%, yet still improved from -1.7% for the first nine months ended 31 December 2016. Same store sales may improve in the long run.

Multi-brand Strategy and Cross-border Cooperation

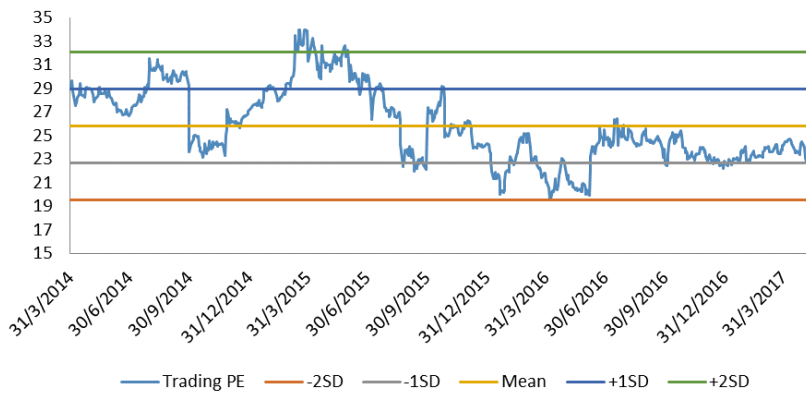
The company implements multi-brand strategy and the emerging brands Melvita and L'Occitane au Brésil recorded good growth in France, Japan and Brazil.

In 2HFY2016, the company and the French dessert brand Pierre Hermé launched a cross-border cooperation and developed a new product line including perfume, candles and other limited edition products. They may continue to cooperate in the future and it may improve sales in Asian market again.

Valuation

Accumulate Rating is given with TP of HK\$17.00. We expect net profit growth of 7.1%/12.0% in FY2017/FY2018, driven by 3.2%/6.0% revenue growth. Our TP of HK\$17.00 represents 24.6/21.9x FY2017E/FY2018E P/E. (Closing price as at 17 May)

L'OCCITANE Trading PE band



Source: Bloomberg, Phillip Securities (HK) Research Estimates

Risk

FX fluctuations;
Fierce competition in cosmetics industry.

Financials

Year-end March	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
P/E	24.1	28.2	27.0	22.1	19.8
P/B	3.8	3.7	3.8	2.8	2.6
Per Share Data(EUR)					
EPS	0.061	0.083	0.075	0.080	0.090
Book Value Per Share	0.510	0.580	0.580	0.625	0.689
Dividend Per Share	0.021	0.063	0.029	0.030	0.034
Growth & Margins(%)					
Growth Rates					
Revenue	1.1%	11.7%	8.9%	3.2%	6.0%
Operating profit	-16.0%	23.5%	2.4%	1.2%	11.0%
Net Profit	-27.2%	37.0%	-9.8%	7.1%	12.0%
Margins					
Gross profit margin	81.1%	81.8%	82.8%	81.8%	82.0%
Operating profit margin	12.6%	13.9%	13.1%	12.9%	13.5%
Net profit margin	8.5%	10.4%	8.6%	8.9%	9.4%
Key Ratios					
ROE(%)	12.0	15.2	13.0	13.3	13.7
ROA(%)	9.5	10.7	9.2	9.9	10.4
Income Statement(EUR mn)					
Revenue	1,055	1,178	1,283	1,323	1,403
Gross profit	856	963	1,062	1,082	1,150
Operating profit	133	164	168	170	189
EBT	119	168	158	169	188
Net Income	89	122	110	118	132

Source: Company, Bloomberg, Phillip Securities (HK) Research Estimates
(Financial figures as at 17 May 2017)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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