

L'OCCITANE (00973)

FY2022 NP hits record, OP Margin the highest level since listing
Hong Kong | Consumer Brand

31 October 2022

Company Profile

L'OCCITANE is an international group that manufactures and retails beauty and well-being products that are rich in natural and organic ingredients, through its brands — L'OCCITANE en Provence, Melvita, Erborian, L'OCCITANE au Brésil, Limelife by Alcone, ELEMIS, Sol de Janeiro and Grown Alchemist. As at 31 March 2022, the Company has more than 3068 retail outlets (a decrease of 20 or 0.6%) including around 1,500 owned stores, and is present in 90 countries. The total number of own retail stores was 1375 as at 30 June 2022, representing 115 net closings year to date.

The Company further closed underperforming stores during FY2022, including 21 shops in the US. At the end of March 2022, the breakdown of the 1,523 own stores by brand and change over last year were as follows: L'Occitane en Provence (1,354; -35), L'Occitane au Brésil (65; +1), Melvita (39; -11), Erborian (14; -1) and ELEMIS (18; +13). The number of non-own stores increased by 13 or 0.8%.

net profit for FY2022 hits record high, op margin the highest level since listing

For the FY2022 (at the end of March 2022), the Company's reported net sales were €1781.4mn, representing an increase of 15.8% YoY at reported rates. The business environment continued to improve as countries in Europe and the Americas began to lift the COVID-19 related restrictive measures. Retail channels saw a strong rebound in footfall while online channels remained dynamic. Travel retail, spas and cruise ship businesses also benefited from the comeback of local and international travelers. During the period, net profit for FY2022 was a record €241.9mn, an increase of 57.5% or €88.3mn as compared to restated €153.6mn for FY2021, and a 17.4% operating margin, the highest level since listing. Basic and diluted earnings per share in FY2022 were €0.165 and €0.164 respectively (FY2021: basic €0.103 and diluted €0.103), an increase of 60.2% and 59.2% respectively. Dividend payout ratio from 35% to 40%, with a dividend per share that is 78.6% higher than it was in FY2021.

Performance by brand, L'OCCITANE en Provence accounted for 76.8% of the company's total sales, growing 13.2% at constant rates. Sales momentum of the brand rebounded strongly in Europe and the Americas following the removal of restrictive measures related to COVID-19. Retail business contributed most to overall growth as stores reopened and footfall normalized. ELEMIS accounted for 12.5% of the total sales in FY2022, an increase of 2.3 points as compared to FY2021. ELEMIS posted an exceptional growth of 37.4% at constant rates. The spa wholesale and cruise ship businesses rebounded strongly as travel restrictions loosened. Online channels continued to grow, thanks to the successful omni-channel business model and strengthened collaborations with digital partners. The US contributed most to the brand's overall growth in FY2022, followed by the UK and China.

Buy (Initial Coverage)

CMP HKD20.20
(Closing price as of 24 October)
Target HKD 25.89(+28.2%)

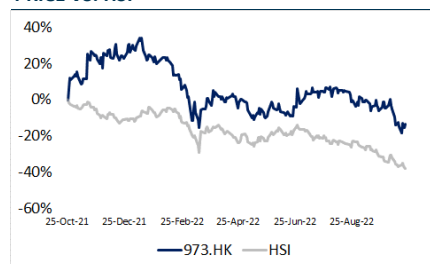
COMPANY DATA

O/S SHARES (MN) :	1476.965
MARKET CAP (HKD MN) :	29834.70
52 - WK HI/LO (HKD):	33.862/19.50

SHARE HOLDING PATTERN, %

Reinold Geiger	72.74%
ACATIS Investment	7.01%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

EUR mn	FY21	FY22	FY23E	FY24E
Revenue	1,538	1,781	2,024	2,270
Net profit	155	242	247	267
Reported EPS	0.11	0.16	0.17	0.18
P/E ratio, x	21.0	14.0	15.8	14.9
Dividend Yield, %	1.6%	2.9%	2.5%	2.7%

Source: Company reports, Phillip Securities Est.

Sr. Research Analyst

Eric Li (+852 2277 6516)

erichyli@phillip.com.hk

The Company began to consolidate Sol de Janeiro in January 2022 and it contributed €26.1mn, or 11.0% to overall growth in FY2022. In local currency, Sol de Janeiro delivered 46.7% growth in 4Q2022FY. LimeLife posted a sales decline of 31.3% at constant rates in FY2022. In addition to the high base last year, the brand faced difficulties in recruiting and retaining beauty guides as the US economy returned to normal and employment conditions improved. The other brands together finished FY2022 with 19.0% growth at constant rates, with key contributions from the continuous success of Erborian and the strong rebound of L'OCCITANE au Brésil. Both retail and wholesale channels benefited from the removal of restrictive measures.

By geographic area, Japan's net sales for FY2022 were €206.0mn, a decrease of 4.3% as compared to FY2021, accounted for 11.4% of the total sales. At constant exchange rates, the growth was 0.4%. Hong Kong's net sales for FY2022 were €118.9mn, an increase of 25.7% as compared to FY2021. At constant exchange rates, the growth was 24.0%, accounted for 6.6% of the total sales. China's net sales for FY2022 were €328.0mn, an increase of 24.4% as compared to FY2021. At constant exchange rates, the growth was 16.8%, contributing most to the Overall Growth, accounted for 18.1% of the total sales. Online channels were particularly dynamic and skillfully implemented well-thought-out campaigns that leveraged celebrities on TMall and JD.com to drive social media buzz and recruit new customers. As a result, L'OCCITANE en Provence outperformed the market during key shopping festivals and remains one of the top-ranked brands in the premium body care and hand care categories. Taiwan's net sales for FY2022 were €51.5mn, an increase of 8.6% at reported rates. At constant exchange rates, the growth was 2.8%, accounted for 2.8% of the total sales.

France's net sales for FY2022 were €96.0mn, an increase of 10.8% as compared to FY2021, accounted for 5.3% of the total sales. The United Kingdom's net sales for FY2022 were €197.5mn, an increase of 27.9% as compared to FY2021. At constant exchange rates, the growth was 21.4%, accounted for 10.9% of the total sales. The United States' net sales for FY2022 were €296.8mn, an increase of 14.8% as compared to FY2021. At constant exchange rates, the increase was 13.5%, accounted for 16.4% of the total sales. Brazil's net sales for FY2022 were €48.3mn, an increase of 40.1% as compared to FY2021. At constant exchange rates, the increase was 37.0%, accounted for 2.7% of the total sales. Russia's net sales for FY2022 were €62.6mn, an increase of 22.8% as compared to FY2021. At constant exchange rates, it achieved growth of 24.8%, accounted for 3.5% of the total sales. Other geographic areas' net sales for FY2022 were €404.4mn, an increase of 16.1% at constant exchange rates. Countries with strong positive contribution were Korea, Mexico, Spain and Canada, accounted for 22.3% of the total sales.

The reported cost of sales increased by 22.0%, or €57.2 million, to €317.9 million in FY2022. The gross profit margin decreased 0.8 points to 82.2% as compared to FY2021. The decrease is attributable to the following factors: deconsolidation of US subsidiary during the Chapter 11 proceedings for 0.6 points; unfavourable channel mix from higher sell-in proportion and unfavourable brand mix from ELEMIS and Sol de Janeiro, which have more sell-in businesses; and higher freight and duties, partly due to inventory rebuild and partly due to higher shipping costs.

Positive start into FY23Q1 with solid sales growth

Positive start into FY23Q1 (for the three months ended 30 June 2022) with sales of €416.0mn and double-digit sales growth at reported rates (+23.4%) and constant rates (+15.8%), despite the macroeconomic challenges in Q1. On a like-for-like basis, i.e. excluding the recently acquired brands, the Russia market due to divestiture, and the deconsolidation of the US subsidiary, sales growth was 5.1% YoY.

Performance by brand, strong growth posted from L'OCCITANE en Provence (5.9% at constant rates), ELEMIS (9.8% at constant rates) and recently acquired brands Sol de Janeiro and Grown Alchemist, approximately an increase of 60% in local currency as compared to the same quarter last year, prior to the acquisition.

As the COVID-19 restrictions and lockdowns severely impacting major markets such as China, A lockdowns and restrictive measures in Shanghai and other major cities in April and May 2022. Both offline and online sales were affected. In addition to store closures, the warehouse in Shanghai was also closed, causing disruption to store replenishments nationwide, which caused APAC only grew 1.2% at constant rates. However, sales rebounded strongly t in June 2022 as soon as the restrictive measures were eased. China ended the first quarter with a high-teens decline at constant rates. Americas grew 55.5% at constant rates. EMEA saw a rebound in the quarter and grew 10.3% at constant rates, with strong contribution from travel retail and distribution sales in the region, as well as a rebound in retail sales in France and Germany.

Accelerated sales growth in FY23Q2

Accelerated sales growth in FY23Q2, achieving sales of €900.5 million in FY23H1, representing a growth of 24.2% at reported rates or 16.1% at constant rates. Like-for-like sales growth was 5.9% in FY23H1, an acceleration from 5.1% in FY23Q1 to 6.7% in FY23Q2. Solid performance in FY23H1 was driven by key brands L'OCCITANE en Provence (+3.4%) and ELEMIS (+13.1%), as well as the inclusion of Sol de Janeiro (+65% in local currency). The fastest-growing region was Americas (+59.8%), followed by EMEA (+8.2%) and APAC (+1.9%).

Investment Thesis

However, towards the end of FY2022, the macroeconomic conditions turned challenging, with a resurgence in COVID-19 outbreaks in many key markets and the geo-political situation in Ukraine and Russia. 110 of the net closings were in Russia, due to the company's divestiture in June 2022, which would have a negative impact on FY2023 revenue. In addition, we believe that some concerns around the macro outlook remain (especially the risk of a global economic downturn, sharp currency fluctuations and persistently high inflation), resulting in still relatively volatile financial results. We expect FY2023E-FY2024E EPS to be €0.17 and €0.18 respectively, with FY2023E PT of HKD25.89 (with fairly low EUR/HKD exchange rate of \$7.5 to \$7.6 for the recent month, the corresponding target price would be HK\$25.09 to HK\$25.42), implies a FY2023E P/E of 19.9x (~5-yr historical average). Our investment rating is "Buy".

Risk factors

1) Resurgence of COVID in Mainland China; 2) Sharp fluctuations in FX; 3) Operation risks in overseas business; and 4) Global economy shrinks more than expected.

Financial

Consolidated Statement of Profit or Loss

Mar Y/E, EUR mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,644	1,538	1,781	2,024	2,270
COGS	(303)	(261)	(318)	(362)	(411)
Gross Profit	1,341	1,277	1,463	1,662	1,859
Distribution expenses	(766)	(666)	(698)	(805)	(931)
Marketing expenses	(207)	(214)	(281)	(300)	(314)
R&D expenses	(21)	(17)	(19)	(22)	(26)
General and admin. expenses	(160)	(148)	(173)	(196)	(220)
Other income, net	(1)	(12)	18	3	2
Financial cost, net	(22)	(18)	(15)	(22)	(21)
Foreign currency gains/(losses)	(4.6)	(3.0)	(0.3)	(2.6)	(2.0)
Profit before tax	161	199	296	318	347
Income tax	(45)	(42)	(54)	(70)	(80)
Profit for the year	115	157	242	247	267
Minority interest	(1.05)	2.46	(0.13)	0.05	0.05
Shareholders Net profit	116	155	242	247	267
Reported EPS	0.08	0.11	0.16	0.17	0.18
DPS (EUR)	0.02	0.04	0.07	0.07	0.07
Payout ratio	28%	35%	40%	40%	40%

Key Financial Data

Mar Y/E	FY20	FY21	FY22	FY23E	FY24E
Valuation Ratio					
P/S ratio, x	2.1	2.1	1.9	1.9	1.7
P/E ratio, x	29.8	21.0	14.0	15.8	14.9
Dividend Yield, %	1.0%	1.6%	2.9%	2.5%	2.7%

Per share data (EUR)

EPS	0.08	0.11	0.16	0.17	0.18
BVPS	0.75	0.82	0.86	0.96	1.08
DPS (HKD)	0.20	0.33	0.58	0.51	0.55

Growth & Margin

Growth					
Revenue Growth	15.2%	-6.5%	15.8%	13.6%	12.1%
Gross Profit Growth	13.0%	-4.8%	14.6%	13.6%	11.9%
Net Profit Growth	-2.0%	36.3%	54.0%	2.3%	7.8%
Margin					
Gross Profit Margin	81.6%	83.0%	82.2%	82.1%	81.9%
Net Profit Margin	7.1%	10.1%	13.6%	12.2%	11.8%

Key Ratios

ROE	11.0%	13.4%	19.6%	18.4%	17.7%
ROA	5.3%	6.3%	8.8%	8.1%	8.4%

Consolidated Statement of Financial Position

Mar Y/E, EUR mn	FY20	FY21	FY22	FY23E	FY24E
Non Current Asset					
PPE	181	130	129	118	110
Right-of-use assets	429	301	265	265	265
Others	1,245	1,257	1,707	1,630	1,581
Total Non Current Assets	1,855	1,689	2,101	2,012	1,956
Current Asset					
Inventories	204	199	263	259	308
Trade and other receivables	132	135	200	183	200
Bank balance and cash	166	421	361	545	709
Others	51	53	85	85	85
Total Current Assets	553	808	909	1,072	1,302
Total Assets	2,408	2,497	3,009	3,085	3,258
Current Liabilities					
Payables	146	162	210	212	226
Short term borrowings	134	523	390	306	355
Other current Liabilities	186	203	241	316	290
Total current Liabilities	466	887	842	834	872
Non Current Liabilities					
Long-term debt	361	20	381	398	447
Others	405	311	472	387	306
Total Non-Current Liabilities	767	331	853	785	753

Equity

Shareholders' equity	1,098	1,200	1,270	1,421	1,588
Non-controlling interests	77	79	45	45	45
Total equity	1,175	1,279	1,315	1,465	1,633
Total Liabilities and Equity	2,408	2,497	3,009	3,085	3,258

Consolidated Statement of Cash Flow

Mar Y/E, EUR mn	FY20	FY21	FY22	FY23E	FY24E
CFO					
Profit before income tax	115	157	242	247	267
D&A add-back	201	191	178	159	129
Others	35	45	5	4	5
Net (inc)/dec working capital	18	36	(99)	23	(52)
Net cash flow from operating activities	369	430	326	434	350
CFI					
Purchase of PP&E and Investment	(68)	(33)	(363)	(48)	(57)
Others	(3)	(46)	(3)	(23)	(16)
Net cash flow from investing activities	(72)	(78)	(366)	(71)	(73)
CFF					
Net Borrowings	(96)	47	149	33	98
Others	(179)	(144)	(166)	(212)	(211)
Net cash flows from financing activities	(275)	(97)	(17)	(179)	(113)
Net Change in Cash	22	254	(57)	184	164
Cash and CE at Y/E	166	421	361	545	709

Current Price as of: October 24

Source: PSHK Est.

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2022 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES
Phillip Futures Inc.

141 W Jackson Blvd Ste 3050

The Chicago Board of Trade Building

Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA
Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

L Level 10, 330 Collins Street

Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm