



Rating
Buy

Asia
Hong Kong

Consumer
Retail / Wholesale Trade

Company
**L'Occitane
International Alert**

Reuters 0973.HK Bloomberg 973 HK Exchange HSI Ticker 0973

Date
25 March 2015

Company Update

Price at 25 Mar 2015 (HKD)	21.60
Price target - 12mth (HKD)	21.48
52-week range (HKD)	21.60 - 17.20
HANG SENG INDEX	24,400

Key takeaways from NDR

We hosted a group lunch meeting with management to discuss its long-term strategy and recent trends.

Management's mid-term focus is on upgrading its product offering

1) Focus for the mid term is on upgrading the product offering, complemented by upgrading its existing stores and R&D. It has also gone digital at the back end and store front, allowing it to increase its stickiness with customers. 2) Another focus is on growing in emerging markets although in the short term markets like Brazil and Russia may experience some macro headwinds. 3) New brands will contribute more to sales. 4) Travel retail is targeted to reach 15-20% of sales over time (currently ~9% of sales). 5) Its cost-saving exercise will continue (as in FY14) and it has identified 20 areas where savings can be targeted. Most cost savings (i.e. lower G&A ratio) will be invested in areas like marketing to drive sales and further operating leverage.

Online sales at 9% of retail have been one of its key sales drivers globally

In 4Q14, L'Occitane set up its official online store at Tmall, and performance has been strong. Parallel trading is an issue for most cosmetic brands but on a relative basis, it is not as severe for L'Occitane, according to management. The company is in the process of reviewing its prices in different markets, like China and Japan, given recent currency volatility.

Travel retail continues to outperform

Travel retail in this region has been doing very well with more PRC tourists travelling to Korea and Japan. The company has started to see some increase in tourist spending in its stores in Japan, albeit not significant. Melvita is also increasing its travel retail business. Eborian is to be launched in HK in 2H15 while a flagship store is slated to open in Paris in May and another later in Seoul.

More higher-margin new products (especially face care) in the pipeline

The new Reine Blanche was launched in early March across most of Asia. The reception has been strong in Japan and new products accounted for 37% sales in the first month of launch. The product will be launched in China in May and sales performance in HK is likely to pick up. There are more new higher-margin products scheduled for launch in FY16: The company expects to launch a new face care line in May and a new men's range later this year. Meanwhile, management plans to have up to 70skus on face care in China, from 20-30skus currently, in a bid to drive sales.

Benefitting from weaker Euro on COGS

While L'Occitane currently benefits from weaker EUR on COGS, part of this will be offset by weak currencies in Brazil and Russia, which represent 8-9% of sales. These markets do not contribute a lot to bottom line.

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Stock data	
Market cap (HKDm)	31,902
Market cap (USDm)	4,114
Shares outstanding (m)	1,477.0
Major shareholders	-
Free float (%)	30
Avg daily value traded (USDm)	3.240

Source: Deutsche Bank

Key data			
FYE 3/31	2014A	2015E	2016E
Sales (EURm)	1,055	1,176	1,358
Net Profit (EURm)	89.3	122.6	143.5
DB EPS (EUR)	0.06	0.08	0.10
PER (x)	30.1	31.4	26.7
Yield (net) (%)	1.2	1.1	1.3

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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