Sector View

Consumer

TOP PICKS: Essilor, Pernod Ricard, SAB Miller, Ahold

	1 M	3 M	6 M	31/12/14
Pers & H/H Gds	-3.7%	8.1%	2.6%	19.8%
DJ Stoxx 600	-3.6%	9.0%	-4.3%	7.9%

*Stoxx Sector Indices

Companies covered

ADIDAS GROUP	BUY	EUR102
BEIERSDORF	NEUTRAL	EUR82 vs. 78
BIC	NEUTRAL	EUR130 vs.120
CHRISTIAN DIOR	BUY	EUR177 vs 170
ESSILOR	BUY	EUR131
GRANDVISION	BUY	EUR29
GROUPE SEB	BUY	EUR105 vs.100
HERMES Intl	BUY	EUR360 vs.344
HUGO BOSS	NEUTRAL	EUR107 vs. 110
KERING	NEUTRAL	EUR180 vs. 173
L'OREAL	BUY	EUR182 vs.175
LUXOTTICA	BUY	EUR66
LVMH	BUY	EUR182 vs.177
PRADA	NEUTRAL	HKD41
RICHEMONT	BUY	CHF90
SAFILO	BUY	EUR14
SALVATORE FERRAGAMO	BUY	EUR26.5 vs. 26
THE SWATCH GROUP	NEUTRAL	CHF440 vs. 430
TOD'S GROUP	NEUTRAL	EUR84 vs.82
AB INBEV	NEUTRAL	EUR122
CAMPARI	SELL	EUR7.1
CARLSBERG	NEUTRAL	DKK519
DIAGEO	NEUTRAL	1830p
HEINEKEN	NEUTRAL	EUR80
PERNOD RICARD	BUY	EUR122
REMY COINTREAU	BUY	EUR72
SABMILLER	BUY	4400p 4215p
AHOLD	BUY	EUR21
CARREFOUR	BUY	EUR31
CASINO GUICHARD	BUY	EUR69
DELHAIZE	BUY	EUR94
DIA	NEUTRAL	EUR7.5
JERONIMO MARTINS	NEUTRAL	EUR13.5
METRO AG	SELL	NOK24
RALLYE	BUY	EUR18.5
TESCO	NEUTRAL	166p

LOOKING BACK ON Q4 15

For the first time, our "Top Picks" report encompasses all our global Consumer franchises: Luxury, Consumer Goods, Retail and Beverages. In Q4 15, our Consumer stocks sample delivered a global performance (+4.6%) almost in line with the DJ Stoxx (+5.6%). In 2015, this universe grew by 10% on average vs. +6.8% for the DJ Stoxx but with very contrasted performances within this universe.

The Q4 increase includes a 4% contraction for our **Luxury sample** which has been particularly affected by the lingering difficult environment in Greater China and also by the attacks in Paris last November. Nevertheless, over 2015, it is worth noting the increase of **LVMH** (-4% / +10% in 2015) and **Hermès** (-3% / +6%). The most significant drops were **Prada** (-19% / -45%) which was clearly hit by the tough luxury market in Greater China (~26% of Retail sales) and **Hugo Boss** (-24% / -25%) as the group has revised down its FY15 and FY16 outlook. Moreover the unusually mild winter might be another headwind.

Almost all our **Consumer Goods** stocks have performed positively in Q4, the best-performers were **adidas Group** (+25% / +56% in 2015) boosted by the first positive results from the new Strategic Plan presented in March 2015 and a solid FY16 outlook and **GrandVision** (+21% / +38% since the IPO on 6 February) given an attractive equity story combined with excellent fundamentals in the Optical & Eyewear industry. These catalysts have also driven **Essilor** and **Luxottica** shares up in 2015 (+24% and +33% respectively) and despite a slight consolidation phase in Q4 (+6% and -3% respectively), we are convinced that they will perform further in 2016. Last but not least, **Safilo** only increased by 2.5% in Q4 (flat in 2015) on the back of painful initiatives to launch the Strategic Plan but we expect that the group will recover investors' confidence once its operating performance gradually improves in 2016.

The **L'Oréal** share price remained almost flat over the period but up 11.5% in 2015. The **SEB** share ended the year with another robust increase (+15% / +54% in 2015) whilst **BIC** was up 9% in Q4 (+38% in **2015)**, these performances reflected better-than-expected publications throughout the year.

For **Beverages**, during the fourth quarter, excluding Diageo (-0.3%), every single Beverages stock under our coverage outperformed the DJ Stoxx. This index was up 5.2% over the quarter while Beverages stocks rose by 7.5% on average. The top three were **ABI** (+14.6% vs DJ Stoxx), **Carlsberg** (+13.6%) and **Pernod Ricard** (+10.9%).

Retail stocks (+4%) slightly underperformed the DJ Stoxx despite **Ahold** and **Delhaize** rallying (both at +13%) while the **Casino** share price declined 11.5%.

WHAT WE SEE FOR Q1 16

With regards to luxury groups, we remain cautious on the Q4 15 publications at least concerning the organic sales growth performances. Following the terrorist attacks in Paris on November 13th, we have reduced our expectations for FY15 and for Q4 15 (*see our Sector Report*). On average, France accounts for 7% of the luxury goods industry and Paris alone 5%, being the world's second biggest city for the sector after NY (10%). Whilst the sales momentum in Europe was strong in Q3 thanks to the increase in tourist flows and to local clientele, after the attacks many tourists (mainly from US and Japan) have cancelled their trips to France and traffic in Parisian department stores was down by 20%. This will clearly affect the organic sales growth rates for Q4 and (we do not expect any growth vs +4% previously) which accounts for 30% of FY sales. For FY 15, we have also revised down our assumptions to 3% organic sales growth from 4% previously. **Aside from these attacks, the environment remains very challenging in Greater China with no clear improvement in HK and Macau** (~10% of sales).

For sure, the food retail sector has been penalised by the deflationary wave in Europe, which is likely to justify bumpy valuation levels as long as it lasts. This trend exacerbates a more fundamental issue which, for a large number of mature retailers, has meant that solid and recurring growth has sunk to a pace limited to just a few points (a disruptive factor in a fixed-cost industry). So far, we do not foresee any reversing trend in 2016: 1/ deflation is still there in several major markets (France and UK especially) while 2/ there is no obvious thinning on the horizon in emerging markets (Brazil especially).

Beverages: The releases of the **spirits groups** should confirm the improving trends in Europe and the US due to the better macro-economic background. The feedback of sales during the Festive season will be examined by the market. In Asia, the slowdown of the Chinese economy should continue to weigh. The Chinese New Year will occur earlier than last year (February 8th vs February 19th in 2015) but we do not expect any comments from the groups before Q2 2016. Furthermore, we do not expect big surprises in the 2015 results announcements from the **brewers**. All four have been updating the market every quarter and have been warning against too buoyant expectations for the last quarter of the year. However, the brewers will also reflect on the outlook for 2016 which, for emerging markets, have been deteriorating. As a result we are expecting the brewers in general to come with a less optimistic growth outlook for 2016.

Consumer Groups: Pick stocks with momentum! We expect investors to continue to favour groups benefiting from strong fundamentals and which operate in healthy markets like Optical & Eyewear (mid single-digit growth) and Sporting Goods (high single-digit growth). The latter will also benefit from two major sporting events in 2016: the UEFA Euro Championship (10 Jun – 10 Jul) and the Rio Summer OG (5-21 Aug). Against this context we maintain our positive stance on our **four Optical & Eyewear stocks**, and on **adidas Group**, not forgetting **Groupe SEB** which continues to report solid growth in both mature and emerging markets.

CONCLUSIONS AND TOP PICKS

Consumer Goods: Essilor (Buy, FV: EUR131) reappears. Essilor was removed from the Top Picks list on 18 Nov after a strong run (to EUR123) but the share price has come back to more attractive levels given the recent market's correction. Furthermore, we want to play: **(i)** a possible happy ending in Q4 15 (+4.8-5%e LFL growth vs. +4.4% in 9M), **(ii)** a "reassuring" risk/reward profile considering the strong footprint in the US and Europe (~75% of sales) and the limited exposure to emerging markets (21% of sales) and **(iii)** another supportive FY16 outlook. ***Next publication:*** *FY15 Results on 19 February.*

Food Retailing: Against the sector backdrop, size provides a key asset for large players which can dilute fixed costs over a far denser store network and obtain additional ammunition for nurturing their price and non-price competitiveness. In that respect, **Ahold (Buy, FV: EUR22.5)** and **Delhaize**, which are to merge in mid-2016, appear to be the best compromise within the sector. Moreover, insofar as both have: 1/ a very limited exposure to the unwell emerging markets together with a strong footprint in the USA (between 60% and 75% of the groups' respective EBIT), hence a good earnings visibility; and 2/ a higher-than-average profit-to-cash conversion, we have decided to put **Ahold** in our Top Picks list for Q1 2016, which, objectively, is to take the lead.

Beverages: We add **Pernod Ricard (Buy, FV: EUR122)** as Top Pick due to its better fundamentals and cheaper valuation than its peers. In the United States, its performance gap with the market is narrowing as the underlying trend on *Absolut* is less negative. Besides, its two key whiskies, *Jameson* and *The Glenlivet*, continue to be very dynamic (+20.7% and +10.9% on a twelve-month basis according to Nielsen). Brazil, its first exposure in LatAm, should post a very solid performance due to shipment loadings before an excise duty hike at the beginning of December. In Asia-ROW, India should continue to grow double-digit, which will partly offset the difficulties in China. Overall, we expect 2.2% organic sales growth in Q2 2015/16, implying +2.9% in Americas, +2.6% in Asia-ROW and +1.2% in Europe. At yesterday's price, the share is trading at 15.2x EV/EBIT 2015/16 and 14.5x EV/EBIT 2016/17, 14% and 13% below the peers' average. The integration of **SABMiller (Buy, FV: 4,400p)** into the ABI results will jolt its earnings somewhere during 2016 but by the time ABI announces its results (25 Feb) not much news will be able to be given around the time table. In this environment of uncertainty and deteriorating outlook we prefer to stick to SABMiller as our top pick for the quarter. From the current price levels (4,055p) the stock has limited upside to the offer price of 4,400p but we believe that investors should expect the 8.5% return to materialise over the next five to six months, which is more than the upside to fair value than we have for the other brewers. And because of the nature of the upside (a bid), there seems, in our view, not be a downside risk.

Luxury Goods: We do not include any Luxury goods stocks in our sector Q1 2016 Top Picks list. The visibility in the short term is too weak in our view; particularly with the likely negative impact of last November's terrorist attacks on Q4 sales growth in Europe (and likely not only in France). Furthermore, the uncertain current situation in Middle East (4% of Luxury goods market) is more bad news.

NEXT CATALYSTS

- **Luxury & Consumer Goods: Beiersdorf** (FY15 sales) and **Richemont** (Q3 2015/16 trading statement) on 14 Jan / **Groupe SEB** (FY15 sales) on 19 Jan.
- **Food Retailing: Carrefour** and **Casino** (FY 2015 sales) on 15 Jan and **Ahold** and **Delhaize** (FY 15 sales on 21 Jan.
- **Beverages: Rémy Cointreau** (Q3 16 sales) on 21 Jan, **Diageo** (H1 16 results) on 28 Jan and **Pernod Ricard** (H1 2016 results) on 11 Feb.

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