20th January 2016

Luxury & Consumer Goods

Luxottica

Price EUR58.25

FY15 Sales Preview: Take advantage of (unjustified) Winter Sales!

Fair Value EUR66 (+13%) **BUY**

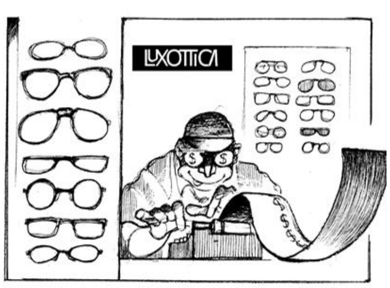
Bloomberg	LUX IM
Reuters	LUX.MI
12-month High / Low (EUR)	67.5 / 49.0
Market Cap (EURm)	28,173
Ev (BG Estimates) (EURm)	29,197
Avg. 6m daily volume (000)	723.0
3y EPS CAGR	16.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.4%	-8.8%	-10.7%	-3.6%
Consumer Gds	-6.2%	-5.0%	-10.6%	-7.2%
DJ Stoxx 600	-7.8%	-8.6%	-17.9%	-9.0%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	7,652	8,898	9,614	10,278
% change		*16.3%*	*8.0%*	*6.9%*
EBITDA	1,542	1,903	2,127	2,319
EBIT	1,158	1,430	1,591	1,745
% change		*23.5%*	*11.2%*	*9.7%*
Net income	642.6	849.8	974.8	1,086
% change		*32.2%*	*14.7%*	*11.4%*

	2014	2015e	2016e	2017e
Operating margin	15.1	16.1	16.5	17.0
Net margin	8.4	9.5	10.1	10.6
ROE	13.1	16.8	17.7	18.1
ROCE	10.4	13.2	14.8	16.2
Gearing	20.6	20.3	10.3	1.5

(€)	2014	2015e	2016e	2017e
EPS	1.44	1.77	2.03	2.26
% change	-	*22.5%*	*14.7%*	*11.4%*
P/E	40.3x	32.9x	28.7x	25.8x
FCF yield (%)	2.6%	2.9%	3.7%	4.1%
Dividends (€)	0.72	0.92	1.05	1.20
Div yield (%)	1.2%	1.6%	1.8%	2.1%
EV/Sales	3.8x	3.3x	3.0x	2.7x
EV/EBITDA	18.9x	15.3x	13.5x	12.2x
EV/EBIT	25.2x	20.4x	18.1x	16.2x



Luxottica is due to release 2015 sales on 29th January. We expect adjusted net sales of EUR9.072bn, up 17.8% reported and 6.2% FX-n, matching guidance for "mid to high single-digit growth". In Q4 alone, adjusted organic growth should be close to Q3 (+5.5%e), despite more difficult comparison (+9.3% in Q4 2014 vs. +6.7% in Q3) in view of a positive calendar effect (53rd week = extra sales of EUR60m). Following the recent market correction, the stock has returned to more attractive levels for investors seeking: (i) reassuring exposure to mature countries (~76% of sales), where sales remained buoyant in Q4, especially in North America (~56%), (ii) robust growth in emerging markets (rebound in China, still strong in LatAm) and (iii) various 2016 catalysts such as operating leverage, shareholder returns, retail initiatives, etc.

ANALYSIS

- **Wholesale Division: +8%e expected in Q4.** Growth should primarily be driven by **Europe** where the group enjoyed favourable weather conditions and easy comps (-8% in Q4 2014), with the group's main markets set to be at the forefront (i.e. Italy, Spain, etc.). We are more cautious on **Wholesale US**, not because of weak final demand but due to: **(i)** a very tough comparison base (+19% FX-n in Q4 14) and **(ii)** the integration process for Oakley's wholesale activities which could cause minor disruptions. In **emerging markets**, all lights should be at green since the group experienced a strong rebound in volumes in **China** after the price adjustment implemented in Q3 and trends have remained strong in **Latin America** (shift to local consumption).

- **Retail Division: +4% on top of difficult comps.** Last year retail sales benefited from a 53rd week which generated extra sales of EUR60m. Besides this calendar effect, underlying trends remained robust for **LensCrafters** and **Sunglass Hut.** As for the first 9M (SSSG: +0.7%), sales at **OPSM** (Australia-NZ) should still be affected by harsher competition and a tough retail environment. Last but not least, **GMO** (LatAm) and **SGH** (Mexico, Brazil, Southeast Asia) should post solid performances while H-K/Macao are set to weigh further on growth at **LensCrafters China**.

Adjusted FX-neutral growth by Division (%):

Adj. FX-neutral growth *	Q3 15	9M 15	Q4 15e	2015e
Wholesale Division (~42% of sales)	6.8	6.9	8.0	7.1
Retail Division (~58% of sales)	4.7	6.1	4.0	5.6
Group total	**5.5**	**6.4**	**5.5**	**6.2**

** Before the change in accounting method at EyeMed (FY15: -EUR174m)* *Source: Company Data*

- **FY15 adj. EBIT margin is set to widen 100bp to 16.3%.** Ahead of the FY15 results (1st March) we expect EBIT margin in the **Wholesale division** to increase 110bp (to 23.8%) while profitability in the **Retail division** should widen 90bp to 15.0%. The main margin enhancers are: **(i)** volume growth and mass scale effect, **(ii)** focus on store productivity (Retail) and **(iii)** efficiency gains at the group level. As such, for the sixth year in a row (and last?) LUX is due to achieve its "rule-of-thumb" of growing EBIT twice as fast as FX-n sales growth.

- **LUX does not lack growth opportunities and catalysts for 2016.** On 2nd March, management is to present a "multi-year plan" which could harbour positive catalysts (increased emphasis on ROCE/ROI ratios, formal shareholder return, etc.) in addition to the traditional sales and margin outlook. 2016 will be a busy year for the **Retail Division** considering the implementation of the new store concept at LC, the partnership with Macy's and the "re-set plan" at OPSM. 2016 will probably be a milestone year in the development of smart eyewear (Intel and Google partnerships). At CES 2016, Oakley and Intel presented Race Pace athlete-coaching glasses, which should be launched in late 2016.

VALUATION

- Ahead of these catalysts, we recommend that investors take advantage of these attractive entry points. Buy recommendation and FV of EUR66 confirmed.

NEXT CATALYSTS

- FY15 sales on 29th January // FY15 results on 1st March // Investor Day on 2nd March.

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