

Sector View

Consumer durables

	1 M	3 M	6 M	31/12/15
Consumer Gds	-3.5%	-5.7%	-8.6%	-5.9%
DJ Stoxx 600	-5.2%	-8.6%	-15.5%	-7.5%

*Stoxx Sector Indices

Companies covered

Company	BUY	EUR
ADIDAS GROUP	BUY	EUR102
Last Price	EUR91,28	Market Cap. EUR19,097m
GROUPE SEB	BUY	EUR105
Last Price	EUR88,86	Market Cap. EUR4,458m
LUXOTTICA	BUY	EUR66
Last Price	EUR55,3	Market Cap. EUR26,746m



Emerging Markets: Are adidas, SEB and Luxottica “safe-havens” in 2016?

Beyond Essilor (our Top Picks for Q1), three other stocks in our Consumer Goods coverage continue to beat the DJ Stoxx 600 Consumer Goods so far after a robust outperformance in 2015: (i) adidas (+7.5% ytd and +39% in 2015), (ii) Groupe SEB (flat vs. the index and +37%) and (iii) Luxottica (+1% and +16%) thanks to the ongoing momentum fuelled, in particular, by emerging markets. In our view, most EMs should remain growth drivers for these three groups and therefore be a key differentiating factor within a context of growing concerns about these countries.

ANALYSIS

- adidas Group: ongoing success in Greater China (~12% of sales) and LatAm (~11%).** Since its destocking issues in **China** over 2008-09, the German group has experienced a significant recovery thanks to efficient execution and a push on the lifestyle offering (~30-40%e of overall revenue) driven by the impressive success of Originals and NEO brands. This development was also supported by Chinese stars to remain connected with local customers. Growth of the main performance categories (running, etc.) ramped up recently, boosted by the increasing participation rates in sports following the government campaigns. Last growth driver: adidas continues to extend its distribution network in Tier 3-4 cities. As such, ADS has caught up with Nike (see rhs graph) and we expect 9% FX-n growth in 2016 after +16%e in 2015.

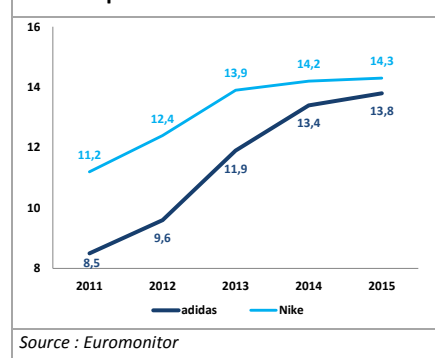
ADS also experienced strong growth in **Latin America** in 2015 (+11%e) irrespective of the Brazilian economic slowdown (~6% of revenue) and has also gained market share in this region. This performance was driven by all key categories such as Football, Training, Running and Originals and was fairly broad-based across the region (Mexico, Argentina, Colombia, Brazil, etc.) while ADS will certainly capitalise on the Summer O.G. in Rio (5-21 August) to achieve another sales increase in 2016 (BG ests: +7%). Our relatively conservative assumption is justified by the “high price increases” implemented this year.

- Groupe SEB: upbeat outlook on China (~21% of sales) and optimism about Brazil (~5%).** In a flattish **Chinese** small household equipment market, **Supor** achieved ~17% LFL growth in 2015 thanks to: (i) innovation (increase in the value-added of its products), (ii) a wider product line-up with the introduction of new categories (kitchen tools, H&P care, etc.) and (iii) an increase in the number of POS (>50,000 at end-2015). At the FY14 sales call last week, management expressed his confidence in robust growth for 2016 (BG: +10%e) as the underlying trends remain healthy (shift to domestic consumption) and Supor will rely on the three above-mentioned growth drivers.

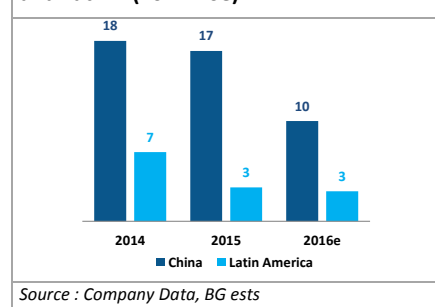
- The backdrop in **Latin America** (~8% of sales) is more volatile given the economic turmoil in **Brazil** (~4-5% of sales). In this region SEB posted 3.4% LFL growth in 2015 despite a mid-single-digit decline in **Brazil** in Q4, which is still better than the market trends. However SEB remains optimistic about some slight growth for 2016 as the group has a number of advantages: (i) a local production footprint that mitigates the negative impact from the fall in the BRL vs. the USD/CNY whose impact is more harmful for low-cost players and private labels (100% produced in China), (ii) SEB’s manufacturing activity in Brazil is being reorganised, we understand that SEB might want to ramp up the production of its plant located in the Northern part of the country where labour costs are lower (enhanced competitiveness). These measures will not prevent SEB from increasing prices in 2016 but management guides for a slight increase in Latin America (BG: +3%e), helped by a good performance in Colombia (~2% of sales).

(To be continued next page)

Market share of adidas and Nike in China’s sportswear market



SEB’s LFL growth development in China and LatAm (2014-16e):



- **Luxottica: sunny outlook for emerging markets in 2016.** Following the launch of new collections at a lower price (-10-15% on average, up to -20-25% for high end brands), LUX registered a strong rebound in volumes in **China** (~2% of sales) in Q4 15, which validates the pricing strategy implemented by LUX to match the local purchasing power (like in Brazil a few years ago). The Wholesale division should benefit from this rebound throughout 2016, as well as distribution gains. In Retail, the new store openings (LensCrafters and SGH) should be partly offset by a tough situation in H-K/Macau. Consequently we anticipate 8% FX-n growth for China in 2016.

Latin America (~6% of sales) remained a significant growth driver for Luxottica with 15.2% FX-n in 9M 15 and +13.6% in Q3, including a double-digit increase in **Brazil** (~4% of sales). In our view, this performance is the consequence of its local presence since ~50% of volumes sold there (Ray-Ban, Oakley, Vogue and Arnette) are now produced locally. This footprint enabled LUX to reduce prices (no more customs duties) and lead times. Interestingly, the top-end of the brand portfolio grew robustly as Brazilians made their purchases at home rather than abroad (U.S, Europe) due to the collapse in the BRL. SGH comps were up double-digit in Mexico and Brazil. Against this context, we expect 10% FX-n for 2016, helped by the O.G. in Rio (Oakley endorses many athletes, especially the U.S team).

VALUATION

- With regards to China and Latin America, we believe than adidas, SEB and Luxottica should be safe-havens as they benefit from solid trends in their respective markets and a successful strategy there.
- However investor attention will also be on the **Russian** situation (~7% of ADS sales and ~3% of SEB's revenue), as well as on the successful turnaround in **North America** (~15% of sales) for the German group. Naturally this region will also remain LUX's main catalyst for 2016 as it accounts for 56% of sales, especially for the Retail Division (LensCrafters: new store concept, partnership with Macy's).

NEXT CATALYSTS

- **Luxottica:** FY15 Sales on 29th January // FY15 Results on 1st March // Investor Day on 2nd March
- **Groupe SEB:** FY15 Results on 25th February 2016
- **adidas Group:** FY15 Results on 3rd March.

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Analyst:
Cédric Rossi
33(0) 1 70 36 57 25
crossi@bryangarnier.com

Consumer Analyst Team:
Nikolaas Faes
Loïc Morvan
Antoine Parison

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London	Paris	New York	Geneva	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
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