

Safilo

Price EUR7.35

New partnership on-board! Swatch chooses Safilo to diversify into eyewear

Fair Value EUR14 (+90%)

BUY

Bloomberg	SFL IM
Reuters	SFLG.MI
12-month High / Low (EUR)	15.1 / 7.4
Market Cap (EURm)	460
Avg. 6m daily volume (000)	144.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	-24.9%	-35.6%	-33.2%	-31.4%
Consumer Gds	-2.9%	-11.2%	-11.9%	-9.3%
DJ Stoxx 600	-7.9%	-17.3%	-20.8%	-14.1%

	2014	2015e	2016e	2017e
P/E	10.3x	19.1x	8.0x	7.7x
Div yield (%)	1.4%	1.8%	2.2%	15.8%

ANALYSIS

- This morning Safilo and Swatch have announced a five-year partnership agreement to develop and manufacture Swatch branded eyewear, due to start as early as spring 2016. Last week during Swatch's FY 2015 sales conference call, Mr Hayek rightly declared that he would like to develop eyewear for the Swatch brand (BG ests: ~CHF800m).
- Admittedly, it is rather difficult to assess sales potential for this new collaboration: **(i)** this is Swatch's first licensing agreement and **(ii)** besides Tag Heuer (in-house production), it is the first time a pure watch brand like Swatch has attempted to diversify into eyewear since brands like Cartier (in-house production) or Tiffany (Luxottica) are jewellers above all. **However, we estimate that EUR25-30m is a fair target for the MT** considering the distribution network: *Swatch The Eyes* will initially be available through Swatch's global network and in Safilo's US retail chain Solstice (around 125 DOS) and then rolled out globally (i.e. Safilo's wholesale and Swatch's own distribution network).
- **The mass/cool segment opportunity!** In the press release, Safilo specified that *Swatch The Eyes* would be positioned in the mass/cool segment (i.e. retail price: EUR30-90) where Safilo is building up a strong brand portfolio. In addition to the successful roll-out of **Polaroid** over the past year and of **Swatch The Eyes** this spring, Safilo is also set to enjoy the launch of **Havaianas** (signed last September) in H2 2016. We believe this mass/cool segment harbours significant growth opportunities for Safilo since: **(i)** it is growing at a fast pace, especially in emerging markets, **(ii)** Safilo mainly faces private labels and/or small local players and **(iii)** Luxottica does not operate in this segment.

VALUATION

- Despite disappointing FX-n growth in Q4 (-2.7%) due to a weak performance in North America and in Asia-Pacific, the significant correction in the share price (-31% ytd) is unmerited in our view. We believe this announcement should go down well with the market since it confirms that Safilo continues to attract new licences and partnerships.

NEXT CATALYSTS

- Safilo is due to report FY 2015 Results on 14th March 2016.

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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