

12th February 2016

Luxury & Consumer Goods

Luxottica

Price EUR49.40

Bienvenue en France! New partnership between Sunglass Hut and Galeries Lafayette

Fair Value EUR65 (+32%)

BUY

Bloomberg	LUX IM
Reuters	LUX.MI
12-month High / Low (EUR)	67.5 / 49.1
Market Cap (EURm)	23,893
Ev (BG Estimates) (EURm)	24,915
Avg. 6m daily volume (000)	814.0
3y EPS CAGR	15.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.3%	-23.2%	-24.7%	-18.2%
Consumer Gds	-5.7%	-13.9%	-12.8%	-11.8%
DJ Stoxx 600	-10.8%	-19.8%	-22.9%	-17.0%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	7,652	8,837	9,550	10,209
% change		15.5%	8.1%	6.9%
EBITDA	1,542	1,891	2,113	2,303
Reported EBIT	1,158	1,421	1,580	1,734
% change		22.7%	11.2%	9.7%
Net income	642.6	843.7	967.9	1,078
% change		31.3%	14.7%	11.4%

	2014	2015e	2016e	2017e
Rep. EBIT margin	15.1	16.1	16.5	17.0
Net margin	8.4	9.5	10.1	10.6
ROE	13.1	16.7	17.6	18.0
ROCE	10.4	13.1	14.7	16.1
Gearing	20.6	20.2	10.4	1.6

(€)	2014	2015e	2016e	2017e
EPS	1.44	1.76	2.02	2.25
% change	-	21.7%	14.7%	11.4%
P/E	34.2x	28.1x	24.5x	22.0x
FCF yield (%)	3.0%	3.4%	4.3%	4.8%
Dividends (€)	0.72	0.92	1.05	1.20
Div yield (%)	1.5%	1.9%	2.1%	2.4%
EV/Sales	3.3x	2.8x	2.6x	2.3x
EV/EBITDA	16.2x	13.2x	11.6x	10.4x
EV/EBIT	21.5x	17.5x	15.5x	13.8x

Following the successful partnership between Macy's and Sunglass Hut in the US since 2009, Luxottica announced yesterday an exclusive agreement to open Sunglass Hut corners in 56 Galeries Lafayette department stores across France and in the BHV/Marais in Paris by the end of 2016. This announcement is consistent with the group's strategy to expand in fast-growing channels (travel retail, department stores) and marks the beginning of a retailing activity in France. Besides the (limited) financial impact, this new partnership proves that the remaining senior management team continues to follow the group's roadmap irrespective of the third management "shake-up".

ANALYSIS

- Galeries Lafayette is France's leading department store chain.** In 2014, Galeries Lafayette generated retail sales of EUR3.6bn, split 50-50 between the Haussmann store in Paris and the other 55 stores across France. Interestingly, tourists account for half of Galeries Lafayette's sales in Paris, while Chinese customers represent 15% of this. As in the US or in other countries, department stores have become a key channel for premium and high-end brands, and fit perfectly with Sunglass Hut's positioning as the premium and luxury brand portfolio accounts for ~95% of its offering.
- Sunglass Hut is entering the French market.** This exclusive agreement plans for the roll-out of SGH corners in the 56 Galeries Lafayette stores across the country, but also in the lifestyle concept department store BHV/Marais in Paris (total: 57 stores). As such, SGH will be the exclusive operator of sunglass corners since these will be managed and staffed by SGH to ensure a higher sales/sqm given its retail expertise. Thanks to this exclusive agreement, **Luxottica will start its first retailing activity in France which is already a key wholesale market for the Italian group (~3-4% of total sales).** SGH already has over 330 stores across Europe, mainly in Spain/Portugal, the UK/Ireland and Turkey.
- Replicating the successful partnership with Macy's.** A partnership between Luxottica and Macy's has been in place since 2009 regarding Sunglass Hut. The speciality sun retailer has over 670 SGH locations within Macy's stores and **this successful collaboration has enabled the department store chain to triple the size of its sunglass business over the past six years.** Furthermore, this second collaboration might foreshadow future partnerships between Luxottica and other department store chains which hold a significant market share in the distribution of premium/luxury goods (e.g.: Japan, Mexico, South Africa, etc.) and are willing to diversify into eyewear (fast-growing category, high sales density and strong profitability, etc.).
- Implications for our FY16-17 assumptions.** Admittedly this announcement has not prompted us to change our forecasts at this stage. However, besides the numbers, the new deal reinforces our view that the remaining senior managers continue to follow the clear MT/LT roadmap and take advantage of any growth opportunities despite the departure of LUX's third CEO in 18 months. Hence **we believe this "governance crisis" should not affect the group's operating performance.** Moreover, the news also confirms that 2016 will be a busy year for the retail division in light of initiatives at LensCrafters (new store concept, partnership with Macy's) and a possible relaunch plan at OPSM in Australia.

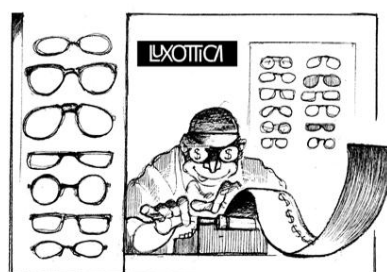
VALUATION

- The share price was washed out by the significant market correction, aggravated by the unexpected resignation of Mr Khan. However we understand that most investors are less worried by possible impacts on operating performance than by question marks on governance and the future succession plan mentioned by Mr Del Vecchio in recent interviews. We hope that explanations and first answers to these issues will be provided at the Investor Day (2nd March). Buy recommendation and FV of EUR65 reiterated.

NEXT CATALYSTS

- FY 2015 results on 1st March / Investor Day in Turin on 2nd March.

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