

Luxottica

Price EUR48.88

Turbulence almost over, make the most of it! (full report release today)**Fair Value EUR63 vs. EUR65 (+29%)****BUY**

Bloomberg	LUX IM
Reuters	LUX.MI
12-month High / Low (EUR)	67.5 / 48.7
Market Cap (EURm)	23,641
Ev (BG Estimates) (EURm)	24,647
Avg. 6m daily volume (000)	848.2
3y EPS CAGR	14.5%

After an excellent performance in 2015 (+33%), the share has plummeted 19% YTD, due to 2016-18 targets viewed as cautious by the market and a lack of visibility concerning governance. The share is now trading at a 5% discount in terms of 1-yr forward EV/EBIT relative to the average over 2014-16 (vs. +32% in December) and since we believe that management will provide convincing answers to these two issues, we advise making the most of current prices to strengthen positions. We have made no changes to our 2016-18 estimates but our new EUR63 Fair Value takes account of a slight increase in beta as well as the number of shares. Buy recommendation confirmed.

ANALYSIS

- **The US (~56% of sales) remains a catalyst:** excluding the negative impact of the 53rd week in the retail segment, organic growth even picked up in North America in Q4 to 5.8% vs. 5.6% after 9M and 4.5% in Q3. For 2016, management is forecasting same-currency growth of 5-6%, driven especially by numerous store openings at LensCrafters and Target Optical. Comparison is nevertheless set to be demanding in Q1 2016.
- **Cautious 2016-18 targets?** We are forecasting same-currency growth of 6% in 2016 followed by 7% in 2017-18, namely the best performance in our optical sample. 2016-18 guidance for EBIT growth of 1.5x sales growth is admittedly lower than that seen over 2010-15 (2x sales growth). However, this is justified by the massive EUR1.5bn capex plan out to 2018. Although our assumptions are more cautious than the group's (1.3x sales growth over 2016-18e), upside potential in EBIT margin (BG: +40pb/year) remains one of the highest in the sector and EBIT should increase by EUR400m between 2016 and 2018, namely as much as during the 2010-14 period.
- **Governance: visibility to return gradually.** Mr Del Vecchio (61.4% of capital) needs to finalise the succession plan and the new governance structure. In the short term, we are very confident in the new management team's ability to efficiently implement and roll out the initiatives announced at the Investor Day (~1,280 store openings by 2018, digital strategy etc.).

VALUATION

- The share is now trading at a 5% discount in terms of 1-yr forward EV/EBIT relative to the average over 2014-16 (vs. +32% in December).
- Our 2016-18 estimates remained unchanged but our new FV or EUR63 takes account of a slight increase in beta as well as the number of shares. Buy recommendation confirmed.

NEXT CATALYSTS

- Luxottica will release its Q1 16 Results on 29th April 2016.

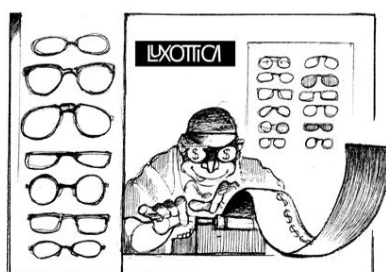
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	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.9%	-15.5%	-20.1%	-19.1%
Consumer Gds	2.7%	-1.9%	1.6%	-4.1%
DJ Stoxx 600	4.4%	-4.6%	-4.8%	-6.8%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	7,652	8,837	9,366	10,017
% change		15.5%	6.0%	7.0%
EBITDA	1,542	1,853	2,040	2,225
EBIT	1,158	1,376	1,536	1,685
% change		18.9%	11.6%	9.7%
Net income	642.6	804.1	928.9	1,040
% change		25.1%	15.5%	12.0%

	2014	2015e	2016e	2017e
Operating margin	15.1	15.6	16.4	16.8
Net margin	8.4	9.1	9.9	10.4
ROE	13.1	15.8	16.8	17.3
ROCE	10.4	12.5	13.9	15.2
Gearing	20.6	19.8	12.9	5.1

(€)	2014	2015e	2016e	2017e
EPS	1.44	1.68	1.94	2.17
% change	-	16.1%	15.5%	12.0%
P/E	33.8x	29.2x	25.2x	22.5x
FCF yield (%)	3.1%	3.2%	3.7%	4.4%
Dividends (€)	0.72	0.89	1.00	1.10
Div yield (%)	1.5%	1.8%	2.0%	2.3%
EV/Sales	3.2x	2.8x	2.6x	2.4x
EV/EBITDA	16.0x	13.3x	11.9x	10.8x
EV/EBIT	21.3x	17.9x	15.9x	14.2x



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Distribution of stock ratings

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