

Essilor

Price EUR111.75

Strong performance in Lenses partly dented by a temporary one-off in sunwear

Fair Value EUR130 (+16%)

BUY-Top Picks

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 100.4
Market Cap (EUR)	24,191
Ev (BG Estimates) (EUR)	26,196
Avg. 6m daily volume (000)	534.2
3y EPS CAGR	12.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.7%	4.1%	0.9%	-2.9%
Consumer Gds	2.7%	9.4%	1.6%	-1.2%
DJ Stoxx 600	2.6%	8.8%	-3.3%	-4.1%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	5,670	6,716	7,186	7,683
% change		18.4%	7.0%	6.9%
EBITDA	1,043	1,263	1,358	1,460
EBIT	1,222	1,183	1,288	1,390
% change		-3.2%	8.9%	7.9%
Net income	929.3	756.6	843.8	930.9
% change		-18.6%	11.5%	10.3%

	2014	2015e	2016e	2017e
Operating margin	21.6	17.6	17.9	18.1
Net margin	16.4	11.3	11.7	12.1
ROE	18.9	15.1	14.9	15.1
ROCE	16.9	20.8	21.2	21.7
Gearing	34.6	37.4	27.6	21.5

(€)	2014	2015e	2016e	2017e
EPS	3.05	3.57	3.98	4.39
% change	-	16.9%	11.5%	10.3%
P/E	36.6x	31.3x	28.1x	25.5x
FCF yield (%)	3.3%	2.5%	3.5%	4.0%
Dividends (€)	1.05	1.15	2.15	3.15
Div yield (%)	0.9%	1.0%	1.9%	2.8%
EV/Sales	4.6x	3.9x	3.6x	3.3x
EV/EBITDA	24.9x	20.7x	19.0x	17.5x
EV/EBIT	21.3x	22.2x	20.1x	18.4x

Q1 sales came in at EUR1,784m (+7.5%), bang in line with expectations at EUR1,782.5m. LFL growth of 5% also matched our expectations (+5%) but was slightly below the CS forecast (+5.2%) only due to one-off events in the Sunglass & Readers division (-1.5% vs. CS of 9.3%e). We would highlight the robust performance by the Lenses activity (+5.7% LFL), the highest since Q1 2012. Ahead of the conference call today at 10am (CET), Essilor is reiterating all FY16 guidance.

ANALYSIS

- **Q1 sales increased 7.5% as reported to EUR1,784m.** The contribution from acquisitions was higher-than-expected with a 4.4% increase (CS: +3.3%e), thanks to the numerous deals completed over the past months. On the other hand, the FX impact was more adverse than anticipated (-1.9% vs. CS of -1.3%) given the decline in many key currencies (GBP, BRL, MEX, etc.)
- **Ongoing strong momentum in North America and Europe.** Sales in **North America** grew by 4.7% LFL (Q4: +4.8%), confirming that final demand remained healthy over Q1 in all channels, especially the online activity which grew in double-digits. Advertising campaigns and new products have played positively in **Europe** (+4.7% after +4.5% in Q4).
- **Good surprise in LatAm, strong Asia-Pacific.** Indeed sales increased 9.1% LFL as the soft trends in Brazil were more than offset by strong performances in other markets such as Colombia, Mexico or in Central America. Business in Brazil continued to grow, helped by Essilor's multinet network strategy (e.g. mid-tier Kodak brand performed strongly). Sales in the **AMEA** region increased by 8.9% (Q4: 7.6%), driven by strong domestic demand in China and in India, an acceleration in export sales while Japan and Australia returned to positive territory.
- **Temporary air pocket in Readers & Sun (-1.5%).** This decline was caused by the implementation of the new ARTEMIS dealer fulfilment system at Xiamen Yarui (Bolon), which caused some sales disruption in the sunwear division (sales dropped by 33%). **The group expects an immediate catch-up effect as its guidance is still for double-digit growth in 2016.** It is worth noting the 3.5% increase in **Equipment** driven by a strong performance in North America.

Essilor Q1 16 sales:

EURm	Q1 15	Q1 16	LFL growth	Q1 16 CS*
North America	650	710	4.7	4.7
Europe	441	470	4.7	4.0
Asia-Pacific-Middle-East- Africa	267	283	8.9	7.2
Latin America	96	104	9.0	5.0
Lenses & Optical Instruments	1,453	1,567	5.7	5.0
Equipment	42	44	3.5	-3.0
Readers & Sun	163	173	-1.5	9.3
Total group	1,659	1,784	5.0	5.2

* CS median

Source: Company Data

- **FY16 targets confirmed.** Following this Q1 performance, Essilor has naturally reiterated its FY16 outlook: the top line growth is expected to "to exceed 8%" at constant currency and organic growth should be "around 5%". The group is maintaining its cautious contribution margin guidance ("at least 18.8%" after 18.8% achieved in 2015) as it invests further in consumer marketing spend to fuel revenue growth.

VALUATION

- In our view, this tiny organic growth miss (20bp) should be seen in perspective as it was only caused by the introduction of this new dealer fulfilment system at Xiamen Yarui, whilst Q2 should be marked by a catch-up effect. Today's publication confirms our positive stance on the stock, highlighted by the strong performance in the Lenses & Optical division (+5.7%). Buy recommendation and FV of EUR130.

NEXT CATALYSTS

- Conference call today at 10am (CET) // AGM on 11th May // H1 16 results on 29th July.

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