22nd April 2016

Luxury & Consumer Goods

# Essilor

Price EUR114.65

## Reassuring outlook: very solid growth in Lenses, rebound expected in Sun in Q2, what else?

**Fair Value EUR130 (+13%)** **BUY-Top Picks**

| | |
|---|---|
| Bloomberg | EF FP |
| Reuters | ESSI.PA |
| 12-month High / Low (EUR) | 123.6 / 100.4 |
| Market Cap (EURm) | 24,819 |
| Ev (BG Estimates) (EURm) | 26,824 |
| Avg. 6m daily volume (000) | 537.8 |
| 3y EPS CAGR | 12.9% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | 6.2% | 5.7% | 3.5% | -0.3% |
| Consumer Gds | 1.9% | 6.4% | 0.2% | -2.3% |
| DJ Stoxx 600 | 2.6% | 6.4% | -3.6% | -4.4% |

| YEnd Dec. (€m) | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| Sales | 5,670 | 6,716 | 7,187 | 7,688 |
| *% change* | | *18.4%* | *7.0%* | *7.0%* |
| EBITDA | 1,043 | 1,263 | 1,358 | 1,461 |
| EBIT | 1,222 | 1,183 | 1,288 | 1,391 |
| *% change* | | *-3.2%* | *8.9%* | *7.9%* |
| Net income | 929.3 | 756.6 | 843.9 | 931.6 |
| *% change* | | *-18.6%* | *11.5%* | *10.4%* |

| | 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 | 21.6 |

| (€) | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| EPS | 3.05 | 3.57 | 3.98 | 4.39 |
| *% change* | - | *16.9%* | *11.5%* | *10.4%* |
| P/E | 37.6x | 32.2x | 28.8x | 26.1x |
| FCF yield (%) | 3.2% | 2.4% | 3.4% | 3.9% |
| Dividends (€) | 1.05 | 1.15 | 2.15 | 3.15 |
| Div yield (%) | 0.9% | 1.0% | 1.9% | 2.7% |
| EV/Sales | 4.7x | 4.0x | 3.7x | 3.4x |
| EV/EBITDA | 25.5x | 21.2x | 19.5x | 18.0x |
| EV/EBIT | 21.8x | 22.7x | 20.5x | 18.9x |

**During the conference call yesterday, management confirmed that Bolon should enjoy a strong catch-up effect as early as Q2, confirming that the only issue of yesterday's publication is behind the group. We understood that the Lenses division (87% of sales) would maintain strong momentum and even the Equipment division seems to be recovering gradually. At this stage, we have fine-tuned our sales growth assumptions and remain convinced that Essilor will achieve all FY guidance, marking another step further towards the 2018 targets. Buy recommendation and FV of EUR130 confirmed.**

### ANALYSIS

- **Readers & Sun: strong catch-up as early as Q2!** The sales disruption at Bolon (-33%) caused by the introduction of the new ARTEMIS inventory management system dented Essilor's lfl growth by around 1pp (+5%). Management reassured by confirming that ARTEMIS was now fully operational, boding well for a significant sales jump in Q2. **Since Essilor maintained its guidance of high single-digit growth for 2016, it implies, at least, a ~10% lfl growth in R&S sales over the three remaining quarters**, fuelled by a double-digit sales increase at Bolon.
- **Consolidating the ECP alliance channel in North America.** Essilor is sticking to its "oil spot strategy" with the acquisition of **Opti-Port** (33 members and >400 offices), marking the fourth transaction of an US alliance following the acquisitions of **Vision Source** (4,071 doctors), **PERC** (3,141) and **IVA** (912) last year. **The group now covers over 8,000 doctors, or >30% of the total channel** (~25,000 independent eye doctors), which represent a significant growth opportunity for Essilor to push its products and services further. As a reminder, the independent ECP channel has constantly gained market share over the last decade (2015: 53% market share vs. 50% in 2005) thanks to a high level of expertise and service.
- **What to expect in Europe and LatAm throughout the remainder of the year?** With 4.7% LFL in Q1 **Europe** performed again above expectations (France was up in Q1), illustrating the success of the strategy implemented in 2013 (e.g: Country Management, media push, innovation, key partnerships). Even if the comparison base will toughen, we believe the combination of these drivers will continue to deliver a solid momentum, hence we are comfortable with our 2.6% LFL forecast. **LatAm** (+9% LFL) also surprised positively as the low single-digit growth in Brazil was offset by the other markets (>+15% LFL), particularly Mexico (>+30% LFL). We anticipate ~5% LFL growth for LatAm in 2016.
- **Implications for our FY16 top line forecast.** We maintain our 5% LFL growth assumption (guidance: "around 5%") but we nudge up our scope effect forecast to 3.2% (from 3%) given the nine acquisitions completed since the beginning of the year, representing a combined revenue of EUR100m on a full-year basis. This adjustment leads to a 8.2% FX-n growth estimate to be compared with a guidance of "exceeding 8%". On the opposite, we have retained a more adverse FX impact (-1.2% vs. -1%) as COO Laurent Vacherot reminded that FX should weigh on sales growth by 1-2pp over 2016.
- **We leave our CM assumption unchanged.** Despite sound organic growth and a favourable product-mix (driven by the new products + high value brands), unsurprisingly, Essilor has reiterated its CM guidance ("at least 18.8% after 18.8% in 2015) and during the conference call, CEO Hubert Sagnières recalled that "*profitability improvement was not a priority for the group*", exactly in line with his previous declaration made at the FY results presentation. Admittedly the group copes with an increase in **marketing spend** (EUR215m vs. EUR200m in 2015) and a dilutive impact from acquisitions but we still believe there is small room for a good surprise, hence we leave our 18.9% assumption unchanged.

### VALUATION

- Yesterday's publication confirmed that Essilor is reaping the fruits of playing on a bigger field (more countries, more categories) and showed its ability to constantly gain market share, as highlighted by the reassuring outlook. Buy recommendation and FV of EUR130 confirmed.

**NEXT CATALYSTS:** AGM on 11th May // H1 16 Results on 29th July. ***Click here to download***


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Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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