

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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