

Moncler

Price EUR16.00

Solid H1 results highlighting the ongoing growth story

Fair Value EUR17,5 vs. EUR17 (+9%)

BUY

Bloomberg	MONC.IM
Reuters	MONC.MI
12-month High / Low (EUR)	18.9 / 12.2
Market Cap (EURm)	4,003
Ev (BG Estimates) (EURm)	3,961
Avg. 6m daily volume (000)	1 071
3y EPS CAGR	10.2%

In Q2 alone, sales came in at EUR109m (CS: EUR107m), representing 17% FX-n growth (CS: +15% FX-n) as in Q1. Momentum continued to be fuelled by Asia-Pacific (+30% FX-n) and the Americas (+17% FX-n). Adjusted EBITDA reached EUR78.3m (CS: EUR79m) after a net negative impact of EUR3m related to upfront rent payments. Against this very dynamic H1, the group's management remains confident on the H2 outlook. Buy recommendation and FV nudged up to EUR17.5 vs. EUR17 following a slight revision to our FY estimates.

ANALYSIS

- Q2: the Retail and Wholesale channels topped our forecasts.** The retail channel soared 21% FX-n (Q1: +22%) despite a demanding comparison base (Q2 15: 43%). This increase included comparable growth of 5% in H1 with Asia again the best-performing region, although the three others were also in positive territory. Wholesale sales increased 9% FX-n (Q1: 5%), driven by good sell-through numbers, especially with US wholesale accounts (double-digit growth), which is a key differentiating factor compared to other groups exposed to the apparel category.
- By region and in Q2, sales picked up in both Italy (+6% vs. +5% in Q1) and in the rest of Europe (+13% vs. +5%), with excellent performances in the UK, Germany and Switzerland. Interestingly, the Italian brand experienced buoyant activity with the local clientele, which more than offset declining tourist flows (Asian travellers mainly).
- Double-digit growth in Asia-Pacific (+30%) and in North America (+17%).** Moncler's key Asian markets have all performed strongly, notably Mainland China and Japan where the Italian brand still enjoyed the positive impact from the opening of the flagship store in Ginza last October. South Korea, Taiwan, Macau and Singapore were strong and sales in HK were growing. Moncler maintained robust growth in North America (+17%) with a balanced performance between retail and wholesale (growth >10%) thanks to a selective distribution approach and its upscale positioning (no discounts).
- As expected, retail expansion weighed on H1 margins. Gross margin widened** an impressive 140bp to 74.1%, driven by the positive channel-mix. Selling expenses were up 260bp given the retail expansion (DOS: +26 vs. H1 15 to 179) but note that the group sustained a net impact of EUR3m (H1 16: EUR4m vs. EUR1m in H1 15), or -90bp, related to rent payments for stores not yet opened, especially the two flagship stores in NYC and Seoul. Consequently, adj. EBITDA margin dropped by 140bp to 22.6% but the decline would only have amounted to 50bp (= in line with CS) excluding this EUR3m impact.
- First positive FCF generation in H1.** Indeed, FCF generation is traditionally negative in H1 given the group's seasonal business (H1: ~20% of FY adj. EBITDA) but this year, the Group generated FCF of EUR13.2m vs. -EUR15.1m last year. As a consequence, net debt decreased significantly to EUR84.9m vs. EUR175.3m the prior year!
- Solid current trading and upbeat outlook.** Moncler's management is pleased with current trends, and activity in the UK has even accelerated following Brexit, fuelled by both tourists and local customers. Store openings: after six openings in H1, Moncler plans to open nine DOS (o/w the two flagship stores) and five wholesale monobrand stores in H2, mainly s-i-s in US department stores. For 2017, not more than 10-11 DOS should be opened. Capex: Moncler expects to spend EUR60-65m this year vs. EUR55-60m announced at the CMD last December but it remains under control (~6% of FY16 sales vs. ~8% in H1).

VALUATION

- Admittedly Q2 was the smallest quarter of the year accounting for ~10% of FY revenues, but it showed again that Moncler delivered organic growth that should outpace its luxury peers. These robust trends bode well for H2, which represents ~68% of FY sales and ~80% of FY adj. EBITDA. Hence, we still favour Moncler for its heritage and strong legitimacy that enables the brand to outperform the highly fragmented and dynamic outerwear segment (~+5%/year). The growth story is about top line (~10% CAGR during 2015-18), driven by the group's excellent control of the retail channel, as highlighted by the kick-off of the "Retail Excellence" project in Q2.
- Our new FV of EUR17.5 vs. EUR17 reflects minor adjustments to our FY16 estimates. After gaining 24% ytd, Moncler is the best-performing stock ahead of Hermès (+23%) and remains one of our favourite stocks in the luxury sector. Buy recommendation confirmed.

	1 M	3 M	6 M	31/12/15
Absolute perf.	16.8%	12.2%	17.6%	23.8%
Pers & H/H Gds	8.6%	2.9%	5.7%	2.7%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	880.4	986.0	1,090	1,191
% change		12.0%	10.6%	9.2%
Adj. EBITDA	300.0	330.5	363.0	398.8
Rep. EBIT	252.7	279.1	309.0	340.3
% change		10.5%	10.7%	10.1%
Net income	163.8	182.2	203.9	225.9
% change		11.3%	11.9%	10.8%

	2015	2016e	2017e	2018e
Operating margin	28.7	28.3	28.3	28.6
Net margin	18.6	18.5	18.7	19.0
ROE	30.0	27.2	25.3	23.7
ROCE	40.9	42.5	44.7	47.6
Gearing	9.1	-6.2	-18.5	-28.5

(EUR)	2015	2016e	2017e	2018e
EPS	0.69	0.75	0.83	0.92
% change	-	9.5%	10.5%	10.6%
P/E	23.3x	21.3x	19.3x	17.5x
FCF yield (%)	3.3%	3.8%	4.4%	5.0%
Dividends (EUR)	0.14	0.17	0.20	0.23
Div yield (%)	0.9%	1.0%	1.3%	1.4%
EV/Sales	4.6x	4.0x	3.5x	3.1x
EV/EBITDA	13.5x	12.0x	10.6x	9.4x
EV/EBIT	16.0x	14.2x	12.5x	11.0x



Moncler's organic growth by region (%):

FX-n growth	Q1 2015	Q2 2015	Q1 2016	Q2 2016
Italy	7	11	5	6
EMEA excl. Italy	19	15	5	13
Asia & RoW	48	10	30	30
Americas	61	83	21	17
Total Revenues	30	20	17	17

Source: Company Data

Moncler's organic growth by channel (%):

FX-n growth	Q1 2015	Q2 2015	Q1 2016	Q2 2016
Retail	54	43	22	21
Wholesale	-2	-9	5	9
Total Revenues	30	20	17	17

Source: Company Data

Moncler H1 2016 results:

EURm	H1 2015	H1 2016	% change
Sales	295.8	346.5	17.1
Gross Profit	215.0	256.8	19.4
% margin	72.7	74.1	+140bp
Adj. EBITDA	70.9	78.3	10.5
% margin	24.0	22.6	-140bp
Adj. EBIT	53.8	59.0	9.7
% margin	18.2	17.0	-120bp
Net income	34.1	33.6	-1.3

Source: Company Data

NEXT CATALYSTS

- Q3 2016 sales on 8th November 2016.

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