

Sector View

Luxury & Consumer Goods

Q3 2016 TOP PICKS: We remove Essilor, add Moncler and LVMH and continue with Ahold!

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	0.8%	4.0%	1.9%	1.9%
DJ Stoxx 600	-3.5%	-0.3%	-9.2%	-9.2%

*Stoxx Sector Indices

Companies covered

Company	Rating	Target Price
ADIDAS GROUP	BUY	EUR124
Last Price	EUR128,2	Market Cap. EUR26,821m
BEIERSDORF	NEUTRAL	EUR80
Last Price	EUR84	Market Cap. EUR19,051m
BIC	NEUTRAL	EUR119
Last Price	EUR128	Market Cap. EUR6,136m
BURBERRY	NEUTRAL	1200p
Last Price	1166p	Market Cap. GBP5,189m
CHRISTIAN DIOR	BUY	EUR175
Last Price	EUR145,3	Market Cap. EUR26,405m
ESSILOR	BUY	EUR130
Last Price	EUR119,55	Market Cap. EUR26,069m
GRANDVISION	BUY	EUR28
Last Price	EUR23,91	Market Cap. EUR6,084m
GROUPE SEB	BUY	EUR125
Last Price	EUR111,1	Market Cap. EUR5,574m
HERMES Intl	BUY	EUR355
Last Price	EUR340,8	Market Cap. EUR35,978m
HUGO BOSS	NEUTRAL	EUR77
Last Price	EUR50,21	Market Cap. EUR3,535m
KERING	BUY	EUR174
Last Price	EUR148,2	Market Cap. EUR18,713m
L'OREAL	BUY	EUR177
Last Price	EUR172,45	Market Cap. EUR96,572m
LUXOTTICA	BUY	EUR58
Last Price	EUR44,61	Market Cap. EUR21,583m
LVMH	BUY	EUR171
Last Price	EUR136,15	Market Cap. EUR69,116m
MONCLER	BUY	EUR17
Last Price	EUR14,64	Market Cap. EUR3,663m
PRADA	NEUTRAL	HKD35
Last Price	EUR23,95	Market Cap. EUR61,284m
RICHEMONT	NEUTRAL	CHF63
Last Price	CHF57,35	Market Cap. CHF32,116m
SAFILO	NEUTRAL	EUR11
Last Price	EUR6,77	Market Cap. EUR424m
SALVATORE FERRAGAMO	BUY	EUR25
Last Price	EUR18,34	Market Cap. EUR3,096m
THE SWATCH GROUP	NEUTRAL	CHF370
Last Price	CHF286,1	Market Cap. CHF15,788m
TOD'S GROUP	SELL	EUR53 vs.60
Last Price	EUR49,66	Market Cap. EUR1,643m

LOOKING BACK ON Q2 2016

Our **Consumer** "Top Picks" encompass all our global Consumer franchises: **Luxury, Consumer goods, Retail, Spirits & Brewers** and **Food**. In Q2, our Consumer sample was slightly down (-4% globally in line with DJ Stoxx) but again with a mixed situation with -11% for our luxury goods sample while the HPC segment was more resilient (+3%) as was the case for beverages (+4%). In all, Retail stocks remained almost stable.

Luxury goods stocks were again strongly penalised (-11% on 3m) among others factors by still poor activity in Hong Kong, a slowdown in US, the lack of tourists in Europe and especially in France. Nevertheless, the best performer was **Hermès** (+6%) thanks to its fairly resilient status among peers (Q1 sales up 6% vs no growth for the sector average), while **Tod's** was the worst (-25%), due to very poor Q1 results with same-store sales down 12%. **LVMH** and **Kering** achieved the same kind of performance (around -10%).

Our **Optical & Eyewear sample** had a mixed performance: on the negative side **Luxottica** and **Safilo** fell by 13% and 15% respectively as both groups posted unhelpful Q1 numbers. As highlighted recently in our latest comment on **Luxottica**, the second quarter should be affected by rainy weather conditions across Europe during the sun peak season and **Safilo** should still be partly impacted by production bottlenecks that already played negatively in Q1. Consequently we believe that investors still prefer to "wait-and-see" ahead of H1 results. The **GrandVision** share price only contracted ~7% in the absence of any major catalyst but we do not think that the consensus has factored in the dilutive impact from M&A. Last but not least, **Essilor** remained the best-performer in our sample with a 9% increase over the quarter. Indeed, in a volatile environment, Essilor's defensive profile was sought after by the market given a solid Q1 publication combined with a reassuring MT outlook, confirming the group's strong fundamentals.

Among the **HPC/Consumer goods** stocks, we would highlight the relative outperformance of this segment with a particularly good move for **L'Oréal** (+7% or +11% vs the DJ Stoxx). Once again **adidas Group** led our **HPC/Consumer** sample with a rally of 23% over the quarter, fuelled by an astonishing Q1 publication (+22% FX-n), FY guidance that was revised up and a healthy global sporting goods market. **Groupe SEB** increased by 20% following better-than-expected Q1 results but also after the game-changing acquisition of WMF Group that was announced at the end of May.

Food & Beverages: In Q2, our Food & Beverage stocks rose 6.9% vs the DJ Stoxx as investors favoured their defensive profile. The best performers were Rémy Cointreau (+19% vs DJ Stoxx) which guided for a return to growth in China in 2016/17 and Diageo (+14% vs DJ Stoxx), which benefited from the weaker GBP. Given their defensive qualities (high cash generation, steady top line growth, self-help restructuring and efficiency improvements) share prices of the brewers held up very well over the quarter. AB InBev was the best performer over the quarter with a 7.6% increase in the share price outperforming the DJ Stoxx by 10.1% and Royal Unibrew was the worst performer with a 5.7% decline.

Retail: Over the last quarter, newsflow was rather poor in food retailing. There was no good news, except for Dia (+9%) whose message turned out to be more positive following its latest publication (hence our new Buy rating), which would have allowed us to amend our conviction that the sector is not attractive, both in absolute (16x average PE for 2017 and anorexic growth vs 14x 10Y average) and relative terms (~20% premium vs stoxx 600). On the contrary, the profit warning from TESCO (mid-April) along with CARREFOUR being punished by the market (-9% in absolute terms in Q2) for not having a clear post-turnaround commercial strategy, does not allow us to amend our view. At this stage, we also believe that the upcoming trading statements will be rather febrile.

WHAT WE SEE FOR Q3 2016

Concerning **Luxury groups**, we remain cautious on Q2 and H1 results publications. Actually, after no organic sales growth in Q1, we argue that the trend should be almost the same despite a likely improvement in Asia-Pacific, thanks to a better Mainland China (8 to 10% of sales) and Korea, but not yet in Hong Kong (8% of luxury sales), but clearly affected in Western Europe as tourists are still lacking. For instance, in April Duty Free shopping by Chinese clientele in Europe fell 18% and in Q1 the number of Japanese tourists in Paris was down around 50% and we do not expect any clear improvement in Q2. France accounts for 7% of luxury sales (and 5% in Paris alone). Moreover, comps in Q2 were slightly more demanding than in Q1. Actually, for LVMH, we expect 2-3% organic sales growth in Q2 following +3% in Q1 (no growth at F&L). LVMH's H1 EBIT margin should be slightly under pressure (-30bp of which -70bp for F&L). Concerning Kering, for Q2 we anticipate 4% organic sales growth including +1% for the Luxury division. Gucci brand sales are expected to grow slightly in Q2 (+1.5%) after +3% in Q1

Companies covered

AB INBEV	NEUTRAL	EUR109
Last Price	EUR115.85	Market Cap. EUR186,315m
CAMPARI	BUY	EUR9.7
Last Price	EUR8.81	Market Cap. EUR5,117m
CARLSBERG	NEUTRAL	DKK600
Last Price	DKK632.5	Market Cap. DKK96,711m
DANONE	BUY	EUR71
Last Price	EUR63.83	Market Cap. EUR41,866m
DIAGEO	NEUTRAL	1840p
Last Price	2139.5p	Market Cap. GBP53,861m
HEINEKEN	BUY	EUR83
Last Price	EUR83.38	Market Cap. EUR48,027m
MOLSON COORS	NEUTRAL	
Last Price	USD100.44	Market Cap. USD21,562m
NESTLE	BUY	CHF80
Last Price	EUR75.6	Market Cap. EUR235,279m
PERNOD RICARD	NEUTRAL	EUR107
Last Price	EUR99.68	Market Cap. EUR26,457m
REMY COINTREAU	BUY	EUR80
Last Price	EUR77.45	Market Cap. EUR3,775m
ROYAL UNIBREW	BUY	DKK325
Last Price	DKK295.8	Market Cap. DKK16,003m
SABMILLER	NEUTRAL	4400p
Last Price	4353p	Market Cap. GBP70,612m
UNILEVER	NEUTRAL	EUR43
Last Price	EUR42.14	Market Cap. EUR121,263m
UNILEVER Plc	NEUTRAL	3350p
Last Price	3678.5p	Market Cap. GBP47,212m

Companies covered

AHOLD	BUY	EUR22
Last Price	EUR20.465	Market Cap. EUR17,075m
CARREFOUR	BUY	EUR30
Last Price	EUR22.02	Market Cap. EUR16,652m
CASINO GUICHARD	BUY	EUR57
Last Price	EUR48.55	Market Cap. EUR5,462m
DELHAIZE	BUY	EUR104.5
Last Price	EUR96.88	Market Cap. EUR10,132m
DIA	BUY	EUR6.5
Last Price	EUR5.15	Market Cap. EUR3,206m
JERONIMO MARTINS	NEUTRAL	EUR13.5
Last Price	EUR14.27	Market Cap. EUR8,980m
METRO AG	SELL	EUR26
Last Price	EUR26.84	Market Cap. EUR8,699m
RALLYE	BUY	EUR18.5
Last Price	EUR15.08	Market Cap. EUR736m
TESCO	SELL	166p
Last Price	175.75p	Market Cap. GBP14,366m

despite much more demanding comparison (-8% in Q1 15 but +4.6% in Q2 15). Gucci brand recovery is underway despite a challenging environment. Furthermore, Puma should achieve a very significant sales increase (close to 10%) partly thanks to the positive EUR impact.

Food retail: We continue to think the commercial equation of retailers remains somewhat weakened in Continental Europe and in the UK, in view of: **1/** apathetic demographical factors, **2/** the de(dis)inflationary backdrop and **3/** the strong penetration of modern retail. In this context, it has become challenging for retailers to generate a sufficient LFL growth to cover natural cost inflation, amortise their fixed costs base and increase their cash margin.

Food & Beverages. Despite a tough trading environment with weak pricing power and pressure on volumes in emerging countries, food companies should report solid organic sales growth in Q2 partly thanks to easy comps. We are also confident in the reporting of spirits groups as momentum remains healthy in the US and China is improving on the back of a return to normal in private consumption.

Consumer Groups. Play the "feel good" factor... Indeed, given this volatile environment, we believe that investors will continue to favour groups that enjoy old momentum (=> hence a low risk of disappointing H1 results) such as **adidas Group, Essilor** or **Groupe SEB**. As mentioned above, we remain cautious ahead of **Luxtottica's** H1 results given poor current trading and significant capex investments to launch the 2018 Strategic Plan although the stock is currently at a very attractive entry point.

CONCLUSIONS AND TOP PICKS

We have removed Essilor... Let's be clear, our decision has nothing to do with potential concerns on H1 results or on the group's sound fundamentals but the decision to remove Essilor is based on two main reasons: **(i)** securing the capital gain following a very satisfying quarter (+9%) and **(ii)** playing a more aggressive scenario with more "cyclical stocks" and more attractive upside. Fundamentally, Essilor remains one of our favourite buy ideas for a MT/LT investment horizon.

... and added Moncler. In a context of a subdued organic growth in our luxury goods sample, Moncler clearly outpaces its peers as we anticipate 13% FX-n growth for Q2. Moncler's strong brand appeal enables it to outperform the fragmented and dynamic outerwear segment (~5% growth per year) and its selective retail expansion limits the risks of overexposure (= brand dilution) despite an expected 10% sales CAGR during 2015-18. The group should maintain its high margin level (34.1% adj. EBITDA margin in 2015e) thanks to its "Retail Excellence" (one of the highest sales/m² ratio in the sector with EUR30k/m², focus on SSSG, limited store size formats, etc.) and improve its FCF generation in the MT. The stock proved to be more resilient than our luxury sample in Q2 (flat vs. -11%) but was affected by Brexit (-14% over 24-27th June). Any easing of these concerns implies attractive rebound potential given these strong fundamentals, this is why we add Moncler in our Top Picks list.

Food retailing: Ahold (Buy, FV: EUR22): In this apathetic environment and post Brexit, we continue to favour AHOLD (Buy, FV @EUR22) which boasts a very defensive profile and attractive comparative edges for scalded investors: **1/** strong exposure to the US (~60% of EBIT) and no exposure to the UK, **2/** best FCF generation within the panel (~7% FCF yield vs ~3.5% on average for the sector); **3/** the upcoming merger with Delhaize (mid-July) that will allow the Dutch retailer to share its costs with the Belgian banner; **4/** as a general rule, very strong momentum. As such, we believe that Ahold deserves to remain on BG's top pick list.

Food & Beverages: Despite the upcoming good reporting season, we have not chosen a top pick as many of our stocks are trading at an historical high and we have limited upside.

Luxury goods: We add **LVMH (Buy- FV: EUR170)**. Despite a clearly challenging environment for luxury goods industry (lack of tourists in Europe) and a potentially risky H1 publication (no sales growth at LV in Q2, likely Fashion & Leather margin erosion including for LV), we have added LVMH in our Q3 Top Picks given i/ attractive valuation (10.6x 16 EV/EBIT or 8% discount vs peers) and ii/ recent underperformance (-9% vs DJ Stoxx on 3m). Actually, we argue that poor expectations for H1 are already, at least partly, taken into account by investors, hence the current share price that dropped 1% on last month vs +3% for our luxury stocks sample average. Furthermore, we are convinced that other divisions such as W&S, P&C and W&J should report better trends that could offset potential disappointments at F&L.

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