

Luxtottica

Price EUR42.41

Recent trends confirm our scenario for H2 16

Fair Value EUR54 (+27%)

NEUTRAL

Bloomberg	LUX IM
Reuters	LUX.MI
12-month High / Low (EUR)	65.6 / 42.3
Market Cap (EUR)	20,522
Ev (BG Estimates) (EUR)	21,286
Avg. 6m daily volume (000)	884.3
3y EPS CAGR	10.0%

In Q2 Luxtottica's own initiatives (MAP policy at Ray-Ban, direct go-to-market approach in mainland China, etc.) proved to be more harmful than expected, this headwind being exacerbated by a challenging macro environment. Although the Group's actions will still weigh in H2, we understand that the end of the summer showed that some drivers could help LUX to post a slight and sequential acceleration throughout H2 (+3%e vs. +1.6% in H1) to match FY guidance.

ANALYSIS

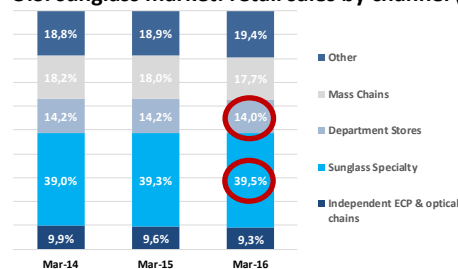
- MAP policy at Ray-Ban in North America: too early to expect the tipping point in the short term.** Overall, Ray-Ban grew at a low-single-digit rate, but the U.S sun business declined by ~5%e mainly due to the implementation of the "Minimum Advertised Price" policy, which had a direct impact on online sales (-50% in Q2). Given its recent implementation in July, the Group cannot communicate on a precise tipping point in the ST. Our forecast factors in the same negative impact as in Q2, as the weight of sun within the category mix should be lower throughout the remainder of the year (Rx remains buoyant).
- North America: where the sun did not shine in Q2.** Besides this necessary initiative at Ray-Ban, Oakley was affected by the **complicated sport sunglass channel**, as highlighted by the bankruptcy of a leading sporting goods retailer, Sports Authority (450 stores). Other brands such as Costa (Essilor) and Smith (Safilo) have also experienced these challenging market conditions, aggravated by a poor sun season. For H2, we expect a consolidation (U.S. Wholesale: flat vs. -1.7% FX-n) thanks to more favourable weather conditions over July and August and easier comparison bases, whilst Oakley will reorganize its Apparel-Footwear-Accessories business.
- Macy's is closing 100 stores in 2017; not a major issue for Luxtottica.** There are two agreements currently under way between Macy's and LUX: (i) **Sunglass Hut** (signed in 2009) has approx. 670 locations within Macy's stores and (ii) **LensCrafters** (signed in November 2015) will open up to 500 stores by 2018, of which around 80 should be opened this year. Macy's has not specified the 100 branches that will close but, in our view, this decision should only marginally affect some SGH corners. On our estimates, **SGH @ Macy's accounts for ~25% of SGH US and not more than 5% of total U.S. Retail**. Moreover, the future CEO of Macy's next year Jeff Gennette repeated several times that key collaborations such as Apple, LC or SGH were key in Macy's plans to offer an expanded assortment and new customer experiences. As shown in the graph below, department stores and sunglass specialty channels continued to gain market share over 2014-16.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.5%	-7.3%	-16.2%	-29.8%
Consumer Gds	-2.6%	2.8%	2.2%	-2.2%
DJ Stoxx 600	-1.1%	2.8%	0.0%	-6.4%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	8,837	9,135	9,633	10,207
% change		3.4%	5.5%	6.0%
EBITDA	1,853	1,896	2,135	2,305
EBIT	1,376	1,388	1,600	1,738
% change		0.9%	15.2%	8.6%
Net income	804.1	826.7	977.6	1,072
% change		2.8%	18.3%	9.7%

	2015	2016e	2017e	2018e
Operating margin	15.6	15.2	16.6	17.0
Net margin	9.1	9.1	10.1	10.5
ROE	14.6	14.1	15.5	15.9
ROCE	12.0	12.0	13.9	15.3
Gearing	18.2	13.0	6.0	-2.7

(€)	2015	2016e	2017e	2018e
EPS	1.68	1.72	2.04	2.23
% change	-	2.7%	18.3%	9.7%
P/E	25.3x	24.6x	20.8x	19.0x
FCF yield (%)	3.6%	3.9%	5.0%	6.1%
Dividends (€)	0.89	1.00	1.10	1.22
Div yield (%)	2.1%	2.4%	2.6%	2.9%
EV/Sales	2.4x	2.3x	2.2x	2.0x
EV/EBITDA	11.6x	11.2x	9.8x	8.8x
EV/EBIT	15.6x	15.3x	13.1x	11.7x

U.S. sunglass market: retail sales by channel (12m ending March):

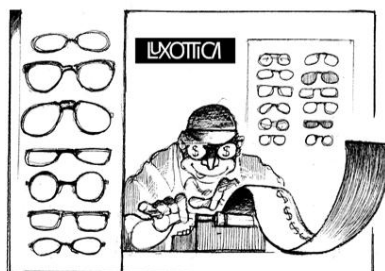
Source: VisionWatch

VALUATION

- Slight acceleration in H2: first step towards a gradual rerating?** Whilst we expect these initiatives to remain a drag on performance, July and August seemed to confirm that LUX could benefit from three catalysts to achieve a slight acceleration over H2 (+3%e) and meet FY guidance (BG: +2.5%e vs. guidance of +2-3%): **1/** more favourable weather conditions across the U.S and Europe, **2/** the positive contribution from the opening of LensCrafters and Target Optical locations (+80 and +40 DOS respectively) and **3/** a less demanding comparison base (H2 15: +4.1% vs. +6.9% in H1).

NEXT CATALYSTS

- Luxtottica will release Q3 16 Sales on 24th October. [Click here to download document](#)



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