

Sector View

Consumer

Q4 2016 Top Picks: we remove Ahold and add Moncler, Hermès, Carrefour and Remy Cointreau

LOOKING BACK ON Q3 2016

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	-1.3%	7.7%	4.1%	1.8%
DJ Stoxx 600	-1.0%	10.2%	1.5%	-7.0%

*Stoxx Sector Indices

Companies covered

Company	Rating	Market Cap.
ADIDAS GROUP	NEUTRAL	EUR136
Last Price	EUR152,3	Market Cap. EUR31,864m
BEIERSDORF	NEUTRAL	EUR80
Last Price	EUR84,143	Market Cap. EUR19,084m
BIC	NEUTRAL	EUR123
Last Price	EUR130,75	Market Cap. EUR6,267m
BURBERRY	NEUTRAL	1200p
Last Price	1403p	Market Cap. GBP6,211m
CHRISTIAN DIOR	BUY	EUR175
Last Price	EUR158,9	Market Cap. EUR28,876m
ESSILOR	BUY	EUR130
Last Price	EUR116,55	Market Cap. EUR25,419m
GRANDVISION	BUY	EUR28
Last Price	EUR25,065	Market Cap. EUR6,378m
GROUPE SEB	BUY	EUR132
Last Price	EUR124,4	Market Cap. EUR6,241m
HERMES Intl	BUY	EUR370
Last Price	EUR362,149	Market Cap. EUR38,232m
HUGO BOSS	NEUTRAL	EUR74
Last Price	EUR49,18	Market Cap. EUR3,462m
KERING	BUY	EUR185
Last Price	EUR178,95	Market Cap. EUR22,596m
L'OREAL	BUY	EUR177
Last Price	EUR167,55	Market Cap. EUR93,828m
LUXOTTICA	NEUTRAL	EUR54
Last Price	EUR44,39	Market Cap. EUR21,480m
LVMH	BUY	EUR171
Last Price	EUR151,85	Market Cap. EUR77,100m
MONCLER	BUY	EUR17,5
Last Price	EUR14,98	Market Cap. EUR3,748m
PRADA	NEUTRAL	HKD31
Last Price	EUR26,6	Market Cap. EUR68,065m
RICHEMONT	NEUTRAL	CHF63
Last Price	CHF58,75	Market Cap. CHF32,900m
SAFILO	NEUTRAL	EUR11
Last Price	EUR8,54	Market Cap. EUR535m
SALVATORE FERRAGAMO	BUY	EUR23
Last Price	EUR22,59	Market Cap. EUR3,813m
THE SWATCH GROUP	SELL	CHF270
Last Price	CHF272,4	Market Cap. CHF15,068m
TOD'S GROUP	SELL	EUR53
Last Price	EUR46,62	Market Cap. EUR1,543m

Our **Consumer** "Top Picks" encompass all our global consumer franchises: **Luxury, Consumer goods, Retail, Spirits & Brewers and Food**. In Q3, our global consumer sample was up slightly (+5%) but again with a mixed situation with +4% for our luxury goods sample while the HPC and consumer goods segments were better oriented (respectively +7% and +8%) as was food-beverages (+5%). In all, retail stocks were also well oriented (+4%).

Luxury goods stocks rebounded by 4% (-11% in Q2) on top of challenging market trends (fewer tourist flows in Europe, softness in the US and Japan, weak performance in H-K), only partly offset by a sequential improvement in MC. This performance highlights the fact that investors are more and more mature. Among our sample, the best performer was **Kering** (+18%) thanks to the rebound of **Gucci** (sales up 7.4% in Q2) despite demanding comps. The rejuvenation of the brand is clearly a success (new collections accounted for 70% of Gucci sales in Q2). **Hermès** also fared well (+9%) despite withdrawing its 8% MT sales growth target. **Swatch group** (-6%) and **Tod's** (-12%) were again, but unsurprisingly, the worst luxury sector performers. Meanwhile, the **Moncler** share price increased by 4% in Q3 (+18% ytd) on the back of solid top line momentum in H1 (+17% FX-n), especially in difficult markets such as Asia-Pacific (+30%) and North America (+20%), which account respectively for 34% and 15% of group sales.

With a 26% rally over Q3, **Safilo** was the best-performing stock in our **Optical & Eyewear sample** thanks to better-than-expected Q2 results and positive recent newsflow (early renewal of Max Mara, new licensing agreement with Moschino). Our cautiousness is explained by the lack of traction by the proprietary brand portfolio and the Gucci transition. **GrandVision** was up a slight 4% despite solid Q2 results, but we still consider it as the safest choice within the sector combined with attractive upside potential. After two successive quarters of outperformance, the **Essilor** share remained flat, offsetting some profit-taking moves after the LFL growth miss in Q2 (+3.2% vs. +5%e). Momentum should pick up again in H2 and any share price weakness should be viewed as a good entry point for a MT-LT investment horizon. Last but not least, **Luxottica** lost 6% as the group continued to suffer from its initiatives, but H2 should be marked by a gradual acceleration, as highlighted by the current trading.

Among the **HPC/Consumer goods** stocks, we highlight the amazing performance by **adidas Group** (+25%, +72% ytd!) and **Groupe SEB** (+12%, +33% ytd), the latter being supported by the largest acquisition in its history (WMF) and H1 results that topped expectations. **BIC** increased by 4%, driven by a better-than-expected margin performance in Q2.

Food & Beverages: Spirits posted a good performance. Campari was the winner, up 8.4%. The group continued to benefit from its good portfolio positioning and, at the beginning of August, published H1 results which were pretty solid and above market expectations. Food stocks were sluggish as the sector is affected by continued pressure on prices and the deterioration in China. All the main brewers were weak during the third quarter with AB InBev and Carlsberg down 1% and Heineken down 6%. Not only were they fully valued at the start of the quarter, but also the trends that the companies have been highlighting suggest a difficult Q3 results season, driven by tough comparables in WE. At Carlsberg, WE represents about half of operating profits and at Heineken one quarter (and at AB InBev it is less than 5%). But Heineken not only has tough comps in WE. In Q3 2015, the group delivered organic sales growth of 7.5%, driven by levels of 7% in WE, 7.5% in Africa and 12% in Americas. Against such a tough comps, Q3 of this year has to disappoint, especially in WE, where the weather has been far less good than last year.

Food Retail: Dia (+17%) was the best performer in the food retail segment and Casino the worst (-9%). The relationship between the top line (declining LFL rates) and the bottom line (growing margin rate) of Dia in Iberia has long appeared unhealthy. But finally, the ~30bp estimated decline in Q2 underlying margin in Iberia was not interpreted as a margin restatement, while the relationship between the top line (+2.9% LFL) and the bottom line looked much healthier to the market. Hence the relief... As far as Casino is concerned, some operators started undertaking a short read-across between Dia and Casino, arguing that the transfer of FP/LP stores to franchise has no other goal than to boost margin at the expense of pressured franchises. The same catchphrase was used by short sellers against Dia...

WHAT WE SEE FOR Q4 2016

Luxury goods: We do not expect any recovery in the Q3 performance versus Q2 (around 0% organic growth), given tough conditions in Europe and especially in France, due to significantly lower tourist flows following the Nice attacks last July (occupancy rate for Paris Hotels was 30% lower and even worse for 4 and 5* hotels), despite some clear improvement in Mainland China even if the situation

Companies covered

AB INBEV	NEUTRAL	EUR109
Last Price	EUR116.15	Market Cap. EUR186,797m
CAMPARI	BUY	EUR10,5
Last Price	EUR9.92	Market Cap. EUR5,762m
CARLSBERG	SELL	DKK600
Last Price	DKK628.5	Market Cap. DKK96,084m
DANONE	NEUTRAL	EUR65
Last Price	EUR65.55	Market Cap. EUR42,994m
DIAGEO	NEUTRAL	2100p
Last Price	2211p	Market Cap. GBP55,639m
HEINEKEN	BUY	EUR88
Last Price	EUR77.89	Market Cap. EUR44,865m
MOLSON COORS	BUY	
Last Price	USD104.26	Market Cap. USD22,393m
NESTLE	BUY	CHF83
Last Price	CHF76.1	Market Cap. CHF236,835m
PERNOD RICARD	NEUTRAL	EUR112
Last Price	EUR105.8	Market Cap. EUR28,082m
REMY COINTREAU	BUY	EUR84
Last Price	EUR76.43	Market Cap. EUR3,725m
ROYAL UNIBREW	BUY	DKK325
Last Price	DKK321.3	Market Cap. DKK17,382m
SABMILLER	NEUTRAL	4400p
Last Price	4439p	Market Cap. GBP72,106m
UNILEVER	NEUTRAL	EUR43
Last Price	EUR40.6	Market Cap. EUR116,595m
UNILEVER Plc	NEUTRAL	3590p
Last Price	3599.5p	Market Cap. GBP46,198m

Companies covered

AHOLD DELHAIZE	BUY	EUR25,8
Last Price	EUR20.52	Market Cap. EUR26,292m
CARREFOUR	BUY	EUR30
Last Price	EUR23.015	Market Cap. EUR17,405m
CASINO GUICHARD	BUY	EUR57
Last Price	EUR43.265	Market Cap. EUR4,845m
DELHAIZE	BUY	EUR104,5
Last Price	EUR102.8	Market Cap. EUR10,751m
DIA	BUY	EUR6,5
Last Price	EUR5.621	Market Cap. EUR3,499m
JERONIMO MARTINS	NEUTRAL	EUR13,5
Last Price	EUR15.33	Market Cap. EUR9,647m
METRO AG	SELL	EUR26
Last Price	EUR26.59	Market Cap. EUR8,618m
RALLYE	BUY	EUR18,5
Last Price	EUR14.62	Market Cap. EUR713m
TESCO	SELL	166p
Last Price	176.45p	Market Cap. GBP14,423m

remains quite tough in Hong Kong and in Macau. We think that in Q3 and in Q4, **Hermès** (success of leather goods collection and lower weight of tourists than peers on France sales) and **Gucci** (undemanding comps and higher weight of new Alessandro collections) should be able to outperform its main peers. We are more cautious on Louis Vuitton which is highly dependent of tourists flows for its French business that explains a double digit sales decline in Paris in Q2 and +1/2% organic sales growth in Q2.

Consumer: The “feel good” factor still sought by investors. There is almost no rotation within this sector, as investors continue to favour groups with solid momentum/limited risks such as **adidas Group, Groupe SEB, Essilor or L’Oréal**. At this stage, the market is not willing to anticipate possible improvements at groups that struggled in H1 (i.e. **Hugo Boss, Luxottica**) although it fuelled the significant rebound of **Safilo** following the first positive results of painful actions implemented last year.

Food & Beverages: Food companies should be impacted by a strong deceleration in China. The slowdown in the food & beverage sector is significant and is a result of economic issues, reverse migration, change in channel dynamics and tough competition from local players. The Chinese infant nutrition market has been disrupted by new regulations which are inducing tough price competition, mainly in the mainstream and premium segments. In contrast, we expect spirits companies to post a solid set of results driven by continued good dynamism in the US and improving trends in China.

Food Retail: The food retail sector remains penalised by deflation. This trend exacerbates a fundamental issue which is the dilution of growth in a fixed costs industry (sluggish demography, deflation and high penetration rate of modern food retail). We do not foresee any reversing trend: **1/** deflation is still there in several major markets while **2/** there is no obvious thinning on the horizon in emerging markets. In this context, positions could be set in favour of “safe heavens” (i.e. **Ahold Delhaize**), which could trigger an opportunity cost.

CONCLUSIONS AND TOP PICKS

Let’s try again with Moncler (Buy – FV: EUR17.5). We had removed Moncler following the Nice terror attacks (July 14th) but admittedly the share performed quite well over the summer. As stated above, one of the main downside risks for Q4 would be the slowdown in tourist flows to Europe and Japan (safety issues, less favourable FX rates). Note that management specified that activity with local customers was robust, offsetting lower tourist flows in France and these positive trends should continue in H2. We continue to appreciate the Italian brand's strong momentum (+17% FX-n in H1), driven by its strong brand equity and legitimacy to grow market share in a dynamic outerwear segment. We expect a CAGR in 2015-18e sales of 10.6% and the group should maintain its high margin level (33.5% adj. EBITDA margin in 2016e) thanks to its “Retail Excellence” (one of the highest sales/m² ratio in the sector with EUR30k/m², focus on SSSG). H2 accounts for ~66% of FY sales and ~80% of FY adj. EBITDA.

We remove **Ahold Delhaize (Buy-FV: EUR25.8)** since we believe that the group could face issues in Q3, bearing in mind the profit warning from Supervalu beginning of September and the upcoming teach-in (beginning of October) during which management will present pro-forma accounts (we fear this kind of exercise as 1+1 does not always equal 2!).

We add **Carrefour (Buy-FV: EUR30)**, which could positively surprise. As a reminder, the French hypermarket's market share was down 20bp in August (a performance sanctioned by the market). We believe that future market shares could be better thanks to a very aggressive promotional campaign undertaken by Carrefour in September, which left Leclerc without obvious reaction. Admittedly, this is a bet, but we were definitely impressed by the magnitude of promotions. Given the valuation (2017 P/E of 12,5x), we believe Carrefour deserves to replace Ahold as a Top Pick.

We add **Rémy Cointreau (Buy-FV: EUR84)**. We expect sales to rise 3% in Q2 16/17, strongly improving vs Q1 (flat). China should return to positive territory driven by a normalisation of private consumption and the lack of negative technical effect (destocking last quarter). The US should continue to grow strongly on the back of the success of brown spirits. In addition, the group's premiumisation strategy is working so far as the weight of exceptional spirits (retail price higher than USD50) rose 400bps to 49% in 2015/16.

We add **Hermès (Buy-FV: EUR370)**. We take the opportunity of the recent share price decline to add RMS as we are convinced that the group will continue to outperform its luxury peers, including in Q3, as it is least affected by lower tourist's flows. Furthermore, management has maintained its MT target of 8% sales growth on internal purpose. It has lost 10% from the highest summer share price.

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