28th October 2016

Luxury & Consumer Goods

Grandvision

Price EUR21.43

ST drivers to hope for a rebound in Q4 within management's LT vision

Fair Value EUR27 vs. EUR28 (+26%) **BUY**

Bloomberg	GVNV NA
Reuters	GVNV AS
12-month High / Low (EUR)	27.7 / 21.4
Market Cap (EUR)	5,451
Ev (BG Estimates) (EUR)	6,225
Avg. 6m daily volume (000)	79.30
3y EPS CAGR	8.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-14.5%	-11.4%	-10.7%	-22.5%
Consumer Gds	-2.1%	-2.8%	-0.7%	-3.7%
DJ Stoxx 600	0.4%	-0.3%	-1.9%	-6.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,205	3,321	3,489	3,657
% change		*3.6%*	*5.1%*	*4.8%*
EBITDA	512	533	573	613
EBIT	353.2	367.9	404.4	435.9
% change		*4.2%*	*9.9%*	*7.8%*
Net income	212.7	227.9	254.8	278.5
% change		*7.1%*	*11.8%*	*9.3%*

	2015	2016e	2017e	2018e
Operating margin	11.0	11.1	11.6	11.9
Net margin	6.6	6.9	7.3	7.6
ROE	27.3	24.0	22.7	21.8
ROCE	18.7	19.4	21.1	22.9
Gearing	112.9	77.0	51.7	32.9

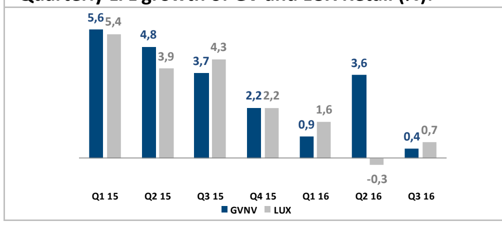
(EUR)	2015	2016e	2017e	2018e
EPS	0.85	0.91	1.00	1.09
% change	-	*7.2%*	*9.8%*	*9.3%*
P/E	25.2x	23.5x	21.4x	19.6x
FCF yield (%)	4.3%	4.6%	5.1%	5.8%
Dividends (EUR)	0.14	0.23	0.36	0.45
Div yield (%)	0.7%	1.1%	1.7%	2.1%
EV/Sales	2.0x	1.9x	1.7x	1.6x
EV/EBITDA	12.5x	11.7x	10.6x	9.6x
EV/EBIT	18.1x	16.9x	15.0x	13.5x

In our view, yesterday's miss on Q3 results alone does not justify the significant correction of the share price yesterday. We believe it was exacerbated by the tiny free float (20% for a market cap of EUR6.1bn prior to publication) and by current question marks about the ST momentum in the optical industry, as highlighted by Essilor post-Q3 and by Luxottica earlier this year until its more reassuring Q3 publication. We nudge down our FY16 estimates by ~4% (=> new FV of EUR27 vs. EUR28), but Buy recommendation maintained as GV can rely on self-help drivers to regain traction as early as Q4.

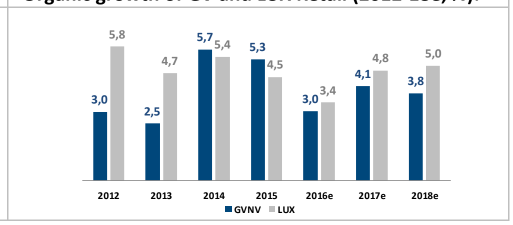
ANALYSIS

- **Q3: Why this sudden slowdown in Europe?** Like in the US, Europe's optical market decelerated over the summer (~0-1% on average), but the Group reckoned that its weak LFL growth (+0.4% vs. +2.3% in H1) was mostly due company-specific headwinds (technical and timing factors) rather than more adverse market conditions: **(i)** challenging comps in key markets such as **France**, the **UK** (respectively ~20% and ~12% of total sales, they both grew in the mid single-digits last year) or **Finland** (~3% of total sales) and **(ii)** a difficult integration process in **Italy** ("*Avanzi*" and"*Optissimo*") that took longer-than-expected where much energy and resources were spent on rebranding the stores, building the new management team and revamping the commercial proposition.
- **Self-help measures to regain traction as early as Q4.** Indeed, even if the optical market does not rebound by the end of the year, GrandVision can count on three drivers: **(i) step-up promotional activity** in key markets (France, Benelux, Germany, etc…) to drive traffic **(ii) the integration of the Italian business** (~5% of total sales) is now completed, the new management team is in place and an gradual recovery is expected and **(iii)** the Group's **comparison base is easier** (+2.2% LFL in Q4 15 vs. +3.7% in Q3 and +4.7% in 9M).
- **We reduce our FY16 estimates by 4%.** Following the weaker-than-expected comparable growth in Q3 and to take into account more adverse market conditions across Europe, we are adjusting our FY16 **comparable growth** to 1.8% from 3% previously, implying +2.3% in Q4. As for the **adj. EBITDA**, the disappointing Q3 performance as well as a lower-than-expected operating leverage, we nudge down our FY16 estimates by 4%. On our estimates, the margin should improve 10bp to 16.1% (vs. flat margin at 16% in 9M).
- For **2017 & 2018**, we leave our assumptions unchanged as we are already in the lower end of the MT guidance that was reiterated yesterday: FX-n growth of 5.1% and 4.8% respectively (target: "at least +5%") and adj. EBITDA increase of 7.5% and 7% respectively (objective: high single-digit adj. EBITDA growth). Although LUX Retail and GV have different geographical footprints, it is interesting to note that the timing of the slowdown was similar (*see lhs graph*), but we anticipate an acceleration for both groups (LUX Retail benefiting from a higher space growth and a higher exposure to the sun specialty channel). Both have a proven MT growth strategy in our view.

Quarterly LFL growth of GV and LUX Retail (%):



Organic growth of GV and LUX Retail (2012-18e, %):



VALUATION

- Whilst GV's growth strategy is not called into question, the Q3 miss led to a significant correction amid market nervousness. The above-mentioned self-help measures should ease some of the concerns about the ST momentum. Our new FV is EUR27 vs. EUR28 but Buy recommendation confirmed. At 15x 2017e EV/EBIT, the stock now trades at a 2017e PEG of 2.2x.

NEXT CATALYSTS

- FY16 Results will be reported on 20th February 2017. Click here to download

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