

22nd November 2016

Luxury & Consumer Goods

Essilor

Price EUR101.80

FY 2016 outlook revised down again due to the US market

Fair Value Under Review

BUY

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 100.3
Market Cap (EURm)	22,202
Avg. 6m daily volume (000)	471.2

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.0%	-9.2%	-11.1%	-11.5%
Consumer Gds	-4.3%	-6.0%	-2.5%	-7.0%
DJ Stoxx 600	-1.2%	0.0%	0.7%	-7.0%

	2015	2016e	2017e	2018e
P/E	28.5x	25.9x	23.7x	21.5x
Div yield (%)	1.1%	1.3%	3.1%	4.1%

ANALYSIS

- This morning, Essilor has again revised down its FY LFL growth guidance, **which is now expected to be “around 3.5%” vs. our estimate for 3.8%**, and we assume that the CS expectations were also close to our forecast.
- According to the group, this third downward revision is again **due to lingering weakness in the US optical market (~44% of Lenses & Optical Instrument sales)** that has been negatively affecting Essilor since Q2 and irrespective of some one-off headwinds (Transitions, loss of two specific contracts). We understand that poor trends continued in October.

As a reminder, during the Q3 sales conference call, Essilor’s management struggled to explain this unexpected slowdown in the prescription lens market (“wait-and-see” attitudes by consumers before the US elections?), on top of rather favourable macro indicators. Like other players in this industry, Essilor was caught by surprise as historically, there is a close correlation between macro and optical market trends.

- In a backdrop of weaker-than-expected LFL growth and the dilutive impact from M&A, **the contribution margin target was also adjusted to “around 18.5%” vs. “around 18.8%”,** implying a 30bp decline vs. 2018.

VALUATION

- Although Essilor continues to gain market share (even in the US: +1.3% LFL in Q3, +3% adjusted for Transitions and the loss of two very specific contracts vs. market slightly negative), its growth is mainly affected by an unexpected deceleration in the US market which should be flat this year after +3.5-4% last year.
- Pending our new forecasts to reflect this new FY outlook, we have put our FV “under review”.

NEXT CATALYSTS

- Essilor will report its FY 2016 results on 17th February 2017.

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