

Moncler

Price EUR15.25

As winter rolls around it's time to review Moncler

Fair Value EUR17,5 (+15%)

BUY-Top Picks

Bloomberg	MONC IM
Reuters	MONC.MI
12-month High / Low (EUR)	16.0 / 12.2
Market Cap (EURm)	3,815
Ev (BG Estimates) (EURm)	3,773
Avg. 6m daily volume (000)	898.5
3y EPS CAGR	10.9%

The Q3 publication on 9th November showed that Moncler maintained best-in-class execution, as shown by 10% FX-n top-line growth and signs of an acceleration at the beginning of this fourth quarter. This favourable momentum was not reflected in the recent share price performance (1M: -3.7%). We believe this was caused by: (i) a rotation within the luxury sector, (ii) mild weather across Europe and the US recently and (iii) some concerns ahead of the Italian constitutional referendum on 4th December. Notwithstanding these ST headwinds, we recommend taking advantage of the current attractive valuation (11.3x 2017e EV/EBIT, 12% discount vs. luxury sample excl. Hermès) to play significant MT growth opportunities. Buy recommendation and FV of EUR17.5 confirmed.

ANALYSIS

- Q3 growth was in line with expectations but still strong (+10%).** First of all, the performance in **wholesale** (+4% FX-n) is managed by the Group, which sends a limited number of products ahead of the winter peak season, and continues to reduce the number of wholesale doors (esp. in Italy). Sales in the **retail channel** increased 16% FX-n and the slowdown vs. H1 (+22%) was mainly explained by a lower contribution from new space (9M 2016: 20 net openings vs. 9M 2015 / H1 2016: +26 net openings vs. H1 2015) and more moderate LFL growth (+3%e vs. +5% in H1) given more challenging conditions in markets such as France, Belgium and Japan (slowdown in tourist flows).

However the right-hand chart below shows that in Q3 **Moncler achieved the second-highest LFL growth performance** (BG ests: +3%e), after Brunello Cucinelli (+4%) but ahead of Burberry, Hugo Boss and its other Italian peers (Ferragamo, Tod's and certainly Prada, which no longer reports quarterly growth). Management confirmed that the best-performing market was again Mainland China, followed by HK, SK, Europe (UK, Germany) and the Americas.

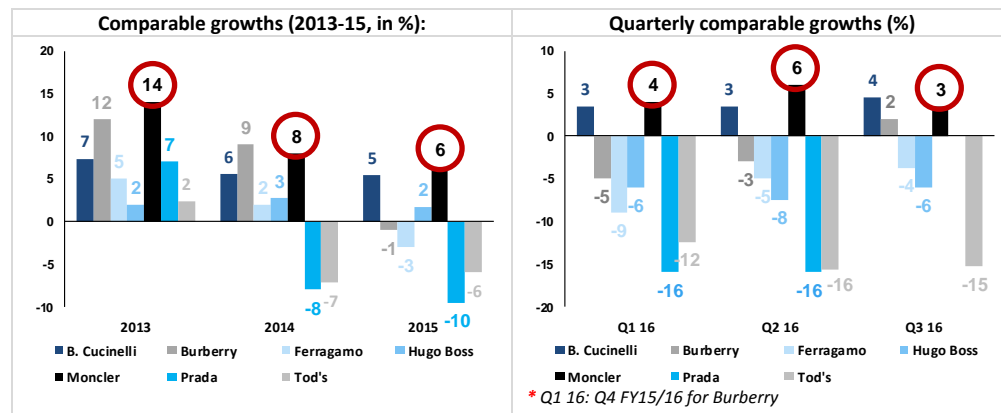
- Comparable growth in October and November has accelerated.** Indeed, Moncler had a robust start to Q4 on top of mild temperatures across North America and Europe but hopefully the cold weather is rolling into the north-eastern US. These strong trends bode well for Moncler as Q4 historically accounts for 34-35% of FY sales. We anticipate 4% LFL growth for 2016, implying +4-5% for Q4 alone.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.3%	-1.0%	1.7%	18.0%
Pers & H/H Gds	-3.5%	-5.8%	-2.9%	-3.3%
DJ Stoxx 600	-1.0%	0.2%	0.9%	-6.8%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	880.4	1,004	1,110	1,212
% change		14.1%	10.6%	9.2%
EBITDA	300	337	370	406
EBIT	252.7	284.4	314.7	346.6
% change		12.6%	10.7%	10.1%
Net income	163.8	185.7	207.7	230.1
% change		13.4%	11.8%	10.8%

	2015	2016e	2017e	2018e
Operating margin	28.7	28.3	28.3	28.6
Net margin	18.6	18.5	18.7	19.0
ROE	30.0	27.6	25.6	23.9
ROCE	40.9	43.1	45.3	48.2
Gearing	9.1	-6.3	-18.7	-28.8

(EUR)	2015	2016e	2017e	2018e
EPS	0.69	0.76	0.84	0.93
% change	-	11.5%	10.5%	10.6%
P/E	22.3x	20.0x	18.1x	16.3x
FCF yield (%)	3.4%	4.0%	4.7%	5.3%
Dividends (EUR)	0.14	0.17	0.21	0.23
Div yield (%)	0.9%	1.1%	1.4%	1.5%
EV/Sales	4.4x	3.8x	3.3x	2.9x
EV/EBITDA	12.9x	11.0x	9.8x	8.6x
EV/EBIT	15.3x	13.3x	11.3x	9.9x



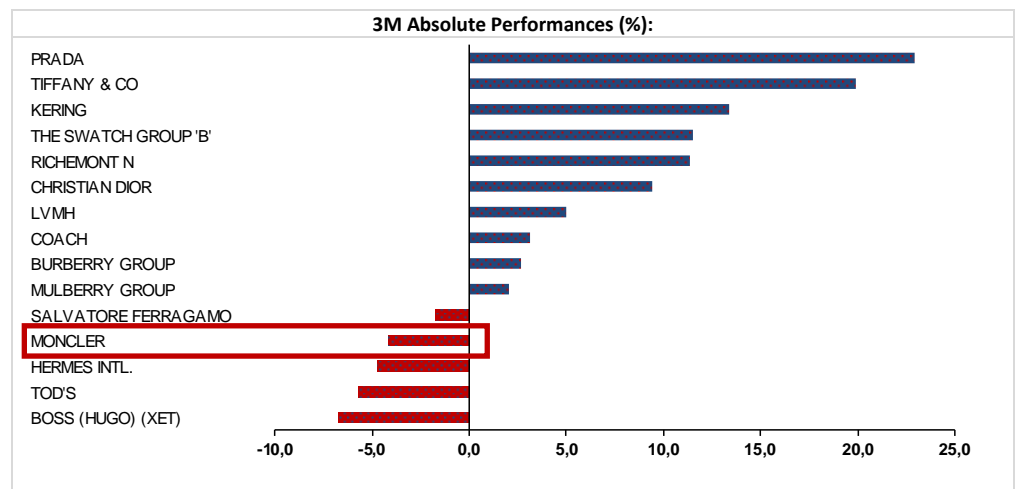
Source: Company Data, Bryan, Garnier & Co ests

- Retail Excellence delivers positive results.** While Moncler is opening two flagship stores this quarter (Seoul and Madison Ave in NY), reassuringly there is no cannibalisation from new stores and the group maintained the same sales density (~EUR30k/sqm) despite bigger stores and a growing presence of "new categories" (knitwear, shoes and accessories). As explained in our [feedback](#) from the London flagship store visit, these initiatives strengthen Moncler's legitimacy in the high-end segment and also play positively on retail KPIs (comparable growth, profitability).
- Selective retail expansion.** Management confirmed that 12 new locations were secured for next year and some strategic stores will be either extended (e.g.: Via Montenapoleone, Milan) or relocated (H-K: Harbour City in H-K that will be 3x bigger). Moncler remains upbeat about the **US wholesale channel** as it plans to open around 10 additional shop-in-shops in 2017. At this stage, the brand does not plan to increase further its number of flagship stores after three openings this year (London, Seoul and NYC) to a total of five flagship stores.

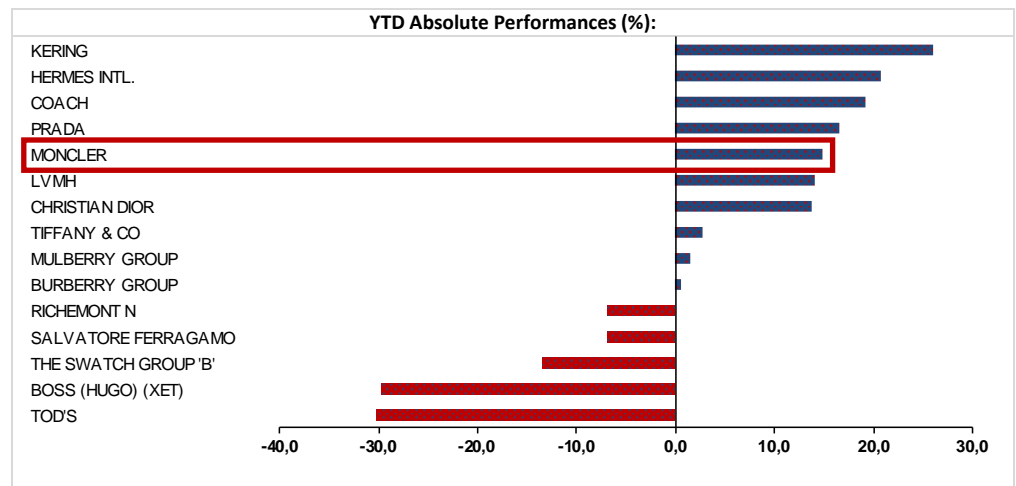
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VALUATION

- Admittedly, some investors fear a negative outcome at the upcoming **Italian referendum** (4th December) given Moncler's exposure to Italy (~14% of total sales) and its listing on Milan's Stock Exchange. In our view, the risk of a slowdown in its domestic market is limited if momentum in key regions such as Asia-Pacific (38% of sales) or Americas (16% of sales) remains buoyant. Moreover, our growth assumption for Italy over 2017-18 is modest (+2%e and +1%e respectively).
- Despite Eurazeo's partial exit in September (~15m shares or ~6% stake), Moncler was the best-performing stock in our luxury sample, as investors were reassured by its strong momentum compared with the other luxury groups. Following reassuring Q3 publications (LVMH, Kering) and current trading (Richemont, rebound in Greater China), we believe that Moncler shares suffered from a **rotation** within the sector, as highlighted by the 3M absolute performances below.
- At 11.3x 2017e EV/EBIT the stock trades at an attractive 12% discount to our luxury sample excl. Hermès, which is unmerited given stronger sales and earnings momentum over 2016-18.



Source: Datastream



Source: Datastream

NEXT CATALYSTS

- Moncler will report FY16 Results on 28th February 2017.

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