



## Consumer, Brands &amp; Retail

11th March 2019

## ESSILORLUXOTTICA

| Consumer, Brands & Retail  
| Optical & Eyewear

## BUY

Fair Value EUR128 vs. EUR132 (+26%)  
Share price EUR101.80  
EPS 3Y Cagr 5.1%

## A little bit more patience until September...

## Prudent FY19 sales outlook: +3.5-5% FX-n vs. +3.2% in FY18

Management pointed out that this target did not include any contribution from sales synergies but even if we strip them out, this FY guidance seems quite cautious in light of: (i) EL's robust year in 2018 (+5.1% FX-n o/w +4.6% LFL => highest LFL in three years), confirming the group's solid execution and healthy market trends, and (ii) LUX's objective to accelerate after +1.5% FX-n in FY18.

We have slightly nudged down our FY19 FX-n growth forecast (to 4.4%e from 5% initially), which includes a 6.4% FX-n for EI and +3% FX-n for LUX.

## FY19 earning guidance is also conservative

Once again, EL did not factor any synergies in to its FY op profit target (to increase 0.8-1.2x FX-n sales growth), which nevertheless, only implies limited operating leverage. Although the GM is expected to improve (product/price-mix, efficiency...), the two "groups" are still in investment mode at the opex level (digitalization, dilutive impact from M&A, growth drivers, etc.), which will again hamper margin improvement. Yet, it is worth noting that EL may benefit from a positive transactional FX effect (LUX) at least in H1. Against this FY objective, we have revised down our forecasts by -4%. Our FY adj. op income is set to increase in line with FX-n sales growth (guidance: 0.8-1.2x) and 1.4x sales including the contribution from synergies.

## MT synergy target could be revised upwards in our view

Obviously, we were not anticipating an aggressive start to the synergy plan (sales and cost synergies) this year given the short time period between the merger completion date and yesterday's publication. While our synergy assumptions remain below guidance (FY23: synergies EUR390m vs. MT guidance of EUR420-600m) as we still adopt a more conservative forecast with regard to sales synergies, we are convinced that EL could revise MT guidance upwards (at the CMD on 18th Sep?) given the upside potential in sales synergies (omnichannel, joint R&D, Rx sunglasses...) as well as on cost synergies (Rx lab optimisation, SG&A, efficiency gains...)

## No near-term catalysts but MT growth profile remains intact

Our new FV of EUR128 (vs. EUR132) stems from a downward revision to our FY19 forecasts. The market was disappointed by cautious FY19 guidance and the lack of incremental news on synergies (the latter was highlighted by many previews though), especially since the CMD will only be hosted in September. Pending that major milestone, any progress on the integration process (20 ongoing workstreams) will be scrutinized by investors, and may eventually reassure them on the crucial governance matter (the future CEO search process started in Jan as planned).

Beyond this prudent start, we remain convinced by EL's attractive MT growth profile as the new group is now better equipped to tackle growth opportunities (myopia, emerging markets, omnichannel approach), supported by a sound financial position.

## Market Data

Bloomberg / Reuters	EF FP/ESSI.PA
Market Cap.	EUR44,388m
E.V.	EUR49 056
Free Float	90,4
Avg. Daily volume (6m)	854.2
12m high / low	129.0 / 101.8
Ytd Perf.	-7.8%

(figures are for Essilor stand-alone)

EURm	12/17	12/18e	12/19e	12/20e
Sales	7,402	7,459	7,930	8,403
% Change		0.8%	6.3%	6.0%
EBITDA	1,797	1,700	1,745	1,858
% Change		-5.4%	2.7%	6.5%
EBIT	1,248	1,252	1,309	1,396
% Change		0.3%	4.5%	6.6%
Net Income	833.0	851.6	901.5	972.2
% Change		2.2%	5.9%	7.8%
ROE	0.13	0.12	0.11	0.11

	12/17	12/18e	12/19e	12/20e
EV/Sales	6.2x	6.1x	5.7x	5.3x
EV/EBITDA	25.6x	26.8x	25.9x	24.1x
EV/EBIT	36.9x	36.4x	34.5x	32.0x
EPS	3.85	3.91	4.14	4.46
% change		1.7%	5.9%	7.8%
P/E	26.5x	26.0x	24.6x	22.8x
Div Yield	1.5%	1.5%	1.6%	1.8%

Next Catalyst: Q1 2018 Sales on 7th May.

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