

# TACTICAL DERIVATIVES

## EQUITY DERIVATIVES FLOW RESEARCH

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### L.V.M.H. (NEUTRAL) – Sell the December 125 put

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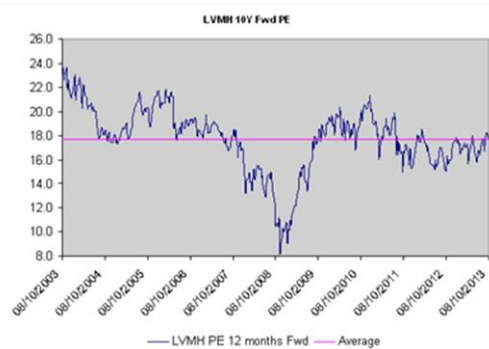
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#### “A 12m Fwd PE at 16 has been a buying level”

- Our research team recently downgraded LVMH to Neutral (vs. Buy):
- After a strong rise since it was added to our list of recommended stocks in April (+10%),
- And disappointing Q3 sales due notably to the performance of the Fashion & Leather Goods division.
- Our analyst has lowered his target price (€150 vs. €155) and his EPS estimates by -3% in the period 2013/2015e.
- Our analyst has noted that, since the end of 2009 an estimated level of 12-month PE has been a good indicator to take a buy position on the share. In his view, a reasonable estimate of the price corresponding to a Fwd PE of 16 would be between €125 and €128.
- The stock will detach an interim dividend of €1.2 on 28 November next.

#### Graphically : in the middle of a bullish channel

- the stock has been trading in a bullish channel since March 2011. Its sudden fall-off could lead it to the bottom of this channel, which currently lies at €120.



Sources: IBES/Datastream

#### Sector's peers comparison

Nom	3mV_100	3m skew_down	3m skew_up
NOKIA	35.39	3%	1%
STMICROELECTRONICS	33.96	4%	1%
SONY	32.80	3%	1%
PANASONIC CORP.	32.76	3%	1%
LG ELECTRONICS INC	27.47	3%	1%
SAMSUNG ELECTRONICS	25.14	4%	1%
CIE FIN. RICHEMONT	24.97	8%	3%
LVMH	23.05	10%	3%
ADIDAS	22.63	6%	2%
SWATCH GROUP	22.36	9%	3%
L'OREAL	21.53	9%	3%
Beiersdorf AG	20.86	6%	1%
HENKEL	19.87	7%	3%
IMPERIAL TOBACCO	18.16	8%	2%
BRIT. AMER. TOBACCO	17.93	11%	4%
RECKITT BENCKISER	17.84	9%	2%
Altria Group Inc	17.44	19%	7%
Procter & Gamble Co	16.40	21%	7%

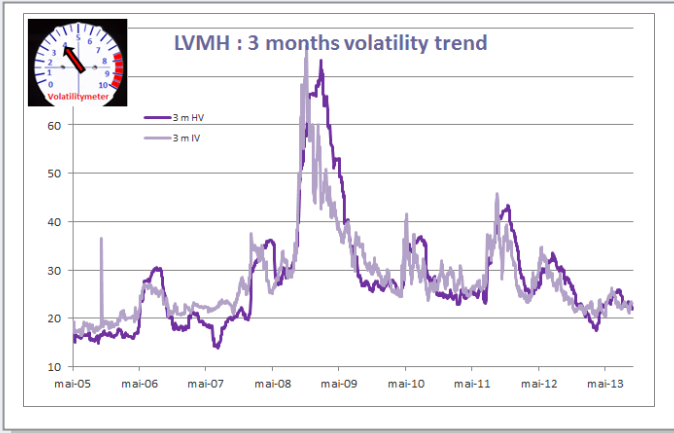
Sources : NATIXIS



## EQUITY MARKETS

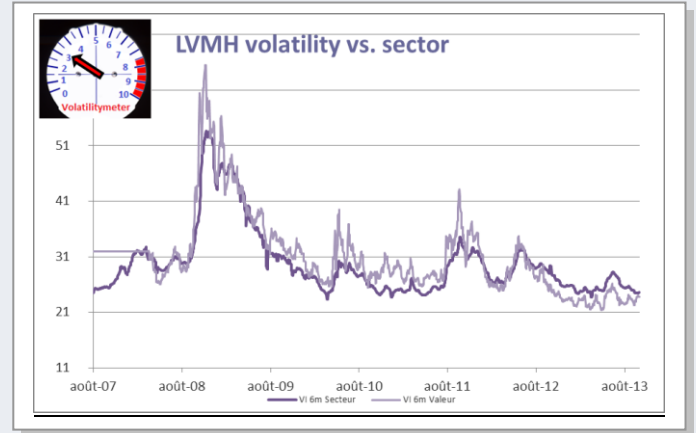
## L.V.M.H. implied volatility trends

### 3Mths Implied Volatility



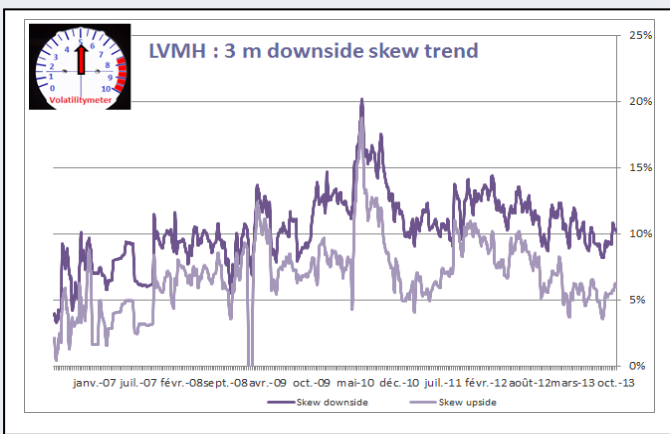
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### Spread: 6Mths IVol. vs. sector's average



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### 3Mths Skew trends



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### "A step downside skew"

- LVMH's implied volatility has been weak with a rating of 2 (the cheapest 20%) since May 2005.
- The skew is at its median level downside (5/10, i.e. 10% difference between the IV 90% and IV 100%) and has a rating of 4 upside.
- The 3-month implied volatility shows a discount of 5% to the 1-year IV.
- LVMH has an average IV among its international sector peers (8th out of 18). It is historically low relative to the sector average (rating 3/10)

## TACTICAL IDEA

### ► Gaining an additional yield of 1% over 64 days:

Given the fundamental analysis of our equity analyst, who believes that a good entry point would be at €125, and the technical analysis, which is slightly more cautious (strong support at €120), we believe that investors could take advantage of a 'slide' in the share to these levels to sell puts on December 2013.

By way of example, selling a put €125 maturing 20/12/2013 currently yields €1.45€ (vs. €136.22 on the share on 17/10), i.e. 1.06% over 64 days, or 5.9% annualized.

The breakeven point for the strategy lies at €123.55 (-9%).

**Stratégie: Sell the Dec 13 125 put**  
**Yield (1%) price 1.45€ (Delta 19.4%, Gamma -2.8%, Vega-0.16€)**

Underlying	MC #P Equity	MC# GR 12/13 P125 Equity	Trade	10/17/2013	11/13
Load Price	MID	136.225	EUR	Settle	10/17/2013
Price (Total)	-1.45	Currency	EUR	Vega	-0.16
Price (Share)	-1.45	Beta (%)	19.43	Theta	0.03
Price (%)	-1.044	Gamma (%)	-2.8489	Rho	0.09
American vanilla	Leg 1*			Break-Even (%)	-9.30
Style	vanilla				
Exercise	American				
Call/Put	Put				
Direction	Sell				
Strike	125.00				
Strike	% Honey	8.24%	OTM		
Shares	1.00				
Expiry	12/20/2013	17:30			
Time to expiry	64	06:11			
Model	BS - discrete				
Vol	Implied	20.58%			
Forward	Carry	135.1051			
EUR Rate	Wght	0.30%			
Dividend yield		5.02%			
Discounted div flow		1.20			
Borrow cost		0.00%			



Sources: Bloomberg

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