

Hugo Boss

Price EUR72.74

Reassuring Q4 organic growth at the expense of margins

Fair Value EUR103 vs. EUR107 (+42%)

NEUTRAL

Bloomberg	BOSS GR
Reuters	BOSG_p.DE
12-month High / Low (EUR)	120.0 / 69.1
Market Cap (EURm)	5,121
Ev (BG Estimates) (EURm)	5,189
Avg. 6m daily volume (000)	256.9
3y EPS CAGR	6.0%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-3.4%	-28.8%	-30.1%	-28.5%
Pers & H/H Gds	-7.1%	-8.5%	-10.3%	9.3%
DJ Stoxx 600	-8.3%	-8.6%	-17.5%	-3.7%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	2,572	2,809	2,962	3,138
% change		9.2%	5.4%	6.0%
EBITDA	571	609	633	688
EBIT	448.7	465.8	490.4	537.7
% change		3.8%	5.3%	9.6%
Net income	333.3	335.8	370.3	412.2
% change		0.8%	10.3%	11.3%

	2014	2015e	2016e	2017e
Operating margin	17.4	16.6	16.6	17.1
Net margin	13.0	12.0	12.5	13.1
ROE	39.5	35.2	31.8	29.5
ROCE	33.2	30.5	31.2	33.5
Gearing	5.1	7.2	-9.2	-22.6

(EUR)	2014	2015e	2016e	2017e
EPS	5.04	4.91	5.40	6.01
% change	-	-2.6%	10.0%	11.2%
P/E	14.4x	14.8x	13.5x	12.1x
FCF yield (%)	5.5%	6.1%	8.9%	10.2%
Dividends (EUR)	3.62	3.75	4.20	4.65
Div yield (%)	5.0%	5.2%	5.8%	6.4%
EV/Sales	2.0x	1.8x	1.7x	1.5x
EV/EBITDA	9.0x	8.5x	7.9x	7.0x
EV/EBIT	11.5x	11.1x	10.2x	8.9x

Last Friday Hugo Boss announced its preliminary FY15 results ahead of schedule. Investors preferred to see the glass half full (i.e. Q4 FX-n growth of 5% vs. BG and CS at ~3%) instead of retaining the margin miss (Q4 adj. EBITDA of EUR171 => ~8% below BG ests). Hugo Boss posted reassuring top line trends thanks to a robust performance in Europe (+10% FX-n), helped by more promotions though, while Americas and Asia-Pacific were less weak than in Q3. Following Burberry's trading statement last Thursday, this publication also shows that fears about the mild winter and travel cancellations were somewhat over-exaggerated. Ahead of the FY16 outlook which should be delivered on 10th March, we have notched down our FY16-17 adj. EBITDA assumptions by 3% on average, leading to our FV of EUR103 vs. EUR107.

ANALYSIS

- **Q4 sales reached EUR750m, up 10% as reported and 5% FX-n (CS and BG: ~+3%e).** Although the group achieved FX-n growth in the lower range of the FY guidance (+3-5% FX-n), the Q4 performance accelerated vs. Q3 (-1%) and topped expectations thanks to: (i) a robust growth in Europe (+10% FX-n vs. +4% in Q3), helped by higher rebates, (ii) a higher contribution from retail (~65% of total sales vs. 54% in Q3), which grew at 6% and (iii) a slight rebound in wholesale to 2% vs. -7% in Q3. Note that **retail comp sales** decreased by 1% in Q4 vs. flat in Q3.
- By region and in Q4 alone, **Europe** indeed posted better-than-expected growth (+10% FX-n) thanks to the UK and southern Europe, confirming also that Hugo Boss is a bit less exposed to travel cancellations for Europe as tourists only account for ~15% of European retail sales. As expected, the **Americas** remained weak (-1% vs. -7% in Q3) marked by a tough US market (double-digit decline). Last but not least, **Asia-Pacific** decreased by 7% (vs. -12% in Q3) given a double-digit decline in China although the group does not specify whether trends improved in Mainland China like for Burberry.

Sales growth per geography and distribution channel:

FX-neutral growth	Q3 15	9M 15	Q4 15	2015
Europe	4	5	10	5
Americas	-7	-1	-1	-1
Asia-Pacific	-12	-2	-7	-3
Retail FX-n / SSSG	6 / 3	8 / 3	6 / -1	7 / 2
Wholesale	-7	-4	2	-3
Total Hugo Boss	-1	3	5	3

Source: Company Data, BG ests

- **Q4 adj EBITDA of EUR171m missed expectations (BG: EUR185m).** This deviation is explained by: (i) the negative retail comp sales over Q4 (= operating deleverage) and (ii) a higher rate of rebates vs. Q4 14 given adverse apparel market conditions (unfavourable weather and promotional). The adj. EBITDA margin dropped by 140bps to 23.1%. This difficult year-end led to a limited 1% increase in the adj. EBITDA for 2015, shy of the company's guidance (+3-5%).
- **Cautious FY16 outlook:** Ahead of the FY15 Results presentation on 10th March, the group has already declared that FX-n sales growth should be below the LT target of high single-digit (BG: +5.5%e) given the difficult US and Chinese markets. We have made no change to our top line assumptions but have notched down our adj. EBITDA forecasts by 3% on average for the 2016-17 period since we expect the group to remain affected by markdowns and by the US/China in H1 16 at least.

VALUATION

- This early publication should eventually appease fears about two significant headwinds (i.e. mild weather and a decline in tourist flows to Europe), which explains why investors focused more on these reassuring top line trends than on the margin miss, all the more since the stock has dropped by ~30% since the PW last October.

NEXT CATALYSTS

- Hugo Boss is to release its FY15 Results on 10th March.



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