**20th January 2016**

Luxury & Consumer Goods

# Kering

Price EUR150.50

## Slight improvement expected for Gucci in Q4 vs Q3!

**Fair Value EUR180 (+20%)** **BUY vs. NEUTRAL**

| | |
|---|---|
| Bloomberg | PP FP |
| Reuters | PRTP.PA |
| 12-month High / Low (EUR) | 197.0 / 139.1 |
| Market Cap (EUR) | 19,003 |
| Ev (BG Estimates) (EUR) | 22,535 |
| Avg. 6m daily volume (000) | 357.8 |
| 3y EPS CAGR | 5.4% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -3.5% | -0.2% | -9.9% | -4.7% |
| Pers & H/H Gds | -4.6% | -7.2% | -9.9% | -6.0% |
| DJ Stoxx 600 | -7.8% | -8.6% | -17.9% | -9.0% |

| YEnd Dec. (EURm) | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| Sales | 10,037 | 11,430 | 12,060 | 12,800 |
| *% change* | | *13.9%* | *5.5%* | *6.1%* |
| EBITDA | 2,044 | 2,050 | 2,290 | 2,510 |
| EBIT | 1,664 | 1,650 | 1,870 | 2,070 |
| *% change* | | *-0.8%* | *13.3%* | *10.7%* |
| Net income | 1,177 | 1,080 | 1,243 | 1,388 |
| *% change* | | *-8.2%* | *15.1%* | *11.7%* |

| | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| Operating margin | 16.6 | 14.4 | 15.5 | 16.2 |
| Net margin | 11.7 | 9.4 | 10.3 | 10.8 |
| ROE | 10.5 | 9.0 | 10.0 | 10.5 |
| ROCE | 6.7 | 6.2 | 6.7 | 7.3 |
| Gearing | 39.0 | 34.2 | 32.2 | 28.3 |

| (EUR) | 2014 | 2015e | 2016e | 2017e |
|---|---|---|---|---|
| EPS | 9.31 | 8.54 | 9.83 | 10.89 |
| *% change* | - | *-8.2%* | *15.1%* | *10.8%* |
| P/E | 16.2x | 17.6x | 15.3x | 13.8x |
| FCF yield (%) | 2.9% | 3.1% | 3.7% | 4.7% |
| Dividends (EUR) | 3.95 | 4.55 | 5.30 | 5.90 |
| Div yield (%) | 2.6% | 3.0% | 3.5% | 3.9% |
| EV/Sales | 2.3x | 2.0x | 1.9x | 1.7x |
| EV/EBITDA | 11.2x | 11.0x | 9.8x | 8.8x |
| EV/EBIT | 13.7x | 13.7x | 12.0x | 10.7x |


**Kering is due to release its FY 2015 results on 18th February (before trading). We expect sales to grow 3.6% organically and EBIT margin to narrow 220bp to 14.4%. In view of 20% upside and the better trend expected at Gucci in 2016 after the year of transition in 2015 and therefore the prospect of better momentum to come, we have upgraded our recommendation on Kering from Neutral to Buy on Kering with an unchanged FV of EUR180.**

### ANALYSIS

- **Kering** is to report its FY 2015 results on 18th February (before trading). **We expect sales to reach EUR11.43bn, up 14% and 3.6% organically**. Our FY assumptions imply a Q4 at +3.7%, slightly above 9M (+3.4%) and Q3 (+3.1%). Concerning the **luxury division** alone, FY and Q4 sales should be up respectively 3.2% and 3.1% on an organic basis, in line with the Q3 and 9M performance! The main trigger of this release will be the performance by the **Gucci brand** (30% of group sales and 60% of group EBIT). We expect this brand to post still relatively poor organic sales growth in Q4 (+1.6%) but with a clear improvement versus Q3 (-0.4%), therefore, FY 2015 Gucci sales are expected to decrease by 0.4%. The Q4 rebound is set to be driven by stronger retail sales, which we expect to rise by around 2.8% vs +1% in Q3, while wholesale should report almost the same trend (-5%). The expected rebound in retail stems from the higher weight in sales of the new collections of Alessandro Michele, the brand's new designer since January 2015. This trend should even accelerate in 2016 such that we expect mid-single digit organic sales growth this year.
- On the other hand, we are forecasting a slowdown at **Bottega Veneta** with a 2.8% organic sales increase following +4.3% in Q3 and +5.6% over 9M. This trend is the consequence of i/ high exposure to Asian tourists (including Japanese) with almost 70% of sales ii/ a tough situation in Hong Kong, which combined with Macao accounts for 15% of brand sales**. Yves Saint Laurent** should still report strong momentum despite its exposure to France (10% of sales) and we expect almost a similar trend in Q4 (+21.5%) than in Q3 (+26.5%). Lastly, sales at "Others" should be down 1.5% in Q4, in line with Q3. In all, the luxury division should register a 3.2% sales increase in Q4 in line with Q3 and 9M pointing to a very resilient performance. Puma's Q4 sales momentum (+6%) should accelerate vs Q3 (+3.9%) thanks to anticipated orders ahead of 2016 EURO and OG in Rio.

**Quarterly organic sales growth by business**

| lfl chge (%) | H1 15 | Q3 15 | 9M 15 | Q4 15e | 2015e |
|---|---|---|---|---|---|
| Gucci | -1.6 | -0.4 | -1.2 | 1.6 | -0.4 |
| Bottega Veneta | 6.4 | 4.3 | 5.6 | 2.8 | 4.8 |
| YSL | 24.3 | 26.5 | 25.1 | 21.4 | 24.0 |
| Others | 1.0 | -1.1 | 0.3 | -1.5 | -0.2 |
| **Luxury division** | **2.8** | **3.1** | **3.0** | **3.2** | **3.1** |
| Puma | 5.9 | 3.9 | 5.2 | 6.0 | 5.4 |
| **Total Group** | **3.5** | **3.1** | **3.4** | **3.7** | **3.6** |

*Source : Company Data; Bryan Garnier & Co. ests.*

- **Kering's 2015 FY EBIT margin** is set to have come under pressure with an expected 220bp decline to 14.4% (EUR1.65bn EBIT), which nevertheless implies a less negative H2 (-150bp) following -320bp in H1. The slight improvement in H2 vs H1 should stem from a less negative deleveraging impact (mainly at Gucci) and a less negative hedging impact.

### VALUATION

- Given recent share price weakness (-5% over last month), 20% upside and a better trend expected at Gucci in 2016 (+4% organic sales growth) after the transition 2015 year, **we have upgraded our recommendation on Kering from Neutral to Buy** with an unchanged FV of EUR180. The stock is trading on a slight premium (7%) versus the peer average on 2016 EV/EBIT.

### NEXT CATALYSTS

- 2015 FY results to be released on 18th February (before trading).*Click here to download document*


**Analyst :**
Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com

**Sector Team :**
Nikolaas Faes
Antoine Parison
Cédric Rossi
Virginie Roumage

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NEUTRAL Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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BUY ratings 57.9% NEUTRAL ratings 33.1% SELL ratings 9%

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**London**
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

**Paris**
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

**New York**
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

**Geneva**
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

**New Delhi**
The Imperial Hotel
Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062