

Hermès Intl.

Price EUR297.95

FY and Q4 sales above expectations; 2015 margin should remain stable

Fair Value EUR360 (+21%)

BUY

Bloomberg	RMS FP
Reuters	HRMS.PA
12-month High / Low (EUR)	363.4 / 283.2
Market Cap (EUR)	31,454
Ev (BG Estimates) (EUR)	30,154
Avg. 6m daily volume (000)	57.40
3y EPS CAGR	14.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.2%	-13.2%	-15.0%	-4.4%
Pers & H/H Gds	-2.1%	-10.9%	-13.6%	-8.0%
DJ Stoxx 600	-9.4%	-17.7%	-22.1%	-15.4%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	4,119	4,810	5,225	5,750
% change		16.8%	8.6%	10.0%
EBITDA	1,365	1,554	1,718	2,015
EBIT	1,299	1,490	1,655	1,875
% change		14.7%	11.1%	13.3%
Net income	858.1	982.0	1,125	1,282
% change		14.4%	14.6%	14.0%

	2014	2015e	2016e	2017e
Operating margin	31.5	31.0	31.7	32.6
Net margin	20.8	20.4	21.5	22.3
ROE	24.9	27.0	27.1	25.3
ROCE	41.3	42.3	42.2	42.8
Gearing	4.5	4.2	3.7	3.0

(EUR)	2014	2015e	2016e	2017e
EPS	8.16	9.34	10.70	12.20
% change	-	14.4%	14.6%	14.0%
P/E	36.5x	31.9x	27.8x	24.4x
FCF yield (%)	2.1%	2.6%	2.9%	NM
Dividends (EUR)	7.95	3.60	4.05	4.55
Div yield (%)	2.7%	1.2%	1.4%	1.5%
EV/Sales	7.3x	6.3x	5.7x	5.1x
EV/EBITDA	22.0x	19.4x	17.4x	14.6x
EV/EBIT	23.1x	20.2x	18.1x	15.7x



Hermès Intl has reported 2015 sales at EUR4.84bn (consensus: EUR4.81bn), up 17.5% on a reported basis and 8.1% at constant FX, which implies +7.2% in Q4 (cs:+5.6%) vs. +7.9% in Q3 and +8.5% on 9M. The very slight deceleration is a consequence of Hermès' exposure to France (~14% of Group sales) where sales only increased 1% vs. +11.4% in Q3. Hermès management is more optimistic about its FY15 margin, which it now says should be "close to the 2014 level" vs "below 2014" previously. Management has already provided a cautious FY16 sales target ("could be below the MT goal of 8%"). We keep our EUR360 FV and our Buy recommendation.

ANALYSIS

- **Hermès Intl sales reached EUR4.84bn in 2015 (consensus: EUR4.80bn), up 16.8% and 8.1% organically.** This implies a 7.2% organic sales increase in Q4 alone (cs:+5.6%), following +8.5% on 9M and +7.9% in Q3. By geographic area, the most important information is the clear Q4 slowdown in **France** (14% of sales) with only a 1% revenue increase after +8.2% on 9M and +11% in Q3. This is clearly due to the tragic events in Paris on November 13th that have significantly affected the tourist industry. On the other hand, we want to highlight the still-strong performance in **Japan** (12% of sales) with 18.3% revenue growth on FY, implying +16.2% in Q4 alone (+16.5% in Q3), thanks both to local clientele and buyoant Chinese tourists flows. In **Asia-Pacific** (35% of sales), sales grew slightly, up 5.1% of which +5.2% in Q4 which shows some slight improvement versus Q3 (+1.4%) as mainland China seems to be better oriented for luxury goods brands. Lastly, in **Americas** (18% of sales), sales momentum recovered slightly with a 5.8% sales increase in Q4 vs. +2% in Q3.

Quarterly organic sales growth

LFL change (%)	H1 15	Q3 15	9M 15	Q4 15	2015
France	6.6	11.4	8.2	1.2	6.2
Europe	7.0	17.7	10.6	11.6	10.8
Americas	10.3	2.0	7.4	5.8	6.8
Japan	20.5	16.5	19.1	16.2	18.3
Asia-Pacific	7.0	1.4	5.1	5.2	5.1
others	0.0	-8.6	-2.7	-0.7	-2.2
Total Group	8.9	7.9	8.5	7.2	8.1

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

- By business, it is worth noting the clear slowdown for the **silk activity** (12% of sales) in Q4, with sales down 7.2% (impact of high exposure in APAC and less buyoant Travel Retail), following -0.3% in Q3 and +3% on 9M. On the other hand, the **Leather goods** division (45% of sales) was quite resilient with a 12.6% revenue increase in FY implying +14.3% in Q4 (+8.6% in Q3), partly thanks to production capacity increase. **Ready to Wear** achieved a healthy FY performance (+7.8%) despite some slowdown in Q4 (+3.7%).
- **Management is more optimistic on its 2015 margin** and now expects a "level close to 2014" versus "below the 2014 level" previously, despite FX negative effect. This is, in our view, a strong Q4 performance in Leather Goods which is a very profitable business. At this stage, we expect 2015 EBIT margin to be down 50bp to 31%, implying a deterioration in H2 (-110bp). For 2016, management is cautious (too cautious again?) with an organic sales growth that could be below MT guidance of 8%.

VALUATION

- Hermès share has decreased 4% since YTD (-6% for sector average), which nevertheless implies a 13% outperformance vs DJ Stoxx. The stock is trading on 18.1x 2016 EV/EBIT (12x sector average including RMS).

NEXT CATALYSTS

- FY 2015 results to be reported on March 23rd



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