

Hermès Intl.

Price EUR302.30

Despite RMS management cautiousness, we maintain our positive view on the stock!

Fair Value EUR360 (+19%)

BUY

Bloomberg	RMS FP
Reuters	HRMS.PA
12-month High / Low (EUR)	363.4 / 283.2
Market Cap (EUR)	31,914
Ev (BG Estimates) (EUR)	30,613
Avg. 6m daily volume (000)	58.50
3y EPS CAGR	14.3%

Yesterday's conference call and very strong group fundamentals prompt us to maintain our 8% organic sales growth estimate for 2016 despite management's guidance for a level "below 8%". Furthermore, 2016 profitability should increase slightly as FX will not weigh anymore. We therefore reiterate our Buy recommendation with an unchanged FV of EUR360.

ANALYSIS

- **Returning to 2015 sales (+8.1% including +9% for Retail), we would highlight the following:** i/ Q4 sales momentum remained very strong (+7.2%) with no real deceleration vs Q3 despite Hermès' high exposure to France (14% of sales) thanks to improvements in the Americas and in Asia Pacific; ii/ Leather goods sales picked up considerably (+14.3% vs +8.6% in Q3 and +11.9% on 9M) thanks to a production capacity increase that allowed the brand to deliver more products in stores that have been sold easily as demand remains very healthy, particularly for small leather goods. Strong momentum in LG sales had a positive impact on profitability, hence the new guidance for a margin "close to 2014" (31.5%) whereas previous guidance was for a lower margin.
- **For 2016**, despite management's cautious guidance in terms of organic sales growth (below the medium term target of 8%) due to current geopolitical and macro-economic uncertainties, we maintain our 8% revenue growth forecast for the following reasons:
 - **This cautiousness is not due to current trading.** January was difficult to analyse due to some price increases in Europe and Japan and due to the earlier CNY than last year. Furthermore, the situation is normalizing in the Faubourg Saint-Honoré Hermès flagship even if activity is still slightly lower than prior to 13th November.
 - **Leather goods dynamism:** Leather goods sales are still very well oriented. In 2015, sales increased 12.6% of which +14.3% in Q4. The production capacity is expected to increase by 6 to 7% per year on medium term. Each year, group hires 250/300 new craftsmen. Each new plant is fully operational within 18/24 months. There are close to 15 workshops in France, a last one (Héricourt, East of France) has been inaugurated in Q4.
 - **Stores expansion:** After opening three stores last year to 211 and renovating/expanding almost 20, this trend should continue in 2016. Actually, the brand is to open new store in Brazil (likely in Rio) and in China (Chongking). Among renovated and expanded stores, there will be the one in HK airport and one in the Liat Towers in Singapore.
 - **Mainland China recovery:** Without giving any figures, management was relatively optimistic concerning activity in MC (close 10% of sales), this trend has also been highlighted by other luxury groups. This should be a clear catalyst for short term performance.
- **Furthermore, 2016 profitability could increase slightly (we expect +40bp EBIT margin to 31.8%)** as management will be selective in its investments and as the current year will not be penalised by a negative hedging impact as was the case in 2015. Some price increases were passed on in Europe and in Japan in Q1.

VALUATION

- **We reiterate our Buy recommendation on Hermès with an unchanged EUR360 FV** as we are convinced by the brand's ability to continue to outperform its luxury peers. As such, we argue that the share's premium versus the sector average is deserved. Furthermore, given the very sound financial situation (we expect net cash to be higher than EUR1.2bn at end of 2015) we are not ruling out a "regular" exceptional dividend as was already the case in 2015 and in 2012.

NEXT CATALYSTS

- 2015 FY results should be released on 23rd March.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	0.3%	-12.9%	-14.3%	-3.0%
Pers & H/H Gds	-1.1%	-10.4%	-13.2%	-7.1%
DJ Stoxx 600	-7.7%	-16.2%	-21.2%	-13.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	4,119	4,840	5,225	5,750
% change		17.5%	8.0%	10.0%
EBITDA	1,365	1,584	1,723	2,015
EBIT	1,299	1,520	1,660	1,875
% change		17.0%	9.2%	13.0%
Net income	858.1	1,002	1,130	1,282
% change		16.8%	12.8%	13.5%

	2014	2015e	2016e	2017e
Operating margin	31.5	31.4	31.8	32.6
Net margin	20.8	20.7	21.6	22.3
ROE	24.9	27.6	27.2	25.3
ROCE	41.3	43.2	42.4	42.8
Gearing	4.5	4.2	3.7	3.0

(EUR)	2014	2015e	2016e	2017e
EPS	8.16	9.53	10.75	12.20
% change	-	16.8%	12.8%	13.5%
P/E	37.0x	31.7x	28.1x	24.8x
FCF yield (%)	2.1%	2.5%	2.8%	NM
Dividends (EUR)	7.95	3.40	4.05	4.55
Div yield (%)	2.6%	1.1%	1.3%	1.5%
EV/Sales	7.4x	6.3x	5.8x	5.2x
EV/EBITDA	22.4x	19.3x	17.6x	14.8x
EV/EBIT	23.5x	20.1x	18.3x	15.9x



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BUY ratings 61.9%

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