

3rd February 2016

Luxury & Consumer Goods

LVMH

Price EUR145.20

2015 sales and EBIT slightly above expectations. No slowdown at LV in Q4

Fair Value EUR182 (+25%)

BUY

Bloomberg	MC FP
Reuters	LVMH.PA
12-month High / Low (EUR)	175.6 / 134.7
Market Cap (EUR)	73,780
Ev (BG Estimates) (EUR)	77,531
Avg. 6m daily volume (000)	973.5
3y EPS CAGR	14.6%

LVMH has reported 2015 FY results slightly above consensus, up 6% in organic terms to EUR36.66bn (consensus: EUR35.55bn), implying no real slowdown in Q4 (+5% vs +6% over 9M). 2015 profitability was down slightly with a 20bp EBIT margin erosion to 18.5%. We remain at Buy on the stock with an unchanged FV of EUR182

ANALYSIS

- **2015 LVMH sales reached EUR36.66bn (consensus: EUR35.55bn), up 16% and 6% organically (cs:+5%),** implying 5% growth in Q4 (cs:+3%) following 7% in Q3 and 6% over 9M. FX had a 10% positive impact on 2015 sales, 8% of which in H2. Revenue momentum slowed slightly in Q4 compared to Q3 due to i/ Watches & jewellery (+3% vs +11%) with Bulgari affected by less traffic in Europe and above all ii/ Wines & Spirits (+4% vs +16% in Q3) as the Q3 performance was exceptional, particularly for **Hennessy** (+23%) in US and China. Note that the Fashion & Leather goods division (including **Louis Vuitton**) did not slow in Q4, with organic sales growth at 3% (cs:+1%), while others F&L brands, particularly **Céline** and **Fendi**, fared quite well. LV sales with Chinese clientele grew 6% with a better trend in MC while HK was down double digit. **Hennessy** volumes grew 8% in 2015 after 12% over 9M, implying a 6% increase in Q4 alone thanks to a better trend in China in H2. Selective Retail revenues were slightly affected by lower tourist flows in Asia but thanks to Sephora, delivered a 5% organic sales increase in Q4 in line with Q3.
- **By region,** note the still very strong performance in **Japan** (see table on following page) with a 13% sales increase, in line with the 9M performance, fuelled by both tourists (mainly Chinese) and local clients. On the other hand, **Asia-Pacific** (27% of sales) was poor showing a 5% sales decline in 2015 despite a less negative trend in Q4 (-2% vs -8% in Q3) with a better trend in MC. As feared, US and European sales growth slowed in Q4 vs Q3 to respectively 5% (+12% in Q3) and 6% (+12% in Q3). In the **US**, the 9m trend was exceptional since all other luxury players except LVMH recorded some slowdown in Q3, given less dynamic tourist flows (strong USD impact). In **Europe** (28% of sales), unsurprisingly, LVMH was affected by less traffic in its stores following the Paris terrorist attacks in November, such that sales grew only 6% in Q4 after +12% in Q3. In December, LV sales in France were down mid single digit.
- **FY 2015 EBIT reached EUR6.6bn (consensus: EUR6.50bn) up 16%.** FY EBIT margin narrowed 20bp to 18.5% (consensus: 18.3%) The profitability including +40bp in H2 alone after -70bp in H1. erosion was due to i/ Fashion & Leather where the margin narrowed 100bp to 28.3% last year due to losses at Marc Jacobs and Donna Karan and lower profitability at Loro Piana, while LV's margin remained stable, and those at Fendi and Celine improved, ii/ Selective Retail (-100bp to 8.3%), due to the clear decline in DFS' profitability. Welcome news came from the Wines & Spirits division where the margin gained 70bp to 29.6% particularly for Cognac (+120bp), thanks to a clear sales rebound in H2. The Perfumes & Cosmetics margin gained 100bp (11.6%) given a very dynamic sales performance and while the Watches & Jewelry margin widened by 290bp to 13.1%, notably thanks to Bulgari while Tag Heuer's profitability remained unchanged.
- At the end of 2015, **LVMH's net debt was EUR4.2bn (16% net gearing) vs EUR4.8bn (21% net gearing) at end 2014** and LVMH is to propose a EUR3.55 dividend (+10%) to be paid on 21st April. Furthermore, management is not ruling out the prospect of future shareholder returns (exceptional dividend or share buybacks) if net gearing continues to decline.
- **For 2016, we still expect LVMH sales to grow 5% organically** with a slight EBIT margin improvement (+50bp to 19%) in view of i/ the end to the negative hedging impact and ii/ higher profitability at the F&L division as losses at DK, Berluti and Marc Jacobs should be lower and LV's margin should remain unchanged.

VALUATION

- **The LVMH share price is stable on last month vs -3% for our luxury sample and has outperformed the DJ Stoxx by 9%.** The stock is trading on 2016 EV/EBIT of 10.7x, a 1% discount vs the peer average. Buy recommendation and EUR182 FV unchanged.

NEXT CATALYSTS

- Q1 2016 sales to be reported mid-April 2016

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.2%	-13.5%	-14.9%	0.2%
Pers & H/H Gds	-1.2%	-5.2%	-6.1%	-1.2%
DJ Stoxx 600	-8.5%	-11.2%	-15.6%	-8.5%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	30,638	35,664	37,430	39,620
% change		16.4%	5.0%	5.9%
EBITDA	6,576	7,505	8,080	8,730
EBIT	5,716	6,605	7,130	7,730
% change		15.6%	7.9%	8.4%
Net income	2,972	3,573	4,329	4,472
% change		20.2%	21.2%	3.3%

	2014	2015e	2016e	2017e
Operating margin	18.7	18.5	19.0	19.5
Net margin	9.7	10.0	11.6	11.3
ROE	11.5	12.7	14.0	13.2
ROCE	10.3	10.1	10.8	10.7
Gearing	16.5	13.4	9.0	5.3

(EUR)	2014	2015e	2016e	2017e
EPS	5.92	7.11	8.62	8.90
% change	-	20.2%	21.2%	3.3%
P/E	24.5x	20.4x	16.8x	16.3x
FCF yield (%)	3.9%	3.1%	4.0%	4.2%
Dividends (EUR)	3.20	3.55	3.90	4.25
Div yield (%)	2.2%	2.4%	2.7%	2.9%
EV/Sales	2.5x	2.2x	2.0x	1.9x
EV/EBITDA	11.9x	10.3x	9.5x	8.7x
EV/EBIT	13.7x	11.7x	10.7x	9.8x



Quarterly organic sales growth by division

in %	H1 15	Q3 15	9M 15	Q4 15	FY 15
Wines & Spirits	2	16	7	4	6
Fashion & Leather	5	3	5	3	4
Perfumes & Cosmetics	6	7	7	7	7
Watches & Jewelry	10	11	10	3	8
Selective Retail	5	5	5	5	5
Group	6	7	6	5	6

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

Quarterly organic sales growth by region

in %	Q1 15	Q2 15	H1 15	Q3 15	9M 15	Q4 15	2015
US	9	12	11	12	11	5	9
Japan	-10	34	8	24	13	12	13
Asia Pacific	-6	-5	-5	-8	-6	-2	-5
Europe	10	14	12	12	12	6	10
Group	3	9	6	7	6	5	6

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

EBIT margin by division

In %	2014	2015	chge (bp)
Wines & Spirits	28.9	29.6	70
Fashion & Leather	29.3	28.3	-100
Perfumes & Cosmetics	10.6	11.6	100
Watches & Jewelry	10.2	13.1	290
Selective Retail	9.3	8.3	-100
Group	18.7	18.5	-20

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

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