10th March 2016

Luxury & Consumer Goods

Hugo Boss

Price EUR54.01

FY16 outlook in line with previous announcements, dividend cut in 2016?

Fair Value EUR87 (+61%) **NEUTRAL**

Bloomberg	BOSS GR
Reuters	BOSG_p.DE
12-month High / Low (EUR)	120.0 / 51.3
Market Cap (EUR)	3,802
Ev (BG Estimates) (EUR)	3,889
Avg. 6m daily volume (000)	363.3
3y EPS CAGR	-2.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-18.2%	-30.5%	-46.7%	-29.5%
Pers & H/H Gds	7.8%	-0.7%	4.3%	-0.9%
DJ Stoxx 600	9.6%	-6.9%	-6.8%	-7.3%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	2,572	2,809	2,852	3,008
% change		*9.2%*	*1.5%*	*5.5%*
EBITDA (reported)	571	591	514	563
EBIT	448.7	447.5	377.3	419.0
% change		*-0.3%*	*-15.7%*	*11.0%*
Net income	333.3	321.9	278.5	316.4
% change		*-3.4%*	*-13.5%*	*13.6%*

	2014	2015e	2016e	2017e
Operating margin	17.4	15.9	13.2	13.9
Net margin	13.0	11.5	9.8	10.5
ROE	39.5	34.4	27.1	27.9
ROCE	33.2	29.3	24.4	26.6
Gearing	5.1	9.3	0.9	-6.9

(EUR)	2014	2015e	2016e	2017e
EPS	5.04	4.71	4.09	4.62
% change	-	*-6.7%*	*-13.1%*	*12.9%*
P/E	10.7x	11.5x	13.2x	11.7x
FCF yield (%)	7.4%	7.7%	9.4%	10.5%
Dividends (EUR)	3.62	3.75	4.20	4.65
Div yield (%)	6.7%	6.9%	7.8%	8.6%
EV/Sales	1.5x	1.4x	1.3x	1.2x
EV/EBITDA	6.7x	6.6x	7.4x	6.6x
EV/EBIT	8.6x	8.7x	10.1x	8.9x

The FY15 results released this morning are not materially different than the pre-announced sales and EBITDA on 15th February: FY sales increased 9% as reported and 3% FX-n to EUR2,809m but adj. EBITDA only grew by 1% to EUR594m, missing FY guidance (+3-5%) given a weak SSSG (-1%) and higher markdowns in Q4. It is worth noting that the FY15 dividend is unchanged at EUR3.62 (P/O ratio: 78%) but question marks remain for FY16. At the analysts' meeting today (1.30pm CET) investors will clearly focus on: 1/ the dividend policy for FY16 and beyond and 2/ the CEO transition.

ANALYSIS

- **FY15 FX-n growth of 3% including +5% in Q4.** The top line growth acceleration vs. Q3 (-1%) was driven by **Europe** (Q4: +10% FX-n / 2015: +6%) but on top of higher rebates whilst the **Americas** and **Asia-Pacific** regions decreased by 1% FX-n (2015: -1%) and 7% FX-n (2015: -3%) respectively. By channel, **retail** increased 6% FX-n (2015: +7%) which encompasses a negative **SSSG** of 1% (+2% in 2015), not enough for the German group to absorb the cost inflation. **Wholesale** rebounded to 2% after -7% in Q3 (2015: -3%).
- **FY15 adjusted EBITDA only rose 1% shy of guidance (+3-5%).** This lower-than-expected performance is explained by: **(i)** retail comp sales in Q4 down 1% (group expected them to be at least stable) and **(ii)** a negative impact from a higher rate of markdowns (promotional activity, unfavourable weather conditions). These headwinds have caused a more significant margin squeeze given the inflation in opex costs (+12% in 2015) due to the retail expansion strategy.
- **FY15 dividend stable at EUR3.62**. This dividend payment implies a payout ratio of 78%, which is in the higher end of the 60-80% range from the profit-based distribution policy.

Hugo Boss 2015 sales and Adjusted EBITDA:

EURm	2014	2015	*% change*
Sales	**2,572**	**2,809**	***9***
Gross Profit	1,699	1,853	9
Gross Margin (%)	66.1	66.0	-10bp
Adjusted EBITDA	**591**	**594**	**1**
Adjusted EBITDA margin (%)	23.0	21.2	-280bp

Source: Company Data

- **Hugo Boss already guided on a very challenging FY16 outlook**. Indeed no improvement has materialised in the US and in China since the beginning of the year, forcing Hugo Boss to warn on its sales and earnings development for 2016 on 23th February: **(i)** top line is now expected to grow at a low single-digit growth rate (BG: +2%e) vs. LT target of high single-digit growth and **(ii)** adj. EBITDA would fall low double-digit (BG: -12%e), consequence of the price adjustments in China (-20%e on average) combined with a flat SSSG this year. The group announced this morning the closure of ~20 DOS in China (from 130 stores in 2015) and that it was reviewing its cost structure.
- **Hot topics during the Analysts' Conference: dividend policy going forward and CEO transition.** Investors will certainly scrutinise any statement from management about the future dividend policy, which is a key catalyst for the share price. Given 2015 net debt of EUR82m, we believe the group could afford to pa the same dividend in 2016 despite declining margins, all the more since the group aspires to rise its FCF generation this year. However, based on our FY16 estimates, the P/O ratio would amount to ~90%, exceeding the current 60-80% range which was reiterated this morning. **Hence it could imply a lower dividend for 2016.**

VALUATION

- The market will look closely at the announcements made during this afternoon's meeting. At 10x 2016e EV/EBIT the stock trades at a 22% discount to its 2007-16 historical average.

NEXT CATALYSTS

- Analysts' Conference today at 1.30pm (CET) // Q1 2016 Results on 3rd May.

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