

Hermès Intl.

Price EUR316.60

Reassuring Q1 organic sales growth and conference call

Fair Value EUR355 (+12%)

BUY

Bloomberg	RMS FP
Reuters	HRMS.PA
12-month High / Low (EUR)	363.4 / 291.6
Market Cap (EUR)	33,423
Ev (BG Estimates) (EUR)	32,123
Avg. 6m daily volume (000)	55.10
3y EPS CAGR	14.0%

Hermès' Q1 sales figures (+6.2%) confirmed the resilience of its business model with i/ a good performance in France; ii/ strong momentum in leather goods and iii/ sound sales growth for Retail. Hermès is clearly outperforming luxury peers. All these points should have a positive impact on H1 and FY profitability. We reiterate our Buy recommendation and our EUR355 FV.

ANALYSIS

- Hermès Q1 16 organic sales growth of 6.2% was reassuring and slightly above expectations (+5.8%). More importantly, in our view, the quality of this publication was very sound. **Firstly, Retail sales (82% of Hermès sales) did quite well** with an 8% increase implying no growth at all for Wholesale. 8% Retail organic sales increase in Q1 implies almost no slowdown versus Q4 2015 momentum. It is also worth noting that the Q1 sales increase was achieved without any price increase and was only driven by volumes. Furthermore, as the brand did not open any new stores, the selling space impact is marginal. Stores opening (4 on FY) will occur in H2 and particularly in Q4 and should have a slight positive impact on revenues trend during the last quarter.
- The second encouraging point is the very resilient performance in France** with a 5.6% sales growth in Q1, implying some acceleration versus Q4 2015 (+1.2%). Nevertheless, Q1 momentum is still below the one before Paris event in last November. But what is interesting in our view is the fact that Hermès outperformed significantly its peers with, for instance, a double digit decline for LV in Paris stores, actually the three Hermès Paris stores (two on the right bank and one in the left bank) sales were slightly up. This outperformance is due, in our view, to brand very high-end positioning and relatively lower weight of tourists in sales compared to peers. Hermès brand proved again its resilience business model.
- Americas showed mixed trends with a still weak US market due to less traffic, particularly in NYC coming from local and tourists consumers, meanwhile momentum was dynamic in Mexico and in Canada. While the trend in Asia-Pacific remained almost the same, it is worth noting that sales in Mainland China are still growing around 5% and more importantly, that revenues were stable in Hong Kong versus the decline in 2015. Hermès is the first brand to report sales stability in HK, this trend needs to be confirmed in coming quarters.

Quarterly organic sales growth by geographical area

lfl chge (%)	9M 15	Q4 15	2015	Q1 16
France	8.2	1.2	6.2	5.6
Europe	10.6	11.6	10.8	11.6
Americas	7.4	5.8	6.8	4.4
Japan	19.1	16.2	18.3	12.6
Asia-Pacific	5.1	5.2	5.1	3.9
others	-2.7	-0.7	-2.2	-18.2
Total Group	8.9	7.1	8.1	6.2

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

- The last point that we want to highlight is the very strong sales momentum for Leather goods** (50% of RMS sales) with a 15.4% growth, globally in line with Q4 15. All the LG products performed very well: iconic bags as Birkin and Kelly, other bags as Cherche Midi, Constance, and small Leather Goods. This increase has been also allowed by production capacity increase with two new plants in Isère and in Charentes. A new one has been inaugurated in April at Hericourt.

VALUATION

- The stock has gained 1.5% YTD vs -2% for luxury sample average and -4.6% for DJ Stoxx. Hermès is trading 18.8x on 2016 EV/EBIT (11.5x for luxury average).

NEXT CATALYSTS

- H1 sales to be reported on July 21st.

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BUY ratings 57.6%

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