

Kering

Price EUR153.30

Sales momentum set to slow slightly in Q1 2016 vs Q4 2015

Fair Value EUR176 vs. EUR180 (+15%)

BUY

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	181.5 / 139.1
Market Cap (EUR)	19,357
Ev (BG Estimates) (EUR)	23,187
Avg. 6m daily volume (000)	313.8
3y EPS CAGR	5.8%

Kering is due to report Q1 2016 sales on 21st April (after market closure). We expect revenues to reach EUR2.78bn with 5.8% organic sales growth (+8% in Q4 2015 and +4.6% in 2015) including +4.7% for the Luxury businesses. We remain at Buy on the stock with a new FV of EUR176 (EUR180 previously).

ANALYSIS

- Kering is due to report its Q1 2016 sales on 21st April (after trading).** We expect sales to reach EUR2.78bn, implying a 4.9% increase including 5.8% organic sales growth after +8% in Q4 2015 and +4.6% over 2015. **Kering Luxury** should deliver 4.7% organic sales growth in Q1 following +7.2% in Q4 2015 and +4.2% over 2015. Puma's recent positive momentum should continue in our view with an expected 8% organic sales increase.
- The Gucci brand (63% of Group EBIT), which enjoyed a recovery in Q4 with a 4.8% organic sales increase, should again report positive momentum in Q1,** partly thanks to a clearly undemanding comparison basis (-8% in Q1 2015) and also the confirmed success of the new collection of Alessandro Michele whose weight among brand sales is increasing progressively (30% in Q4 but likely 50% in Q1) that should also help the brand's sales growth, although the transition is taking longer for leather goods than for RTW. Nevertheless, the current environment for the luxury goods industry is still challenging: lower tourists flows in Europe for instance in Q1 that should weigh on European sales momentum, slowdown in Japan, and a clear deterioration in the US vs Q4 (-1%). This is why we remain relatively cautious with an anticipation for 4.5% organic sales growth, almost in line with Q4 despite undemanding comps. **Bottega Veneta's** momentum in Q1 should also deteriorate vs Q4 (-4.5% vs -3%) given the weight of consumers from Asia (70% of sales) with 16% of sales alone generated in HK/Macau while the brand is in a transition period (fewer leather goods and more ready-to-wear...). On the other hand, **YSL's** revenue momentum should remain strong in Q1 (+20%, following the 25.8% registered in 2015 and +27.5% in Q4). Actually the positive catalysts for the French brand are still there in our view. In the "others brands" division, we argue that Q1 should be difficult for the watch brands (see FHS exports 5% decline on first two months) after the Q4 rebound due to watch shipments to the trade and for Brioni (due to a lack of Russian clientele) while some others fashion and soft luxury brands (Stella Mc Cartney, Balenciaga...) are still relatively well oriented, hence a 2% sales increase expected in Q1 for this division (+3.1% on FY 15).

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.3%	2.0%	-0.4%	-2.9%
Pers & H/H Gds	-0.6%	1.4%	-1.0%	-1.8%
DJ Stoxx 600	-3.3%	-6.7%	-8.3%	-9.6%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	10,037	11,584	12,210	12,800
% change		15.4%	5.4%	4.8%
EBITDA	2,044	2,056	2,305	2,510
EBIT	1,664	1,646	1,885	2,070
% change		-1.1%	14.5%	9.8%
Net income	1,177	1,017	1,238	1,403
% change		-13.6%	21.7%	13.3%

	2014	2015e	2016e	2017e
Operating margin	16.6	14.2	15.4	16.2
Net margin	11.7	8.8	10.1	11.0
ROE	10.5	8.7	9.6	10.2
ROCE	6.7	5.8	6.9	7.4
Gearing	39.0	37.7	27.1	21.9

(EUR)	2014	2015e	2016e	2017e
EPS	9.31	8.05	9.79	11.01
% change	-	-13.6%	21.7%	12.4%
P/E	16.5x	19.1x	15.7x	13.9x
FCF yield (%)	2.9%	1.5%	3.6%	4.7%
Dividends (EUR)	4.00	4.00	4.40	5.00
Div yield (%)	2.6%	2.6%	2.9%	3.3%
EV/Sales	2.3x	2.0x	1.8x	1.7x
EV/EBITDA	11.3x	11.3x	9.6x	8.6x
EV/EBIT	13.9x	14.1x	11.8x	10.5x

Quarterly organic sales growth

in %	Q3 15	9m 15	Q4 15	FY 15	Q1 16e
Gucci	-0.4	-1.2	4.8	0.4	4.5
Bottega Veneta	4.3	5.6	-3.1	3.2	-4.0
YSL	26.5	25.1	27.5	25.8	22.0
others	-1.1	0.3	10.6	3.1	2.0
Total Luxe	3.1	3.0	7.2	4.1	4.7
PUMA	3.9	5.2	11.5	6.8	8.0
Kering Group	3.1	3.4	8.0	4.6	5.8

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

- Lastly, we expect **Puma** to report a strong Q1 2016 (+8% expected). For 2016, Puma's management expects to achieve "high single digit" sales growth and we think this should also be the case for Q1 and even for Q2.

VALUATION

- We are maintaining our **Buy** recommendation on the stock with a new EUR176 FV vs EUR180 previously, due to the new risk free rate (1.6% vs 2%) and risk premium (7% vs 6.4%) in our DCF model. At 11.8x 2016 EV/EBIT, the stock is trading almost in line with sector average.

NEXT CATALYSTS

- Q1 sales due out on 21st April (after market closure).



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