

## Kering

Price EUR160.10

## Q1 below expectations

Fair Value EUR174 vs. EUR176 (+9%)

BUY

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	181.5 / 139.1
Market Cap (EURm)	20,216
Ev (BG Estimates) (EURm)	23,016
Avg. 6m daily volume (000)	311.7
3y EPS CAGR	14.1%

Kering reported Q1 sales of EUR2.72bn yesterday (consensus: EUR2.78bn), up 2.7% and 4% organically (consensus: +5.6%). Kering Luxury sales grew 2.6% (consensus: +4.9%) of which 3.1% for Gucci following 4.8% in Q4 2015, thereby confirming the iconic Italian brand's transition, but in a challenging global environment. We maintain our Buy recommendation and our EUR176 FV.

## ANALYSIS

- Kering Group Q1 sales increased 2.7% to EUR2.72bn (consensus: EUR2.78bn). Organically, Group revenues were up 4% versus +8% in Q4 2015 and +4.6% on FY 2015. **Luxury branch** sales momentum slowed in Q1 with a 2.6% increase (consensus:+4.6%) vs +7.2% in Q4 and +4.1% over the full-year. **By geographical area**, note the still dynamic Europe (+10%) albeit at a slower pace than in Q4 2015 (+23%), like most other peers in fact, given less dynamic tourists flows following the Paris and Brussels attacks. The North American situation even deteriorated in Q1 (-5%) versus Q4 2015 (-1%), following a lack of tourists and more subdued activity with local clientele (less wealth creation and negative impact of US elections). Asia-Pacific sales remained stable versus +2% in Q4) with confirmation of positive momentum in Mainland China (+7%) while Hong Kong and Macau remained very challenging and Japan remained well oriented (+5%) despite a clear slowdown vs Q4 (+15%).
- Within Kering's luxury business, brand momentum was significantly contrasted. **Gucci** (49% of Kering Group sales) did relatively well (+3.1% vs consensus at +4.7%) even if the trend, clearly below expectations, was explained by a very undemanding comparison basis (-8% in Q1 2015) although the higher weight of the new Alessandro Michele collections versus Q4 (50% vs 30%) despite some differences between categories, was the other explanation for this positive trend. Q1 Gucci sales growth has been driven by Europe (+20%) and by Japan (+1%) while sales momentum in US and in Asia-Pacific remained negative (respectively -5% and -2%). Nevertheless, Gucci sales momentum has accelerated in March, and the trend was confirmed in the first days of April, which is encouraging for Q2 despite a more demanding comparison basis. RTW and Shoes performed well (more seasonal products) where the transition is more advanced with around 80-90% of sales carried out with Alessandro Michele while the Leather Goods transition is taking more time. In Q2, management expects that 2/3 of sales should be achieved with the AM collection and this should help revenues momentum. In Q1, Gucci closed three stores net of openings and 13 new stores have been refurbished with the new format, after 30 stores in 2015.
- On the other hand, **Bottega Veneta** (16% of Kering Group sales) sales were very disappointing in Q1 (-8% vs cs at -3.5%) with a new deterioration versus Q4 15 (-3.1%), as the brand suffered from its high exposure to Hong Kong/Macau markets and also to the tourists clientele in Europe (close to 70/80%). Q1 **BV** sales declined 9% in Asia-Pacific, 17% in Europe and 22% in US. The only positive point is that the BV business was quiet well oriented with local clientele in Europe.
- The only positive surprise is again coming from **YSL** (12% of Kering Group sales) that registered a strong Q1 with a 26.5% (cs:+20%) organic sales growth, globally in line with Q4 15 momentum, which highlights again the brand strong success in every region and with all products categories. Among "Others" division performance (-3%), we want to highlight still very challenging watches brands sales while momentum was better for soft luxury brands. Lastly **Puma** sales grew 8.1%, in line with expectations and FY 2016 management guidance of High Single Digit sales increase, driven by footwear (+10%) and Apparel (+7%). China was quite supporting with also solid trend in Europe.
- We have slightly adjusted our FY 2016 estimate to expect 5.4% organic sales growth vs +5.9% previously (+4.6% vs +5.4% for Kering Luxury) and have reduced our 2016 EBIT by around 2%.

## VALUATION

- The Kering share price remains almost unchanged YTD (+6% vs DJ Stoxx). The stock is trading 12.6x on 2016 EV/EBIT, a 3% premium vs peers average. Following new 2016 EBIT assumptions, we adjusted our FV from EUR 176 to EUR174 and remained Buy on the stock.

## NEXT CATALYSTS

- H1 2016 results to be released end of July.

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.3%	8.9%	5.6%	1.4%
Pers & H/H Gds	1.5%	7.8%	-1.3%	-0.1%
DJ Stoxx 600	2.6%	6.4%	-3.6%	-4.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,584	12,140	12,800	13,500
% change		4.8%	5.4%	5.5%
EBITDA	2,056	2,245	2,510	2,710
EBIT	1,646	1,825	2,070	2,270
% change		10.9%	13.4%	9.7%
Net income	1,017	1,158	1,363	1,534
% change		13.9%	17.7%	12.5%

	2015	2016e	2017e	2018e
Operating margin	14.2	15.0	16.2	16.8
Net margin	8.8	9.5	10.6	11.4
ROE	8.7	9.0	9.9	10.8
ROCE	5.8	6.4	7.2	7.9
Gearing	37.7	27.1	21.9	21.2

(EUR)	2015	2016e	2017e	2018e
EPS	8.05	9.16	10.70	11.95
% change	-	13.9%	16.8%	11.7%
P/E	19.9x	17.5x	15.0x	13.4x
FCF yield (%)	1.4%	3.1%	4.2%	5.0%
Dividends (EUR)	4.00	4.30	4.70	5.20
Div yield (%)	2.5%	2.7%	2.9%	3.2%
EV/Sales	2.1x	1.9x	1.8x	1.7x
EV/EBITDA	11.7x	10.3x	9.0x	8.3x
EV/EBIT	14.6x	12.6x	10.9x	9.9x



### Quarterly organic sales growth by division

in %	Q3 15	9m 15	Q4 15	FY 15	Q1 16
Gucci	-0.4	-1.2	4.8	0.4	3.1
Bottega Veneta	4.3	5.6	-3.1	3.2	-8.3
YSL	26.5	25.1	27.5	25.8	26.5
others	-1.1	0.3	10.6	3.1	-3.3
<b>Kering Luxury</b>	<b>3.1</b>	<b>3.0</b>	<b>7.2</b>	<b>4.1</b>	<b>2.6</b>
PUMA	3.9	5.2	11.5	6.8	8.1
<b>Kering Group</b>	<b>3.1</b>	<b>3.4</b>	<b>8.0</b>	<b>4.6</b>	<b>4.0</b>

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

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