

12th April 2016

Luxury & Consumer Goods

LVMH

Price EUR146.05

Q1 sales grew 3% organically, below expectations (+4%)

Fair Value EUR177 (+21%)

BUY

Bloomberg	MC FP
Reuters	LVMH.PA
12-month High / Low (EUR)	175.6 / 134.7
Market Cap (EUR)	74,044
Ev (BG Estimates) (EUR)	77,796
Avg. 6m daily volume (000)	966.1
3y EPS CAGR	15.2%

Yesterday, after market closure, LVMH reported Q1 sales at EUR8.62bn (consensus: EUR8.73bn), implying a 4% increase and a 3% organic growth (consensus: +4%). The main information from this release is the disappointing sales stability of the Fashion & Leather business. Nevertheless, we keep our Buy recommendation with a unchanged EUR177 FV. LVMH remains our preferred stock among our luxury sample, mainly thanks to a well-balanced portfolio business that was efficient in Q1.

ANALYSIS

- LVMH Q1 sales reached EUR8.62bn, up 4% and 3% organically, after +5% in Q4 2015 and +6% in 2015.** By division, we highlight the very positive momentum for the Wines & Spirits division (13% of Group sales and 21% of Group EBIT) with a 6% increase (in line with expectations) even if this performance was achieved on an undemanding basis (-1% in Q1 15), particularly with the cognac division (-7%). Champagne and cognac did well during the quarter. For champagne, activity remained positively oriented particularly in Europe and **Hennessy** sales benefited from US market and the end of destocking in China and better underlying trend (sell out flattish), which is encouraging.
- Fashion & Leather division sales (35% of group sales and 53% of Group EBIT) remained stable in Q1 (cs:+2%) on an easy comparison basis (+1%), but this undemanding comp is the consequence of the very strong Q1 14 (+9%), partly due to the higher VAT in Japan from April 1st 2014. We estimate that **Louis Vuitton** sales remained almost stable, in line with the division performance. Nevertheless, **Fendi** and **Celine** achieved stronger sales increase than the division average and **Donna Karan** and **Marc Jacobs** lower than average. Perfumes & Cosmetics revenues achieved a strong quarter with a 9% organic increase. Beyond a very healthy market (+5% in 2015), **Parfums Christian Dior** gained market share thanks to the successful launch of the new mens' fragrance *Sauvage* and womens' *Poison Girl*. Watches & jewelry sales achieved a robust 7% sales increase, driven by Bulgari and by Tag Heuer. Selective retail division momentum remained positive in Q1 (+4%), despite DFS poor activity, a consequence of lower sales in Hong Kong, but thanks to still dynamic Sephora which continues to gain market share, particularly in the US.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.2%	8.0%	-11.9%	0.8%
Pers & H/H Gds	-1.4%	4.1%	-2.0%	-2.2%
DJ Stoxx 600	-2.7%	-2.2%	-8.3%	-9.0%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	30,638	35,664	37,460	39,660
% change		16.4%	5.0%	5.9%
EBITDA	6,576	7,505	8,025	8,745
EBIT	5,716	6,605	7,075	7,745
% change		15.6%	7.1%	9.5%
Net income	2,972	3,573	4,204	4,547
% change		20.2%	17.7%	8.2%

	2014	2015e	2016e	2017e
Operating margin	18.7	18.5	18.9	19.5
Net margin	9.7	10.0	11.2	11.5
ROE	11.5	12.7	13.6	13.4
ROCE	10.3	10.1	10.5	10.9
Gearing	16.5	13.4	9.4	5.5

(EUR)	2014	2015e	2016e	2017e
EPS	5.92	7.11	8.37	9.05
% change	-	20.2%	17.7%	8.2%
P/E	24.7x	20.5x	17.4x	16.1x
FCF yield (%)	3.9%	3.1%	3.8%	4.3%
Dividends (EUR)	3.20	3.55	3.90	4.30
Div yield (%)	2.2%	2.4%	2.7%	2.9%
EV/Sales	2.6x	2.2x	2.1x	1.9x
EV/EBITDA	11.9x	10.4x	9.6x	8.7x
EV/EBIT	13.7x	11.8x	10.9x	9.8x

Quarterly organic sales growth by division

in %	Q3 15	9m 15	Q4 15	2015	Q1 16
Wine & Spirits	16	7	4	6	6
Fashion & Leather	3	5	3	4	0
Perfumes & Cosmetics	7	7	7	7	9
Watches & Jewelry	11	10	3	8	7
Selective Retail	5	5	5	5	4
LVMH Group	7	6	5	6	3

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

- Even if LVMH did not yet release its Q1 sales performance by geographic area (we will get this information today during the 3pm conference call), we anticipate that Europe (excluding France) and Japan were still growing during the quarter, albeit likely at a lower pace than in Q4 15 (respectively +6% and +12%), while we argue that the situation should have improved slightly in Asia-Pacific. The US remained likely dynamic.

VALUATION

- LVMH share price remained almost stable YTD (-7% on 1m), implying a 10% outperformance vs DJ Stoxx. LVMH is trading 10.9x on 2016 EV/EBIT vs 11.3x for our luxury sample. We remain Buy on the stock with an unchanged EUR177 FV.

NEXT CATALYSTS

- Conference call today at 3pm.

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