

13th April 2016

Luxury & Consumer Goods

LVMH

Price EUR148.30

Reassuring information on LV!

Fair Value EUR174 vs. EUR177 (+17%)

BUY

Bloomberg	MC FP
Reuters	LVMH.PA
12-month High / Low (EUR)	175.6 / 134.7
Market Cap (EURm)	75,185
Ev (BG Estimates) (EURm)	78,936
Avg. 6m daily volume (000)	974.9
3y EPS CAGR	14.6%

Yesterday conference call gave the management the opportunity to add more information on the relatively poor Q1 sales performance. Actually, Fashion & Leather division sales grew 2% excluding the US brands which is reassuring on LV trend. Nevertheless, cautiously, we are trimming our 2016 EBIT by 1.5% and now expect an EBIT margin gain of 10bp vs +40bp previously. Hence our new EUR174 FV vs EUR177. Buy recommendation reiterated.

ANALYSIS

- Within **Wines & Spirits division** (sales up 6% in Q1 2016), Champagne sales grew 3% (-1% in volume), while Hennessy revenues were up 7% (+8% in volume). Hennessy sales increase has been driven by US and also by China, as sell-out sales grew double-digit in US and depletion in MC increased MSD for VSOP and even stronger for XO.
- Concerning the **Fashion & Leather** sales stability, LVMH management added that excluding US brands as Marc Jacobs and Donna Karan, divisional sales grew 2% (including for Louis Vuitton). LV Q1 momentum slowdown vs Q4 2015 (+3%) is mainly due to fewer tourists in Europe and particularly in France (in France, tourists account for around 60% of LV sales versus 37% for LV average). For instance, LV sales in Paris were down double digit in Q1. In our view, Paris accounts for around 4% of LV revenues. If LV sales in mainland China grew slightly, revenues with Chinese clientele was flattish due to less momentum with Chinese tourists (particularly). LV sales increase was particularly driven by small leather goods. If LV activity with tourists was penalized, business with locals was resilient. For instance sales in Italy and in UK were up high single digit.
- **By geographical area**, it is worthnoting the strong momentum in Japan (+6%, despite some slowdown versus Q4 2015 with +12% as comps become more challenging), driven by local consumers (up low-single-digit for Louis Vuitton) and even more by still-dynamic Chinese tourists flows (+100% in January and +35% in February) thanks to pricing difference and more value-added shopping experience (better service and bigger stores with larger products offer). US is also well oriented (+6% vs +5% in Q4 2015) mainly driven by Hennessy sales and Sephora market shares gains while LV sales slowed down slightly. On the other hand, Europe remained very strong in Q1 (+7% vs +6% in Q4 2015), thanks to Pefumes & cosmetics, Wines & Spirits and and Sephora. Lastly, in Asia-Pacific, sales were down 2% in line with in Q4 2015 and -5% on FY 2015. Nevertheless, in Asia-Pacific, LV sales recovered in Q1 2016.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.8%	6.3%	-10.9%	2.3%
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	37,305	39,360
% change		16.4%	4.6%	5.5%
EBITDA	6,576	7,505	7,915	8,670
EBIT	5,716	6,605	6,965	7,670
% change		15.6%	5.5%	10.1%
Net income	2,972	3,573	4,094	4,472
% change		20.2%	14.6%	9.2%

	2014	2015e	2016e	2017e
Operating margin	18.7	18.5	18.7	19.5
Net margin	9.7	10.0	11.0	11.4
ROE	11.5	12.7	13.3	13.3
ROCE	10.3	10.1	10.2	10.7
Gearing	16.5	13.4	9.8	6.1

(EUR)	2014	2015e	2016e	2017e
EPS	5.92	7.11	8.15	8.90
% change	-	20.2%	14.6%	9.2%
P/E	25.1x	20.8x	18.2x	16.7x
FCF yield (%)	3.8%	3.0%	3.6%	4.1%
Dividends (EUR)	3.20	3.55	3.90	4.30
Div yield (%)	2.2%	2.4%	2.6%	2.9%
EV/Sales	2.6x	2.2x	2.1x	2.0x
EV/EBITDA	12.1x	10.5x	9.9x	8.9x
EV/EBIT	13.9x	12.0x	11.2x	10.1x

Organic sales growth by geographical area

chge in %	Q3 15	9m 15	Q4 15	2015	Q1 16
US	12	11	5	9	6
Japan	24	13	12	13	6
Asia Pacific	-8	-6	-2	-5	-2
Europe	12	12	6	10	7
Group	7	6	4	6	3

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

- Following Q1 **Fashion & Leather division** sales stability (even if LV is up 2%) and given the likely impact on Group profitability (F&L business accounts for 53% of LVMH EBIT), we are slightly more cautious and have trimmed our FY 16 EBIT by around 1.5% and we currently expect 2016 EBIT margin to be almost stable (+10bp to 18.6%) versus +40bp previously.

VALUATION

- Following FY 2016 EBIT adjustments, we are lowering our Fair Value from EUR177 to EUR174, and nevertheless we keep our Buy recommendation. LVMH is trading 11.2x on 2016 EV/EBIT (in line with luxury sector average).

NEXT CATALYSTS

- H1 results to be released end of July 2016.

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