

19th May 2016

Luxury & Consumer Goods

## Burberry

Price 1,112p

Too early to sing in the rain! (full report published today)

Fair Value 1200p (+8%)

**NEUTRAL** coverage initiated

Bloomberg	BRBY LN
Reuters	BRBY.L
12-month High / Low (p)	1,808 / 1,078
Market Cap (GBPm)	4,949
Ev (BG Estimates) (GBPm)	4,312
Avg. 6m daily volume (000)	2 336
3y EPS CAGR	2.6%

We are initiating coverage of Burberry with a Neutral recommendation and a Fair Value of 1,200p. In a luxury sector enduring a slowdown in growth, Burberry is likely to underperform the sector in 2016/17 as was the case in 2015/16. In our view, Burberry suffers from a riskier profile compared to peers. The share is trading with a small discount vs the sector average on 2016 EV/EBIT

### ANALYSIS

- Burberry is a global luxury brand. However, its current profile looks riskier than some of its peers in view of i/ its relatively lower weight in retail (73% of sales) compared with some most comparable rivals, ii/ over-exposure to Chinese customers (37% of sales vs. an average of 30% for the soft luxury sector), and above all, iii/ very high exposure to Apparel (53% of sales), the most volatile and most competitive segment in the luxury industry.
- In 2015/16 (end March 2016), Burberry sales declined 1% same forex (underlying) including a 1% increase for Retail network (-1% at same stores including -5% in Q4 alone). Consequently, and given a 5% OPEX increase at same forex, EBIT margin (GBP418m) declined 140bp to 16.6%.
- For 2016/17, we are expecting sales to stabilize at same forex, of which a 2% increase for Retail (stable at same stores). EBIT should remain unchanged despite cost savings program that will have a positive GBP20m impact this year (GBP100m on three years). EBIT margin should therefore decline 60bp to 16.0%.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-13.0%	-12.9%	-13.3%	-6.9%
Pers & H/H Gds	-0.4%	2.2%	-4.5%	-0.3%
DJ Stoxx 600	-1.9%	2.6%	-11.0%	-7.7%

YEnd Mar. (GBPm)	03/15	03/16e	03/17e	03/18e
Sales	2,523	2,515	2,630	2,735
% change		-0.3%	4.6%	4.0%
EBITDA	585	550	560	625
EBIT	455.0	417.8	420.0	485.0
% change		-8.2%	0.5%	15.5%
Net income	336.1	309.5	314.0	364.0
% change		-7.9%	1.5%	15.9%

	03/15	03/16e	03/17e	03/18e
Operating margin	18.0	16.6	16.0	17.7
Net margin	13.3	12.3	11.9	13.3
ROE	24.0	19.7	18.5	19.5
ROCE	49.0	41.4	40.2	45.3
Gearing	-38.0	-40.7	-42.9	-46.5

(p)	03/15	03/16e	03/17e	03/18e
EPS	76.75	69.90	71.84	83.01
% change		-8.9%	2.8%	15.5%
P/E	14.5x	15.9x	15.5x	13.4x
FCF yield (%)	0.0%	0.0%	0.1%	0.1%
Dividends (p)	35.20	37.00	37.00	37.00
Div yield (%)	3.2%	3.3%	3.3%	3.3%
EV/Sales	1.7x	1.7x	1.6x	1.5x
EV/EBITDA	7.5x	7.8x	7.5x	6.5x
EV/EBIT	9.7x	10.3x	10.0x	8.4x

### VALUATION

- Even though Burberry is 100% free float, we do not believe in a modification of the UK group's capital. Indeed, the size already reached (market capitalisation of GBP5bn or EUR6.5bn) and the group's high dependence on ready-to-wear/Apparel does not make it an ideal candidate for an acquisition. Our Fair Value of 1,200p is the result of a DCF valuation (WACC of 8.9% and growth to infinity of 2.5%). The stock is trading with a slight discount versus our luxury sample average.

### NEXT CATALYSTS

- October 2016: H1 trading update.

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