

17th June 2016

Luxury & Consumer Goods

**LVMH**

Price EUR137.60

Slight 2016 EBIT adjustment

Fair Value EUR171 vs. EUR174 (+24%)

**BUY**

Bloomberg	MC FP
Reuters	LVMH.PA
12-month High / Low (EUR)	175.6 / 134.7
Market Cap (EUR)	69,852
Ev (BG Estimates) (EUR)	72,972
Avg. 6m daily volume (000)	913.0
3y EPS CAGR	11.2%

**LVMH will release its H1 2016 results end of July and we expect sales to be up 3% organically with 20bps EBIT margin erosion (17.5%). We have also adjusted our FY 2016 prospects slightly. We have marginally reduced our top line estimates and we cut our FY 16 EBIT by 2%. Nevertheless, we maintain our Buy recommendation with a new EUR171 FV versus EUR174 previously.**

**ANALYSIS**

- Given the current challenging environment for the luxury goods industry, we have adjusted LVMH prospects for 2016. We have cut our 2016 EBIT by 2% and we expect the EBIT margin to remain stable at 18.6% (+20bp previously). We have adjusted our sales momentum slightly and we expect 4% organic sales growth in 2016 (+3% in H1 followed by +6% in H2), partly driven by a less demanding comparison basis, particularly in Q4 (+5%) vs +6% in H1 15.
- For H1 2016, we anticipate a 3% organic sales increase, ie the same as in Q1. The most significant sales growth driver will be the **Wines & Spirits** division with an expected 5% revenues increase particularly thanks to **Hennessy** (+6%), driven by a still-dynamic trend in the US and positive momentum in Mainland China despite flattish sell-out. **Champagne** sales should be up 4%, implying a rebound in Q2 (+5%) after a relatively poor Q1 (+3%), due to more demanding comps (pricing increase impact last year). **Fashion & Leather** revenues are expected to be stable in H1 with a 1% decline in Q2 alone. **Louis Vuitton** sales are expected to be slightly up in H1 including almost no growth in Q2 alone after around +2% in Q1. The expected Q2 slowdown should be partly a consequence of lower tourists flows in Europe (in Q1, visitors to Paris declined 13% and we anticipate a similar trend in Q2). We also want to highlight that on two years, Q2 comps are in line with Q1 (almost +5% for both quarters). Furthermore, as in Q1, **Marc Jacobs** and **Donna Karan** sales are expected to be down while **Fendi** and (to a lesser extent) **Céline** should continue to enjoy positive trends.
- Perfumes & Cosmetics** and **Watches & Jewelry** in Q2: despite some slowdown vs Q1, these divisions should be buoyant again with mid-single-digit increases, implying new market share gains at Tag Heuer and Christian Dior Parfums. Lastly in the **Selective Retail** division, Sephora momentum will remain solid while DFS is clearly suffering from lower tourists flows particularly in Hong Kong.
- Consequently, we expect H1 EBIT to be almost stable (+2%) at EUR3bn with a very slight EBIT margin erosion (17.5% vs 17.7%)** including a 50bp decline for the Fashion & Leather division as Louis Vuitton should experience slight operating deleveraging, but Marc Jacobs and Donna Karan losses should be reduced. In our view, LV needs at least a 3% organic sales increase to maintain profitability. Selective retail should also report a decline in profitability (-70bp to 7.6%) due to DFS. On the other hand, all the others divisions should register margin improvement of which +60bp to 12.1% at Perfumes & Cosmetics and +50bp to 13.7% at Watches & Jewelry.
- For FY 2016, we lowered our FY EBIT by 2%** and we expect margin stability (18.5%) versus +20bp previously. This adjustment comes mainly from the F&L division (-50bp versus -10bp previously) and also marginally from Selective Retail (-70bp vs -40bp), while we have not changed our assumptions for others businesses, which should report higher profitability including +80bp at Wines & Spirits (30.4%) and +60bp at Watches & Jewelry.

**VALUATION**

- LVMH's share price is down 5% both YTD and over the past month** (versus -10% and -5% respectively for our luxury sample). On 2016 EV/EBIT (10.8x), the stock is trading on a 7% discount versus the average for luxury peers. **Even though we lower our FV from EUR174 to EUR171 (following our EBIT prospects), we maintain our Buy recommendation with 23% upside, as we argue that LVMH should nevertheless be one of the best performing luxury groups.**

**NEXT CATALYSTS**

- H1 results to be reported end of July.

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BUY ratings 56,5%

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