

## Sector View

## Luxury Goods

Reduced visibility in the short term: be selective!

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	3.5%	4.0%	-2.8%	2.0%
DJ Stoxx 600	1.7%	4.1%	-9.9%	-5.0%

\*Stoxx Sector Indices

Q1 2016 has been a tough quarter with almost no organic sales growth, partly due to lack of tourists (mainly Chinese) in Europe. In this challenging environment, LVMH (BUY-FV: EUR174), Hermès (BUY-FV: EUR355) and Moncler (BUY-FV: EUR17) are our preferred stocks.

## Companies covered

<b>BURBERRY</b>	<b>NEUTRAL</b>	<b>1200p</b>
Last Price	1074p	Market Cap. GBP4,780m
<b>CHRISTIAN DIOR</b>	<b>BUY</b>	<b>EUR175</b>
Last Price	EUR146.55	Market Cap. EUR26,632m
<b>HERMES Intl</b>	<b>BUY</b>	<b>EUR355</b>
Last Price	EUR324.95	Market Cap. EUR34,305m
<b>HUGO BOSS</b>	<b>NEUTRAL</b>	<b>EUR77</b>
Last Price	EUR55.23	Market Cap. EUR3,888m
<b>KERING</b>	<b>BUY</b>	<b>EUR174</b>
Last Price	EUR145.15	Market Cap. EUR18,328m
<b>LVMH</b>	<b>BUY</b>	<b>EUR174</b>
Last Price	EUR144.05	Market Cap. EUR73,049m
<b>MONCLER</b>	<b>BUY</b>	<b>EUR17</b>
Last Price	EUR14.99	Market Cap. EUR3,750m
<b>PRADA</b>	<b>NEUTRAL</b>	<b>HKD35</b>
Last Price	EUR25.5	Market Cap. EUR65,250m
<b>RICHEMONT</b>	<b>NEUTRAL</b>	<b>CHF63</b>
Last Price	CHF58.55	Market Cap. CHF32,788m
<b>SALVATORE FERRAGAMO</b>	<b>BUY</b>	<b>EUR25</b>
Last Price	EUR19.23	Market Cap. EUR3,246m
<b>THE SWATCH GROUP</b>	<b>NEUTRAL</b>	<b>CHF370</b>
Last Price	CHF293	Market Cap. CHF16,187m
<b>TOD'S GROUP</b>	<b>SELL</b>	<b>EUR60</b>
Last Price	EUR54.1	Market Cap. EUR1,790m

## ANALYSIS

- The recent Q1 publication (with on average almost no organic sales growth) and other sector information lead us to be even more cautious in the short term on the luxury industry's prospects with a likely challenging Q2 due to a demanding comparison basis (+5% in Q2 2015), while in Q3 and Q4, comps will be much more favourable.
- This trend is mainly due to Europe which decelerated significantly from 15% growth in 2015 to almost no growth in Q1 2016. This clear slowdown is partly the consequence of the terrorist attacks in Paris and in Brussels but also due to the recent lower USD vs EUR. For instance, according to Global Blue, Chinese tourists' duty-free spending in Europe decreased by 24% in March and by 18.5% in April versus last year. But American and Japanese tourists are also lacking. Therefore, we remain cautious in the short term and do not expect any clear recovery in Q2.
- Among this challenging environment, we need to be even more selective in our investment strategy. We favour **LVMH** (BUY-FV: EUR174), **Hermès** (BUY-FV: EUR355) and **Moncler** (BUY-FV: EUR17) while we are more cautious and NEUTRAL on **Burberry** (FV: 1,200p), **Richemont** (FV: CHF63) and **Swatch Group** (FV: CHF370). We remain BUY on **Kering** (FV: EUR174) and SELL on **Tod's Group** (FV: EUR60).

## VALUATION

- On 2016e EV/EBIT, the luxury sector average is trading at a 10% discount vs the historical average. Although Tod's is the most expensive, excluding unsurprisingly Hermès, LVMH is trading at a 7% discount vs the peers average and on an attractive level, hence our Buy recommendation.

## NEXT CATALYSTS

- 2016 H1 results should be reported from end of July.

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BUY ratings 55.9%

NEUTRAL ratings 34.3%

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