

Sector View

Luxury Goods

Terror Attack in Nice: we remove LVMH and Moncler from the "Top Picks" list

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	6.7%	2.2%	8.5%	1.9%
DJ Stoxx 600	5.6%	-1.6%	-0.3%	-7.5%
*Stoxx Sector Indices				

Companies covered

BURBERRY	NEUTRAL	1200p
CHRISTIAN DIOR	BUY	EUR175
HERMES Intl	BUY	EUR355
HUGO BOSS	NEUTRAL	EUR77
KERING	BUY	EUR170
LVMH	BUY	EUR171
MONCLER	BUY	EUR17
PRADA	NEUTRAL	HKD35
RICHEMONT	NEUTRAL	CHF63
SALVATORE FERRAGAMO	BUY	EUR23
THE SWATCH GROUP	NEUTRAL	CHF270 vs.370
TOD'S GROUP	SELL	EUR53

Following the Bastille Day attack in Nice (France) yesterday evening, we remove our two luxury groups (LVMH and Moncler) from BG's "Top Picks List" as tourist flows to France and Western Europe will certainly remain affected in the coming weeks. Lastly, the disappointing publication of Swatch H1 results this morning will also play negatively for the luxury sector.

ANALYSIS

- **We were already anticipating a weak H1 in Europe...** Indeed we were expecting Europe, which accounts for approx. 33% of the global personal luxury goods market, to be slightly negative over H1 16 because of the terrorist attacks in Paris (Nov '15) and in Brussels (Mar '16), leading to much lower tourist flows from the U.S, China and Japan (e.g.: Japanese customers were down 50% in Q1 in Paris). Moreover, a less attractive pricing gap between Europe and Mainland China and stricter customs controls from Chinese authorities to reduce the "daigou" trade are additional headwinds.
- **... but this new attack should affect Q3 as well!** We note that, on average, France represents ~7% of sales generated by our luxury sample and the French Riviera is France's second busiest luxury market after Paris (~3-4% of sales). Furthermore, French President also announced that State of Emergency was extended by three months at least, which means that Japanese and Asian tour operators would not visit France for insurance/safety reasons.
- **Hence we remove LVMH and Moncler from BG's "Top Picks" list.** Even though the environment was already challenging for the luxury, we were favouring **LVMH** (defensive and diversified profile, attractive valuation) and **Moncler** (strongest top line momentum in the industry, attractive valuation too). However, we now believe that this new terrorist attack would cast another dark shadow over the luxury sector even if it does not call into question their fundamentals over the MT/LT.

VALUATION

- Whilst our luxury sample (excl. Hermès) is trading at 10.7x 2017e EV/EBIT on average, **LVMH** is at 9.8x (~9% discount) and **Moncler** (10.9x) trades fairly in line with the sector average.

NEXT CATALYSTS

- H1 16 Results: LVMH on 26 July // Moncler on 27 July // Kering on 28 July.

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Distribution of stock ratings

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NEUTRAL ratings 0%

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