

Hermès Intl.

Price EUR370.25

Hermes still our favourite stock in our luxury sample!**Fair Value EUR370 vs. EUR355 (0%)****BUY**

Bloomberg	RMS FP
Reuters	HRMS.PA
12-month High / Low (EUR)	370.3 / 291.6
Market Cap (EUR)	39,087
Ev (BG Estimates) (EUR)	37,315
Avg. 6m daily volume (000)	55.90
3y EPS CAGR	13.4%

With a 7.2% increase, Hermès' H1 2016 sales were above market and BG expectations, thanks to an outstanding increase in leather goods sales (+17.1% in Q2). Consequently, Hermès' management added that H1 profitability should be up 100bp (around 33.5%). We have upgraded our 2016 earnings by 2% and as a consequence, our new FV is EUR370 vs EUR355. Buy reiterated as RMS still seems to us to be the best idea in our luxury goods stocks sample.

ANALYSIS

- **Hermès' H1 2016 sales were very encouraging with 7.2% organic growth and above all +8.1% in Q2 alone** vs +6.2% in Q1. Retail sales (82% of sales) grew 8% in Q2 vs +7% in Q1. It is worth noting that the H1 sales increase benefited from no price increase and very limited space effect.
- **The Q2 acceleration was driven by France (14% of total sales) registering an 8.8% revenue increase during the second quarter** versus +5.6%, which was already a strong performance given the lack of tourists. At this time, we would highlight that Hermès(sales in France are less exposed to tourists than others players, we argue that Hermès figure is below 50% while it is closer to 50-60% for Louis Vuitton for instance (BG est). Group CFO added also that Q2 benefited from some exceptional sales with both local and tourists clientele while traffic in Parisian stores was lower. **Americas** sales were also far better oriented in Q2 than in Q1 (+12% vs +4.4%), which is particularly due to retail while wholesale is still more difficult. Management remains cautious for H2 and does not want to extrapolate in H2 the Q2 trend. In **Asia-Pacific** (35% of total sales) enjoyed also a rebound in Q2 (+6.7%) vs Q1 (+3.9%) ,in Q1 which is fully attributed to Mainland China (as it is the case for some other peers) while momentum remains depressed in Hong Kong and Macau (slight revenues decline). Slight Q2 slowdown in Japan (+7.3% in Q2 after +12.6% in Q1) is mainly due to lower Chinese tourists given JPY strength and this trend should accelerate in H2.

Organic sales growth by geographical area

lfl chge (%)	9M 2015	Q4 2015	2015	Q1 2016	Q2 2016	H1 2016
France	8,2	1,2	6,2	5,6	8,8	7,3
Europe	10,6	11,6	10,8	11,6	6,7	9,1
Americas	7,4	5,8	6,8	4,4	12,1	8,3
Japan	19,1	16,2	18,3	12,6	7,3	10
Asia-Pacific	5,1	5,2	5,1	3,9	6,7	5,3
others	-2,7	-0,7	-2,2	-18,2	11,7	-4,9
Total Group	8,9	7,1	8,1	6,2	8,1	7,2

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

- **By business, the most significant information from the H1 release was the outstanding increase in the leather goods division (47% of sales)** thanks to dynamic final demand and more importantly, to higher production capacity. Beyond LG, it is worth noting the slight improvement for silk sales (-4% in Q2 vs -9.2% in Q1).
- **Hermès' management added that the H1 EBIT margin should be up by around 100bp** (33.5%) thanks to forex impact (positive hedging policy on USD,) but also due to a positive product mix (leather goods outperformance) and distribution mix (retail outperformed wholesale). We guess that FY profitability gains should be in line with the H1 performance hence our 2% higher FY 2016 earnings expectations.

VALUATION

- **Given our new FY 2016 earnings expectations, we have upgraded our FV from EUR355 to EUR370.** We are making no change to our Buy recommendation. We firmly think that given current luxury goods industry uncertainties, Hermès should continue to outperform its peers hence our Buy recommendation.

NEXT CATALYSTS

- H1 results to be reported mid September.



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