7th July 2016

Luxury & Consumer Goods

Kering

Price EUR143.65

Gucci should reassure, but some disapointments for BV are likely!

Fair Value EUR170 vs. EUR174 (+18%) **BUY**

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	181.5 / 138.6
Market Cap (EUR)	18,138
Ev (BG Estimates) (EUR)	20,938
Avg. 6m daily volume (000)	289.0
3y EPS CAGR	12.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.1%	-6.3%	-4.4%	-9.1%
Pers & H/H Gds	-2.5%	0.7%	2.1%	-1.2%
DJ Stoxx 600	-6.9%	-3.6%	-10.0%	-12.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,584	12,000	12,620	13,500
% change		*3.6%*	*5.2%*	*7.0%*
EBITDA	2,056	2,185	2,440	2,640
EBIT	1,646	1,765	2,000	2,200
% change		*7.2%*	*13.3%*	*10.0%*
Net income	1,017	1,098	1,293	1,464
% change		*8.0%*	*17.8%*	*13.2%*

	2015	2016e	2017e	2018e
Operating margin	14.2	14.7	15.8	16.3
Net margin	8.8	9.2	10.2	10.8
ROE	8.7	8.5	9.4	10.3
ROCE	5.8	6.1	6.8	7.5
Gearing	37.7	27.1	21.9	21.2

(EUR)	2015	2016e	2017e	2018e
EPS	8.05	8.69	10.15	11.40
% change	-	*8.0%*	*16.8%*	*12.3%*
P/E	17.9x	16.5x	14.2x	12.6x
FCF yield (%)	1.6%	3.1%	4.3%	5.2%
Dividends (EUR)	4.00	4.30	4.70	5.20
Div yield (%)	2.8%	3.0%	3.3%	3.6%
EV/Sales	1.9x	1.7x	1.6x	1.5x
EV/EBITDA	10.7x	9.6x	8.4x	7.7x
EV/EBIT	13.3x	11.9x	10.2x	9.3x

Kering will report its H1 results on July 28th (after market closure). We expect sales to grow 3.9% organically, globally in line with H1 (+4%) despite some slowdown for Luxury division in Q2 vs Q1 (+0.7% vs +2.7%). Kering EBIT margin should be slightly down (-20bp to 13.8%). We adjust our 2016 EBIT estimates slightly (by 2-3%) and consequently we lower our Fair Value from EUR174 to EUR170, but remain at Buy as we are confident on the Gucci brand turnaround for the coming quarters.

ANALYSIS

- **Kering will report its H1 sales and results on Thursday July 28th after market closure. We anticipate Q2 sales to be up 3.7% organically, slightly lower than Q1 (+4%).** The main driver for this slowdown is the Luxury division, with a 0.7% increase in Q2 vs +2.7% in Q1, which implies +1.6% in H1. First of all, **Gucci** (almost 60% of Group EBIT) should report a slight slowdown in Q2 (+1.3% vs +3.1% in Q1), due to much more demanding comp (-8% in Q1 15 but +4.6% in Q2 15) and this is particularly true for Retail (-4% vs +10% respectively). Nevertheless, Q2 sales momentum illustrates that **Gucci** brand transformation is underway and in line with management expectations and Q3 comp will much less demanding. On the other hand, the situation is more complex for **Bottega Veneta** (20% of Kering EBIT) as we expect sales to be down 11% in Q2 following -8.3% in Q1. The Italian high-end brand is particularly affected by current market conditions (much less tourists as around 75% of brand sales are from Asian clients). Hopefully, **YSL** is in a far better shape with again expectations of very positive sales momentum (we anticipate 22% sales growth). Lastly **Puma**, we guess that this quarter has been again very well oriented given the brand recovery and the EURO football positive impact. Therefore, we factor in Q2 a slight acceleration vs Q1 (+10% vs +8.1%) with likely a softer trend in Q3.

Quaterly organic sales growth

in %	Q4 15	FY 15	Q1 16	Q2 16e	H1 16e
Gucci	4.8	0.4	3.1	1.3	2.2
Bottega Veneta	-3.1	3.2	-8.3	-11.0	-9.6
YSL	27.5	25.8	26.5	21.7	24.0
Autres	10.6	3.1	-3.3	-4.6	-4.0
Total Luxe	**7.2**	**4.1**	**2.7**	**0.7**	**1.6**
PUMA	11.5	6.8	8.1	10.0	9.0
Kering Group	**8.0**	**4.6**	**4.0**	**3.7**	**3.9**

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

- **Kering's H1 profitability should come under slight pressure, with an EBIT margin at 13.8%, implying a 20bp decline vs H1 15**. This is the consequence of margin erosion for the Luxury division of 50bp (20.9%), but +40bp for Puma (2.8%). The slight deterioration in Luxury's profitability should mainly come Bottega Veneta with an expected 270bp decline to 25.4% (operating deleverage given sales decline and higher costs) while Gucci brand should report 70bp margin gain to 27.2% (mainly due to less negative FX impact). YSL is expected to achieve a significant margin improvement (+150bp to 15%) thanks to operating leverage. For FY 16, we slightly lower our EBIT expectations (-2/3%) mainly due to BV profitability deterioration. This implies a 40bp margin gain vs +70bp previously expected.

VALUATION

- **Following our estimates adjustments, we lower our Fair Value from EUR174 to EUR170**. Nevertheless, we reiterate our Buy recommendation as we are convinced that the Gucci brand's turnaround is underway that should be more obvious in coming quarters. At 11.9x 2016 EV/EBIT, the stock is trading in line with our luxury stocks sample. The share price is down 6% on 3m (-9% for our luxury sample).

NEXT CATALYSTS

- H1 results to be reported on July 28th (after market closure).

Click here to download document

Analyst :
Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com

Sector Team :
Nikolaas Faes
Antoine Parison
Cédric Rossi
Virginie Roumage

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 56,8% NEUTRAL ratings 33,8% SELL ratings 9,5%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the
Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

Important information

This document is classified under the FCA Handbook as being investment research (independent research). Bryan Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan Garnier & Co Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom

This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC. 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.

This Report is based on information obtained from sources that Bryan Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available..