29th July 2016

Luxury & Consumer Goods

Kering

Price EUR160.00

H1 beat expectations with strong recovery at Gucci in Q2 (sales up 7%)

Fair Value EUR175 vs. EUR170 (+9%) **BUY**

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	181.5 / 138.6
Market Cap (EUR)	20,203
Ev (BG Estimates) (EUR)	23,003
Avg. 6m daily volume (000)	271.5
3y EPS CAGR	12.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	13.4%	6.1%	5.7%	1.3%
Pers & H/H Gds	5.6%	1.9%	6.0%	2.2%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,584	12,060	12,620	13,500
% change		*4.1%*	*4.6%*	*7.0%*
EBITDA	2,056	2,245	2,440	2,640
EBIT	1,646	1,825	2,000	2,200
% change		*10.9%*	*9.6%*	*10.0%*
Net income	1,017	1,158	1,293	1,464
% change		*13.9%*	*11.7%*	*13.2%*

	2015	2016e	2017e	2018e
Operating margin	14.2	15.1	15.8	16.3
Net margin	8.8	9.6	10.2	10.8
ROE	8.7	9.0	9.4	10.3
ROCE	5.8	6.4	6.8	7.5
Gearing	37.7	27.1	21.9	21.2

(EUR)	2015	2016e	2017e	2018e
EPS	8.05	9.16	10.15	11.40
% change	-	*13.9%*	*10.8%*	*12.3%*
P/E	19.9x	17.5x	15.8x	14.0x
FCF yield (%)	1.4%	3.1%	3.9%	4.6%
Dividends (EUR)	4.00	4.30	4.70	5.20
Div yield (%)	2.5%	2.7%	2.9%	3.3%
EV/Sales	2.1x	1.9x	1.8x	1.7x
EV/EBITDA	11.7x	10.2x	9.2x	8.5x
EV/EBIT	14.6x	12.6x	11.3x	10.2x

Kering H1 2016 results were globally in line with estimates. Sales grew 5.5% organically to EUR7.2bn (consensus: EUR5.6bn), including +6.9% in Q2 (cs:+3.5%), while EBIT increased 5% to EUR811m (consensus: EUR795m), implying a 14.2% EBIT margin (20bp). Gucci's strong performance in Q2 (+7%) confirms our view that the brand repositioning is well on track, hence our reiterated Buy recommendation on the stock. FV raised to EUR175 vs EUR170.

ANALYSIS

- **Kering revenues grew 3.3% in H1 2016 to EUR5.7bn (consensus: EUR5.6bn). Organically, sales were up 5.5% in H1**, impying +6.9% in Q2 (consensus: +3.5%) following +4% in Q1. Luxury division (65% of Kering sales) was up 4% in H1, but +5.2% in Q2 versus +2.7% for Q1. The surprising momentum Q2 acceleration is mainly due to **Gucci** (+7.4% vs +3.1%). Consensus was at +1.5%. In Q2, retail sales grew 7% vs +3%, with a rebound in APAC (+3% vs -2%). We view this strong performance as very encouraging. Brand recovery is clearly on track in our view, with new products accounting for 70% of sales in Q2 vs 50% in Q1 2016. By year-end, this figure should be close to 90-100%. Fully-priced products performed very well, particularly shoes and RTW, but also new leather goods such as *Dyonisus* bags registered a double-digit increase. On the other hand, **Bottega Veneta**'s performance was poor (in line with expectations), with a 9.8% sales decline in Q2 (-8.3% in Q1). Retail sales were down 10% in Q2. This is partly the consequence of high exposure to Asian tourists (close to 75% of sales) and poor performance for LG. Only **YSL** did very well during H1, with a 24.2% sales increase after +27.5% in Q1. The French brand is performing very well (up double digit) in all products segments and in geographic areas. The '**Others brands'** division posted sales up 2.9% in Q2 following -3.3% in Q1 and has been penalised by watches while most soft brands (particularly Stella McCartney and McQueen) did well. Lastly, **Puma** momentum was buoyant in H1 (+10.6% of which +13.2% in Q2) on the back of a very dynamic sporting goods market thanks to EURO Cup (see adidas yesterday release), but also some market share gains for the Kering brand. The brand recovery is clearly under way.
- **By geographic area, and for the luxury division Retail,** it is worth noting the slight recovery in **Asia-Pacific** (+6% in Q2 vs stability in Q1) thanks to MC, while in **Western Europe**, momentum unsurprisingly slowed in Q2 (+5% vs +10% in Q1), consequence of fewer tourists even if activity with locals was relatively strong. In WE, Gucci sales were up 20%! In **Japan** too, sales were slightly under pressure in Q2 (+2%) after +5% in Q1, again due to fewer Chinese tourists given recent JPY strength, but thanks to Gucci recovery which helped to limit the negative impact of fewer Chinese tourists. **North America** did not register a clear recovery in Q2 (-1% vs -5% in Q1) as Gucci sales did not grow in this region (the only one that did not grow!) during the quarter.
- **H1 EBIT reached EUR811m (consensus: EUR791m) and the margin was up 20bp to 14.2%.** The slight improvement in profitability was driven by both the Luxury division and Sport & Lifestyle. Luxury's EBIT margin increased 30bp to 21.7% (EUR840m vs consensus at EUR812m). This move is mainly attributable to Gucci whose margin is up 70bp to 27.6%, thanks to less negative FX negative impact than in H1 2015, a higher weighting for fully-priced products despite a negative product mix (outperformance of shoes and ready to wear), and some marketing investments. On the other hand, **Bottega Veneta**'s margin was down 320bp to 25.4% (in line with market expectations), consequence of deleveraging following the revenue decrease and also of investments to refocus the brand on more a local clientele (store expansion, for instance) and on shoes and RTW. **YSL** margin increased sharply (+620bp to 19.9%) thanks to a highly positive like-for-like top-line growth. **Puma's** H1 profitability rose 80bp to 3.2%, which is an encouraging performance.
- **Following H1 results that are better than expected, we raise our FY 2016 EBIT by 2.5%** and we expect organic sales +5% vs +4.4% previously (of which +4.1% vs +3.2% for Luxury division alone).

VALUATION

- We reiterate our Buy recommendation with a new EUR175 FV vs EUR170.

NEXT CATALYSTS

- Q3 sales to be reported mid October.

Quarterly organic sales increase

in %	Q4 15	FY 15	Q1 16	Q2 16	H1 16
Gucci	4,8	0,4	3,1	7.4	5.4
Bottega Veneta	-3,1	3,2	-8,3	-9.8	-9.1
YSL	27,5	25,8	26,5	22.1	24.2
Others	10,6	3,1	-3,3	2.9	0.0
Total Luxury	**7,2**	**4,1**	**2,7**	**5.2**	**4.0**
PUMA	11,5	6,8	8,1	13.2	10.6
Kering Group	**8,0**	**4,6**	**4,0**	**6.9**	**5.5**

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

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