

h

## Luxury Goods

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	1.4%	2.0%	8.9%	3.4%
DJ Stoxx 600	1.4%	0.2%	7.7%	-5.7%

\*Stoxx Sector Indices

### Companies covered

<b>BURBERRY</b>	<b>NEUTRAL</b>	<b>1200p</b>
Last Price	1353p	Market Cap. GBP6,004m
<b>CHRISTIAN DIOR</b>	<b>BUY</b>	<b>EUR175</b>
Last Price	EUR161,2	Market Cap. EUR29,294m
<b>HERMES Intl</b>	<b>BUY</b>	<b>EUR370</b>
Last Price	EUR389,95	Market Cap. EUR41,167m
<b>HUGO BOSS</b>	<b>NEUTRAL</b>	<b>EUR74</b>
Last Price	EUR57,53	Market Cap. EUR4,050m
<b>KERING</b>	<b>BUY</b>	<b>EUR175</b>
Last Price	EUR172,15	Market Cap. EUR21,737m
<b>LVMH</b>	<b>BUY</b>	<b>EUR171</b>
Last Price	EUR157,3	Market Cap. EUR79,867m
<b>MONCLER</b>	<b>BUY</b>	<b>EUR17,5</b>
Last Price	EUR15,59	Market Cap. EUR3,900m
<b>PRADA</b>	<b>NEUTRAL</b>	<b>HKD35</b>
Last Price	EUR21,2	Market Cap. EUR54,247m
<b>RICHEMONT</b>	<b>NEUTRAL</b>	<b>CHF63</b>
Last Price	CHF59,2	Market Cap. CHF33,152m
<b>SALVATORE FERRAGAMO</b>	<b>BUY</b>	<b>EUR23</b>
Last Price	EUR20,95	Market Cap. EUR3,536m
<b>THE SWATCH GROUP</b>	<b>SELL</b>	<b>CHF270</b>
Last Price	CHF262,7	Market Cap. CHF14,552m
<b>TOD'S GROUP</b>	<b>SELL</b>	<b>EUR53</b>
Last Price	EUR54,3	Market Cap. EUR1,797m



## A soft H1 but not so disastrous!

In H1 2016, Luxury groups were clearly affected by a quite challenging environment (lower tourist flows in Europe and uncertain situation in the US) with an average 1% organic sales growth after +3% in FY 2015. Profitability was generally slightly under pressure following almost no sales growth (despite costs control), highlighting some deleverage impact. We still favour Moncler (Buy-FV: EUR17.5), LVMH (Buy-FV: EUR171) and Kering (Buy-FV: EUR175). Meanwhile, we remain very cautious short term on Tod's Group (Sell-FV: EUR53) and on The Swatch Group (Sell-FV: CHF270).

### ANALYSIS

- As expected, H1 Luxury Goods results were mixed with some reassuring publications like Moncler (Buy-FV: EUR17.5), Hermès (Buy-FV: EUR370), LVMH (Buy-FV: EUR171) and Kering (Buy-FV: EUR175), but some others were quite disappointing such as The Swatch Group (Sell-FV: CHF270) and Tod's (Sell-FV: EUR53). Globally, H1 sales grew 1% organically following +3% in FY 2015. In Q2 alone, sales were slightly above 1% while in Q1, they were slightly below 1%, with the deviation coming from Hermes. Nevertheless, if we exclude Moncler, revenues were down 1% in both quarters highlighting a challenging environment.
- By geographical area, we would highlight the clear slowdown in **Europe** with for instance 3% revenue growth in Q2 at LVMH vs +7% in Q1 and for Kering from +10% in Q1 to +5% in Q2. Nevertheless, Hermès reported a very high sales increase in Q2 too. Unsurprisingly, tourist flows have significantly decreased following the terror attacks across Europe and the state of emergency in France. For instance, Japanese tourists were 47% lower than in H1 2015 to visit Paris and Americans were also 6% lower than in H1 2015, Chinese 20% lower and Russian 35% lower.
- On the other hand, momentum clearly improved in **Asia-Pacific**, particularly in Q2 thanks to a slight increase in Mainland China while trends remained negative in H-K/Macau (in the double-digits). In Mainland China, activity was better since the Chinese clientele bought more at home, as a consequence of tightened custom controls, unfavourable currency moves (higher JPY) and safety concerns in Europe. Actually LVMH APAC sales declined 3% in Q1 but grew 3% in Q2 and Kering revenues there were respectively stable and up 6%.

### Quarterly organic sales growth

in %	Q1 16	Q2 16	H1 16
Burberry	-2	-3	-4
Ferragamo	-2	-3	-3
Hermès	6	8	7
Hugo Boss	-3	-1	-2
Kering	4	7	6
<i>o/w Kering Luxury</i>	3	5	4
LVMH	3	4	4
<i>o/w F&amp;L division</i>	0	1	4
Moncler	17	17	17
The Swatch Group	-12	-12	-12
Tod's group	-4	-4	-4
<b>Average</b>	<b>1</b>	<b>1</b>	<b>1</b>

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

- Unsurprisingly, **Hermès** was amongst the best-performers in H1 with 7.2% organic sales growth (of which +8.1% in Q2 after +6% in Q1), driven by Leather goods (+16.3% and +17.1% in Q2), partly thanks to additional production capacities. Sales were up 8% in Europe during the half year, of which +7.3% in France with even an acceleration in Q2. Hermès' performance has to be compared with average Luxury goods industry revenues up 1%. Again **Hermès** clearly outperformed peers. And RMS H1 EBIT margin should be up around 100bp. **Kering** reported higher sales growth than expected by investors (+5.5% vs +4% expected), particularly for the luxury division. In Q2, **Gucci** brand performance was much stronger (+7.4%) than anticipated (+2%) and highlights the fact that brand renovation is underway with 70% of sales achieved with the Alessandro Michele collection. Nevertheless, **Bottega Veneta** revenues were down 9%, as the brand is over-exposed to Asian clients (70% of sales). **Kering's** profitability improved 20bp to 14.2% in H1 thanks to an 80bp gain to 27.6% for Gucci given a slight operating leverage and a less negative FX impact.

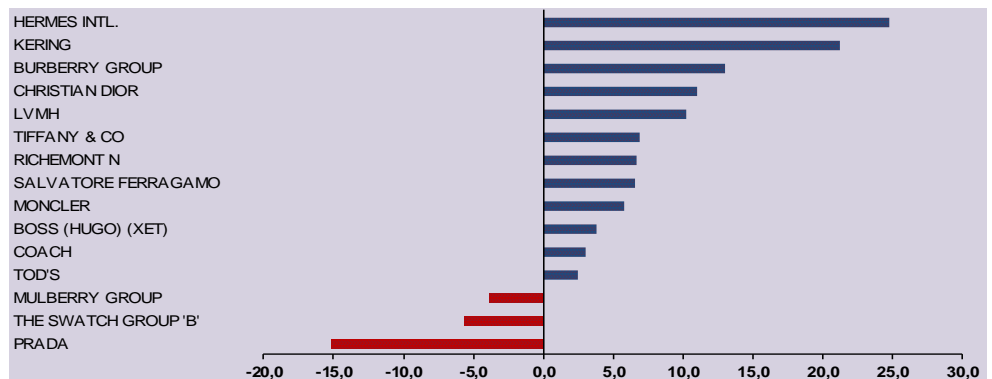
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- The other good surprise in the H1 release was **LVMH** which reported a 4% organic sales increase of which +1% for the Leather Goods & Fashion division vs 0% in Q1. We assume that Louis Vuitton sales were up around 2% in Q2. On the other hand, Wines & Spirits and Perfumes & Cosmetics activities were very well oriented with respectively 13% and 6% increases in Q2. These figures highlight the clear strength of the French group given the current challenging environment: it is the most diversified group among our luxury sample. Nevertheless, H1 EBIT margin was down 50bp to 17.2%, including -30bp for the Fashion & Leather business despite almost stable profitability for **Louis Vuitton**.
- The first half was quite heterogeneous for two groups exposed to the apparel category: **Moncler** achieved the highest growth in the sector (+17% FX-n o/w SSSG of +5%) as it outperforms a healthy outerwear segment (+5%/year) thanks to its heritage, strong legitimacy and luxury positioning. As such, Moncler has posted strong performances in two challenging regions: +30% in Asia-Pacific and +20% in the Americas. On the other hand, **Hugo Boss** (-2% FX-n o/w SSSG of -7%) faced very challenging apparel market conditions (declining footfall, deflationary trends, competition from “fast-fashion” brands), especially in the US (-19% FX-n). The group has implemented a few initiatives to restore momentum and streamline the cost structure, which should gradually bear fruits throughout H2 2016 and onwards.
- On the other hand, **Swatch Group** was the worst performer. H1 sales were down 12.5% at same forex. Over the first six months, Swiss watch exports declined 11% including -27% in Hong Kong This clearly negative trend was driven by Switzerland, Hong Kong and France that together account for 30% of group sales and we assume a 20% sales decline for these three areas. Beyond the watch brand sales decline, the movements production business was penalised by order cancellations. Only Harry Winston revenues were up in H1. The Swatch Group profitability declined severely in H1 at -870bp to 9.5% as Nick Hayek, Group CEO, did not want to adjust costs and particularly by cutting jobs, hence a very strong deleverage impact. It is worth noting that between 2013 and 2016, the group’s margin lost almost 1,300bp from 24.5% to 11.5%!!

#### VALUATION

- Over the last 3m, among our luxury sample, the best performer was **Hermès** with a 25% hike vs a 6% increase on average. But **Kering** and **LVMH** also performed quite well. Nevertheless, YTD, luxury stock share prices have fallen 2% on average (+3% vs DJ Stoxx), with again **Moncler**, **Hermès**, **Kering** and **LVMH** as the best performers.
- Despite these performances, we continue to favour these four stocks with around 12% upside for **Moncler** and **LVMH**.

#### 3m Stocks performances (in %):



Source: Datastream

#### NEXT CATALYSTS

- Hermès and Tod’s will report their H1 results mid-September.

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