

## Kering

Price EUR174.90

Gucci momentum should remain positive short term

Fair Value EUR185 vs. EUR175 (+6%)

BUY

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	177.6 / 138.6
Market Cap (EURm)	22,084
Ev (BG Estimates) (EURm)	24,884
Avg. 6m daily volume (000)	239.2
3y EPS CAGR	13.7%

After a strong performance by Kering Group in Q2, particularly at Gucci brand, we remain very confident for H2 and 2017, both for Gucci brand and Kering Group. Consequently, we revise up our 2016 and 2017 expectations by 3% and we upgrade our Fair Value from EUR175 to EUR185 and remain at Buy on the stock, as we anticipate sales momentum remaining positive in coming quarters.

## ANALYSIS

- After the very encouraging H1 performance (+5.2% for Luxury division in Q2 following +2.7% in Q1), particularly for Gucci brand (+7.4% in Q2 despite a demanding comparison basis after +3.1% in Q1), we remain very confident on H2 prospects. We are convinced that Gucci brand is currently one of the most successful luxury brand. Alessandro Michele collections are still enjoying considerable success. Shoes and ready-to-wear have already convinced consumers since Q1 and even more in Q2. This positive trend is likely to continue in Q3 and we think even in Europe as was the case in Q2 (+20%), while all others luxury brands were hit by reduced tourists flows. Furthermore, leather goods are beginning to gain market share too, and the brand is launching fall a new leather goods line this: the *Marmont* with leather matelassé shoulder bag sold at EUR1,400. The segment around EUR1,500 is the most dynamic leather goods segment after small leather goods. It is worth noting that this line is sold with the **GG** logo which highlights the comeback of logo lines, in line with Alessandro Michele's view. According to him, logo is part of the brand's DNA. The former brand artistic director, Frida Giannini, was less focused on the logo. Furthermore, it is worth noting that the comps in Q3 are far less demanding than in Q2, as Gucci's Q3 2015 sales were down 0.4% (+4.6% in Q2 2015).
- Even if Bottega Veneta is the only sore point for the group with sales down 9.1% in H1, particularly affected by high exposure to Asian tourists (70% of brand's sales, of which 15% generated in HK/Macau), YSL remained very well oriented thanks to 24% revenues growth with strong momentum in all geographical areas and in all segments. BV will also benefit from an easier comparison basis (in Q3 2015, sales were up 4% vs +9% in Q2 and Q4 will be even easier with a 4% decline). Furthermore, Puma is regaining strong momentum with sales up 10.6% in H1 of which +13.2% in Q2, partly thanks to the EURO football tournament in France in June. In line with company guidance, FY 2016 sales should be up HSD (+9.5% in our model).
- For the whole group, we anticipate 5.5% organic sales growth for 2016 vs +5% previously implying +5.2% in Q3 and +4.9% in Q4. For Kering Luxury alone, sales should grow 4.6% organically, of which +6% for Gucci brand (+5% previously). In 2017, we expect sales to increase 6% of which +5.5% for Luxury division and +6% for Gucci. H1 EBIT margin was up 20bp to 14.2% of which +80bp for Gucci. For FY 2016, we expect profitability to gain 70bp to 14.9% (+50bp previously), implying +100bp in H2 alone. For 2017, profitability improvement is expected to continue and we anticipate a 100bp gain, mainly from Gucci (+130bp to 28.4%). Gucci management has ambition plans to improve brand profitability.

## VALUATION

- Kering's share price has been one of the best performers among luxury stocks over the last three months with a 15% increase while our luxury sample average is up 4%. Furthermore, Kering stock outperformed DJ Stoxx by 12% and is trading globally in line with sector average on 2016 EV/EBIT. Given our new earnings prospects, we upgrade our Fair Value from EUR175 to EUR185 and we reiterate our Buy recommendation as we are convinced that the group's sales momentum should remain quite positive in the following quarters, hence our positive view despite the recent strong share price rally.

## NEXT CATALYSTS

- Q3 sales are expected to be reported on October 25th.

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BUY ratings 55,3%

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