

LVMH

Price EUR152.20

Hennessy is ready to pursue its positive momentum!**Fair Value EUR171 (+12%)****BUY**

Bloomberg	MC FP
Reuters	LVMH.PA
12-month High / Low (EUR)	173.5 / 131.4
Market Cap (EUR)	77,277
Ev (BG Estimates) (EUR)	80,397
Avg. 6m daily volume (000)	810.4
3y EPS CAGR	11.2%

For two days last week, LVMH hosted an Investor Day focused on Hennessy. This event highlighted the strong resilience of the brand (10% of LVMH's EBIT) and also the rebound since 2015. This confirms again the very efficient LVMH business model, based on a very well balanced group portfolio. We confirm our Buy recommendation on the stock with an unchanged EUR171 FV (12% upside).

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	4.4%	-2.2%	5.0%
Pers & H/H Gds	-1.2%	-0.2%	2.1%	1.2%
DJ Stoxx 600	0.2%	1.3%	1.9%	-5.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	35,664	36,960	39,070	41,380
% change		3.6%	5.7%	5.9%
EBITDA	7,505	7,800	8,530	9,260
EBIT	6,605	6,850	7,530	8,210
% change		3.7%	9.9%	9.0%
Net income	3,573	4,010	4,470	4,912
% change		12.2%	11.5%	9.9%

	2015	2016e	2017e	2018e
Operating margin	18.5	18.5	19.3	19.8
Net margin	10.0	10.8	11.4	11.9
ROE	12.7	13.1	13.4	13.4
ROCE	10.1	10.0	10.6	11.0
Gearing	13.4	10.2	6.5	3.6

(EUR)	2015	2016e	2017e	2018e
EPS	7.11	7.98	8.90	9.78
% change	-	12.2%	11.5%	9.9%
P/E	21.4x	19.1x	17.1x	15.6x
FCF yield (%)	3.0%	3.3%	4.0%	4.1%
Dividends (EUR)	3.55	3.90	4.30	4.70
Div yield (%)	2.3%	2.6%	2.8%	3.1%
EV/Sales	2.3x	2.2x	2.0x	1.9x
EV/EBITDA	10.8x	10.3x	9.3x	8.5x
EV/EBIT	12.3x	11.7x	10.6x	9.6x

- LVMH hosted investors days last Thursday and Friday, which focused on prospects for Hennessy (founded in 1765 by Richard Hennessy). This brand, the second biggest in the LVMH portfolio, accounted for almost 6% of LVMH 2015 sales, but close to 10% of 2015 EBIT thanks to a 30% EBIT margin. Last year, Hennessy volumes grew 8% and the trend was even stronger in H1 2016, with 13% growth. In H1 2016, Hennessy sales grew organically around 11% with a very significant profitability improvement (+380bp to 32.3%) thanks to better product mix (outperformance of XO in Mainland China).
- According to IWSR, the global cognac market is valued at EUR9.2bn (retail price) versus EUR8.4bn for blended Scotch and is the leader of the Premium and above spirits category with a 16% market share. It is worth noting that the Champagne market – the other strong contributor to LVMH Wines & Spirits division – is valued at EUR7bn. Among Super Premium category, cognac market share is close to 27% (retail value) versus 21% for champagne. The cognac market is very concentrated, as 90% of its market value is generated by four Houses: Hennessy, Martell (Pernod Ricard), Remy Martin (Remy Cointreau) and Courvoisier (Suntory).
- Since 1998, the cognac market's CAGR has been quite resilient at 3.1%, lifting shipments to close to 15 millions cases (one case contains 12 bottles of 70cl). In a more recent period, (2005-2015), the cognac market grew 6.1% on average versus +4.7% for the total spirits market. Hennessy has a very strong market share at 46% with a clear positive momentum as the brand gained 20 points over the last 20 years. Market share is very impressive on VS or Very Special (aged for 2 years) at 62% versus 39% in 1997. On VSOP or Very Special Old pale (aged for 4 years), Hennessy market share gained 7 points to 33% while on XO or Extra Old (aged for 10 years) Hennessy market share remained almost unchanged at 28%. The brand is very well positioned in the market spectrum as it has strong position in all segments, which is not the case for all the others players. For Instance, a VS bottle is sold EUR30, while a VSOP one is sold at EUR50. Meanwhile, the selling price of a XO is EUR180 and a Paradis Imperial bottle is sold EUR2,200. VS accounts for 60% of Hennessy volume but 1/3 in value.
- Hennessy is an ongoing success story, with a 4.7% CAGR (in volume) to 6.4 millions cases. Since 2000, Hennessy volume declined only in 2009 and in 2013. As highlighted above, in 2015 volumes grew 8% and even 13% in H1 2016. Despite the 2009 financial crisis and the bursting of the Chinese bubble in 2013 and 2014, Hennessy EBIT has doubled over the last 10 years.
- Hennessy wants also to strengthen its global footprint by capitalizing on US growth, by revitalizing the Chinese market (develop rising middle class consumption Hennessy Classium), by deploying XO in Asia outside China, by building growth drivers in others EM as Africa thanks to VS and finally by benefiting from TR boom (3rd Hennessy market with a 9% CGR on last 10 years. In order to achieve these goals which could lift volume to 10m cases in the medium term, the brand has implemented a production capacity increase plan.

VALUATION

- LVMH share price has risen 5% over the last three months versus +3% for our luxury groups sample and outperformed the DJ Stoxx. With a 11.6x 2016 EV/EBIT, the stock is trading with an 8% discount vs our luxury groups sample average.

NEXT CATALYSTS

- Q3 sales will be reported mid October



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