INDEPENDENT RESEARCH

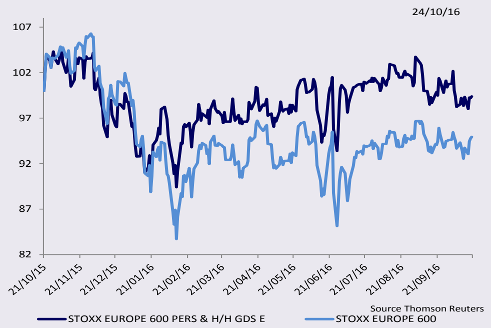
16th October 2016

Luxury Goods

We bet on a rebound in Greater China in 2017

Luxury Goods

BURBERRY		**NEUTRAL**	**1350p vs. 1200p**
Last Price	1500p	*Market Cap.*	GBP6,634m
CHRISTIAN DIOR		**BUY**	**EUR190 vs. 175**
Last Price	EUR168,95	*Market Cap.*	EUR30,703m
HERMES Intl		**BUY**	**EUR410 vs. 370**
Last Price	EUR369,3999	*Market Cap.*	EUR38,997m
KERING		**BUY**	**EUR211 vs. 193**
Last Price	EUR188,05	*Market Cap.*	EUR23,745m
LVMH		**BUY**	**EUR194 vs.180**
Last Price	EUR163	*Market Cap.*	EUR82,762m
MONCLER		**BUY**	**EUR17,5**
Last Price	EUR15,1	*Market Cap.*	EUR3,778m
RICHEMONT		**BUY vs. NEUTRAL**	**CHF73 vs.60**
Last Price	CHF64,95	*Market Cap.*	CHF36,372m
SALVATORE FERRAGAMO		**BUY**	**EUR24.5 vs. 23**
Last Price	EUR22,69	*Market Cap.*	EUR3,830m
THE SWATCH GROUP		**NEUTRAL vs. SELL**	**CHF320 vs. 270**
Last Price	CHF304,8	*Market Cap.*	CHF16,775m
TOD'S GROUP		**SELL**	**EUR55 vs.53**
Last Price	EUR48,77	*Market Cap.*	EUR1,614m



Following several quarters of negative trend in Greater China, it seems that momentum is beginning to improve in Mainland China and even in Hong Kong (although at a less extend). We bet that worst is behind us and therefore we are more positive on hard luxury groups with a Buy for Richemont (vs Neutral) and Neutral on The Swatch Group (vs Sell).

- After several quarters of poor sales growth for the luxury sector, particularly due to negative momentum in Greater China (20% of sales on average for the luxury sector) and above all in Hong Kong (10% of worldwide luxury market), it seems that environment begins to improve at least in Mainland China (10% of sales). Furthermore, if we argue that Europe should remain under pressure until the end of 2016, we guess that undemanding comps should help in 2017.

- Let's be clear: we are fully aware that FY 2016 year will be a nightmare both in terms of top lines and profitability for the Hard Luxury groups (already priced by market). We bet that momentum will gradually improve in the coming quarters and that the worst is behind us, particularly in APAC, and therefore we begin to be more positive for 2017.

- This lead us to be more optimistic on the hard Luxury groups, Richemont and The Swatch Group, which are the most exposed groups to Asia-Pacific among our luxury goods groups. Therefore, if we leave unchanged our recommendations on others groups, we upgrade our recommendation on **Richemont** from Neutral to Buy (FV: CHF73 vs CHF60) and **The Swatch Group** from Sell to Neutral (FV: CHF320 vs CHF270).

- We take the opportunity of this report to do the roll-over on 2017 for our Luxury groups under coverage. We remain positive on **LVMH** (Buy-FV: EUR194 vs EUR180), **Kering** (Buy-FV: EUR211 vs EUR193) and **Hermès** (Buy-FV: EUR410 vs EUR370). On the other hand, we maintain our Sell on **Tod's** (Sell- FV: EUR55 vs EUR53).

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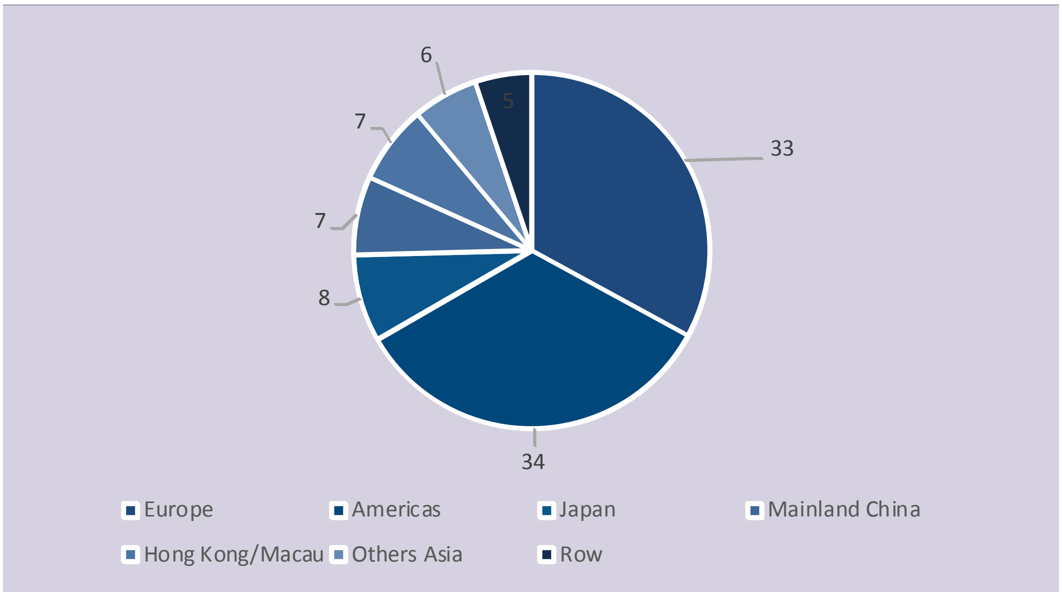
1. Greater China is an important area for the Luxury sector

Greater china: a significant catalyst for the luxury sector…

1.1. Greater China accounts for around 15% of Luxury market

According to Bain & Cie, Greater China (Mainland China, Hong Kong and Macau) should account for around 15% of Luxury goods market in 2016, while its was below than 10% 10 years ago. And others Asia countries, namely South Korea and Southern Asia countries as Singapore are estimated at slightly above 5%. Europe is also a major player for the sector, with 33% of the market. Japan' weight is no more than 8%, while it was close to 15% in the nineteens. Americas region is estimated at 34% of Luxury market.

Fig. 1: World Luxury goods market (2016e)



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

Nevertheless, for quoted luxury goods companies, the weight of Greater China is higher than sector average as they have penetrated this area quite early. For instance, Louis Vuitton opened its first store in Beijing in 1992 and some watches brands as Omega or Cartier were sold in China even earlier.

Fig. 2: Sales breakdown by geographical area of Luxury goods groups (2016e)

in %	Europe	Americas	Japan	MC	HK+ Macau	Rest of Asia	Others
Hermès	32	18	14	10	9	16	1
Burberry	30	26	2	14	8	20	
Kering Luxe	32	19	11	10	10	11	7
Ferragamo	27	24	9	11	11	13	5
LVMH	28	26	7	10	10	7	12
Tod's	54	9	4	11	11	8	3
Swatch Group	33	8	2	20	14	12	11
Richemont	30	15	8	10	14	16	9

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

We estimate, on average, the weight of Greater China at around 22% for our sample of Luxury goods companies, with 20% at LVMH, 22% at Gucci, even 24% for Richemont and 34% for The Swatch Group.

… as Chinese clientele accounts for 1/3 of luxury market…

The weight of Chinese clientele is even more significant with almost one third of market (even around 40% for Richemont and even 50% for The Swatch Group). We argue therefore that, for luxury groups of our sample, almost one third of the Chinese luxury purchases are achieved overseas, particularly in Europe, in Korea and also in Southern Asia countries (Singapore, Vietnam…).

Fig. 3: Weight of main clientele for luxury groups

in %	LVMH	LV	Kering Luxe	Burberry	Hermès	Prada	Richemont	Swatch	Ferragamo	Tod's
Western Europe	14	12	17	15	16	10	7	8	12	39
Eastern Europe	6	5	4	3	5	3	4	4	3	4
Middle East	7	8	4	5	7	5	11	7	4	5
North America	19	17	18	22	13	11	8	5	18	10
Greater China	22	28	34	32	26	38	38	52	23	22
Rest of Asia	12	8	6	10	13	18	13	13	14	7
Japan	11	14	13	6	15	12	10	2	12	6

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

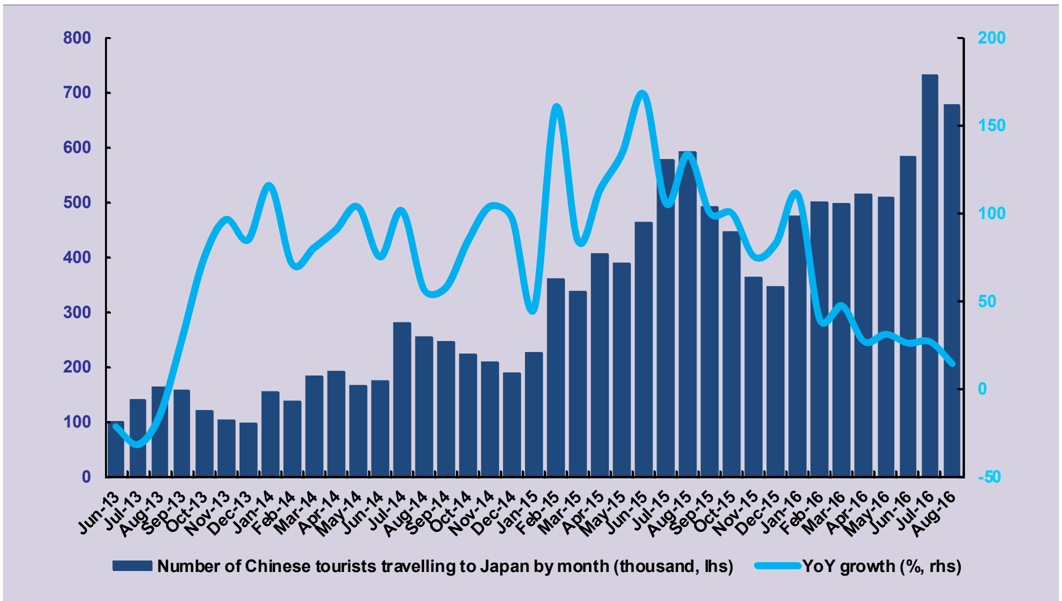
1.2. Momentum is improving in Mainland China

And MC shows clear signs of rebound…

Clearly, 2016 is characterized by the gradual and regular recovery in Mainland China. Why do we have this positive move in this country? In our view, several factors explain this encouraging momentum:

- Stronger JPY since the beginning of 2016 led Chinese to reduce their visits to Japan and to buy less luxury products there and they buy more at home.

Fig. 4: Chinese travellers to Japan



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

- The pricing gap between Mainland China and Europe has been clearly reduced since few months. It was around 55% in Q2 2015 and it is closer to 40% currently which reduces the interest for Chinese to travel in WE and to buy luxury products in Paris or Milan.

- Terrorist's attacks that Europe and mainly France had to face from November 2015 and the instauration in France of the "State of Urgency" had also a quite negative impact on tourists (including Chinese) flows in this area. This has been even amplified from July with the attack in Nice in July.

- Lastly, the Chinese authorities have implemented higher taxes for Chinese travellers who do not declare products at customs and have increased controls at the boundaries. This led to a much lower "Daigu" parallel market. Therefore, Chinese consumers began to buy more in Mainland China from Q1 2016 and even more significantly from Q2 2016.

This positive trend has also been recently confirmed by some luxury groups. Actually, LVMH CFO added during the conference call on October 11 that LVMH sales in Mainland China were up around 15% during Q3 while the momentum was no more than mid-single digit in H1. Louis Vuitton sales with Chinese clientele grew double digit in Q3 versus almost stability in H1. Kering also is more optimistic concerning Mainland China and even in HK, pointing an improvement in Q3. It seems that luxury goods industry is in a better shape in this country. The Hard Luxury groups are pointing out that retail sales (and only retail sales) are well oriented. But wholesale is still lagging behind, as retailers will wait before reordering. Wholesale is a significant proportion of Swatch Group sales (at least 75%) but, in our view, around no more 35% of Richemont sales in MC, as this country is more retail oriented thanks to around above Cartier 30 internal stores among the 197 worldwide (at end of March 2017). It is also worth noting that in Mainland China, Richemont watches and jewellery retail sales were up on 5m 2016 in MC. Nevertheless, we guess that wholesale sales for Richemont watches brands, including at Cartier, are still down, partly due to the impact of inventories buy-backs. The Swatch Group CEO added recently that he was pleased by sales in MC for Omega, Blancpain and Longines.

Exports of Swiss watches to MC are recently better oriented!

This positive trend has been confirmed by the recent figures with a 29% Swiss watches exports increase to MC in August after -6% in July, even if in September, exports were stable (-0.6%), which implies -8% YTD.

Fig. 5: Swiss watches Exports to Mainland China (chge in %)

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

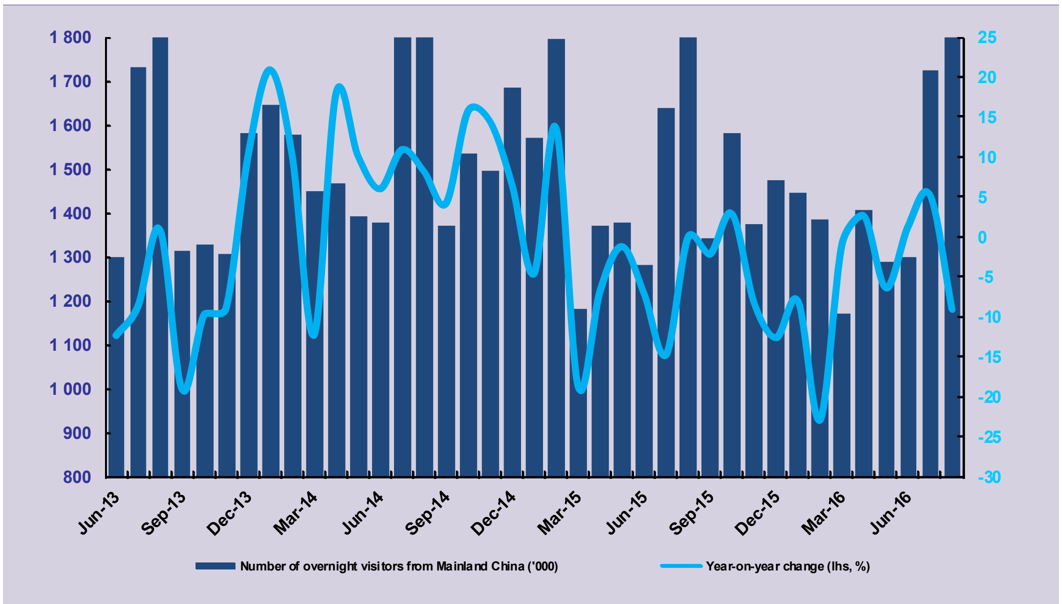
1.3. Hong Kong is still in a more volatile situation

If Mainland China is clearly better oriented and more importantly with a regular positive trend, the situation is much more volatile in Hong Kong, with positive months and still negative ones. For instance, LVMH sales, in the former British colony, were down mid-teens in H1 but down no more than mid-single digit in Q3. Therefore, the trend is even slightly improving in H-K but not yet in positive territory. By the way, LVMH is not the only luxury group to point out a slight improvement in HK. Kering and Burberry saw the same trend, even at a much more contrasted magnitude.

Nevertheless, HK is still down, despite slight improvement!

Hong Kong accounts for around 8 to 9% of soft luxury brands (above this level for Hard luxury groups) with for instance eight stores for Louis Vuitton and even 12 for Gucci. Luxury brands have tried and sometimes have been successful to renegotiate leases with the land Lords, given lower traffic and more important lower average basket as the Chinese clientele that visit Hong Kong now is not the same than in previous years and less wealthy. Nevertheless, traffic to former British colony remains under pressure as it is highlighted by the below graph with a 10% decline in August, following a more positive figure (+6%) in June, which confirm a volatile situation.

Fig. 6: Chinese overnights visitors to Hong Kong



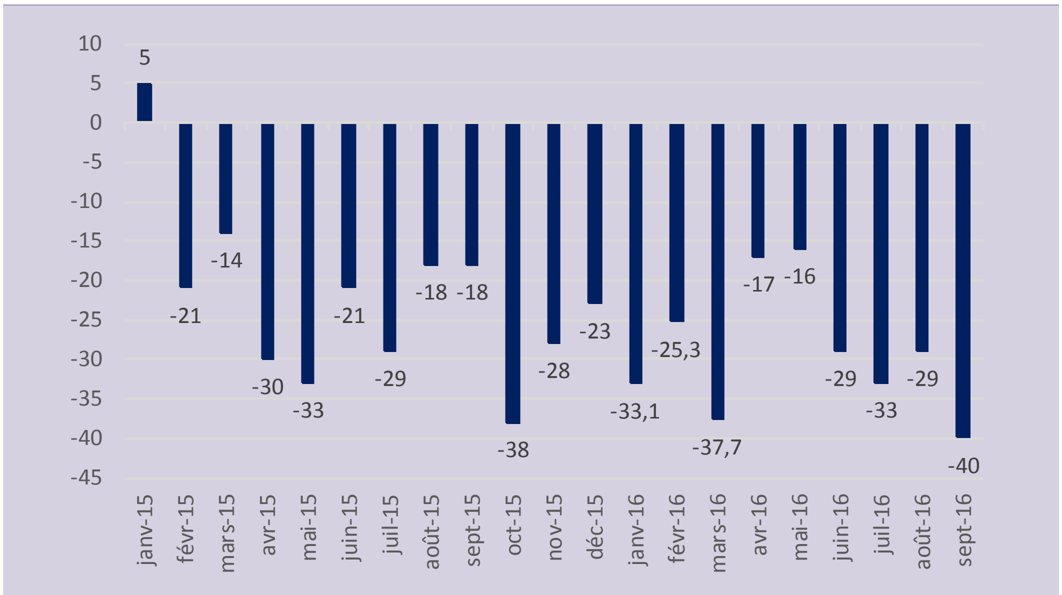
Source: Company Data; Bryan, Garnier & Co ests.

Swiss Watches exports to Hong Kong are still down very significantly as illustrated by the chart below with a 40% decline in September after -30% in August and -29% YTD. It seems that inventories at watch retailers, as Hengdeli, remain very high (48% of sales in FY 15 at Hengdeli) and therefore, these are still in a destocking move as final demand remained poor (sales down 13% in H1 of which -16% in HK and -10% in MC for Hengdeli). Retailers in HK and Macau will be cautious before reordering watches, therefore it will take some months before retailers begin again to reorder watches and impact positively wholesale sales for Richemont and The Swatch Group.

Swiss watches exports to HK are down 30% YTD!

We anticipate that watches sales in Hong Kong (and also in MC) in the future will likely be less high-end oriented than in the past, as clientele is less wealthy and above all less "show off". It is one of the reason why Richemont has recently bought back the high-end lines of Cartier watches (particularly the jewellery watches), policy which is, by the way already completed, in order to give the opportunity these retailers to invest in fast mover's watches lines (steel, or steel and gold lines for instance).

Fig. 7: Swiss watches exports to Hong Kong (chge in %)



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

And final demand is still quite poor!

The final demand for watches in HK is still under pressure and the momentum is negative for the first months of 2014, consequence of slower economy in MC and political issues between Beijing and the former British colony. For instance, retail watches & jewelry sales were even down during the last months (-26% both in July and in August). On our view, the worst should be over. We expect a gradual and soft recovery alongside 2017 as comps will become much more easy!

Fig. 8: HK Retail watches & jewelry sales (chge in %)

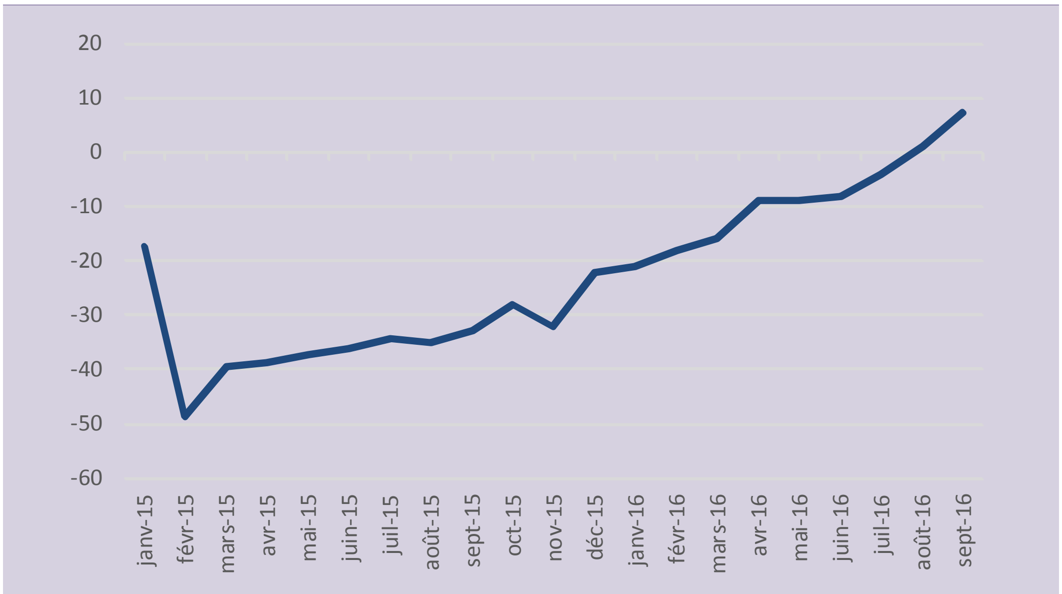
Source: Company Data; Bryan, Garnier & Co ests.

Gaming revenues in Macau are again up: first step for a luxury market rebound?!

Concerning Macau (2% of luxury market), with close to no more than three for global brands, we want to highlight that momentum of gaming revenues are again up from August 2016 (up 1%), trend that confirmed and even amplified in September (+7%), on, to be honest, very undemanding comps

(-33% for both months in 2015). But Chinese clientele in Macau has changed. It is much more family oriented than during previous years with a lower weight of pure gamers, implying, in our view, some risks of lower average basket for luxury purchases. But at least, we argue that the worst is behind us.

Fig. 9: Gaming revenues in Macau change (in %)

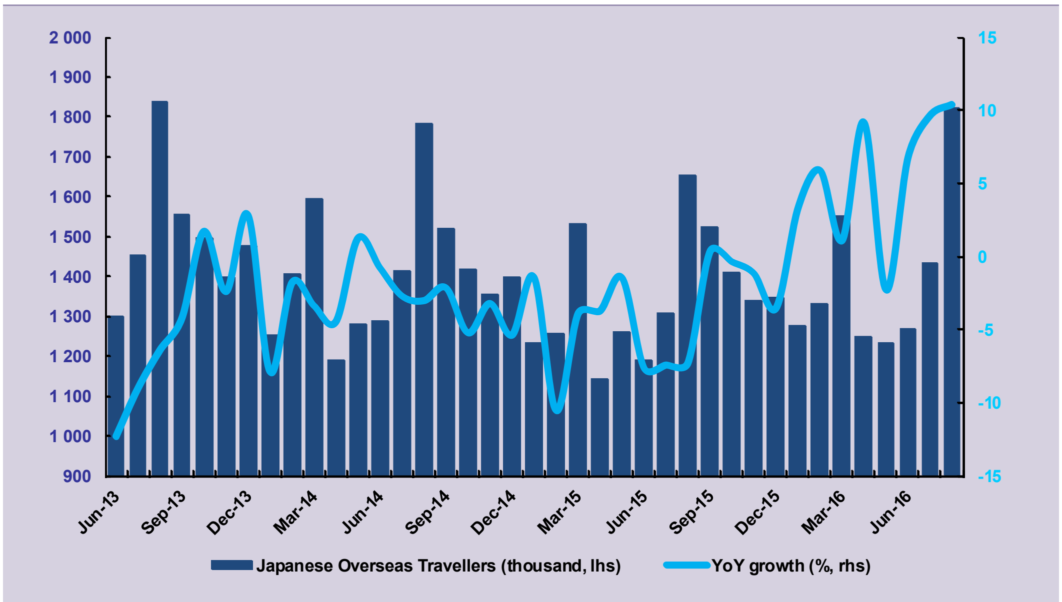


Source: Company Data; Bryan, Garnier & Co ests.

More and more Japanese are travelling overseas!

As highlighted by the following chart, it is also worth noting the clear positive trend of Japanese outbound tourists (+10% in August and in July), a consequence of stronger JPY. They travel mainly to Asia-Pacific, Hawaii and also to Europe (excluding France). That should help stronger luxury sales momentum in APAC, in US and in Europe. On the other hand, sales in Japan should suffer from this trend, as Japanese will buy more luxury products abroad. Nevertheless, this country accounts for no more than 8% of worldwide luxury market, and therefore the impact should be limited in our view.

Fig. 10: Japanese outbound tourists



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

2. More optimistic for 2017?

Some recent more positive signs and very undemanding comparison basis lead us to become more optimistic for luxury goods sector for 2017. We bet that the worse is behind us in APAC and particularly in Greater China, even in Hong Kong/Macau. Therefore, we revise up FY 2017 organic sales growth for Hard Luxury groups (they are more exposed to GC) and consequently 2017 EBIT.

2.1. 2017 organic sales growth expected at 4%

2017 luxury groups sales should grow %!

We guess that, things likely gradually improving in GC, we could be reasonably more optimistic for 2017 FY, keeping in mind that news flows on short term are still poor. This leads us to expect an average organic sales growth of around 4% in 2017, the best trend since 2014 and far better than the one in 2016 (-1%) and achieved in 2015 (+2%). Bain & Cie is also more optimistic with +4% after stability (at same FX) in 2016. It is worth noting that we leave unchanged our 2016 estimates for all groups, even Hard luxury one.

Obviously, this positive move in 2017 will be more felt for **Richemont** and **The Swatch Group**. Actually, we expect **The Swatch Group** sales to grow 4% next year versus +2% previously anticipated, following a 7% decline expected in 2016. Meanwhile, for **Richemont**, we see revenues to increase 5% organically for FY March 18 (+2% expected previously). FY 2016 CFR revenues should be down 7%, implying nevertheless a clear improvement in H2 (-2% vs -12% in H1, impacted by inventories buy-back of luxury watches lines particularly at Cartier). **LVMH**, after having reached 6% sales increase in 2015, we expect revenues to increase 5% in 2016 and close to 6% in 2017, with respectively +3% and +4% for **Fashion & Leather** division. **Kering** sales momentum is expected to accelerate in 2016 (+6%) of which +5% for Kering Luxury after +5% in 2015 (+4% for Kering Luxury). In 2016, **Kering Luxury** acceleration is coming from Gucci brand (+7.5% expected vs no growth in 2015), consequence of very successful brand repositioning, led by Alessandro Michele. For 2017, Kering revenues should grow 6%, including +6% for Kering Luxury.

We still anticipate that **Hermès** will achieve the best performance in 2016 (+7% vs -1% for sector average) and in 2017 (+8% vs +4%), after having already done it in 2015. As it accounts for 50% of Hermès sales, Leather (+13% expected in 2016) is the main driver of this strong sales momentum.

Fig. 11: Luxury groups organic sales growth assumptions (2015-2017e)

Chge in %	2012	2013	2014	2015	2016e	2017e prev	2017e new
Burberry	9	19	12	0	1	3	3
Ferragamo	13	11	7	1	0	5	5
Hermès	16	13	11	8	7	8	8
Kering	11	4	5	5	6	6	6
o/w Kering Luxe	*15*	*7*	*5*	*4*	*5*	*6*	*6*
LVMH	9	8	5	6	5	5	6
o/w F&L div	*7*	*4*	*3*	*4*	*3*	*4*	*4*
Prada	25	13	0	-7	-11	2	2
Richemont	8	10	2	0	-7	2	5
Swatch Group	12	6	1	1	-7	2	4
Tod's	8	2	0	2	-2	3	3
Average	**13**	**8**	**4**	**2**	**-1**	**4**	**4**

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

2.2. APAC expected to rebound…

Partly thanks to rebound in APAC!

By main region, we expect luxury groups sales to remain unchanged in 2016 (following -8% in 2015) and to grow 5% in 2017 in **Asia-Pacific** (30% of luxury groups sales), driven by **Greater China** double digit sales decrease. The market rebound anticipated in 2016 and in 2017 should come from **Mainland China** but also from **Hong Kong/Macau**. If HK/Macau sales are expected to be down in 2016, we expect an improvement in 2017, as comps will be clearly undemanding following poor 2014, 2015 and even 2016 years.

We are also, slightly more confident for **Europe** in 2017 (+5%) as the comps will be clearly undemanding (+0% expected on FY 2016).. On the other hand, we are cautious for **Japan** (+1%) but on easy comparison basis (-7%). We anticipate that momentum in **North America** should not differ materially from 2016 (+3% vs +2%).

Fig. 12: Organic sales growth sector average by main region (2015-2017e)

Lfl sales growth (%)	2010	2011	2012	2013	2014	2015	2016e	2017e
Europe	11	15	13	7	3	10	0	5
North America	11	15	13	11	11	3	2	3
Asia-Pacific	28	30	16	10	4	-8	0	5
Japan	5	10	5	8	3	17	-7	1
Average Luxury	**15,8**	**19**	**13**	**8**	**4**	**2**	**-1**	**4**

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

2.3. Higher EBIT for Hard Luxury groups

We lift our earnings estimates of CFR and UHR by 6%!

Following higher sales growth than anticipated for **Richemont** and **The Swatch Group**, we have also adjusted our EBIT expectations. For **Richemont**, if we leave unchanged our march 2017 EBIT (EUR1,470m), we revise up March 2018 EBIT by 7% to reach EUR1,960m (18.2% EBIT margin versus 14.9% in March 2017). Concerning **The Swatch Group**, 2017 EBIT is lifted by 6% to CHF1,220m (14.8% EBIT margin vs 11.5% expected in 2016). On the other hand, we leave unchanged EBIT of the others luxury groups as we have not modified our sales expectations for them both for 2016 and 2017.

Fig. 13: Luxury groups EBIT (2014-2017e)

EURm	2014	2015	2016e	2017e prev	2017e new
Burberry (GBP)	455	418	445	475	475
Hermès	858	973	1,105	1,255	1,255
Kering	1,664	1,647	1,845	2,090	2,090
LVMH	2,715	6,605	6,910	7,605	7,605
Prada	702	503	435	463	463
Richemont	2,670	2,061	1,470	1,840	1,960
Salvatore Ferragamo	245	265	270	295	295
Swatch Group (CHF)	1,752	1,451	900	1,150	1,220
Tod's	148	148	130	148	148

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

The table below highlights also that our 2017 profitability expectations for both Hard Luxury groups remain relatively cautious, even after our today update. Actually, The Swatch Group EBIT margin should have declined almost 100 points between 2017 and 2016 due to deleverage impact and we expect that in case of better trend in coming years, the positive leverage impact should allow profitability to clearly improve. Our anticipation for 2007 is still 500bp below 2014 profitability level. Same trend should also happen for Richemont, as our new 2017 EBIT margin expectations is still 510bp below the one achieved in 2014!

Fig. 14: Luxury groups EBIT margins (2014-2017e)

in %	2014	2015	2016e	2017e prev	2017e new
Burberry (GBP)	18,00	16,6	16,8	17,1	17,1
Ferragamo	18,4	18,5	18,8	19,5	19,5
Hermès	31,5	31,8	32,6	33,4	33,4
Kering	16,6	14,2	15,2	16,1	16,1
LVMH	18,7	18,5	18,5	19,3	19,3
Prada	19,8	14,2	13,7	14,3	14,3
Richemont	23,4	19,5	14,9	17.3	18,2
Swatch Group (CHF)	20,1	17,2	11,5	13.5	14,8
Tod's	15,4	14,3	12,8	13,8	13,8

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

3. Valuation & recommendation

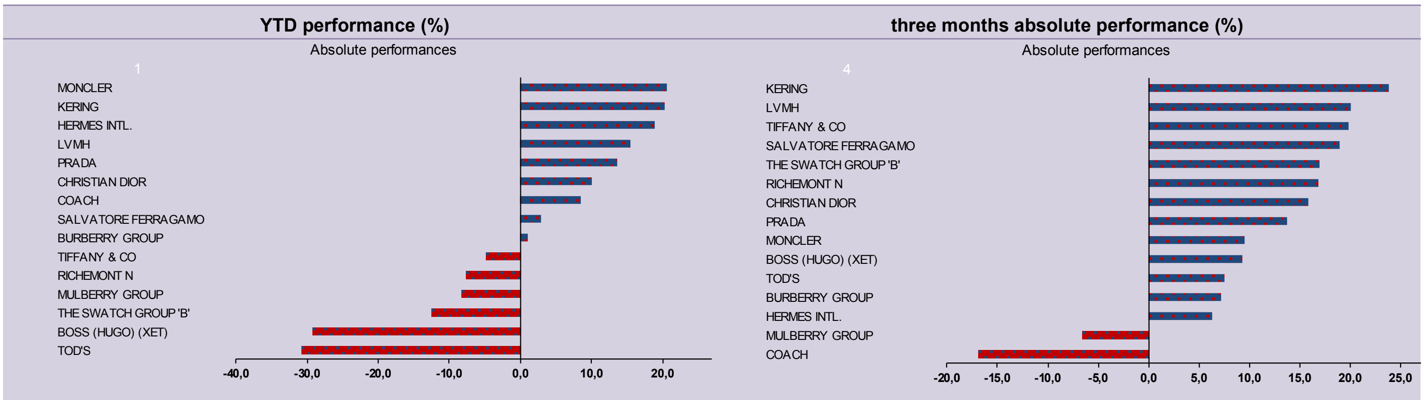
Despite share price recent rebound, the hard Luxury groups stocks are still lagging behind our luxury sample on two years. Luxury stocks sample valuation is almost in line with historical average (5% discount). We bet that in 2017, Asia-Pacific trend and even Europe should improve, hence a more aggressive view on the sector and recommendation upgrade on Richemont (Buy vs Neutral) and The Swatch Group (Neutral vs Sell).

3.1. Recent rally but still poor YTD

Recent rally of luxury goods stocks!

Even if on last month, our luxury goods stocks sample grew 7%, while YTD, the performance average is almost 0%. The reason of the recent rebound is coming from positive figures reported by LVMH for its Q3 and above all by the encouraging trend in Asia-Pacific (+6%) following +3% in Q2 and -2% in Q1. LVMH CFO highlighted also that momentum was improving in Mainland China and even in HK. Furthermore, Kering and The Swatch Group management confirmed the rebound in MC. Hence, the share price rebound of the two hard Luxury groups (CFR and UHR respectively up 19% and 17% on last month), followed by LVMH (+12%)

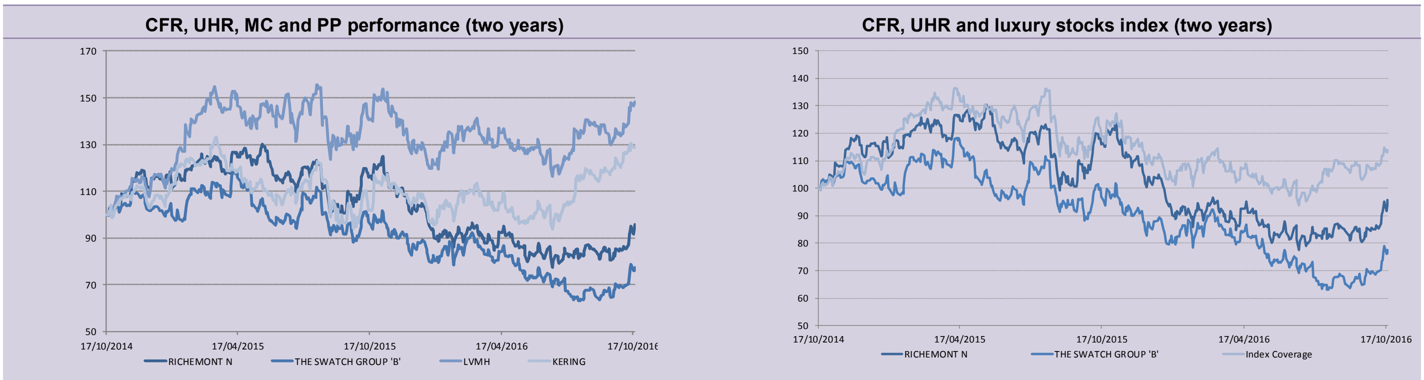
Fig. 15: Stock market performance of luxury goods companies



Source: datastream

Nevertheless, on last two years, Richemont and The Swatch Group stocks are lagging far behind Soft Luxury groups performance (particularly Kering, LVMH and Hermès) as, highlighted by the graphs below.

Fig. 16: CFR, UHR and others luxury stocks performance



Source: datastream

If this underperformance was fully justified in our view given poor watches industry momentum since 2014, our bet is that, at one point, this performance difference will be reduced within the next quarters (particularly in 2017) as momentum in APAC improves and these two stocks should benefit from it, given their respective exposure to this region.

3.2. Valuation comparison

Our luxury groups sample average at 14.5x on 2016 EV/EBIT and 12.5x on 2017 EV/EBIT is the consequence of the recent rally and also that investors are already playing the 2017 potential rebound and are forgetting 2016 as they are aware that 2016 will be a nightmare of these groups hence a high valuation on 2016 prospects.

For 2017 EV/EBIT, the hard luxury groups are trading in line with sector average while LVMH and Kering are still trading with a discount (respectively 10% and 2%).

Fig. 17: Peer valuation comparison

x	Recommendation	FV (EUR)	2016e EV/EBIT	2017e EV/EBIT	2016 premium on average (ii)	2017 premium on average (ii)
Burberry (p)	Neutral	1,350	13.2	9.8	2%	4%
Hermès Intl	Buy	410	22.1	17.0	-	-
Kering	Buy	211	14.5	9.6	3%	1%
LVMH	Buy	194	12.7	9.1	-5%	-4%
Prada (HKD)	Neutral	35	17.3	16.1	6%	8%
Richemont (CHF)	Buy	73	18.0	13.0	23%	2%
Salvatore Ferragamo	Buy	24.5	13.9	12.8	-5%	0%
Swatch Group (CHF)	Neutral	320	17.3	12.9	18%	1%
Tiffany	NR	NR	11.9	11.9	-8%	-4%
Tod's Group	Sell	55	13.2	11.5	-10%	-10%
(ii) Luxury average (excl. Hermès)			**14.7**	**12.7**	**-**	**-**

Source: Company Data; Bryan, Garnier & Co ests

3.3. Recommendation & Fair value

Recent rally of luxury goods stocks!

We have decided to be more aggressive on Hard Luxury players to play sequential improvement for the coming quarters and for 2017, even if we are fully aware that short term news flows will remain negative (for instance **Richemont** will release its H1 earnings with a 40% recurring EBIT decline on November 4th and **The Swatch Group** will release its FY 16 mid-January 2017). Therefore, we upgrade Richemont from Neutral to Buy and The Swatch Group from Sell to Neutral. Actually, we are more positive on CFR than on UHR as we continue to see first one as more resilient thanks to jewelry (35% of sales) and retail (58% of sales) exposure and we like also its very healthy financial situation (cash net above EUR5bn).

Beyond, these earning adjustments, we take the opportunity of this report to roll over on 2017 our DCF models, hence our new FV detailed in the below table. Given our new estimates of Richemont and The Swatch Group, we increase our respective Fair Value by 21% and 19%. On average, the FV of the other luxury groups are upgrade by around 7/8%, impact of the roll-over.

Fig. 18: Recommendation and Fair value

(Eur)	Prev recomendation	New reco	prev FV	new FV
Burberry (p)	Neutral	Neutral	1,260	1,350
Christian Dior	Buy	Buy	175	190
Hermès	Buy	Buy	370	410
Kering	Buy	Buy	193	211
LVMH	Buy	Buy	180	194
Prada (HKD)	Neutral	Neutral	31	31
Richemont (CHF)	Neutral	Buy	60	73
Salvatore Ferragamo	Buy	Buy	23	24.5
Swatch Group (CHF)	Sell	Neutral	270	320
Tod's Group	Sell	Sell	53	55

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

Fig. 19: Richemont DCF model

EUR m	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
sales	11 076	10 290	10 860	11 575	12 038	12 520	13 020	13 476	13 948	14 366	14 797	15 241
Chge (%)	6,4%	-7,1%	5,5%	6,6%	4,0%	4,0%	4,0%	3,5%	3,5%	3,0%	3,0%	2,5%
EBIT	2 061	1 470	1 980	2 365	2 520	2 671	2 817	2 915	3 017	3 108	3 201	3 297
as of sales (%)	18,6%	14,3%	18,2%	20,4%	20,9%	21,3%	21,6%	21,6%	21,6%	21,6%	21,6%	21,6%
PBT	1 691	1 220	1 624	1 939	2 066	2 190	2 310	2 390	2 474	2 548	2 625	2 703
Depréciation & amortisation	332	309	326	347	361	376	391	404	418	431	444	457
as of sales (%)	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%
working capital	-188	-175	-185	-197	-205	-213	-221	-229	-237	-244	-252	-259
as of sales (%)	1,7%	1,7%	1,7%	1,7%	1,7%	1,7%	1,7%	1,7%	1,7%	1,7%	1,7%	1,7%
Cap ex	-554	-463	-434	-463	-421	-438	-456	-472	-418	-431	-444	-457
as of sales (%)	5,0%	4,5%	4,0%	4,0%	3,5%	3,5%	3,5%	3,5%	3,0%	3,0%	3,0%	3,0%
Free cash flow	1 281	891	1 330	1 627	1 801	1 915	2 023	2 094	2 237	2 304	2 373	2 444
NPV of FCF	1 187	826	1 233	1 397	1 434	1 412	1 383	1 327	1 314	1 254	1 197	1 143

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

PV of future cash flow	13 095
Terminal value	21 691
enterprise value	34 786
Financial assets	454
Minorities	-4
cash net (2015/16)	6 466
Theorical market value	41 701
number of shares (m)	560
Theoritical share price (CHF)	73

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

Fig. 20: The Swatch Group DCF model

CHF m	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Sales	8,451	7,860	8,260	8,630	8,889	9,111	9,339	9,572	9,812	10,057	10,308	10,566
Chge (%)	-3,0%	-7,0%	4,0%	4,0%	3,0%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%
EBIT	1,451	900	1,220	1,541	1,605	1,645	1,686	1,728	1,772	1,816	1,861	1,908
as of sales (%)	17,2%	11,5%	14,8%	17,9%	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%
PBT	1 146	711	964	1 217	1 268	1 300	1 332	1 365	1 400	1 435	1 470	1 507
Depréciations & amortisation	363	338	372	388	400	410	402	383	392	402	412	423
Working capital	-161	-149	-157	-164	-169	-173	-177	-182	-186	-191	-196	-201
Cap ex	-670	-393	-413	-432	-444	-456	-420	-431	-491	-503	-515	-581
Free Cash flow	679	507	766	1 010	1 055	1 081	1 136	1 136	1 115	1 143	1 171	1 148
NPV of FCF	627	468	707	862	831	787	764	706	640	606	574	520

PV of future CF	6 998
Terminal value	9 262
Enterprise value	16 260
Financial assets	264
Minorities	16
cash net (2016e)	1 174
Market value	17 682
Number of shares (m)	55,6
Theorical share price (CHF)	320

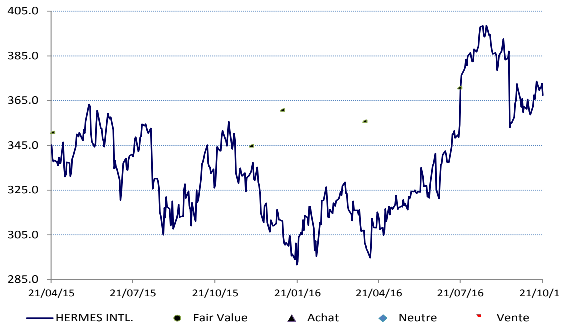
Source: Company Data; Bryan, Garnier & Co ests.

Fig. 21:

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

Price Chart and Rating History

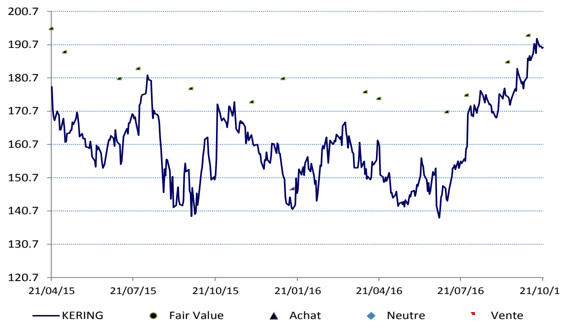
Hermès Intl.



Ratings Date	Ratings	Price
28/11/2014	BUY	EUR262,75
28/11/2011	NEUTRAL	EUR150

Target Price Date	Target price
22/07/2016	EUR370
07/04/2016	EUR355
06/01/2016	EUR360
02/12/2015	EUR344
24/04/2015	EUR350
24/03/2015	EUR343
13/02/2015	EUR315
28/11/2014	EUR305
10/01/2014	EUR225
19/07/2013	EUR205
22/03/2013	EUR200
16/01/2013	EUR194
12/12/2012	EUR186
04/05/2012	EUR170
28/11/2011	EUR150

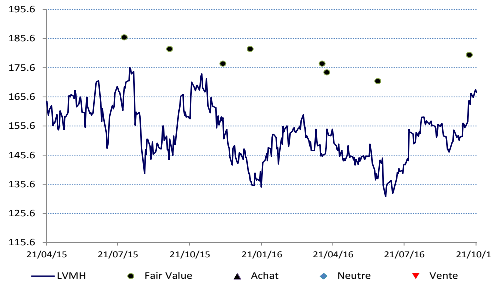
Kering



Ratings Date	Ratings	Price
20/01/2016	BUY	EUR150,5
18/02/2015	NEUTRAL	EUR185
15/01/2014	BUY	EUR146,15
28/11/2011	NEUTRAL	EUR101,35

Target Price Date	Target price
06/10/2016	EUR193
13/09/2016	EUR185
29/07/2016	EUR175
07/07/2016	EUR170
22/04/2016	EUR174
07/04/2016	EUR176
06/01/2016	EUR180
02/12/2015	EUR173
25/09/2015	EUR177
28/07/2015	EUR183
07/07/2015	EUR180
07/05/2015	EUR188
22/04/2015	EUR195
07/04/2015	EUR205
24/03/2015	EUR210
18/02/2015	EUR185
13/01/2015	EUR176
08/10/2014	EUR172
10/01/2014	EUR178
26/07/2013	EUR174

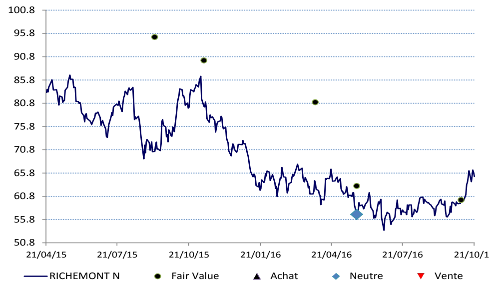
LVMH



Ratings Date	Ratings	Price
04/02/2015	BUY	EUR144,5
25/07/2014	NEUTRAL	EUR139,8
12/12/2012	BUY	EUR140
10/10/2012	NEUTRAL	EUR122,1
10/10/2011	BUY	EUR107,3

Target Price Date	Target price
12/10/2016	EUR180
17/06/2016	EUR171
13/04/2016	EUR174
07/04/2016	EUR177
06/01/2016	EUR182
02/12/2015	EUR177
25/09/2015	EUR182
29/07/2015	EUR186
24/03/2015	EUR180
04/02/2015	EUR158
13/01/2015	EUR145
18/12/2014	EUR140
08/10/2014	EUR150
25/07/2014	EUR156
10/01/2014	EUR167
17/10/2013	EUR162

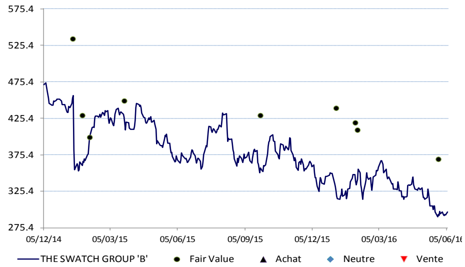
Richemont



Ratings Date	Ratings	Price
23/05/2016	NEUTRAL	CHF58,95
28/11/2011	BUY	CHF56

Target Price Date	Target price
04/10/2016	CHF60
23/05/2016	CHF63
20/05/2016	Under review
31/03/2016	CHF81
09/11/2015	CHF90
07/09/2015	CHF95
24/03/2015	CHF100
26/01/2015	CHF86
16/01/2015	Under review
15/01/2015	CHF102
13/01/2015	CHF105
08/10/2014	CHF100
17/09/2014	CHF106
01/07/2014	CHF110
16/01/2014	CHF105
10/01/2014	CHF107
17/05/2013	CHF95

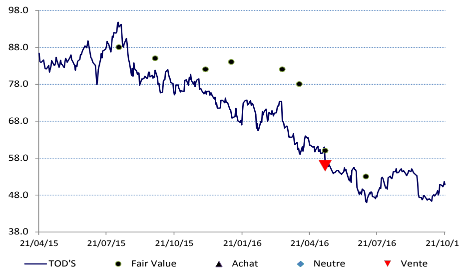
The Swatch Group



Ratings Date	Ratings	Price
15/07/2016	SELL	CHF289,5
05/06/2014	NEUTRAL	CHF535
04/02/2013	BUY	CHF517,5
10/10/2012	NEUTRAL	CHF378,3
28/11/2011	BUY	CHF331,6

Target Price Date	Target price
15/07/2016	CHF270
24/05/2016	CHF370
04/02/2016	CHF410
01/02/2016	CHF420
06/01/2016	CHF440
25/09/2015	CHF430
24/03/2015	CHF450
05/02/2015	CHF400
26/01/2015	CHF430
16/01/2015	Under review
13/01/2015	CHF535
30/09/2014	CHF520
23/07/2014	CHF575
05/06/2014	CHF600
10/01/2014	CHF672
29/11/2013	CHF650

Tod's Group



Ratings Date	Ratings	Price
12/05/2016	SELL	EUR61
23/01/2015	NEUTRAL	EUR80,9
23/05/2012	SELL	EUR80,7
13/05/2011	NEUTRAL	EUR91,85
27/07/2007	BUY	EUR57,9419

Target Price Date	Target price
06/07/2016	EUR53
12/05/2016	EUR60
07/04/2016	EUR78
15/03/2016	EUR82
06/01/2016	EUR84
02/12/2015	EUR82
25/09/2015	EUR85
07/08/2015	EUR88
24/03/2015	EUR83
23/01/2015	EUR78
13/01/2015	EUR74
13/11/2014	EUR72
08/10/2014	EUR88
08/08/2014	EUR92
12/03/2014	EUR100
30/01/2014	EUR106
24/01/2014	EUR111
10/01/2014	EUR114
08/08/2013	EUR107

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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.

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BUY ratings 56.7% NEUTRAL ratings 31.2% SELL ratings 12.1%

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