

Burberry

Price 1,403p

GBP weakness helps!

Fair Value 1260p vs. 1200p (-10%)

NEUTRAL

Bloomberg	BRBY LN
Reuters	BRBY.L
12-month High / Low (p)	1,530 / 1,041
Market Cap (GBP)	6,203
Ev (BG Estimates) (GBP)	5,431
Avg. 6m daily volume (000)	2 538
3y EPS CAGR	8.4%

H1 sales were globally in line with expectations with a retail sales rebound in Q2, mainly driven by Europe and particularly by the UK. Given recent GBP weakness, we have adjusted our FY 2016 expectations (revising up EBIT by 5%). As such, we have lifted our FV from p1,200 to p1,250. Nevertheless, we keep our Neutral recommendation.

ANALYSIS

- H1 Burberry sales were globally in line with expectations. Sales reached GBP1.16bn, up 5% in reported terms but down 4% underlying or at same FX.** This underlying sales decrease was the consequence of two different trends. **Retail sales** (73% of group sales) were up 11% in reported terms at GBP859m but grew no more than 2% at same-FX. More importantly, same-store retail sales remained unchanged during the first six months. This implies, nevertheless, a 3% increase in Q2 after -3% in Q1. On the other hand, **wholesale sales** were down 6% to GBP287m or -14% at same forex. This significant decrease stemmed from the Americas and particularly from the US. Actually, this reflected tighter inventory control by wholesale customers (namely Department stores chains) who are working hard to reduce their WCR given less traffic in their stores. Beyond this, Burberry's management has implemented a brand elevation strategy cutting some clients. In other regions (EMEIA and Asia-Pacific), wholesale sales remained unchanged excluding Beauty. Beauty sales declined by 20%, due to cautious ordering and strategic brand control including the streamlining of distribution (particularly in UK), despite market share gains in key markets.
- Concerning Retail sales**, same-store trends in Q2 (+2%) recovered vs Q1 (-3%). In the **Americas** (24% of sales), the negative trend (down low single digit, as in Q1) was the combination of uneven demand from domestic clientele and of sales with tourists still down double digit. In **APAC** (36% of sales), the Q2 trend (low single digit but up exc HK) was the same as in Q1. Nevertheless, it is worth noting that **Mainland China** sales (close to 12% of group sales) were up mid single-digit in Q2 (despite stores portfolio adjustment in Beijing) after being stable in Q1. This confirms the momentum recently highlighted by some competitors. In **Hong Kong**, revenues were still down double digit in Q2 (close to -15%), despite some slight improvement versus Q1 (around -20%), and Macau registered the same negative trend. On the other hand, **EMEIA** (40% of sales) enjoyed a clear rebound in Q2 (up high single digit) versus Q1 (down low single digit). Nevertheless, this recovery is coming from UK alone whose sales were up 30% in Q2 (up mid single digit in Q1). **UK** accounts for 40% of this region retail sales and close to 15% of total retail sales. In others European countries, trend remains almost the same thanks to good growth with domestic cluster (despite slight slowdown in Q2) and better trend for intra-European tourism.

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.8%	10.8%	9.8%	17.4%
Pers & H/H Gds	0.6%	-1.5%	0.4%	0.5%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Mar. (GBPm)	03/16	03/17e	03/18e	03/19e
Sales	2,515	2,650	2,770	2,875
% change		5.4%	4.5%	3.8%
EBITDA	550	585	620	660
EBIT	417.8	445.0	475.0	510.0
% change		6.5%	6.7%	7.4%
Net income	309.5	339.0	364.0	395.0
% change		9.5%	7.4%	8.5%

	03/16	03/17e	03/18e	03/19e
Operating margin	16.6	16.8	17.1	17.7
Net margin	12.3	12.8	13.1	13.7
ROE	19.7	19.7	19.3	19.4
ROCE	41.4	42.5	44.3	47.3
Gearing	-40.7	-43.5	-47.1	-50.2

(p)	03/16	03/17e	03/18e	03/19e
EPS	69.90	77.45	83.04	89.08
% change	-	10.8%	7.2%	7.3%
P/E	20.1x	18.1x	16.9x	15.7x
FCF yield (%)	0.0%	0.0%	0.1%	NM
Dividends (p)	37.00	37.00	37.00	38.00
Div yield (%)	2.6%	2.6%	2.6%	2.7%
EV/Sales	2.2x	2.0x	1.9x	1.8x
EV/EBITDA	10.1x	9.3x	8.5x	7.8x
EV/EBIT	13.3x	12.2x	11.1x	10.1x

Comparable stores retail sales growth

in %	Q3 15	Q4 15	Q1 16	Q2 16	H1 16
APAC	down msd	down msd	down lsd	down lsd	down lsd
AMEIA	up msd	down msd	down lsd	up hsd	up lsd
Americas	stable	down msd	down lsd	down lsd	down lsd
Total Retail	0	-5	-3	2	2

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

- Given GBP weakness, Burberry management also pointed out that FX positive impact on FY 2016 should be close to GBP125m versus GBP90m previously expected. Hence, our 2016 results estimates upgrade (+5%) to reach a PBT at GBP445m. Nevertheless, the decline in wholesale sales in H1 (-14% underlying) should continue in H2 (mid-teens decline), partly driven by US Dpt stores.

VALUATION

- Following our earnings upgrade, our new FV is p 1,260 vs p 1,200 previously. Neutral recommendation unchanged.

NEXT CATALYSTS

- H1 2016/17 results to be reported on November 9th.



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