

Kering

Price EUR188.40

Stellar performance at Gucci in Q3 (+17%), with clear rebound in MC

Fair Value EUR218 vs. EUR211 (+16%)

BUY

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	192.5 / 138.6
Market Cap (EUR)	23,789
Ev (BG Estimates) (EUR)	26,589
Avg. 6m daily volume (000)	221.9
3y EPS CAGR	15.6%

Kering reported Q3 sales at EUR3.19bn (consensus: EUR3.10bn), up 10% and 10.5 % organically (consensus: +7.1%). This follows 6.9% organic sales growth in Q2 and 5.5% in H1. Gucci brand registered a stellar performance (+17% in Q3). We reiterate our Buy recommendation and we lift our FV to EUR218 vs EUR211 FV previously.

ANALYSIS

- **Kering Group Q3 sales grew 10.5% organically to EUR3.19bn (consensus: EUR3.10bn)** and 7.3% on 9m to EUR8.88bn (consensus: EUR8.79bn). Kering Luxury revenues enjoyed 11.3% organic growth in Q3 (cs:+6.3%). **Puma** registered 10.8% organic sales growth in Q3 (consensus: +10.1%), in line with Q2 and H1 performance. The German brand successful relaunch is succeeding quarter after quarter.
- Among **Kering Luxury**, we want to highlight the strong recovery of **Gucci** brand (34% of Group sales) with a 17% sales increase in Q3 (cs:+9.5%), implying a clear rebound versus Q2 (+7.4%) and H1 (+5.4%). This is the consequence of the successful brand repositioning initiated by Alessandro Michele since the end of 2015 and the higher weight of Alessandro collections (close above 80% vs 70% in Q2). It is also worth noting the good performance in Asia-Pacific (+31% vs +3% in Q2). On the other hand, **Bottega Veneta still suffered in Q3** (-10.9%), globally in line with Q2 (-9.8%), as the brand is very exposed to Asian clientele, including Japanese, (70% of brand's sales) and it is also in a transition phase. **YSL** enjoyed again a very dynamic quarter with a 33.9% organic sales increase, a clear acceleration versus Q2 (+22%). And the positive momentum was true for all the regions, including +33% in Europe. Lastly, the soft luxury brands registered strong positive performance, nevertheless offset by watches brands, hence the 2.5% of the "others brands".

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.4%	20.5%	24.9%	19.3%
Pers & H/H Gds	-2.6%	-2.6%	0.0%	-0.3%
DJ Stoxx 600	-0.7%	0.6%	-1.0%	-6.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,584	12,280	13,085	13,775
% change		6.0%	6.6%	5.3%
EBITDA	2,056	2,320	2,600	2,800
EBIT	1,646	1,900	2,160	2,360
% change		15.4%	13.7%	9.3%
Net income	1,017	1,223	1,433	1,594
% change		20.3%	17.2%	11.2%

	2015	2016e	2017e	2018e
Operating margin	14.2	15.5	16.5	17.1
Net margin	8.8	10.0	11.0	11.6
ROE	8.7	9.5	10.5	11.3
ROCE	5.8	6.8	7.5	8.2
Gearing	37.7	27.1	21.9	21.2

(EUR)	2015	2016e	2017e	2018e
EPS	8.05	9.68	11.25	12.41
% change	-	20.3%	16.3%	10.4%
P/E	23.4x	19.5x	16.7x	15.2x
FCF yield (%)	1.2%	2.9%	3.9%	4.5%
Dividends (EUR)	4.00	4.30	4.70	5.20
Div yield (%)	2.1%	2.3%	2.5%	2.8%
EV/Sales	2.4x	2.2x	2.0x	1.9x
EV/EBITDA	13.4x	11.5x	10.0x	9.3x
EV/EBIT	16.8x	14.0x	12.1x	11.1x

Quarterly organic sales growth by main activities

in %	FY 15	Q1 16	Q2 16	H1 16	Q3 16	9M 16
Gucci	0,4	3,1	7,4	5,4	17,0	9,3
Bottega Veneta	3,2	-8,3	-9,8	-9,1	-10,9	-9,7
YSL	25,8	26,5	22,0	24,2	33,9	27,7
Autres	3,1	-3,3	2,9	0,0	2,5	0,8
Total Luxe	4,1	2,7	5,2	4,0	11,3	6,5
PUMA	6,8	8,1	10,0	9,0	10,8	10,6
Kering Group	4,6	4,0	6,9	5,5	10,5	7,3

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

- Among **Kering Luxury**, it is worth noting the healthy momentum in **Europe** (33% of Kering Luxury sales) with 12% sales growth in Q3 alone (versus +5% in Q2), driven by a +22% for Gucci brand despite -17% for BV. In **Asia-Pacific** (30% of Kering Luxury), sales accelerated in Q3 with organic sales +24%, following +6% in Q2. This regular recovery in APAC is mainly coming from **Mainland China** (around 10% of Kering Luxury sales), while **Hong Kong** remains volatile and contrasted with a better trend at Macau. Others Asian (exc Japan) countries are also very well oriented, including in Korea and Singapore. Gucci brand did also very well in APAC (+31%). On the other hand, **Japan** (10% of Luxury sales) is disappointing with a 7% sales decline revenues, on very demanding comps. Lastly, sales in **North America** (20% of Luxury sales), momentum improved with a 17% growth vs -3% in H1, with locals clientele again well oriented.
- **Given Q3 sales figures, we revise up our 2016 EBIT by 3%**, mainly driven by Gucci whose margin should improve by at least 110bp, o/w +150bp in H2 after +80 in H1.

VALUATION

- **We reiterate our Buy recommendation with a new EUR218 FV vs previously EUR211 previously.** The stock (+20% on 3m) is trading with a 7% discount vs peers average on 2016 EV/EBIT.

NEXT CATALYSTS

- FY 2016 results to be reported mid February 2017



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