

11th October 2016

Luxury & Consumer Goods

LVMH

Price EUR157.05

Q3 sales grew 6% organically, significantly above consensus

Fair Value EUR171 (+9%)

BUY

Bloomberg	MC FP
Reuters	LVMH.PA
12-month High / Low (EUR)	173.5 / 131.4
Market Cap (EUR)	79,741
Ev (BG Estimates) (EUR)	82,861
Avg. 6m daily volume (000)	773.3
3y EPS CAGR	11.2%

LVMH reported Q3 sales of EUR9.14bn yesterday (cs: EUR8.93bn), up 4% and 6% organically (cs:+4%). This highlighted a clear acceleration versus Q2 and H1 (both at +4% organically). Note the very good performance by the F&L division (+5% in Q3). We are maintaining our Buy recommendation with an unchanged EUR171 FV.

ANALYSIS

- **Q3 2016 sales grew 6% organically to EUR9.14bn (consensus: EUR8.93bn and +4% organic growth)**, implying a 5% increase over 9M (EUR26.3bn). Note the 4% sales increase of the **Wines & Spirits** division (13% of group sales) following +13% in Q2 and +9% in H1. This expected slowdown was due to a very demanding comparison basis particularly at Hennessy (+16% in Q3 2015 of which +23% for Cognac). Hennessy volumes grew 9% over 9m vs +13% in H1. The very welcome news from the release stemmed from **Fashion & Leather goods** (34% of LVMH sales), which grew 5% in Q3 following +1% in Q2 and even +0% in H1. We guess that Louis Vuitton revenues increased at least 4%, a level which allows the brand to improve its profitability, and the F&L performance was achieved despite the negative impact of the US brands (Marc Jacobs and Donna Karan). And Fendi continued to perform very well.
- **Performances by the three other businesses were also very strong on the whole** with for instance, +10% for **Perfumes & Cosmetics in Q3** (after +6% in Q2 and +8% in H1) thanks to market share gains particularly at Christian Dior Parfums in all geographical areas, while **Watches & Jewelry** sales (9% of Group sales) were up 2% during the quarter, with no acceleration vs Q2, driven by Bulgari and Tag Heuer's positive performances, despite a tough watches environment. Lastly, **Selective Retail** activity (32% of revenues) enjoyed an 8% increase in Q3 (+7% in Q2), despite the decline in DFS sales (Hong Kong and Macau had a strong negative impact) but thanks to Sephora's clear dynamism (double digit sales increase) and market share gains in almost every region.

9.14	1 M	3 M	6 M	31/12/15
Absolute perf.	3.2%	16.9%	7.8%	8.4%
Pers & H/H Gds	-1.5%	-0.6%	2.0%	-0.3%
DJ Stoxx 600	-1.0%	4.5%	3.1%	-6.5%

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	22.1x	19.7x	17.6x	16.1x
FCF yield (%)	2.9%	3.2%	3.8%	4.0%
Dividends (EUR)	3.55	3.90	4.30	4.70
Div yield (%)	2.3%	2.5%	2.7%	3.0%
EV/Sales	2.3x	2.2x	2.1x	2.0x
EV/EBITDA	11.1x	10.6x	9.6x	8.8x
EV/EBIT	12.6x	12.1x	10.9x	9.9x

Quarterly organic sales growth by division

in %	Q4 15	Q1 16	Q2 16	H1 16	Q3 16	9M 16
Wines & Spirits	4	6	13	9	4	7
Fashion & Leather	3	0	1	0	5	2
Perfumes & Cosmetics	7	9	6	8	10	8
Watches & Jewelry	3	7	2	4	2	4
Selective Retail	5	4	7	5	8	6
Group	5	3	4	4	6	5

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

- Although the group's management did not disclose **sales momentum by geographical area** yesterday (this should be done today during the conference call at 3pm), we guess that revenues were globally well oriented in **North America**, in line with Q2 (+7%), thanks especially to Hennessy, Sephora and Tag Heuer while **Europe** should grow modestly (+3% in Q2), penalised by France despite some improvement in others European countries, not to mention the UK (GBP decline). Momentum in **Japan** (7% of sales) was probably still very poor (-5% in Q2) since the strength of the JPY means fewer Chinese tourist are visiting Japan and the Japanese are buying more overseas (mainly in Korea and Hawaii for instance). We anticipate a significant acceleration in **APAC** (27% of sales). Momentum should have improved for F&L while Hennessy's slowdown clearly had a negative impact. Globally, the situation in **Mainland China** is improving (the Chinese are buying more at home than before) although it remains very challenging both in Hong Kong and Macao. APAC sales were down 2% in Q1 and up 3% in Q2.

VALUATION

- The LVMH share has gained 9% YTD (+0% for luxury average) and the stock is trading at 12.1x 2016 EV/EBIT, an 11% discount vs the peer average. We are maintaining our buy recommendation with an unchanged EUR171 FV.

NEXT CATALYSTS

- Today conference call at 3pm



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