

12th October 2016

Luxury & Consumer Goods

LVMH

Price EUR164.10

10% sales increase in Asia Pacific in Q3!

Fair Value EUR180 vs. EUR171 (+10%)

BUY

Bloomberg	MC FP
Reuters	LVMH.PA
12-month High / Low (EUR)	173.5 / 131.4
Market Cap (EUR)	83,320
Ev (BG Estimates) (EUR)	86,350
Avg. 6m daily volume (000)	780.4
3y EPS CAGR	12.1%

During yesterday's conference call, LVMH management provided more information on the 9m sales performance. The most important information was a 10% revenue increase in Asia Pacific in Q3 alone (vs +3% in Q2), and a 7% increase in Louis Vuitton sales during the quarter. All this leads us to revise up our 2016 EBIT by 4%. Hence our new EUR 180 Fair Value, vs EUR171 previously.

ANALYSIS

- Q3 sales grew 6% organically in Q3 versus +4% in Q2, with a clear acceleration for **Fashion & Leather** thanks to a 5% sales increase following +1% in Q2. **Louis Vuitton sales grew around 7%** with almost no price impact. And the price impact was no more than 1-2% in Q2, thanks to iconic lines and new models success such as the promising start for the new fragrances collection. Donna Karan had a negative impact of close to 2%. Fendi maintained its very dynamic momentum while Celine sales were still growing, particularly for shoes and accessories lines. **Louis Vuitton** sales with its Chinese clientele (slightly less than one third of brand sales) increased by low-double-digits in Q3 after a flattish H1. LVMH management also highlighted that, after very efficient measures in H1, cost control should continue in H2.
- The table below highlights the significant acceleration during Q3 in **Asia-Pacific** with a 3% increase on 9m, implying +10% in Q3 alone versus +3% in Q2 and +0% in H1. It is worth noting the much better trend both in Mainland China and in Hong Kong. Actually, in Mainland China, LVMH sales increased around +15% in Q3, while momentum was in mid-single-digits in H1. In Hong Kong, revenues were down mid-single-digit in Q3 versus -15% in H1. This performance has been achieved despite a slight loss of momentum at Hennessy in Greater China, but driven by a clear improvement at Fashion & Leather (and particularly at Louis Vuitton) and even at DFS (HK and Macao). Bulgari did also quite well in Mainland China, particularly for the traditional lines, which were up double digits.
- Even in **Europe**, momentum accelerated slightly during the period (+6% vs +3% in Q2), despite a negative trend in France (10% of LVMH sales). The latter was less negative than in H1, and the region's performance was spurred by UK, Germany and Italy. Europe up low double digits in Q3, with even some improvement in France where the performance was positive in September. **US** remained very well oriented and achieved a 7% sales growth on 9m and 6% in Q3 alone, driven by Hennessy, Sephora (double digit increase) and even by LV. Lastly, **Japan** revenues declined 3% on 9m or -9% in Q3, following -5% in Q2.

Organic sales growth by geographical area

lfl chge	Q3 15	Q4 15	Q1 16	Q2 16	H1 16	Q3 16	9M 16
US	12	5	6	7	7	6	7
Japan	24	12	6	-5	0	-9	-3
Asia	-8	-2	-2	3	0	10	3
Europe	12	6	7	3	5	6	5
Group	7	5	3	4	4	6	5

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

- Given the 7% revenue increase at Louis Vuitton in Q3, far above the 3% breakeven level, we are more optimistic on LV's FY profitability (LV accounts for 50% of Group EBIT) and therefore, we revise up our FY LVMH EBIT by 4% and we expect EBIT margin to be up 10bp to 18.6% vs -20bp previously.

VALUATION

- LVMH share price grew 13% YTD (+21% vs DJ Stoxx) and is trading at a 8% discount vs peers. We upgrade our FV from EUR171 to EUR180 and maintain our Buy recommendation.

NEXT CATALYSTS

- FY 2016 results to be released last week of January 2017.

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