

Sector View

Luxury Goods

We bet on a rebound in Greater China in 2017

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	-0.5%	-1.9%	0.3%	0.2%
DJ Stoxx 600	0.5%	1.1%	-1.5%	-5.9%

*Stoxx Sector Indices

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).

Companies covered

BURBERRY	NEUTRAL	1260p
Last Price	1495p	Market Cap. GBP6,608m
CHRISTIAN DIOR	BUY	EUR175
Last Price	EUR173,4	Market Cap. EUR31,511m
HERMES Intl	BUY	EUR410 vs. 370
Last Price	EUR367,399	Market Cap. EUR38,786m
HUGO BOSS	NEUTRAL	EUR74
Last Price	EUR55	Market Cap. EUR3,872m
KERING	BUY	EUR211 vs.193
Last Price	EUR189,8	Market Cap. EUR23,966m
LVMH	BUY	EUR180
Last Price	EUR167,15	Market Cap. EUR84,869m
MONCLER	BUY	EUR17,5
Last Price	EUR15,61	Market Cap. EUR3,905m
PRADA	NEUTRAL	HKD31
Last Price	EUR27	Market Cap. EUR69,088m
RICHEMONT	BUY vs. NEUTRAL	CHF73 vs.60
Last Price	CHF65,05	Market Cap. CHF36,428m
SALVATORE FERRAGAMO	BUY	EUR23
Last Price	EUR22,48	Market Cap. EUR3,794m
THE SWATCH GROUP	NEUTRAL vs.SELL	CHF320 vs.270
Last Price	CHF306,7	Market Cap. CHF16,833m
TOD'S GROUP	SELL	EUR55 vs.53
Last Price	EUR50,85	Market Cap. EUR1,683m

ANALYSIS

- 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).

VALUATION

- 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).

NEXT CATALYSTS

- Tod's Group to report 9m sales on October 24th; Kering to report 9m sales on October 24th.

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Analyst :
Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com

Sector Team :
Nikolaas Faes
Antoine Parison
Cédric Rossi

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NEUTRAL ratings 0%

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			Geneva
Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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