

17th November 2016

Luxury & Consumer Goods

LVMH

Price EUR162.50

Light share buy back (EUR300m)

Fair Value EUR194 (+19%)

BUY

Bloomberg	MC FP
Reuters	LVMH.PA
12-month High / Low (EUR)	168.1 / 131.4
Market Cap (EURm)	82,392
Avg. 6m daily volume (000)	752.8

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.6%	3.4%	12.0%	12.1%
Pers & H/H				
Gds	-5.1%	-7.8%	-3.9%	-4.6%
DJ Stoxx 600	-0.4%	-1.4%	1.1%	-7.5%
	2015	2016e	2017e	2018e
P/E	22.8x	19.9x	17.9x	16.2x
Div yield (%)	2.2%	2.4%	2.6%	2.9%

ANALYSIS

- LVMH announced yesterday (after market closure) a very light share buyback programme of EUR300m (0.3% of market cap) that begins today until 30th December 2016. We are surprised by this share buyback programme given its small size (0.3% of market cap) and to be honest, consider it almost useless! Each year, LVMH generates around EUR3bn in FCF and distributes close to EUR2bn in dividends, meaning debt reduction is potentially close to EUR1bn each year. In 2015, LVMH net debt was around EUR3bn and management's target was to maintain this level of debt, without ruling out mid-size acquisitions such as Rimowa with a very opportunistic strategy.
- Nevertheless, we and investors are much more focused on group organic growth and the rebound in Q3 (+6% vs +4% in Q2). LV sales grew 7% in Q3 vs +2% in H1. In Q3, LV sales with Chinese clientele was up double digit versus a mid-single digit increase in H1. This rebound stemmed from both Mainland China (+15% in Q3 vs +5% in H1) and HK (down 5% in Q3 vs -15% in H1). We are also quite confident that in Q4 2016, sales momentum should remain positive and we expect sales to grow 5%, in line with the 9m performance.

VALUATION

- The stock is trading on a 10% discount vs the peer average on 2017 EV/EBIT; Buy recommendation and EUR194 FV reiterated.

NEXT CATALYSTS

- FY 2016 results to be reported end January 2017

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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