

**Burberry**

Price 1,451p

No surprises in H1

Fair Value 1350p (-7%)

NEUTRAL

Bloomberg	BRBY LN
Reuters	BRBY.L
12-month High / Low (p)	1,530 / 1,041
Market Cap (GBP)	6,405
Ev (BG Estimates) (GBP)	5,633
Avg. 6m daily volume (000)	2 767
3y EPS CAGR	8.4%

**H1 2016 results were globally in line with the consensus with adjusted EBIT of GBP146m while FY 2016 management guidance remains unchanged. Hence our unchanged Neutral recommendation with a 1350p Fair Value.**

## ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	10.2%	23.4%	21.4%
Pers & H/H Gds	-2.1%	-4.9%	-1.5%	-2.6%
DJ Stoxx 600	0.0%	-1.4%	2.0%	-7.1%

YEnd Mar. (GBPm)	03/16	03/17e	03/18e	03/19e
Sales	2,515	2,650	2,770	2,875
% change		5.4%	4.5%	3.8%
EBITDA	550	585	620	660
EBIT	417.8	445.0	475.0	510.0
% change		6.5%	6.7%	7.4%
Net income	309.5	339.0	364.0	395.0
% change		9.5%	7.4%	8.5%

	03/16	03/17e	03/18e	03/19e
Operating margin	16.6	16.8	17.1	17.7
Net margin	12.3	12.8	13.1	13.7
ROE	19.7	19.7	19.3	19.4
ROCE	41.4	42.5	44.3	47.3
Gearing	-40.7	-43.5	-47.1	-50.2

(p)	03/16	03/17e	03/18e	03/19e
EPS	69.90	77.45	83.04	89.08
% change	-	10.8%	7.2%	7.3%
P/E	20.8x	18.7x	17.5x	16.3x
FCF yield (%)	0.0%	0.0%	0.1%	NM
Dividends (p)	37.00	37.00	37.00	38.00
Div yield (%)	2.5%	2.5%	2.5%	2.6%
EV/Sales	2.3x	2.1x	2.0x	1.9x
EV/EBITDA	10.4x	9.6x	8.9x	8.1x
EV/EBIT	13.8x	12.7x	11.6x	10.5x

- Yesterday morning Burberry reported H1 results that were globally in line with expectations.** Sales were up 4.9% to GBP1,159m but down 4% underlying. **Retail sales were up 10.9% to GBP859m but were only up 2% at same forex. More importantly, at comparable stores, revenues remained unchanged, implying +2% in Q2 alone after -3% in Q1.** In H1, Burberry closed 13 mainline stores (DOS) with 24 closures and 11 openings with a total of 211 DOS and 205 concessions in department stores. This is due to elevation of the store network in Mainland China, in Korea (four net closures) and in the Middle East (three net closures) along with the relocation of some stores. Net new space contributed 2% of sales growth and digital outperformed retail sales. Retail sales account for 74% of revenues. While, for retail comparable sales, Asia Pacific and Americas were low single digit, in EMEIA, revenues were up low single digit including up high single digit in Q2 only thanks to a 30% increase in the UK. Retail/wholesale Accessories sales (37% of revenues) declined 1% underlying.
- Wholesale sales (25% of revenues with 49 franchise stores) fell 14% underlying,** penalised by a significant decline in the Americas and particularly the US. Beauty wholesale revenues declined 20% due to streamlining of distribution in key markets.
- Burberry adjusted EBIT declined 5% and 24% at same forex to GBP144m.** This implies an EBIT margin at 12.5% versus 13.7% in H1 2015, a 80bp decline. This adjusted EBIT includes a forex profit of GBP29m. Concerning Retail/Wholesale activity, Adjusted EBIT margin decreased by no more than 30bp to 11.7%, due to a gross margin decline of around 40bp to 68.3%. This includes a 70bp positive impact from FX. Furthermore, apparel and accessories gross margin was unchanged in H1 thanks to a positive distribution mix and regional mix. This implies that Beauty was the main contributor to the gross margin decline. Retail/wholesale OPEX remained almost unchanged (56.6% of sales vs 56.7% in H1 2015), partly thanks to GBP6m in costs savings (of the planned GBP20m expected on FY, offsetting underlying costs pressure and investment in our growth initiatives. Nevertheless, exceptional items were above expectations with a total of GBP44m in expenses of which GBP26m concerning Fragrance and Beauty intangible charges and GBP12.8m in restructuring costs (costs and efficiency programme). FY restructuring charges should still amount to GBP20m.
- FY2016 outlook remains unchanged and management** still expects net new space to contribute low single digit to retail sales (2% in H1). 15 mainline store openings are planned but with a similar amount of closures. Furthermore, H2 wholesale sales are expected to be down mid-teens, penalised by Beauty. We expect total group sales to reach GBP2,650m, up 5% reported and retail underlying sales up 3% (+1% at comparable stores). Adjusted retail and wholesale EBIT should benefit a GBP125m forex positive impact (using 31 October exchange rates). **This implies that FY group adjusted PBT guidance remains unchanged at GBP445m. FY capex should reach GBP130m vs GBP150 previously.**

## VALUATION

- We leave unchanged our Neutral recommendation and our 1350p Fair Value.

## NEXT CATALYSTS

- Q3 trading statement to be released mid January 2017.

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