

Hermès Intl.

Price EUR368.40

Acceleration in September and encouraging October

Fair Value EUR410 (+11%)

BUY-Top Picks

Bloomberg	RMS FP
Reuters	HRMS.PA
12-month High / Low (EUR)	398.6 / 291.6
Market Cap (EUR)	38,892
Ev (BG Estimates) (EUR)	37,120
Avg. 6m daily volume (000)	56.40
3y EPS CAGR	13.4%

Hermès' Q3 sales were very well oriented with 8.8% organic sales growth. Sales in Asia-Pacific rebounded clearly in Q3 thanks to an acceleration in Mainland China, a trend also perceived by other luxury players such as Louis Vuitton and Gucci. We reiterate our Buy recommendation with an unchanged EUR410 FV.

ANALYSIS

- **Q3 sales were very well oriented with an 8.8% organic sales increase** (above consensus of +7%) versus +7.2% in H1 and +8.1% in Q2. Retail sales were up 10% in Q3 (+9% on 9m) while wholesale sales were up no more than 2%. This positive trend was achieved without any pricing increase and with only one store opening, which implies a very healthy performance.
- By geographical area, we would highlight the significant acceleration in momentum in **Asia-Pacific** (35% of sales), driven by **Mainland China** (close to 10% of sales) which enjoyed clearly better momentum explained by Hermès management as stemming from encouraging macro figures and more purchases at home vs overseas (more control at boundaries and higher taxes). Meanwhile, sales in Hong Kong rose slightly partly on the back of the new store at Hong Kong airport, although, excluding this opening, sales were stable. Macau was down mid single digit. All other Asian countries achieved positive trends, particularly Korea, Singapore and Taiwan. On the other hand, revenues in **France** declined slightly in Q3 (-0.9%), due to the attacks in Nice on 14th July and lower tourists flows, particularly in July and August and also the demanding comparison basis (+11% in Q3 15).
- The rebound in the **Rest of Europe** in Q3 (+9.8% of which +12% for retail) was driven by the UK (+20%) given strong tourists flows following GBP weakness, although Italy and even Russia were also well oriented. Only Switzerland was relatively weak. The positive surprise also came from **Japan** with a 5.6% revenue increase despite less tourists flows coming from China (JPY strength).

Quarterly organic sales growth by geographical area

lfl chge (%)	2015	Q1 16	Q2 16	H1 16	Q3 16	9m 16
France	6,2	5,6	8,8	7,3	-0,9	4,5
Europe	10,8	11,6	6,7	9,1	9,8	9,3
Americas	6,8	4,4	12,1	8,3	7,3	8
Japan	18,3	12,6	7,3	10	5,6	8,5
Asia-Pacific	5,1	3,9	6,7	5,3	14,2	8,1
others	-2,2	-18,2	11,7	-4,9	13,8	0,6
Total Group	8,1	6,2	8,1	7,2	8,8	7,7

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

- **By business**, the best performance was again achieved by the Leather goods business thanks to 16.3% revenue growth, with no slowdown vs H1. This was the consequence of a production capacity increase (around +8% per year on average) thanks to new sites in Charentes, Franche Comté and Isère, but also still very strong underlying final demand. All the bag lines (Kelly, Birkin, Constance, Lindy) enjoyed dynamic momentum.
- **We leave unchanged our 7.5% FY 2016 organic sales increase** of which -2% for silk and +14% for Leather. Note also that September enjoyed an acceleration in momentum vs July and August in all regions but Japan and that the October trend was in line with the 9m performance. In Q4, we expect some slowdown for leather given demanding comps while momentum should accelerate for silk. And don't forget that Q4 comps in France are easy (+1.5%).

VALUATION

- We reiterate our Buy recommendation with an unchanged EUR410 FV.

NEXT CATALYSTS

- FY 2016 sales to be reported on 8th February.



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