

Bloomberg	HMB.SS
Reuters	HMB.ST
12-month High / Low (€)	305.2 / 236.6
Market Cap (m)	448,690
Ev (BG Estimates) (m)	440,145
Avg. 6m daily volume (000)	2,941
3y EPS CAGR	2.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.8%	4.6%	11.9%	-10.3%
Consumer Gds	5.8%	0.0%	5.1%	-3.3%
DJ Stoxx 600	5.2%	5.1%	11.0%	-2.8%

YEnd Nov. (SEKm)	11/15	11/16e	11/17e	11/18e
Sales	180,861	192,229	211,644	231,835
% change		6.3%	10.1%	9.5%
EBITDA	33,341	31,141	34,815	38,948
EBIT	26,942	23,644	26,138	28,979
% change		-12.2%	10.5%	10.9%
Net income	20,898	18,358	20,276	22,457
% change		-12.2%	10.4%	10.8%

	11/15	11/16e	11/17e	11/18e
Operating margin	14.9	12.3	12.4	12.5
Net margin	11.6	9.6	9.6	9.7
ROE	36.0	30.6	31.7	32.4
ROCE	34.5	27.4	27.6	28.1
Gearing	-22.3	-14.2	-9.4	-6.9

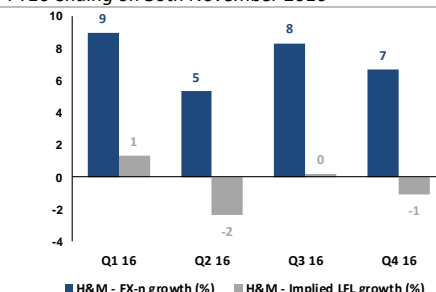
(SEK)	11/15	11/16e	11/17e	11/18e
EPS	12.63	11.09	12.25	13.57
% change	-	-12.2%	10.4%	10.8%
P/E	21.5x	24.4x	22.1x	20.0x
FCF yield (%)	2.7%	2.7%	3.1%	3.6%
Dividends (SEK)	9.75	9.75	10.24	11.34
Div yield (%)	3.6%	3.6%	3.8%	4.2%
EV/Sales	2.4x	2.3x	2.1x	1.9x
EV/EBITDA	13.1x	14.1x	12.7x	11.4x
EV/EBIT	16.2x	18.6x	16.9x	15.3x

Yesterday H&M reported sales growth in November of only 9% FX-n, shy of CS expectations of approx. 15% despite more favourable weather conditions. As a consequence, FY16 sales to November only increased 7% FX-n, implying a fairly stable LFL growth, which might again put some pressure on the group's margins in view of its retail expansion (+427 for a total of 4,351 stores). In this context, our preference clearly goes to ITX that reported a solid start of Q4 2016 and earnings momentum is less at risk. We revised down our assumptions by ~1%. Neutral recommendation and FV of SEK295.

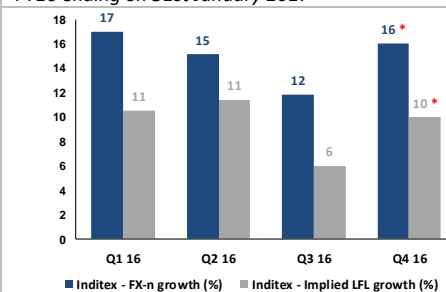
ANALYSIS

- November sales disappointed...** Sales were only up 9% FX-n (BG ests: approx. +2% LFL), roughly in line with the previous month (+10% FX-n) but shy of the CS forecasts (~15% FX-n) that anticipated an acceleration on the back of a more favourable environment for winter clothes than the prior year (= easier comps). Indeed, note that last year, H&M used the unseasonably mild weather in North America to justify a weaker-than-expected performance in November 2015.
- ... and Q4 sales missed expectations.** As a consequence, the Swedish group posted Q4 sales (excl. VAT) that increased 7% FX-n (but ~-1% LFL) to SEK52.7bn, missing analysts' expectations of SEK53.5bn. In the FY16, sales excl. VAT were also up 7% FX-n and 6% reported to SEK192.2, representing a fairly stable LFL growth (-0.5%e).
- Space growth in line with MT guidance.** We assume that space contribution amounted to ~12%, vs MT guidance of +10-15% p.a., leading to a space growth of c.7.7%. It is worth noting that H&M opened 427 stores during the FY16 and now counts 4,351 DOS on 30th November.
- Structural question marks remain.** In our initiation report, we highlighted that H&M was facing structural issues: (i) a classical supply chain close to traditional players but less flexible than ITX, leading to higher sensitivity to shifts in demand (fashion, weather conditions), (ii) an increasing competitive environment, especially from Primark that is expanding in Germany (~18% of sales) and in France (~6% of sales) and (iii) a pressure on margins due to an insufficient LFL growth to absorb the inflation of opex costs related to the retail expansion.

H&M: quarterly FX-n and implied LFL growth (%): FY16 ending on 30th November 2016



ITX: Quarterly FX-n and implied LFL growths (%): FY16 ending on 31st January 2017



* Q4 16: sales from 1st Nov to 12th Dec

Source: Company Data, Bryan, Garnier & Co ests

VALUATION

- The latest ITX and H&M publications confirms our positive stance on ITX, which has outperformed H&M this year (see graphs above). ITX offers a more defensive profile in this volatile and competitive advantage with unique key competitive advantages such as its 'pull' strategy (= collection design based on customer purchasing decisions) and its centralised + vertical integration that implies short lead times (~two weeks vs. six months for H&M and the rest of the industry) and the lowest mark-down and unsold inventory rates amongst the lowest in the industry.
- We have revised down our earnings assumptions by ~1% but we were a touch more cautious than the CS expectations. Neutral recommendation and FV of SEK295 confirmed.

NEXT CATALYSTS

- December sales on 16th January 2017 // FY16 Sales on 31st January 2017. [Click here to download](#)



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