



## Consumer, Brands &amp; Retail

11th October 2019

## HUGO BOSS

- Consumer, Brands & Retail
- Luxury Goods

## NEUTRAL

Fair Value	EUR68 vs. EUR76 (+52%)
Share price	EUR44.77
EPS 3Y Cagr	5.0%

## A weak Q3 sales and earnings performance forces Hugo Boss to cut FY19 targets

## Q3: sales and EBIT missed expectations due to HK and the US

Yesterday evening, Hugo Boss cut its FY19 sales and EBIT targets further due to very poor sales and earnings trends in Q3:

- Organic sales growth was flat (+1% reported) to EUR720 vs. CS expectations at EUR738m
- EBIT dropped by 13% to EUR80m (margin: -190bp to 11.1%) vs. CS forecasts at EUR106m, on the back of an unfavourable operating leverage, as well as higher expenses relating to management changes.

Despite limited exposure to HK relative to the rest of the industry (c.3% of total sales vs. an avg. of 6-7% for our luxury sample), the HK protests hampered growth in Greater China but we believe that sluggish retail trends in the US (c. 15% of total sales) may have been the biggest drag. Indeed, the sales decline sustained in H1 (-7% FX-n) could have been more significant in Q3, given more challenging macro conditions.

## PW on FY19 targets: we cut our FY19-20 EPS estimates by c.11%

This significant downward revision broadly reflects the magnitude of the revised FY19 EBIT guidance, as the EBIT is now expected to be down between 2-5% (i.e. EUR330-340m), whereas it was anticipated to grow in the lower end of a high-single-digit growth (CS prior to yesterday's PW: +7%e to EUR370m). Besides the above-mentioned margins headwinds that played negatively in Q3, we believe that a less favourable channel-mix, as well as a negative geographical mix due to H-K.

Moreover, FY19 FX-n sales growth should be in the low single-digits vs. the lower end of mid-single-digit growth initially).

## Bipolarisation within luxury is far from over...

The Hugo Boss' PW was announced just one day after LVMH unveiled stronger-than-expected Q3 sales. This dichotomic performance amongst those two luxury players confirm the bipolarization trend within the industry one has been witnessing over recent years (see our latest update: "[Tug-of-war between fundamentals and trade tensions](#)"). All the strategic initiatives implemented since 2016 (i.e. focus on two core brands, price harmonization, omnichannel approach, etc.) have enabled Hugo Boss to enhance execution of its MT strategy but this PW is a cruel reminder that the German group operates in an apparel market that is clearly more volatile than other categories such as leather goods, beauty or jewellery.

## Degraded visibility

Further to our lowered FY19-20 estimates, we now have a FV of EUR68 vs. EUR76 initially. Neutral recommendation confirmed as MT visibility seems limited at this stage: whilst Hugo Boss remains committed to its 2022 EBIT target of 15% announced at its CMD in Nov' 18 (BG: 13%e), its aim to grow sales at a CAGR of 5-7% FX-n between 2018-22 was not clearly stated in yesterday's press release.

## Market Data

Bloomberg / Reuters	BOSS GR/BOSG_p.DE
Market Cap.	EUR3,152m
E.V.	EUR3,181m
Free Float	90,3%
Avg. Daily volume (6m)	379.0
12m high / low	EUR67.0 / EUR44.3
Ytd Perf.	-17.0%

EURM	12/18	12/19e	12/20e	12/21e
Sales	2,796	2,860	2,984	3,133
% Change		2.3%	4.3%	5.0%
EBITDA	476.5	457.6	486.4	535.8
% Change		-4.0%	6.3%	10.1%
EBIT	346.8	328.9	352.1	394.8
% Change		-5.2%	7.1%	12.1%
Net Income	236.2	224.8	253.4	284.0
% Change		-4.8%	12.7%	12.1%
ROE	24.1	22.5	24.6	26.6

	12/18	12/19e	12/20e	12/21e
EV/Sales	1.1x	1.1x	1.1x	1.0x
EV/EBITDA	6.7x	6.9x	6.5x	6.0x
EV/EBIT	9.2x	9.6x	9.0x	8.1x
EPS	3.55	3.26	3.67	4.12
% change		-8.3%	12.7%	12.1%
P/E	12.6x	13.7x	12.2x	10.9x
Div Yield	6.0%	6.3%	6.9%	6.9%

Next Catalyst: Q3 2019 Results on 5th November.

## Last FV Change:

[2019-8-2, High end/premium apparel remains more volatile and challenging than other categories](#)

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## HUGO BOSS

### NEUTRAL

<b>Fair Value</b>	EUR76(+71%)
<b>Share price</b>	EUR44.77
<b>Market Cap.</b>	EUR3,152m
<b>EPS 3Y CAGR</b>	5.0%

<b>Income Statement (EURm)</b>	<b>2017</b>	<b>2018</b>	<b>2019e</b>	<b>2020e</b>	<b>2021e</b>
Revenue	2,733	2,796	2,860	2,984	3,133
Change (%)	1,5%	2,3%	2,3%	4,3%	5,0%
Gross Profit	1,808	1,824	1,850	1,940	2,049
EBITDA	500	476	458	486	536
Adjusted EBIT	333	360	329	352	395
EBIT	341	347	329	352	395
Change (%)	29,4%	1,7%	-5,2%	7,1%	12,1%
Financial result	-10	-10	-10	-5	-5
Pre-Tax profits	331	337	319	347	390
Tax	-100	-100	-94	-94	-106
Minority interests	0	0	0	0	0
Net profit	231	236	225	253	284
Change (%)	19,4%	2,2%	-4,8%	12,7%	12,1%
<b>Cash Flow Statement (EURm)</b>					
Operating cash flows	392	385	338	366	401
Change in working capital	-29	63	-51	21	25
Capex, net	119	153	180	164	172
Financial investments, net	6	1	3	3	3
Dividends	179	183	190	197	218
Other	4	-1	0	0	0
Net debt	16	29	13	32	51
Free Cash flow	302	169	209	181	203
<b>Balance Sheet (EURm)</b>					
Cash & liquid assets	116	147	163	144	125
Other current assets	942	1,025	981	1,016	1,057
Tangible fixed assets	366	389	441	471	502
Intangible assets	183	185	185	185	185
Other assets	114	112	112	112	112
Total assets	1,720	1,859	1,882	1,927	1,981
LT & ST debt	132	176	176	176	176
Other liabilities	674	702	708	722	737
Shareholders' funds	915	981	997	1,029	1,067
Total liabilities	1,720	1,859	1,882	1,927	1,981
Capital employed	1,007	1,111	1,112	1,163	1,219
<b>Financial Ratios</b>					
Gross Margin (% of sales)	66,2%	65,2%	64,7%	65,0%	65,4%
EBITDA margin (% of sales)	18,3%	17,0%	16,0%	16,3%	17,1%
EBIT margin (% of sales)	12,5%	12,4%	11,5%	11,8%	12,6%
Tax rate	30,2%	29,8%	29,5%	27,0%	27,1%
Net Margin	8,5%	8,4%	7,9%	8,5%	9,1%
ROE (after tax)	25,3%	24,1%	22,5%	24,6%	26,6%
ROCE (after tax)	23,6%	21,9%	20,9%	22,1%	23,6%
Gearing	2%	3%	1%	3%	5%
Pay out ratio	79,1%	78,9%	86,0%	84,4%	75,0%
Number of shares, diluted	70,400	70,400	70,400	70,400	70,400
<b>Per share data (EUR)</b>					
EPS	3,28	3,36	3,19	3,60	4,03
Restated EPS	3,26	3,55	3,26	3,67	4,12
% change	-5,9%	8,9%	-8,3%	12,7%	12,1%
BVPS	12,99	13,93	14,17	14,62	15,16
Operating cash flows	006	005	005	005	006
FCF	004	002	003	003	003
Net dividend	2,65	2,70	2,80	3,10	3,09

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

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### Stock rating

<b>BUY</b>	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
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