

## Consumer, Brands &amp; Retail

21st March 2019

## HERMÈS INTL.

| Consumer, Brands & Retail  
| Luxury Goods

## NEUTRAL vs. BUY

Fair Value EUR555 vs. EUR535 (-7%)  
Share price EUR596.60  
EPS 3Y Cagr 11.3%

## Fairly valued; recommendation downgraded

## Mainland China has outperformed APAC performance.

2018 sales growth has been achieved without any significant price increases, therefore, it has been mainly driven by higher volumes. Many stores have been opened (Hong Kong, Palo Alto in US, Istanbul, Changsha and Xi'an in China...) and some others have been renovated (Monaco, George V in Paris, London Selfridges, Singapore...). Last year, China achieved one of the highest sales growth rates (above the APAC region). The 30bp 2018 EBIT margin decline is mainly due to the negative impact of FX hedging that affected GM by 60bp, implying stability of the GM at 70%, despite good productivity thanks to the success of the RTW (men and women) and shoes. Furthermore, amortization reached 6% of sales versus 5.6% in 2017. Communication costs were almost stable as a % of sales (5%) on FY with an increase in H2 (+20bp). Good cost control lowered SG&A expenses by 20bp as a % of sales.

## 3% price increase in 2019

In 2019, Hermès will open stores in Orlando and in New York (Meatpacking district) and its first store in Poland (Warsaw). Furthermore, some renovation (Amsterdam, Waikiki (Hawaii), Vancouver and Moscow (Stoleshnikov)) are also scheduled. Hermès will launch an online website in Japan and in others Asian countries in 2019, after the success of the one launched in China in October last year and in US in 2017. But, in our view, the most important thing to know for 2019 is that price increase should amount to 3% on average for the group (+5 to 6% in China and Japan, +3% in Hong Kong and +3% in US), hence our 10% sales increase (+8% previously). Lastly, without giving any precise information on current trading, Hermès CEO added yesterday that YTD, trends are globally in line with 2018 performance (which is a view shared by others luxury groups executives). We leave our EBIT margin almost unchanged at 34.7% given some negative FX impact that could offset the positive impact of price increases. We therefore lift our earnings estimates by almost 3% for 2019 and 2020

## Beauty market in 2020!

The big step of 2020 will be the penetration of the all-beauty market with first lines in make-up, managed internally (without a license as Saint Laurent for instance), even if the production will be outsourced in France and in Italy. In a second step, Hermès should also launch skin care lines. Nevertheless, this new market for Hermès will be managed carefully as these products will be only sold in Hermès stores and not in department stores or specialists' retailers as Sephora.

## Neutral versus Buy

Following our earnings adjustments, we increase our FV from EUR535 to EUR555. Nevertheless, we downgrade Hermès from Buy to Neutral. Given the current share price (+22% YTD) and valuation (23% premium vs historical average), we cannot justify anymore a Buy recommendation even if we admit that Hermès is, without any doubt, one of the most iconic luxury brand.

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## Market Data

Bloomberg / Reuters	RMS FP/HRMS.PA
Market Cap.	EUR62,982m
E.V.	EUR59,423m
Free Float	33
Avg. Daily volume (6m)	68.60
12m high / low	612.4 / 463.5
Ytd Perf.	23.1%

EURM	12/17	12/18e	12/19e	12/20e
Sales	5,549	5,966	6,605	7,150
% Change		7.5%	10.7%	8.3%
EBITDA	2,089	2,225	2,490	2,710
% Change		6.5%	11.9%	8.8%
EBIT	1,922	2,045	2,295	2,500
% Change		6.4%	12.2%	8.9%
Net Income	1,222	1,352	1,535	1,684
% Change		10.6%	13.5%	9.7%
ROE	0.24	0.25	0.22	0.20

	12/17	12/18e	12/19e	12/20e
EV/Sales	10.8x	10.0x	8.9x	8.1x
EV/EBITDA	28.8x	26.9x	23.6x	21.3x
EV/EBIT	31.3x	29.2x	25.6x	23.1x
EPS	11.63	12.90	14.61	16.02
% change		11.0%	13.2%	9.7%
P/E	51.3x	46.2x	40.8x	37.2x
Div Yield	1.5%	0.8%	0.9%	1.0%

Next Catalyst : Q1 sales to be reported on April 25th

## Last FV Change:

[2018-7-23, Prospects remain buoyant](#)

## Last Reports:

[2019-3-20, EBIT margin slightly down \(-30bp\)](#)

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### NEUTRAL vs. BUY

<b>Fair Value</b>	EUR555 vs. EUR535 (-7%)
<b>Share price</b>	EUR596.60
<b>Market Cap.</b>	EUR62,982m
<b>EPS 3Y CAGR</b>	11.3%

<b>Income Statement (EURm)</b>	2016	2017	2018e	2019e	2020e
Revenues	5,202	5,549	5,966	6,605	7,150
<i>Change (%)</i>	7.5%	6.7%	7.5%	10.7%	8.3%
EBITDA	1,759	2,089	2,225	2,490	2,710
EBIT	1,696	1,922	2,045	2,295	2,500
<i>Change (%)</i>	10.1%	13.3%	6.4%	12.2%	8.9%
<b>Financial results</b>					
Pre-Tax profits	1,648	1,890	2,063	2,275	2,485
Exceptionals	3	4	5	6	7
Tax	555	669	670	750	815
Profits from associates	11	0	0	0	0
Minority interests	-4	-4	-5	-5	-5
Net profit	1,100	1,222	1,405	1,535	1,684
Restated net profit	1,100	1,222	1,352	1,535	1,684
<i>Change (%)</i>	13.1%	11.1%	10.6%	13.5%	9.7%
<b>Cash Flow Statement (EURm)</b>					
Operating cash flows	1,437	1,598	1,758	1,934	2,127
Change in working capital	22	35	75	63	89
Capex, net	262	265	300	330	330
Financial investments, net	36	148	150	150	150
Dividends	360	402	900	500	410
Other	13	157	50	-100	11
Net debt	-2,292	-2,883	-3,166	-4,157	-5,294
Free Cash flow	1,153	1,298	1,383	1,541	1,708
<b>Balance Sheet (EURm)</b>					
Tangible fixed assets	1,335	1,283	1,503	1,753	2,003
Intangibles assets	159	165	165	165	165
Cash & equivalents	2,329	2,932	3,209	4,194	5,325
current assets	1,484	1,539	1,643	1,736	1,858
Other assets	691	849	849	849	849
Total assets	5,998	6,768	7,369	8,697	10,199
L & ST Debt	41	53	53	54	55
Others liabilities	1,573	1,669	1,698	1,728	1,761
Shareholders' funds	4,384	5,046	5,618	6,914	8,383
Total Liabilities	5,998	6,768	7,369	8,697	10,199
Capital employed	2,252	2,119	2,414	2,727	3,066
<b>Financial Ratios</b>					
Operating margin	32.6%	34.6%	34.3%	34.7%	35.0%
Tax rate	33.7%	35.4%	32.5%	33.0%	32.8%
Net margin	21.1%	22.0%	22.7%	23.2%	23.6%
ROE (after tax)	25.1%	24.3%	25.0%	22.2%	20.1%
ROCE (after tax)	49.9%	58.6%	57.2%	56.4%	54.8%
Gearing	4%	3%	3%	2%	2%
Pay out ratio	35.8%	78.3%	34.0%	34.9%	35.6%
Number of shares, diluted	105,100	105,100	105,100	105,100	105,100
<b>Data per Share (EUR)</b>					
EPS	10.47	11.63	13.37	14.61	16.02
Restated EPS	10.47	11.63	12.90	14.61	16.02
<i>% change</i>	13.1%	11.1%	11.0%	13.2%	9.7%
BVPS	41.71	48.01	53.45	65.79	79.77
Operating cash flows	13.67	15.20	16.73	18.40	20.24
FCF	10.97	12.35	13.16	14.66	16.25
Net dividend	3.75	9.10	4.55	5.10	5.70

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

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### Stock rating

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NEUTRAL ratings 37,9%

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