

Consumer, Brands & Retail

18th April 2019

KERING

- Consumer, Brands & Retail
- Luxury Goods

BUY vs. BUY Top Picks

Fair Value	EUR600 vs. EUR590 (+12%)
Share price	EUR537.50
EPS 3Y Cagr	11.8%

Not better than expected!

Q1 Kering sales up 17.5%

In Q1 2019, Kering sales grew 21.9% at EUR3.78bn (consensus: EUR3.73bn). Sales grew 17.5% at same FX (consensus: +17%) and FX added 4.4 points. Q1 2019 was, as expected, lower than Q4 18 performance (+24%). Therefore, if there is a slowdown vs Q4, we see it, as a much more gradual normalization, given very demanding comparison basis. All luxury houses combined, sales with Chinese clientele were up 25%. Only eight stores have been opened in Q1

Gucci momentum remained very dynamic (+20%), in line with CS

During the first quarter, Gucci sales increased 20% (almost in line with consensus) after +28% in Q4 18. The very positive Q1 momentum was driven by traffic, but also and even more, by higher conversion and retention rates. Gucci online sales grew significantly in Q1 after +70% in 2018. The stores renovation program was much more modest in Q1 (few stores adopted the new concept after +84 in 2018 on a total of 540 stores). The renovation program will be more aggressive in the coming quarters. All product categories were buoyant (leather goods account for 57% of Gucci sales) and the positive trend was well balanced between newness (30% of total sales) and carryover (70%). By region, Gucci achieved the best growth in APAC (35% of sales) thanks to 35% revenues increase (+45% in Q4 18), with Mainland China outperforming HK/Macau (repatriation trend). In Q1, business in Japan (+16%) was also well positive, while the situation was more mixed in North America (+5%) with a low traffic and in Western Europe (+12%), penalised by relatively poor activity with local clientele (business with tourists outperformed the one with local).

BV under pressure; Saint Laurent strong!

In Q1, Bottega Veneta performance was under pressure, sales were down 8.9% after -3.4% in 2018. The Italian brand is clearly in transition with renewal of leather goods offer. The first collection of Daniel Lee has been presented last February, but will be in the stores only in June/July 2019 with a gradual positive impact on sales in H2 19. Nevertheless, first Daniel Lee product introductions in handbags were well received. FY 19 EBIT margin will be under pressure. Saint Laurent achieved a strong quarter with a 17.5% sales increase, driven both by lfl performance and space contribution (four net openings). All regions enjoyed double-digit sales growth. "Others luxury Houses" sales grew 21.7% in Q1, once again driven by Balenciaga and AMQ while Brioni was impacted by retail network rationalization. Although Boucheron registered very good momentum, the situation is more mixed in watches, given a cautious sell-in strategy (in line with Richemont).

We remain Buy on the stock

We remain Buy on the stock with a EUR600 FV, marginally adjusted following Q1 sales and FX. Nevertheless, given that this release is only in line with estimates, share price should be today under pressure. We remove the stock from our top picks

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Market Data

Bloomberg / Reuters	PP FP/P RTP.PA
Market Cap.	EUR67,875m
E.V.	EUR69.005m
Free Float	59.3
Avg. Daily volume (6m)	260.4
12m high / low	537.5 / 353.1
Ytd Perf.	30.6%

EURM	12/18	12/19e	12/20e	12/21e
Sales	13,665	15,800	16,835	17,960
% Change		15.6%	6.6%	6.7%
EBITDA	4,436	5,160	5,595	6,015
% Change		16.3%	8.4%	7.5%
EBIT	3,944	4,660	5,075	5,475
% Change		18.2%	8.9%	7.9%
Net Income	2,817	3,360	3,650	3,940
% Change		19.3%	8.6%	7.9%
ROE	0.28	0.27	0.30	0.26

	12/18	12/19e	12/20e	12/21e
EV/Sales	5.1x	4.3x	3.9x	3.5x
EV/EBITDA	15.7x	13.1x	11.7x	10.5x
EV/EBIT	17.6x	14.5x	12.9x	11.6x
EPS	22.36	26.67	28.97	31.27
% change		19.3%	8.6%	7.9%
P/E	24.0x	20.2x	18.6x	17.2x
Div Yield	2.0%	2.1%	2.4%	2.7%

Next Catalyst : H1 results to be reported on July 26th

Last rating Change:

2018-10-24, Kering enjoyed a very solid Q3, above expectations

Last FV Change:

2019-3-27, Kering Q1 should be again quite robust

Last Reports:

2019-3-27, Kering Q1 should be again quite robust

Quarterly Kering organic sales growth by brands

in %	Q2 18	H1 18	Q3 18	9m 18	Q4 18	2018	Q1 19
Gucci	40.1	44.1	35.1	40.8	28.1	36.9	20.0
Bottega	-2.3	-0.9	-8.4	-3.5	-3.1	-3.4	-8.9
Saint	19.8	19.7	16.1	18.4	19.4	18.7	17.5
Others	34.7	36.5	32.2	35.0	25.5	32.1	21.7
Kering	31.5	33.9	27.5	31.5	24.2	29.4	17.5

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

Quarterly Luxury Houses organic retail sales growth by region

in %	Q2 18	Q3 18	Q4 18	Q1 19
West Europe	23	19	18	14
North America	45	36	26	7
Japan	33	22	21	12
APAC	38	33	37	30
Others	32	24	11	14

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

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Fair Value	EUR600 vs. EUR590 (+12%)
Share price	EUR537.50
Market Cap.	EUR67,875m
EPS 3Y CAGR	11.8%

Income Statement (EURm)	2017	2018	2019e	2020e	2021e
Revenues	15,478	13,665	15,800	16,835	17,960
<i>Change (%)</i>	25.0%	-11.7%	15.6%	6.6%	6.7%
Gross margin	10,133	10,198	11,825	12,555	13,410
<i>Change (%)</i>	30.1%	0.6%	16.0%	6.2%	6.8%
Adjusted EBITDA	3,465	4,436	5,160	5,595	6,015
EBIT	2,948	3,944	4,660	5,075	5,475
<i>Change (%)</i>	56.3%	33.8%	18.2%	8.9%	7.9%
Financial results	-243	-207	-200	-180	-180
Pre-Tax profits	2,705	3,737	4,460	4,895	5,295
Exceptionals	-242	-222	-200	-149	-100
Tax	-591	-868	-1,080	-1,200	-1,310
Profits from associates	-2	12	10	1	2
Minority interests	79	28	30	46	47
Net profit	1,792	2,631	3,160	3,501	3,840
Restated net profit	2,002	2,817	3,360	3,650	3,940
<i>Change (%)</i>	50.4%	40.7%	19.3%	8.6%	7.9%
Cash Flow Statement (EURm)					
Operating cash flows	2,459	3,144	3,660	4,021	4,380
Change in working capital	94	52	161	249	273
Capex. net	752	839	750	770	771
Financial investments. net	0	53	0	0	0
Dividends	625	758	833	917	1,008
Other	-353	-280	0	0	0
Net debt	3,048	1,711	-204	-2,290	-4,618
Free Cash flow	1,613	2,253	2,749	3,002	3,336
Balance Sheet (EURm)					
Tangible fixed assets	2,267	2,399	2,649	2,899	3,130
Intangibles assets	14,580	9,622	9,622	9,950	9,950
Cash & equivalents	2,137	2,217	4,132	6,217	8,545
current assets	5,180	4,315	4,544	4,866	5,218
Other assets	1,413	2,814	2,814	1,999	1,999
Total assets	25,577	21,367	23,760	25,931	28,843
L & ST Debt	5,185	3,928	3,928	5,156	5,157
Others liabilities	7,766	7,378	7,445	8,737	8,817
Shareholders' funds	12,626	10,061	12,388	12,038	14,869
Total Liabilities	25,577	21,367	23,760	25,931	28,843
Capital employed	19,671	14,539	14,951	15,778	16,281
Financial Ratios					
Gross margin (% of sales)	65.5%	74.6%	74.8%	74.6%	74.7%
Operating margin	19.0%	28.9%	29.5%	30.1%	30.5%
Tax rate	24.0%	24.7%	25.4%	25.3%	25.2%
Net margin	12.9%	20.6%	21.3%	21.7%	21.9%
ROE (after tax)	15.9%	28.0%	27.1%	30.3%	26.5%
ROCE (after tax)	11.4%	20.4%	23.3%	24.0%	25.1%
Gearing	24%	17%	-2%	-9%	-23%
Pay out ratio	37.8%	47.0%	43.1%	44.9%	45.7%
Number of shares. diluted	126,000	126,000	126,000	126,000	126,000
Data per Share (EUR)					
EPS	14.22	20.88	25.08	27.79	30.48
Restated EPS	15.89	22.36	26.67	28.97	31.27
<i>% change</i>	50.9%	40.7%	19.3%	8.6%	7.9%
BVPS	100.21	79.85	98.31	95.54	118.01
Operating cash flows	19.52	24.95	29.05	31.91	34.76
FCF	12.80	17.88	21.81	23.83	26.48
Net dividend	6.00	10.50	11.50	13.00	14.30

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

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