

LVMH

Consumer, Brands & Retail
Luxury goods

BUY

Fair Value EUR335(+17%)
Share price EUR285.70
EPS 3Y Cagr 15.0%

LV sales with Chinese still strong in Q3

Slowdown in Asia and rebound in Europe

By region, note the slight slowdown in APAC (29% of sales) with an 11% increase in Q3 versus +15% in Q2. This downturn was mainly due to Hong Kong/Macao (DFS and LV) and also Korea. The slowdown in Japan (7% of sales) in Q3 with 10% revenue growth (+16% in Q2) was mainly due to Japanese clientele (LV sales momentum was mid-single digit in Q3 vs mid-teens growth in H1). Business in Japan is mainly carried out with local clientele. The US (25% of sales) enjoyed strong sales momentum during the quarter (+9% versus +11% in Q2). The slight deceleration was due to a weak performance by Tag Heuer and the clean-up of the Bulgari wholesale network. Other businesses, including Louis Vuitton remained strong, partly thanks to a positive macro environment and positive financial markets. On the other hand, and surprisingly, Europe (27% of sales) recovered in Q3 with a 10% increase in the quarter alone after +5% in H1, thanks to Chinese and American tourists, and especially travellers from the Middle East. Momentum with tourists picked up in Q3 while business with local clientele remained healthy and in line with H1.

LV sales momentum still driven by Chinese customers

At Louis Vuitton, whose sales increase was not very far from the division average, momentum with Chinese clientele was still robust in Q3 with a mid-teen increase versus around +18% in H1. Nevertheless, business with Chinese customers in Mainland China accelerated while momentum slowed in Hong Kong and Macao due to i/ pricing gap strongly narrowing between China and HK following the price decline in July in Mainland China and RMB weakness; ii/ the RMB decline vs HKD, leading to smaller Chinese tourists flows in HK and iii/ the typhoon in September in HK. LV sales with US customers remained strong (up double digit).

Selective retail penalised by DFS in HK

The slowdown in the selective retail division in Q3 was mainly due to DFS as expected (+25% in H1 but +18% in Q3, excluding the termination of the HK airport concession) especially in Hong Kong, while Sephora sales growth remained in double digits with a stronger performance in the skincare segment and a slight slowdown in make-up and weak momentum with perfumes. The slowdown in Watches & Jewellery stemmed mainly from Tag Heuer while jewellery was healthy.

We still expect Q4 growth of +8%

Management preferred not to comment on trends by month within Q3, but we guess that September was slightly weaker than July in August, especially in Hong Kong. We leave our estimates unchanged, expecting a 10.5% FY 2018 sales increase, implying +8% in Q4 alone. For 2019, we anticipate a 6% organic sales increase.

Buy maintained with EUR335 FV

We remain at Buy on the stock with an unchanged EUR335 Fair Value. The share has lost 9% over the past three months vs -14% for our luxury sample average. The stock is trading at 2019 EV/EBIT of 12.4x with 2019 PE at 18.4x, in line with the historical average. We remain Buy on the stock with an unchanged EUR335 FV.

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Market Data

Bloomberg / Reuters MC FP/LVMH.PA
Market Cap. EUR144 287m
E.V. EUR152 124m
Free Float
Avg. Daily volume (6m) 597.8
12m high / low 311.7 / 234.9
Ytd Perf. 16.4%

YEnd Dec. (EURm)	2017	2018e	2019e	2020e
Sales	42.6	46,575	49,505	52,445
% change		9.2%	6.3%	5.9%
EBITDA	9,29	11,175	12,039	12,915
EBIT	8,29	10,125	10,990	11,845
% change		22.0%	8.5%	7.8%
Net income	5,13	6,655	7,225	7,800
% change		29.7%	8.6%	8.0%

(EUR)	2017	2018e	2019e	2020e
EPS	10.22	13.25	14.39	15.53
% change	-	29.7%	8.6%	8.0%
P/E	26.0x	20.0x	18.4x	17.1x
FCF yield (%)	3.6%	3.9%	4.4%	4.8%
Dividends (EUR)	5.00	5.40	5.80	6.26
Div yield (%)	1.9%	2.0%	2.2%	2.4%
EV/Sales	3.3x	3.0x	2.7x	2.5x
EV/EBITDA	15.3x	12.5x	11.3x	10.2x
EV/EBIT	17.1x	13.8x	12.4x	11.2x

Next Catalyst:

FY 2018 results to be reported end of January 2019

Last rating Change:

-

Last FV Change:

[Reassuring Q3!](#)

Quarterly organic sales growth by region

lfl chge (%)	Q3 17	Q4 17	2017	Q1 18	Q2 18	H1 18	Q3 18	9m 18
US	3	13	9	10	11	10	9	10
Japan	21	14	12	18	16	17	10	14
Asia Pacific	21	12	17	21	15	18	11	16
Europe	11	7	10	6	4	5	10	7
Group	13	11	12	13	11	12	10	11

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

LVMH

BUY

Fair Value	EUR335(+17%)
Share price	EUR285.70
Market Cap.	EUR144 287m
EPS 3Y CAGR	15.0%

Income Statement (EURm)	2015	2016	2017	2018e	2019e	2020e
Revenues	35,664	37,600	42,636	46,575	49,505	52,445
Change (%)	16.4	5.4	13.4	9.2	6.3	5.9
Gross margin	23,111	24,560	27,853	31,045	33,020	35,095
Change (%)	16.5	6.3	13.4	11.5	6.4	6.3
EBITDA	7,505	7,975	9,296	11,175	12,039	12,915
EBIT	6,605	7,025	8,296	10,125	10,990	11,845
Change (%)	15.6	6.4	18.1	22.0	8.5	7.8
Others income & expenses	(221)	(122)	(180)	(140)	(140)	(140)
Financial results	(414)	(432)	(179)	(200)	(185)	(170)
Pre-Tax profits	5,970	6,471	7,937	9,785	10,665	11,535
Exceptionals	NM	NM	NM	NM	NM	NM
Tax	(1,969)	(2,109)	(2,318)	(2,600)	(2,860)	(3,100)
Profits from associates	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	(428)	(382)	(487)	(530)	(580)	(635)
Net profit	3,573	3,980	5,132	6,655	7,225	7,800
Restated net profit	3,573	3,980	5,132	6,655	7,225	7,800
Change (%)	20.2	11.4	28.9	29.7	8.6	8.0

Cash Flow Statement (EURm)	2015	2016	2017	2018e	2019e	2020e
Operating cash flows	6,063	6,751	7,544	8,235	8,854	9,505
Change in working capital	429	512	514	683	733	787
Capex, net	1,953	2,265	2,276	2,300	2,301	2,302
Financial investments, net	511	80.0	6,306	500	0.0	0.0
Dividends	1,671	1,810	2,110	2,300	2,507	2,733
Other	1,030	1,235	342	0.0	0.0	0.0
Net debt	4,683	3,834	7,838	5,385	2,072	(1,611)
Free Cash flow	3,682	3,974	4,754	5,252	5,820	6,416

Balance Sheet (EURm)	2015	2016	2017	2018e	2019e	2020e
Tangible fixed assets	13,654	14,974	15,812	17,062	18,314	19,546
Intangibles assets	23,694	23,736	30,228	30,228	30,228	30,229
Cash & equivalents	3,594	3,544	3,738	6,190	9,503	13,186
current assets	15,356	15,854	17,344	18,299	19,321	20,415
Other assets	1,303	1,514	1,428	1,428	1,428	1,428
Total assets	57,601	59,622	68,550	73,208	78,794	84,804
L & ST debt	8,280	7,379	11,576	11,576	11,576	11,576
Others liabilities	23,522	24,340	26,714	25,722	26,011	26,317
Shareholder's funds	25,799	27,903	30,260	35,909	41,207	46,911
Total Liabilities	57,601	59,622	68,550	73,208	78,794	84,804
Capital Employed	46,005	47,757	55,145	57,078	59,063	61,083

Financial Ratios	2015	2016	2017	2018e	2019e	2020e
Gross margin (% of sales)	64.8	65.3	65.3	66.7	66.7	66.9
Operating margin	18.5	18.7	19.5	21.7	22.2	22.6
Tax rate	33.0	32.6	29.2	26.6	26.8	26.9
Net margin	10.0	10.6	12.0	14.3	14.6	14.9
ROE (after tax)	13.8	14.3	17.0	18.5	17.5	16.6
ROCE (after tax)	9.6	9.9	10.7	13.0	13.6	14.2
Gearing	18.1	13.7	25.9	15.0	5.0	(3.4)
Pay out ratio	49.9	50.5	48.9	40.8	40.3	40.3
Number of shares, diluted	502,229	502,229	502,229	502,229	502,229	502,229

Data per Share (EUR)	2015	2016	2017	2018e	2019e	2020e
EPS	7.1	7.9	10.2	13.3	14.4	15.5
Restated EPS	7.1	7.9	10.2	13.3	14.4	15.5
% change	20.2	11.4	28.9	29.7	8.6	8.0
BVPS	51.4	55.6	60.3	71.5	82.0	93.4
Operating cash flows	12.1	13.4	15.0	16.4	17.6	18.9
FCF	7.3	7.9	9.5	10.5	11.6	12.8
Net dividend	3.6	4.0	5.0	5.4	5.8	6.3

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

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