

Kering

Price EUR185.90

Gucci momentum should accelerate in Q3

Fair Value EUR193 vs. EUR185 (+4%)

BUY

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	186.6 / 138.6
Market Cap (EUR)	23,473
Ev (BG Estimates) (EUR)	26,273
Avg. 6m daily volume (000)	231.7
3y EPS CAGR	14.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.3%	28.9%	22.5%	17.7%
Pers & H/H Gds	-3.1%	0.6%	3.7%	1.3%
DJ Stoxx 600	-1.8%	6.2%	4.9%	-5.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,584	12,160	12,955	13,630
% change		5.0%	6.5%	5.2%
EBITDA	2,056	2,270	2,530	2,710
EBIT	1,646	1,850	2,090	2,270
% change		12.4%	13.0%	8.6%
Net income	1,017	1,183	1,383	1,534
% change		16.3%	16.9%	10.9%

	2015	2016e	2017e	2018e
Operating margin	14.2	15.2	16.1	16.7
Net margin	8.8	9.7	10.7	11.3
ROE	8.7	9.2	10.1	10.8
ROCE	5.8	6.6	7.3	7.9
Gearing	37.7	27.1	21.9	21.2

(EUR)	2015	2016e	2017e	2018e
EPS	8.05	9.36	10.86	11.95
% change	-	16.3%	16.0%	10.1%
P/E	23.1x	19.9x	17.1x	15.6x
FCF yield (%)	1.2%	2.8%	3.7%	4.3%
Dividends (EUR)	4.00	4.30	4.70	5.20
Div yield (%)	2.2%	2.3%	2.5%	2.8%
EV/Sales	2.4x	2.2x	2.0x	1.9x
EV/EBITDA	13.3x	11.6x	10.2x	9.5x
EV/EBIT	16.6x	14.2x	12.3x	11.4x



Kering is due to release Q3 sales on 25th October (after market closure). Revenues should grow 7% organically of which +6.6% for the luxury division, highlighting an acceleration versus Q2 (+5.2%) and H1 (+4%). Gucci momentum should again accelerate in Q3. Ahead of this publication, we revise up our EBIT estimates by almost 3% and consequently our Fair Value from EUR185 to EUR193.

ANALYSIS

- **Kering is due to report its Q3 and 9m sales on 25th October** (after market closure). For Q3, we expect sales to reach EUR3.09bn, up 6.7% and +7% organically. For **Kering Luxury** alone, we expect sales to accelerate slightly at +6.6% vs +5.2% in Q2 and +4% in H1, while **Puma** revenues are expected to show further strong gains (+10.3%).
- **Encouraging growth at Kering Luxury is set to be driven by the revival of the Gucci brand** (60% of Kering EBIT) that should confirm and even amplify the trend seen since Q1 2016. For Q3 2016, we argue that new collections from Alessandro Michele have accounted for around 80% of the brand's sales versus 70% in Q2. Momentum remained very well oriented for shoes and ready to wear but also for leather goods, which was not so much the case in H1. The impact of the new Gucci handbag, *Marmont*, sold for close to EUR1,400 has had a positive impact in Q3 as it was launched during the summer. Gucci retail sales (82% of Gucci sales) should clearly accelerate after +7% in Q2 while wholesale sales momentum would remain strong despite some slowdown vs +15% in Q2.
- On the other hand, **Bottega Veneta (17% of Kering EBIT)** revenues are still expected to be down after -9.8% in Q2, and could even shown a deterioration. At this point, we would underscore the appointment of Claus Dietrich Lars as the brand's new CEO. **YSL** sales momentum is expected to remain very strong after a robust H1 (+24.2%) and Q2 (+22%). We also expect a very dynamic Q3 at **Puma**, albeit probably slightly lower than the terrific Q2 (+13.2%) helped by the positive impact of the EURO 2016 football tournament.

Quarterly organic sales growth

in %	FY 15	Q1 16	Q2 16	H1 16	Q3 16e	9M 16e
Gucci	0.4	3.1	7.4	5.4	10.0	7.0
Bottega Veneta	3.2	-8.3	-9.8	-9.1	-10.3	-9.5
YSL	25.8	26.5	22.0	24.2	20.9	23.0
Others	3.1	-3.3	2.9	0.0	3.0	1.0
Total Luxury	4.1	2.7	5.2	4.0	6.6	5.0
PUMA	6.8	8.1	13.2	10.6	10.3	10.5
Kering Group	4.6	4.0	3.7	3.9	7.3	6.3

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

- In **Western Europe** (33% Kering Luxury sales), we estimate that Q3 momentum should globally remain the same as in Q2 (+5%), with a soft French market (7% of sales) but other European countries are well oriented. On the other hand, we could expect momentum to improve in **North America** (20% of Kering Luxury sales) and in **APAC** (30% of Kering Luxury revenues). In NA, the acceleration should be driven by better tourist flows from Japan to Hawaii (stronger JPY) and from Brazil to Florida (stronger BRL). Nevertheless, activity in **Japan** (10% of sales) is likely to remain under pressure (less Chinese tourists and less purchases from locals as they travel more).
- **Ahead of Q3 sales release**, we revise up our FY 2016 estimates by almost 3% with sales up 6% organically vs +5.4% previously and EBIT margin up 100bp to 15.2% (14.9% previously).

VALUATION

- **The Kering share has been one of the best performers YTD (+18%) and over 3m (+28%)**. The stock is trading on a limited 2% premium vs the luxury goods sector average.

NEXT CATALYSTS

- Q3 sales to be reported on 25th October.

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