BRYAN, GARNIER & CO

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10th April 2013

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	14673.46	+0.41%	+11.98%
S&P 500	1568.61	+0.35%	+9.99%
Nasdaq	3237.86	+0.48%	+7.23%
Nikkei	12288.13	+0.73%	+26.91%
Stoxx 600	288.069	+0.15%	+3.00%
CAC 40	3670.72	+0.11%	+0.81%
Oil /Gold			
Crude WTI	94.17	+0.78%	+2.49%
Gold (once)	1587.4	+1.05%	-4.51%
Currencies/Rates			
EUR/USD	1.30575	+0.31%	-0.96%
EUR/CHF	1.2195	+0.21%	+1.05%
German 10 years	1.266	+2.68%	-2.56%
French 10 years	1.797	+3.08%	-9.69%
Euribor	0.211	+0.48%	+12.83%

Economic releases :

Date	
10th-Apr	US - EIA Petroleum Status Report US - Fed Releases Minutes

Upcoming BG events :

Date	
18th-Apr	GALAPAGOS (BG Switzerland Roadshow)
18th-Apr	Nuclear - Costs & Financial risks (BG Paris Lunch with B. Dessus)
30th-Apr	Roche (BG Paris roadshow)
24th-May	Capgemini (BG Paris lunch)
5th-Jun	Qiagen (BG Paris Roadshow)

Recent reports :

Date	
8th-Apr	Our valuation methodology for big pharmas deserves new adjustments
2nd-Apr	IntegraGen (Corporate, FV EUR8.9) Hitting the mark!
28th-Mar	Healthcare "One Day, One Event": the full document
28th-Mar	Insurance Large beta for life?
25th-Mar	Bureau Veritas (Buy, FV EUR125 vs. EUR100) Far from over.
21st-Mar	Pennon Group (BUY, FV 800p) The benefits of inflation!

LUXURY & CONSUMER GOODS

More optimism for 2013, Top Picks are adidas and Burberry

TOP PICKS

adidas Group (BUY – FV: EUR92): In spite of the good performance in 2012 and year-to-date, adidas still offers an attractive growth/valuation profile. We expect a 2012-15e EPS CAGR of 19% thanks to mid-single digit sales growth and 100bp EBIT margin improvement p.a. to reach management's 11% target by 2015. Regarding 2013, the adidas brand is well positioned in its core growth markets (market share gains in China, Russia and the US in 2012) and we expect continued positive momentum thanks to innovative product launches such as Boost. We note the top-line comparison base gets easier as the year progresses (+14% in Q1, +7% in Q2, +4% in Q3 and +1% in Q4) and we expect World Cup 2014 products to be visible in the P&L from Q4 13. From a profitability perspective, we expect geographic, product and channel mix to boost the gross margin, together with a waning negative impact from input costs, which means we are comfortable with management's 9% EBIT margin guidance. adidas is trading at 14.3x PE14e and 7.6x EV/EBITDA 2014e, and we believe earnings momentum should push multiples toward cycle highs (16-17x P/E and 10x EV/EBITDA).

Burberry (BUY – FV: GBP16): Burberry is the cheapest stock in the Luxury universe: at 13.9x P/E and 9.8x EV/EBIT CY14e, it is trading at 9% discount to the sector, with broadly similar prospective growth rates (CY2012-15e EPS CAGR of 14% vs. c.12% for the sector). Burberry's recent underperformance was impacted by Mulberry's warning of weak UK sales, although this seems exaggerated as BRBY makes only c.8-9% of sales in the UK vs. 60% for Mulberry. Short term, after Q4 sales (published on 17th April), we believe earnings (published on 21st May) should be strong thanks to operating leverage and lower discounting. Longer term, we highlight Burberry's significant margin expansion potential through opex leverage: in FY12, Burberry had an opex ratio of 50.5% (and we expect over 53% in FY13) vs. low to mid-40s in the sector on average. We expect this margin potential to be unlocked as Burberry slows retail space expansion, which was in the low-teens in FY12-13.

We remove **Groupe SEB (BUY – FV: EUR70)** and **Luxottica (BUY – FV: EUR38)** from our top picks list …

In brief...

INDITEX, *Estimates reduced following a company contact*

2013-15e EPS estimates cut by 3%. We now factor into our 2013 sales estimate a 1% negative FX impact as a result of the Euro's strength against a basket of currencies (Yen, Brazilian Real, Rouble and Sterling, partly offset by currencies like the Mexican Peso and Polish Zloty). Our estimate of +3% LFL growth is unchanged. Our 2013 gross margin estimate comes in at 59.5% (vs. 60% previously; and vs. 59.8% in 2012), partly as a result of the negative FX impact. As a reminder, the company is guiding for a flat gross margin in 2013 (defined as +/- 50bps). We factor in a flat EBIT margin in 2013 at 19.5% given slight operating leverage and reverse FX impact on the cost base.

Sector View

Luxury & Consumer Goods

More optimism for 2013, Top Picks are adidas and Burberry

	1 M	3 M	6 M	31/12/11
Pers & H/H Gds	-0.7%	3.6%	13.6%	5.8%
DJ Stoxx 600	-2.5%	-0.1%	6.6%	3.0%

*Stoxx Sector Indices

Companies covered

ADIDAS		**BUY**	**EUR92**
Last Price	EUR77.05	*Market Cap.*	EUR16,120m
BEIERSDORF		**SELL**	**EUR63**
Last Price	EUR68.688	*Market Cap.*	*EUR15,578m*
BIC		**NEUTRAL**	**EUR90**
Last Price	EUR91.18	*Market Cap.*	*EUR4,408m*
BURBERRY		**BUY**	**1600p**
Last Price	1268p	*Market Cap.*	*GBP5,606m*
CHRISTIAN DIOR		**BUY**	**EUR145**
Last Price	EUR126.95	*Market Cap.*	*EUR23,070m*
ESSILOR		**BUY**	**EUR85**
Last Price	EUR82.94	*Market Cap.*	*EUR17,809m*
GEOX		**SELL**	**EUR2**
Last Price	EUR2.19	*Market Cap.*	*EUR568m*
GROUPE SEB		**BUY**	**EUR70**
Last Price	EUR52.74	*Market Cap.*	*EUR2,646m*
H & M		**SELL**	**SEK225**
Last Price	EUR229.5	*Market Cap.*	*EUR379,839m*
HERMES Intl		**NEUTRAL**	**EUR200**
Last Price	EUR259.7998	*Market Cap.*	*EUR27,427m*
HUGO BOSS		**BUY**	**EUR95**
Last Price	EUR86.46	*Market Cap.*	*EUR6,087m*
INDITEX		**SELL**	**EUR98 vs. 100**
Last Price	EUR99.75	*Market Cap.*	*EUR62,177m*
L'OREAL		**BUY**	**EUR118**
Last Price	EUR121.55	*Market Cap.*	*EUR73,483m*
LUXOTTICA		**BUY**	**EUR38**
Last Price	EUR37.74	*Market Cap.*	*EUR17,953m*
LVMH		**BUY**	**EUR160**
Last Price	EUR129.8	*Market Cap.*	*EUR65,896m*
PANDORA		**NEUTRAL**	**DKK83**
Last Price	DKK162	*Market Cap.*	*DKK21,083m*
PPR		**NEUTRAL**	**EUR166**
Last Price	EUR164.7	*Market Cap.*	*EUR20,771m*
PRADA		**BUY**	**HKD87**
Last Price	HKD75.5	*Market Cap.*	*HKD193,191m*
PUMA		**NEUTRAL**	**EUR240**
Last Price	EUR230.85	*Market Cap.*	*EUR3,482m*
RICHEMONT		**BUY**	**CHF82**
Last Price	CHF71.15	*Market Cap.*	*CHF37,140m*
SALVATORE FERRAGAMO		**NEUTRAL**	**EUR20**
Last Price	EUR21.72	*Market Cap.*	*EUR3,658m*
THE SWATCH GROUP		**BUY**	**CHF555**
Last Price	CHF519.5	*Market Cap.*	*CHF27,260m*
TOD'S GROUP		**SELL**	**EUR80**
Last Price	EUR108.4	*Market Cap.*	*EUR3,318m*

LOOKING BACK ON Q1 2013

In Q1, Luxury stocks have been well oriented. Our luxury sample has gained 9% in Q1 2013, implying +4% versus the DJ Stoxx. The main winners have been Ferragamo (+30%), followed by PPR (+22%), while the watch makers achieved uneven performances (Richemont:+ 6% and The Swatch Group: +17%). In the past month, our luxury sample has lost 1.5% (-2.5% vs the DJ Stoxx), with Hermès (+5.5%) and LVMH (+2.3%) recording the best performance and Burberry the worst (-8%) just after Mulberry (-21%). The former's performance was clearly impacted by the latter's.

Positive macro news: The Chinese PMI reached 51.7 in March after 50.4 in February, affected by the Chinese New Year (CNY), and 51.9 in January, one of the highest levels in 19 months and the Chinese confidence index also recovered to 108 in February after 104.5 in January and 103.7 in December 2012. In our view, the uncertainties in the transition period due to the appointment of the new Chinese President and its new Prime Minister are behind us. It seems that the CNY was quite robust. During the week of the CNY, retail sales were up by around 14%. Furthermore, February Watches & Jewellery Retail sales in Hong Kong were up 30% with a 28% volume increase which highlights the fact that high-end brands did not outperform the mid-range. Nevertheless, Swiss watch exports were almost stable (+3.6%) in the first two months including -13.5% for exports to Greater China (GC). Exports to GC in March should be better well oriented as the comparison basis will become easier (+13% in March 2012 vs. +53% in February 2012).

We are cautious about sales growth in Q1 2013, given the still high comparison basis as our luxury groups sample reported 18% average organic sales growth in Q1 12 (+16% excluding Prada). As Hermès and PPR have already highlighted, we also think that activity in Western Europe should negatively weigh on sales growth given **(i)** fewer tourist inflows due to the EUR strength mainly versus the JPY since December (+17%), and **(ii)** poor activity with local consumers that seem to be affected by higher fiscal charges in order to reduce deficit.

- **Accordingly, in Q1 2013, we expect a slight sales growth deceleration** (+8%) on average for our sample versus Q4 2012 (+10%) and 2012 FY (+12%):
- **Furthermore, reported sales should be affected by a negative currency impact** following the 17% JPY decline vs. EUR in Q1 13 vs. Q1 12 even if the USD remained almost stable vs. the EUR during the same period. We factor in around a 2% negative forex impact. Hermès and PPR are the most exposed groups to the JPY (respectively 16% and 12% of sales) and Swatch the least exposed (5%).

WHAT WE SEE FOR Q2 2013

In Q2, some brands like Louis Vuitton should fully benefit from some price increases in Japan (around +12%) but also for LV canvas lines (mainly *Speedy* and *Neverfull* bags) in some European countries and in North America (around 10%) and in some Asian countries (between 5 and 10%). The clear trend for Leather goods' mega brands (Gucci and LV) is to increase the weight of high-end products (No Logo or leather goods vs Logo) without giving up the low end and mid-range lines which, in our view, will fuel growth in the coming years in the emerging markets (i.e. China and India) thanks to the expansion of middle-class households which should double to 80m by 2020 in China.

As we have already written, **we are more optimistic for the remaining quarters of 2013,** especially in H2. From Q2, comps will be much less demanding (+13% in Q2 after +18% in Q1) and particularly in Asia-Pacific (+22% vs. +29%). In Q3, comps will be even easier (+8%, o/w +9% in Asia-Pacific). **What should be the drivers of this rebound? (i)** a better economic environment as 2013 China GDP growth should reach, according to the IMF, 8.2% after +7.8% in 2012; **(ii)** the end of the transition period at the helm of the government with the new President (Wi Jinping) and the new Prime Minister (Li Kequiang) after the March 2013 Congress of the Chinese Communist Party. We are awaiting in the coming months the appointment of the Provinces' governors and many officials; **(iii)** the recovery of the "gifting market", which accounts for around 25% of the luxury market - this will be achieved thanks to the better economic environment and also thanks to more "corruption-gifting" even if the recovery of the latter will take more time as new Chinese authorities are willing to limit or even fight against corruption. Nevertheless, we think that this market should rebound in H2, as this "gifting market" is clearly in the DNA of the Chinese.

The 2013 trend should be the opposite of last year with a gradual rebound in Asia (excluding Japan) as the year progresses, given an easier the comparison base from Q2 and especially in Q3 and a slight recovery in the "gifting market" from Q3. Meanwhile the situation in Western Europe should be under pressure, as a consequence of the decline in local consumers' purchasing power following higher taxes and lower tourism flows.

As a consequence, we anticipate 9% organic sales growth for 2013 (in line with the 2012 trend) for our luxury goods sample but with a much more positive momentum this year compared to 2012 thanks to an easier comparison base from Q2 and even more from Q3 (+18% in Q1 2012, +13% in Q2 2012 and +8% in Q3 2012). On the other hand, we anticipate a slight negative forex impact which should be around 1-2% (while 2012 benefited from a strong positive currency impact), due to JPY weakness.

TOP PICKS

adidas Group (BUY – FV: EUR92): In spite of the good performance in 2012 and year-to-date, adidas still offers an attractive growth/valuation profile. We expect a 2012-15e EPS CAGR of 19% thanks to mid-single digit sales growth and 100bp EBIT margin improvement p.a. to reach management's 11% target by 2015. Regarding 2013, the adidas brand is well positioned in its core growth markets (market share gains in China, Russia and the US in 2012) and we expect continued positive momentum thanks to innovative product launches such as Boost. We note the top-line comparison base gets easier as the year progresses (+14% in Q1, +7% in Q2, +4% in Q3 and +1% in Q4) and we expect World Cup 2014 products to be visible in the P&L from Q4 13. From a profitability perspective, we expect geographic, product and channel mix to boost the gross margin, together with a waning negative impact from input costs, which means we are comfortable with management's 9% EBIT margin guidance. adidas is trading at 14.3x PE14e and 7.6x EV/EBITDA 2014e, and we believe earnings momentum should push multiples toward cycle highs (16-17x P/E and 10x EV/EBITDA).

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We remove **Groupe SEB (BUY – FV: EUR70)** and **Luxottica (BUY – FV: EUR38)** from our top picks list for different reasons:

- **Luxottica:** Following a magnificent share performance in 2012 (+43%) and in Q1 13 (+26%) and for the first time for two years, we think that the upside is too limited to remain in our top picks list. One must note that Luxottica will face a challenging Q1 13 as last year's comps were high (Q1 12: +11.1% CER) and the contribution from Giorgio Armani will be marginal (launch occurred at end-February/early March). However, MT&LT prospects remain very appealing: **(i)** the launch of Giorgio Armani, **(ii)** Tecnol in Brazil (with the local production of Vogue, Ray-Ban and Oakley collections), **(iii)** integration of Alain Mikli and **(iv)** ongoing success of the luxury portfolio (Prada, D&G, Coach, etc.). In view of these catalysts, management has stated its confidence, indicating it expects "a high-single digit at constant FX" (BG est.: +8.4% CER). The share is trading at 2013e EV/EBIT of 17.2x, implying 11% premium vs. its 2004-2013 historical average of 15.5x (vs. 29% premium for Essilor in terms of 2013e EV/EBIT) but a premium could be deserved given the earnings momentum (i.e. 2012-15e CAGR of 15.2%).
- **SEB:** We still have a positive stance on SEB to play the recovery in emerging markets (~47% of sales), driven by stimulus plans such as those in China (around 15% of sales) and Brazil (around 8% of sales), and thereby naturally boosting the group's top line. Despite first signs of improvement in Q4 12 (emerging markets, stable OP margin), investors are still concerned about the eroding resilience in Europe (~36% of sales). Hence the share decreased 3% over the first quarter 2013. Even if is too early to play them, the group should count on these catalysts: **(i)** an improved economic backdrop in emerging markets, **ii)** an ensuing recovery in organic growth at SEB (+3%e in 2013 vs. -0.5% in 2012) and **(iii)** over-proportionate EBIT growth (+9.4%e in 2013), driven by the positive impact from volumes, commodities and currencies (confirmed by the group).

NEXT CATALYSTS (April 2013):

- **LVMH** (Q1 sales) on April 16, **L'Oréal** (Q1 sales) on April 18, **Groupe SEB** (Q1 sales) on April 22, **Hermès** (Q1 sales) on April 22 **Tod's Group** (FY12 sales) on January 23 and **PPR** (Q1 sales) on April 25.

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Luxury & Consumer Goods

Inditex

Price EUR99.75

Bloomberg	ITX SM
Reuters	ITX.MC
12-month High / Low (EUR)	109 / 65
Market Cap (EURm)	62,177
Avg. 6m daily volume (000)	839.5

	1 M	3 M	6 M	31/12/12
Absolute perf.	-8.1%	-5.5%	-0.9%	-5.5%
Consumer Gds	-0.3%	6.5%	12.1%	7.8%
DJ Stoxx 600	-2.7%	0.5%	6.0%	2.8%

	01/13	01/14e	01/15e	01/16e
P/E	26.3x	23.9x	21.1x	18.6x
Div yield (%)	2.2%	2.8%	3.3%	4.0%

Estimates reduced following a company contact

Fair Value EUR98 vs. EUR100 (-2%) SELL

ANALYSIS

- **2013-15e EPS estimates cut by 3%**. We now factor into our 2013 sales estimate a 1% negative FX impact as a result of the Euro's strength against a basket of currencies (Yen, Brazilian Real, Rouble and Sterling, partly offset by currencies like the Mexican Peso and Polish Zloty). Our estimate of +3% LFL growth is unchanged. Our 2013 gross margin estimate comes in at 59.5% (vs. 60% previously; and vs. 59.8% in 2012), partly as a result of the negative FX impact. As a reminder, the company is guiding for a flat gross margin in 2013 (defined as +/- 50bps). We factor in a flat EBIT margin in 2013 at 19.5% given slight operating leverage and reverse FX impact on the cost base.
- **Tough comps ahead**. For the first part of Q1 (1st February – 11th March), we estimate LFL sales grew 4% calendar-adjusted, against a relatively easy comparison base of +4%. The comparison base for the second part of Q1 is around +8%. In addition, there should be a negative 1% impact in Q1 due to last year's extra trading day in February. The comparison base in Q2 remains tough at +7%. With regards to the gross margin, H1 12 saw a 120bp increase vs. a 20bp decrease in H2.

VALUATION

- Inditex is trading at 23.9x P/E13e and 21.1x P/E14e vs. a 5-year forward P/E average of 17.9x and a 3-year average of 19.6x.

NEXT CATALYSTS

- ITX will publish Q1 13 results on 12th June.

Changes to estimates						
(EURm)	**2013e**	**Previous**	**2014e**	**Previous**	**2015e**	**Previous**
Sales	17,561	17,720	19,541	19,719	21,768	21,966
% revision	-1%		-1%		-1%	
LFL growth	3.0%	3.0%	3.5%	3.5%	4.0%	4.0%
EBIT	3,427	3,531	3,876	4,006	4,385	4,492
% revision	-3%		-3%		-2%	
EPS (EUR)	4.18	4.30	4.73	4.89	5.36	5.49
% revision	-3%		-3%		-2%	

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

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Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	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 including a SWOT analysis, positive momentum, technical aspects and the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable 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 downside based on valuation), but also takes into account a number of elements including a SWOT analysis, positive momentum, technical aspects and the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 52.3% NEUTRAL ratings 26.6% SELL ratings 21.1%

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