

Hermès International	
Ticker MyBolsa/website BiG	RMS
Ticker BiGlobal Trade	RMS
Ticker BiGTrader24	RMS
Ticker BiG Power Trade	RMS
P/E Ratio 2018E	39,14
P/BV Ratio	11,00
EV/EBITDA	9,25

Source: Bloomberg; BiG Research

Price and Performance (Values in EUR)	
Price	499,20
52 Week High	609,42
52 Week Low	414,38
YTD	12,8%
Average Daily Volume (mn)	82.946
Market Cap (mn)	52.700
Beta	0,77
Dividend	4,10
EPS	11,70

Source: Bloomberg

Consensus (last 5m)	
Buy	3
Hold	11
Sell	7

Source: Bloomberg

Financial Information	
Sales (EUR mn)	5.549
EBITDA (EUR mn)	2.123
Nº of Employees	13.483
ROA	20,9%
ROE	28,3%
D/E	0,0%
Dividend Yield	0,8%

Source: Bloomberg.

Note: Annual Values

Notes:

All quotes were updated in Bloomberg at closing prices of 16/10/2018.

Relevant Information:

Use the following link to view our most recent publications:

<https://www.big.pt/InformacaoMercados/TradingIdeas/Index/-1>

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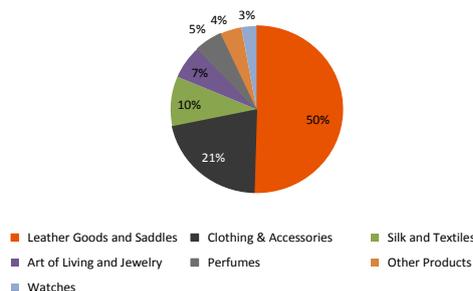
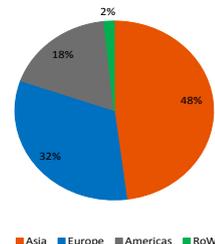
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Hermès International (Ticker: RMS)

Description

Hermès is a luxury goods company, founded in 1837 in Paris, beginning as harnesses and bridles producer for carriages. The company with time diversified from its beginning origins and currently has a diverse portfolio of products within 14 sectors: leather goods and saddlery; ready-to-wear; footwear; belts; gloves; hats; silk and textiles; jewellery; furniture; wallpaper; interior fabrics; tableware; perfumes; watches; petit h(creative laboratory). Unlike most other luxury companies that license the production of some of its products, Hermès centralizes production of all products and produces them in an artisanal way in Europe (mostly in France). Hermès is known for the exclusivity of some of the models of handbags, namely the Birkin and Kelly models that have waiting lists. Besides the Hermès brand, the company has the following brands in its portfolio – John Lobb shoes; Cristallerie; Saint-Louis; Puiforcat; Shang Xia; Créations Métaphores; Verel de Belval; Bucol and Le Crin.

In 2017 the Arnault family disinvested from most of its stake in Hermès in an operation to acquire Christian Dior, ending a long battle with the Dumas family (largest shareholder of Hermès with a 67% stake) for the control of the company. The company was recently (June 2018) included in the French stock market index CAC 40.

Revenues By Unit (2017)

Revenues by Geography (2017)


Source: Bloomberg.

Investment Thesis

Pricing Power: Hermès is a highly coveted luxury brand that thrives on the exclusivity of its products (as seen by the waiting lists for the most iconic bags). This exclusivity allows Hermès to practice above average (for the luxury sector) prices, and obtain also above average margins. As an example, Birkin bags can now cost between USD 12,000 and USD 200,000, and can be seen as an investment, as most Birkin bags are often resold at prices above the original price. The company should continue to capitalize on this trend and maintain margins, sustaining revenue growth through an increase in retail presence and entry in the online market (selling the most recent collections and not the most exclusive products).

Analyst:

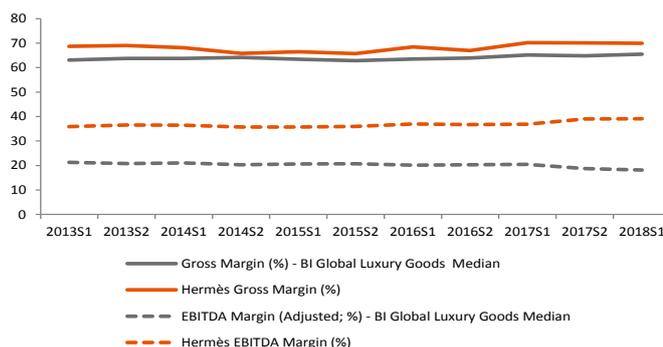
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Source: Bloomberg.

Risks

Exposure to Asia: Of the major European luxury companies, Hermès has one of highest exposure to the Asian market, and thus is most vulnerable to a potential slowdown of the major engine of the continent – China. This slowdown could result in lower disposable incomes and impact the demand for Hermès products.

Valuation: Hermès trades with a multiple profile above the sector average and the market, making the stock more susceptible to a stronger correction in the event of a drop in the luxury sector stocks.

Earnings

Hermès reported an increase in revenues of 11% in a constant currency basis to EUR 2,9 bn in the 1st half of 2018. Revenues increased in all geographies – 15% in Asia (excluding Japan), 12% in the US, 7% in Europe (excluding France) and 8% in France. The recurring operating profit margin reached 34,5%, with the recurring income increasing 6% to EUR 985 mn and net profit increased 17% to EUR 708 mn. The company shared that demand for the classic models of its handbags continues to be strong, which sustains the performance of its largest division –leather goods.

Upcoming Events

3rd Quarter Sales – 7th of November 2018

Comparative Analysis

Name	PER Actual	PER 5 Yr. Average	P/E 2018E	P/E 2019E	P/BV	YTD	ROE	ROA	D/E	Net Debt/T12M EBITDA	EBIT Margin
BURBERRY GROUP PLC	25,6	21,4	21,9	20,7	5,2	-1%	19%	13%	2%	-1,8	15,0
TAPESTRY INC	16,9	16,0	16,1	14,5	3,9	1%	13%	6%	49%	0,5	11,4
PRADA S.P.A.	37,8	24,0	26,1	21,7	2,9	0%	8%	4%	35%	n.a.	10,1
LVMH MOET HENNESSY LOUIS VUI	22,1	19,8	20,7	19,0	4,4	8%	21%	9%	40%	0,8	20,5
KERING	22,1	25,4	17,8	15,5	5,2	5%	32%	15%	46%	1,0	22,0
HERMES INTERNATIONAL	39,3	36,2	39,1	36,0	11,0	13%	28%	21%	1%	-1,3	35,6
Média exc. Hermes	24,9	21,3	20,5	18,3	4,3	2%	18%	9%	34%	0,1	15,8

Fonte: Bloomberg; BiG Research

Hermès is one of the best performing luxury stocks in the year, mostly due to the large gains in the 1st half of the year, which preceded the entry of the stock in the CAC 40. The company trades at a small premium to its average 5 year P/E ratio, but vs. the sector, the multiples premium of Hermès expands. The pricing power and profitability of the company can be perceived by the higher ratio of return on equity and on assets and the higher EBIT margin in comparison to peers. The sector as a whole has lower debt levels,

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with Hermès presenting negative net debt - more cash than debt.

Income Statement (EUR mn)	2016	2017
Revenues	5.202	5.549
Cost of Sales	- 1.682	- 1.659
Gross Profit	1.545	1.656
Selling, marketing and administrative expenses	- 1.545	- 1.656
Other income and expenses	- 279	- 312
Operating income	1.697	1.922
Net financial income	- 48	- 32
Taxes	- 556	- 669
Net income from associates	11	5
Consolidated Net Income	1.104	1.226
Net income attributable to non-controlling interests	- 4	- 4
Net Income Attributable to Owners of the Parent	1.100	1.222

Source: Company Data; BiG Research

Financial Accounts

Hermès reported a growth of 7% (in current exchange rates; 8,6% in constant) in 2017 annual revenues. Gross margin reached 70%, which represents a growth of 2,4 p.p., with operating margin totalling 34,6% and also increasing around 2 p.p. from 2016. Net income grew 11% to EUR 1,2 bn.

Corporate Governance

Hermès CEO is Axel Dumas, a sixth generation member of the Hermès family. Axel Dumas is the CEO since 2014 and in 2017 he received EUR 2,8 mn in salary from Hermès in 2017. Axel Dumas is also the executive chairman of Hermès alongside Henri-Louis Bauer, which represents Emile Hermès SARL (an investment vehicle of the Hermès family).

Balance Sheet (EUR mn)	2016	2017
Cash & Equivalents	2.329	2.932
Goodwill	37	33
Trade Receivables	307	256
Inventories	915	896
Property Plant & Equipment	1.335	1.283
Intangible assets	122	132
Investments in associates	87	73
Other Assets	867	1.164
Total Assets	5.999	6.768
Short term Debt	20	30
Long term Debt	21	24
Trade Payables	464	481
Other liabilities	1.109	1.188
Total Liabilities	1.614	1.723
Total Equity	4.385	5.046
Equity + Liabilities	5.999	6.768

Source: Company Data; BiG Research

Graph



Source: BiGlobalTrade; BiG Research

Free Cash Flow (EUR mn)	2016	2017
Operational Cash Flow	1.500	1.642
Net Income	1.100	1.222
D&A	202	201
Changes in WC	23	35
Non-Cash Items	175	184
Investment Cash Flow	- 245	- 383
Change in Fixed & Intangible Assets	- 244	- 262
Change from Acquisitions & Divestitures	- 23	- 5
Other	22	- 116
Financial Cash Flow	- 471	- 591
Debt change	- 2	- 1
Share buyback	- 109	- 188
Dividends	- 360	- 402
Others	- 0	-
Effect of Foreign Exchange Rates	- 35	- 76
Change in free cash flow	749	592

Source: Company Data; BiG Research



Source: BoF

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 - Buy, expected absolute return above 15%;
 - Accumulate, expected absolute return between +5% and +15%;
 - Keep/Neutral, expected absolute return between -5% and +5%;
 - Reduce, expected absolute return between -5% and -15%;
 - Sell, expected absolute return below -15%;

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PSI20 Notes in the last 12 months as of 30th of September of 2018:

	Number of Recommendations	%
Accumulate/Buy	3	75,0%
Keep/Neutral	0	0,0%
Reduce/Sell	1	25,0%
Total	4	100,0%

Source: BiG Research

Trading Ideas in the last 12 months as of 30th of September of 2018:

	Number of Recommendations	%
Profit Taking	11	61,1%
Stop Loss	6	33,3%
In Place	1	5,6%
Total	18	100,0%

Pair Trades in the last 12 months as of 30th of September of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

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