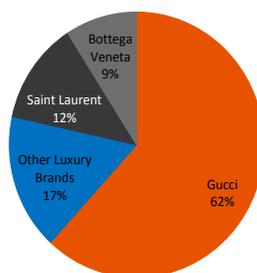


Kering (Ticker: KER)

Description

Kering (formerly PPR) is a luxury goods company. Founded in 1963, its current portfolio of brands include Gucci, Alexander McQueen, Balenciaga, Bottega Veneta, Boucheron, Brioni, Dodo, Girard-Perregaux, Gucci, Kering Eyewear, McQ, Pomellato, Queelin, Saint Laurent and Ulysse Nardin. The company had a sports retail unit, with brands such as Puma and Volcom, but at in the 1st quarter of 2018, it realized a spin-off of Puma and disinvested from Volcom, in order to focus on the higher margin (and better performing) luxury market. It currently only holds 16% of Puma. The company has also an ongoing disinvestment from brands that it did not have control, namely Stella McCartney and Christopher Kane. It trades in the Paris Stock Exchange with a market capitalization of EUR 48 bn. François Pinault, the founder of Kering, holds the largest stake (40,88%) in the company through the holding company Artemis.

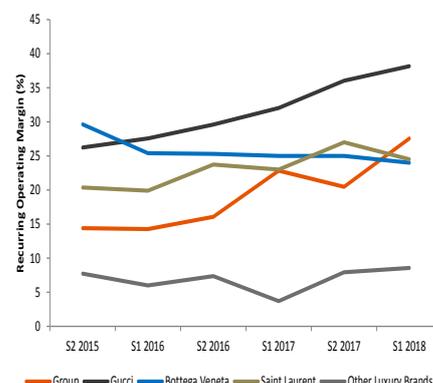
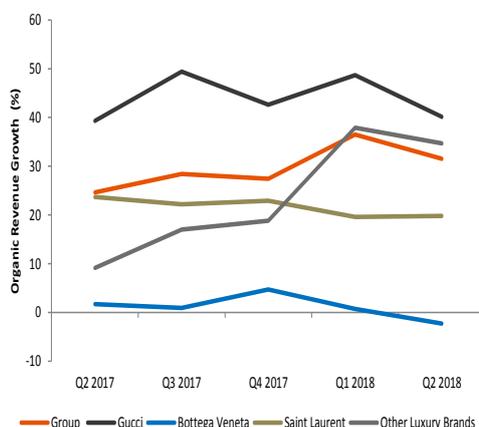
Brand Revenue as % Total Revenue (2nd Quarter 2018)



Source: Bloomberg.

Investment Thesis

Successful Revamp: Kering has benefited from a highly successful restructuring of its portfolio, with Gucci at the heart of growth of Kering revenues as it accounts for the large majority (>60%) of total revenues. Alongside the revenue growth, the company has also posted margins expansion. The company expects this trend to continue, defining as goals for Gucci to reach EUR 10 bn in annual revenues (revenues of EUR 6,2 bn in 2017), outpacing the current leader of the luxury goods market Louis Vuitton, and a EBIT margin of 40% (the company has not defined a date to achieve this goal).



Source: Bloomberg; BiG Research

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Kering	
Ticker MyBolsa/website BiG	KER
Ticker BiGlobal Trade	KER
Ticker BiGTrader24	KER
Ticker BiG Power Trade	KER
P/E Ratio 2018E	17,77
P/BV Ratio	5,22
EV/EBITDA	4,38

Source: Bloomberg; BiG Research

Price and Performance (Values in EUR)	
Price	381,30
52 Week High	522,40
52 Week Low	323,48
YTD	4,4%
Average Daily Volume (mn)	255.814
Market Cap (mn)	48.150
Beta	1,13
Dividend	6,00
EPS	14,17

Source: Bloomberg

Financial Information	
Sales (EUR mn)	15.478
EBITDA (EUR mn)	3.223
Nº of Employees	44.055
ROA	14,8%
ROE	32,2%
D/E	0,1%
Dividend Yield	1,6%

Source: Bloomberg

Consensus (last 5m)	
Buy	20
Hold	6
Sell	1

Source: Bloomberg.

Note: Annual Values

Notes:

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

Relevant Information:

Use the following link to view our most recent publications:

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

Use the following link to see our recommendation history:

<https://www.big.pt/pdf/Newsletters/nld.pdf>

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Luxury Market: The luxury market grew by 5% in 2017, according to Bain, which estimates that the market will continue to grow at a compound annual rate of 4% to 5% until 2020. However, changes in the shopping experience are expected, with Bain forecasting that online sales of personal luxury goods will grow from 9% of market share in 2017 to 25% of the market by 2025. The target audience is also changing, with the younger generations (Millennials and Generation Z) sustaining the majority (85%) of the growth of the luxury market in 2017. Kering has responded to these trends of the market increasing its online presence (in social networks and online retail platforms) and presenting collections that perform well with the younger client base.

▲ Risks

Slowdown in Demand: Kering is exposed to the risk of a decrease in disposable income of its client base, which would be translated in a lower demand for its products. The decrease in disposable income, and consequently in demand, can occur due to the current environment of trade wars or through a future economic crisis.

Reliance on Gucci: Kering has more than half of its revenues generated by Gucci, and is the future pillar of growth of the company, considering the goals defined by the group. This reliance, while understandable considering the size of Gucci in comparison with the remaining brands in the portfolio, is a risk to the company, limiting the growth strategy to Gucci's performance, which may not maintain the strong trend of the past years – after all a string of less well received collections may derail the overall popularity of a brand with its consumer base.

▲ Upcoming Events

23rd of October 2018 – 3rd Quarter Sales

▲ Earnings

Kering reported 2nd quarter results above market expectations for total sales – EUR 3,33 bn vs. EUR 3,31 bn, with the comparable growth of revenues reaching 31,5% YoY. The revenues of Gucci grew organically 40,1% YoY, disappointing the market expectations of 42,4%, which led the market to strongly penalize the stock in the aftermath of the results. Gucci revenues reached EUR 1,99 bn in the quarter and the company reported a record operating margin of 38,2% (vs. 36,8% estimated).

In the 1st half of 2018, group revenues reached EUR 6,43 bn, operating income was EUR 1,77 bn (vs. EUR 1,72 bn of market consensus) and net income reached EUR 2,36 bn.

▲ 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	EBITDA Margin
BURBERRY GROUP PLC	24,9	21,4	21,3	20,2	5,1	-4%	19%	13%	2%	-1,8	19,8
TAPESTRY INC	17,0	16,0	16,1	14,5	4,0	1%	13%	6%	49%	0,5	15,8
PRADA S.P.A.	45,2	24,0	31,2	26,0	3,4	20%	8%	4%	35%	n.a.	16,5
HERMES INTERNATIONAL	39,8	36,2	39,7	36,4	11,1	14%	28%	21%	1%	-1,3	39,3
LVMH MOET HENNESSY LOUIS VUI	22,2	19,8	20,9	19,2	4,5	8%	21%	9%	40%	0,8	25,9
KERING	22,1	25,4	17,8	15,4	5,2	4%	32%	15%	46%	1,0	25,5
Média exc. Kering	29,8	23,5	25,8	23,3	5,6	8%	18%	11%	25%	-0,5	23,5

Source: Bloomberg; BiG Research

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Income Statement (EUR mn)	2016	2017
Revenues	12.385	15.478
Cost of Sales	4.595	5.345
Gross Profit	7.790	10.133
Payroll expenses	- 1.984	- 2.444
Other Recurring Expenses	- 3.920	- 4.741
Total Operating Expenses	- 6.409	- 7.427
EBIT	1.380	2.706
Financial Result	- 202	- 243
Taxes	- 296	- 591
Share in earnings (losses) of equity-accounted companies	- 2	- 2
Net Income from continuing operations	880	1.871
Net loss from discontinued operations	- 12	- 6
Net income of consolidated companies	869	1.865

Source: Company Data; BiG Research

Balance Sheet (EUR mn)	2016	2017
Cash & Equivalents	1.050	2.137
Goodwill	3.534	3.421
Trade Receivables	1.196	1.367
Inventories	2.432	2.699
Property Plant & Equipment	2.207	2.268
Brands and other intangible assets	11.273	11.159
Investments in equity-accounted companies	48	49
Other Assets	2.400	2.479
Total Assets	24.139	25.577
Short term Debt	1.235	940
Long term Debt	4.186	4.246
Trade Payables	1.099	1.241
Other liabilities	5.656	6.525
Total Liabilities	12.175	12.951
Total Equity	11.964	12.626
Equity + Liabilities	24.139	25.577

Source: Company Data; BiG Research

Free Cash Flow (EUR mn)	2016	2017
Operational Cash Flow	1.619	2.825
Net Income	814	1.786
D&A	432	516
Changes in WC	- 84	- 94
Non-Cash Items	458	617
Investment Cash Flow	- 684	- 733
Change in Fixed & Intangible Assets	- 603	- 702
Change from Acquisitions & Divestitures	- 10	- 2
Other	- 71	- 33
Financial Cash Flow	- 1.095	- 1.102
Debt change	- 536	- 452
Share buyback	0	- 28
Dividends	- 505	- 581
Others	- 54	- 41
Effect of Foreign Exchange Rates	14	152
Change in free cash flow	- 145	1.142

Source: Company Data; Bloomberg; BiG Research



Source: Kering

Kering has fallen more than 25% since the 52 week high, which has led to a contraction of its multiples, from values above peers and the historic average to values below these levels. In comparison to main rival (LVMH), Kering is also trading at current multiples below LVMH.

Financial Accounts

Kering reported an increase in annual revenues of 25%, with the gross margin expanding by 2 percentage points to 65% and the EBIT margin increasing in 6 p.p. to 17%. These results still incorporate Puma and other units that the company only disinvested in 2018. Net profit from continuing operations increased 113% between 2016 and 2017 to EUR 1,9 bn. The net loss of discontinued operations includes the residual expenses and costs related to vendor warranties granted by Kering upon the sale of its distribution businesses (Conforama, Fnac and Redcats) and Sergio Rossi.

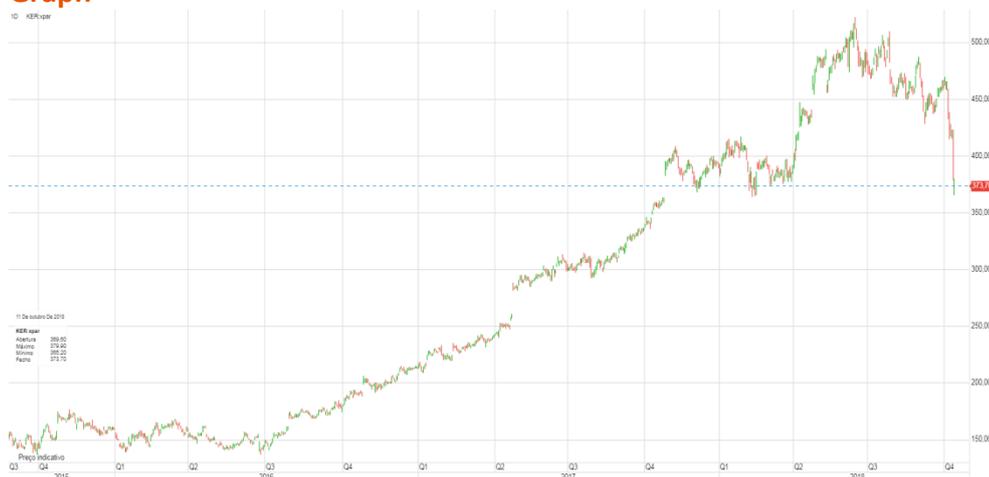
The company paid a dividend per share relative to 2017 results of EUR 6 per share. Relative to the distribution of 2016 results, the dividend per share was of EUR 4,6.

Kering has announced a share buyback program with the maximum value of EUR 6,06 bn that will occur until October of next year.

Corporate Governance

Kering's CEO is François Pinault (the founder of the company). Pinault has been CEO since 2005, and during its tenure, Kering has gone from a diversified retail company to a luxury goods company. Pinault is also the chairman of Kering. In 2017, Pinault has received payments of EUR 5,9 mn, of which 3,2 mn is respective to remuneration payable and EUR 2,6 mn is respective to multi-annual variable remuneration granted during the year.

Graph



Source: BiGlobalTrade; BiG Research

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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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- The update of the investment recommendations models and respective price-targets will occur, usually, in a period of 6 to 12 months.
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- The records of the investment recommendations of the Research Team are provided below. The detailed external consultation of the respective performances may be provided if so requested.

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%

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%

Source: BiG Research

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