# LVMH
# (MC)

25 June 2011

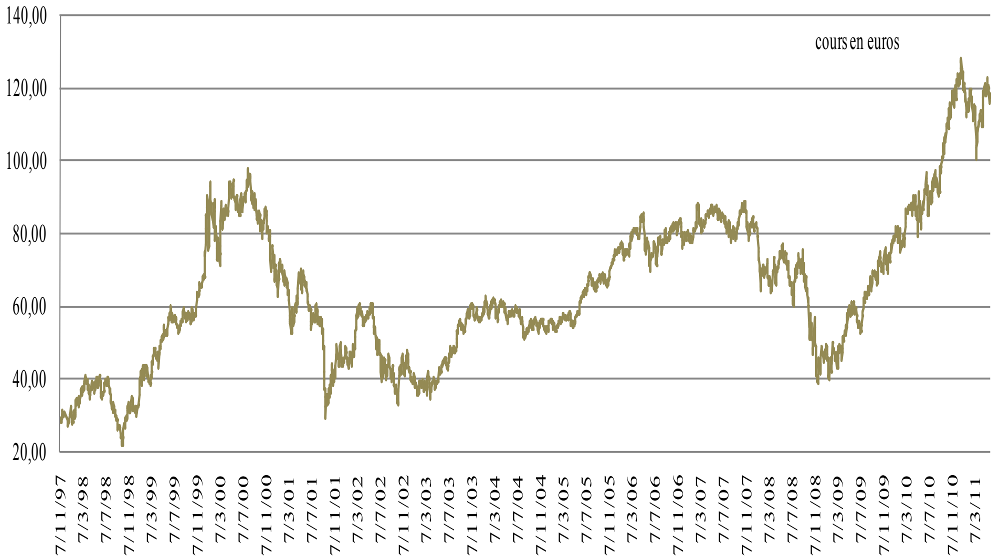
## Description

LVMH is the world's largest luxury group, with €20 billion of revenue. It holds a wide portfolio of luxury brands, most of which have been bought over the last 20 years. Its most iconic brand is Louis Vuitton, but this brand has also been central in the development of the group since 1987, since it is probably its most profitable subsidiary. Controlled and managed by Bernard Arnault, LVMH has acquired a 20.2% stake in familly-owned Hermès in 2010, without the consent of its controlling shareholders. Most recently, it has launched a friendly bid on Bulgari for €4.3 billion.

| | |
|---|---|
| Share Price | 116.25€ |
| Nb of shares | 507m |
| **Market Capitalization** | **€58,881m** |
| Net Debt 2011e | €1,751m |
| **Enterprise Value** | **€60,632m** |

## FAIR @ ~81€

### Valuation Range [119.5€-160€]




## Market profile

| | |
|---|---|
| High 52 weeks | 129.05€ |
| Low 52 weeks | 84.85€ |
| Average volume | 996,597 |
| | |
| Free float | 49% |
| Insiders | 48% |
| | |
| **Shareholders** | |
| Groupe Arnault | 47.64% |
| Treasury shares | 2.43% |
| Free float | 49.24% |

## Valuation ratios

| | |
|---|---|
| P/E 2011e/2012e | 19.3x/17.6x |
| P/CF 2011e/2012e | 15.1x/14.2x |
| P/B 2011e/2012e | 3.0x/2.8x |
| EV/EBIT 2011e/2012e | 12.4x/11.3x |
| Rendement du dvd | 1.8%/1.8% |
| FCF Yield 2011e/2012e | 5.0%/5.2% |
| Gearing 2011e/2012e | 9%/6% |

## 5 year-forecast (CAGR)

| | |
|---|---|
| Revenue | 6.6% |
| EBIT | 9.4% |
| EPS | 5.7% |
| DPS | 7.4% |

## Why hold/buy the share ?

LVMH has many intrinsic qualities that would make it an attractive investment vehicle, may the price be right. We estimate the right price is in the range of €81, that is a 40% below our calculation of an intrinsic value of €135. Why is that ? 1) Partly due to its size, the earnings growth of LVMH lags behind the competition. 2) Luxury remains a cyclical business and as history has taught us, in case of emergency/market crash, LVMH could suffer significant losses, although its ability to recover is undeniable. 3) LVMH tends to overpay its acquisitions. The recent inroad into Hermès capital could make investors nervous about the intention of Bernard Arnault. If he decided to arrange a deal with the controlling shareholders of Hermès, we do not see how such a deal, based on the stratospherical valuation of Hermès, could create value. This would probably not be perceived as nicely as the Bulgari transaction was received, although its was done on a hefty price.

## Catalysts

1) Faster than expected EPS growth in 2011 and the subsequent years.
2) Better than expected integration of Bulgari, with comfortable synergies (no target given on this matter).

## Risks

1) Demanding valuation (P/E of 19.3x while EPS growth expected at 6% + 2% dividend yield)
2) No independence of the board of directors.
3) Very poor track record in M&A outside the luxury sector. Some tendency to overpay its targets (Bulgari; Hermès highly priced).

## Valuation

We dervied the intrinsic value of the share of €135 from 3 methods (DCF, peers, value creation). Please note that the peers-derived target price shows the highest potential, since LVMH trades with a discount to its listed competitors. LVMH is one of the most profitable company in the luxury sector, but it lags its peers in terms of earnings growth or return on equity.