

# Retail & Consumer Goods

## Sector Review – April



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### Retail Universe:

- Amazon
- Jerónimo Martins
- Inditex
- Tesco

### This month's detailed company review:

- LVMH



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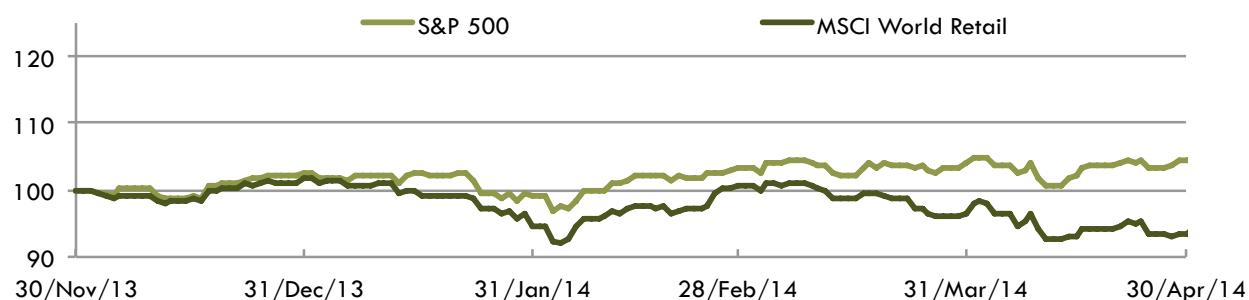
## 1. Sector Overview

- The US luxury company Coach, has been suffering the competition from some of its competitors, in particular Kate Spade and Michael Kors. Both net income and revenue decreased in the third quarter, respectively by 20 per cent to \$191m and by 7 per cent to \$1.1bn. As a result of these worse than expected results, Coach's stock price went down by almost 10 per cent.
- Carphone Warehouse, the British independent mobile phone retailer, proposed a £4bn merger with the rival Dixons along with its European expansion plans. The official announcement of the merger is expected to be done before the Takeover Panel of May 19. The company's CEO is confident about the group meeting its earning goals. Furthermore, Carphone Warehouse has had a major role in increasing the popularity of 4G services.
- Warren Buffet recently commented on Coca-Cola's plan to give share to its employees. Mr. Buffet, who is the largest shareholder of the US company, stated that the award was "excessive". The plan would be too dilutive for existing shareholders and would transfer too much money to the executives of the company.
- In the first quarter of 2014, McDonald's did not meet its goals. Indeed, the earnings went down by 5 per cent. The main cause of the drop in the expected results arise from the principal markets of the company- the US, Germany, Japan and Australia. Together with the decrease in sales, commodity costs increased by nearly 3 per cent.

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## 2. Retail vs. Overall Market



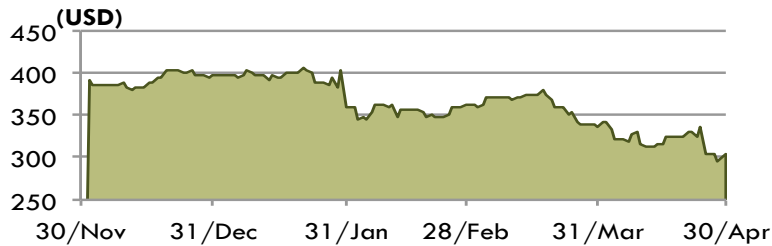
- After observing a period of strong correlation, the MSCI World Retail index has been underperforming the S&P 500 since the beginning of 2014. The spread between the two indexes has been growing, while April contributed to this tendency.

### 3. Followed Companies

#### Amazon

(Ticker: AMZN US)

- Amazon's revenue went up by 23 per cent during the first quarter of 2014, reaching almost \$ 20 bn. Moreover, in the last weeks the US company, along with others like Netflix, played an important role, along in the numerous deals which were happening in relation with promoting a new way of watching television.

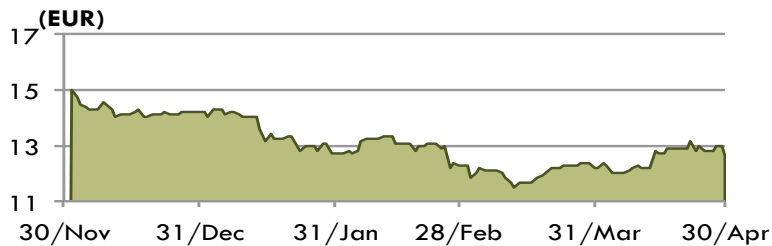


Price (USD):	↑	307,89
Target Price (USD):		425,00
Up/downside:		38,0%
Performance 3M:		-15,0%
P/E Ratio:		500,3x
ROC/WACC:		0,1x

#### Jerónimo Martins

(Ticker: JMT PL)

- The second-largest Portuguese retailer announced first-quarter financial results. Net profits went down by 17 per cent to € 62 mn. However, in the same period sales grew by 5.1 per cent. The decrease in net profit mainly arises from lower margins in its major market, Poland.

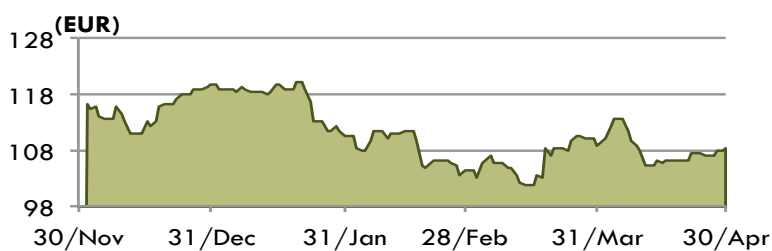


Price (EUR):	↑	12,37
Target Price (EUR):		14,50
Up/downside:		17,2%
Performance 3M:		0,4%
P/E Ratio:		21,0x
ROC/WACC:		1,1x

#### Inditex

(Ticker: ITX SM)

- Whilst Inditex has been pursuing its expansion program, the personal wealth of Inditex's owner, Mr Ortega, reached around \$10 bn. In the last years, he significantly increased his real estate investments as a safer alternative to fixed income.

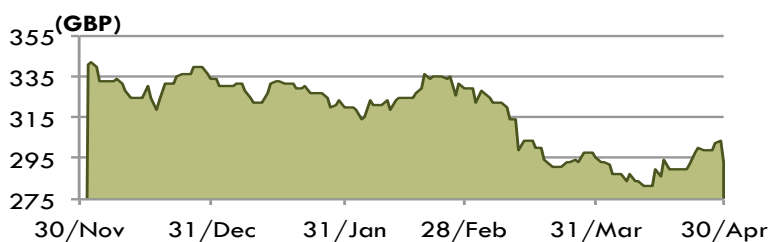


Price (EUR):	↑	106,45
Target Price (EUR):		120,00
Up/downside:		12,7%
Performance 3M:		2,1%
P/E Ratio:		27,9x
ROC/WACC:		2,7x

#### Tesco

(Ticker:TSCO LN)

- Standard & Poor's recently cut the credit rating of the UK retail company to BBB+. This comes after Tesco posted for the second year decreasing profits. Analysts' outlook shows that the retailer might find it hard to turn the current negative market trend.



Price (GBX):	↑	285,50
Target Price (GBX):		300,00
Up/downside:		5,1%
Performance 3M:		-13,3%
P/E Ratio:		12,0x
ROC/WACC:		0,4x

## 4. Stock Analysis: LVMH

### Corporate News

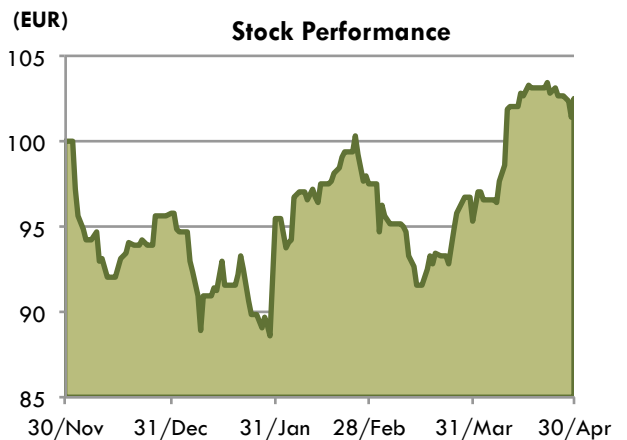
- LVMH's recorded a 4% increase in the first quarter 2014 revenue against the same quarter of the previous year. This growth was potentiated mostly by a 11% growth in the Fashion & Leather Goods business, whereas Wines & Spirits had a negative growth of 8%. Organic growth was set at 6%, sustained in its bulk by US and Asia.
- Bernard Arnault, LVMH's CEO and Chairman, made it clear that the company plans to continue going upmarket, stating that "affordable luxury are two words that do not come together". The group plans to do so by ameliorating and enlarging important existing store, while focusing on new emerging markets such as Malaysia and Indonesia.

### Market Performance

- Shares in LVMH rose strongly in the month of April after the group posted strong organic growth, year-on-year, which was higher than expected. Shares seem to enjoy momentum after exhibiting strong volatility in the last 6 months.
- Analyst sentiment towards LVMH is very positive, especially significant if one bear in mind the negative context of weak trends in the luxury business, with competitors such as Gucci and Prada suffering from deteriorating demand.

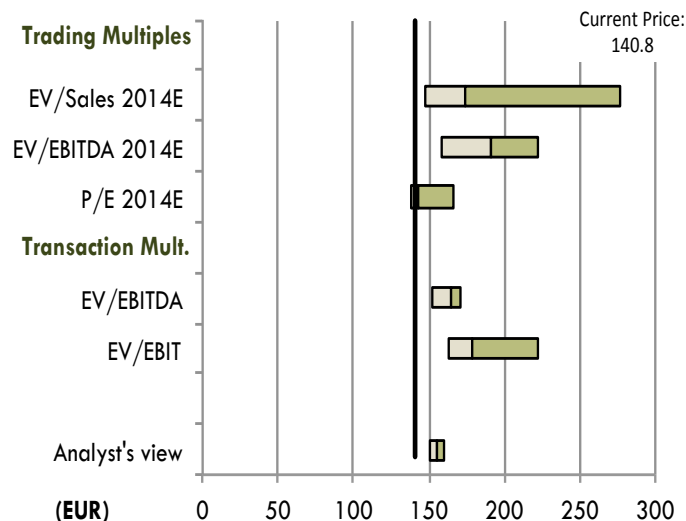
### Valuation Summary

- From a valuation perspective, trading multiples seem to be closely aligned with the current stock price. P/E is currently aligned with the expected figure for 2014, while EV/Sales and EV/EBITDA slight distance from the trading multiples indicates that the market appears to be fairly pricing LVMH.
- Analyst seem to agree that the stock price has potential to expand, setting a target price of 155.71€, equivalent to an upside potential of close to 10%.



LVMH (EUR)	
Current Price (30/04/2014)	141,75
52-week high % change	-5,5%
Median Target Price	155,71
Market Capitalisation (mn)	71 480
Return on Common Equity	13,4%
Dividend Yield	2,2%
Beta (vs. S&P500)	1,0x
Total Debt/Equity	31,9%

### Valuation Summary (Price per Share)



## Comparable Analysis

Company Name	Currency	MCap (mn)	Enterprise Value (mn)	EV/Sales			EV/EBITDA			P/E		
				LTM	2013E	2014E	LTM	2013E	2014E	LTM	2013E	2014E
<b>LVMH</b>	EUR	71 480	78 134	2,5x	2,5x	2,3x	10,5x	10,0x	9,1x	20,2x	18,5x	16,6x
L'Oreal	EUR	75 212	73 003	3,2x	3,2x	3,1x	15,5x	15,3x	14,3x	25,5x	22,9x	20,8x
Kering	EUR	20 008	24 067	2,4x	2,4x	2,2x	11,8x	11,4x	10,3x	-	15,6x	13,7x
Burberry	GBP	6 619	6 449	3,3x	2,8x	2,6x	9,7x	10,9x	10,2x	17,8x	19,6x	18,2x
Hérmes International	EUR	26 704	25 722	7,1x	6,3x	5,6x	18,9x	17,5x	15,7x	33,5x	30,5x	27,1x
Diageo	GBP	45 846	55 501	5,3x	5,2x	4,7x	14,3x	14,9x	13,8x	-	18,3x	16,8x
75th Percentile				4,8x	4,7x	4,3x	15,2x	15,2x	14,2x	27,5x	22,1x	20,2x
<b>Median</b>				<b>3,2x</b>	<b>3,0x</b>	<b>2,8x</b>	<b>13,0x</b>	<b>13,1x</b>	<b>12,0x</b>	<b>22,8x</b>	<b>19,0x</b>	<b>17,5x</b>
25th Percentile				2,7x	2,6x	2,4x	10,8x	11,0x	10,2x	19,6x	18,4x	16,6x

- Looking at the table one can see LVMH trades at lower multiples than the median of the comparables considered, both in terms of EV/Sales and EV/EBITDA, which potentially can be a sign of LVMH's undervaluation, patent when looking at the upside potential identified by most analysts. On the other hand, LVMH's P/E seems to be in line with the median of the peer group possibly indicating that the company might be perceived as a mature one, being fairly priced when compared to the industry.
- When looking at the peer group, Hérmes International and L'Oreal present the highest multiples in terms of P/E, EV/Sales and EV/EBITDA, all higher than the industry average, possibly indicating higher investors' expectations for growth in these companies. Moreover, LVMH seems to be in line with its main competitor, Kering, both in terms of EV/Sales and EV/EBITDA, indicating that the market seems to be perceiving both companies in a similar way.

## Precedent Transactions

Announced Date	Target		Buyer		EV		
	Company	Country	Company	Country	(EUR mn)	EV/EBITDA	EV/EBIT
22-Oct-12	Ancestry.com Inc	USD	Permira Holdings Ltd	UK	1 081	9,3x	12,5x
21-Feb-12	Alibaba.com Ltd	HK	Alibaba Group Holding	HK	1 778	26,5x	30,2x
27-Oct-11	Rue du Commerce	FRN	Altarea	FRN	49	16,5x	23,1x
03-Feb-11	Culture Convenience Club Co. Ltd.	JPN	MM Holdings Co Ltd	JPN	915	7,9x	11,6x
75th Percentile						19,0x	24,9x
<b>Median</b>						<b>12,9x</b>	<b>17,8x</b>
25th Percentile						8,9x	12,3x

- Globally, the precedent comparable transactions present valuations below the ones from the trading multiples, mainly the EV/Sales and EV/EBITDA. This is not very usual because it means that the normal effect from the premium that is paid in deals, is not enough overcome the trading multiples of comparable companies. Yet, this may be simply explained if we look at the deals considered. These target companies are similar to LVMH in some aspects but they do not capture the full spectrum of operations of the on-line retailer giant, explaining the low valuations.
- Regarding the universe of comparable precedent transactions, it becomes clear that the most representative one would be the acquisition of Ancestry.com Inc by Permira Holdings. This multiple applied to the current metrics of LVMH would bring the valuation to zones more in line with the current market price and analysts consensus. The fact that the acquirer was a financial sponsor minimizes the effect of possible premiums paid for synergies, therefore arriving to matching valuations with market views.