

# Moët Hennessy Louis Vuitton SE (LVMHF)

## Equity Research Report

Date: 07/04/2024

Recommendation: BUY

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Current price: €829

Target price: €1,121

Up/(downside): 35%

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Please refer to important disclaimer  
and disclosures at the end of the  
report.

# LVMH: Industry leader could still outperform for the long term



I initiate coverage on LVMH with a BUY recommendation based on a target price of €1,121, implying an upside of 35%. I derive my target price from a DCF-based valuation using a WACC of 8.6% and a terminal growth rate of 3%.

## Highlights:

- Industry leader maintains high growth into the future.
- Net Margins dip in the short term.
- The wines & Spirits division is expected to continue underperforming.

**Risks:** Talent management and the loss of strategic competencies, business operations, liquidity risks, forex fluctuations and tax policy.

## Valuation table

Year end Dec	22A	23A	24E	25E	26E
PE (x)	28.6	26.8	26.3	22.8	21.2
Recurring net profit growth (%)	23.5	6.2	1.6	15.6	7.4
Recurring EPS (€)	29.0	31.0	31.5	36.4	39.1
Recurring EPS growth (%)	23.8	6.6	1.7	15.6	7.4
PBV (x)	7.5	6.8	5.9	5.1	4.5
BVPS (€)	110.0	122.2	140.4	161.5	184.2
ROE (%)	27.6	26.1	24.0	24.1	22.6
DPS (€)	12.0	13.0	13.2	15.3	16.4
Dividend yield (%)	1.4	1.6	1.6	1.8	2.0
Enterprise value (€ m)	438,389	441,375	440,461	438,870	437,569
EV-to-EBITDA (x)	13.1	11.9	11.1	9.7	8.9

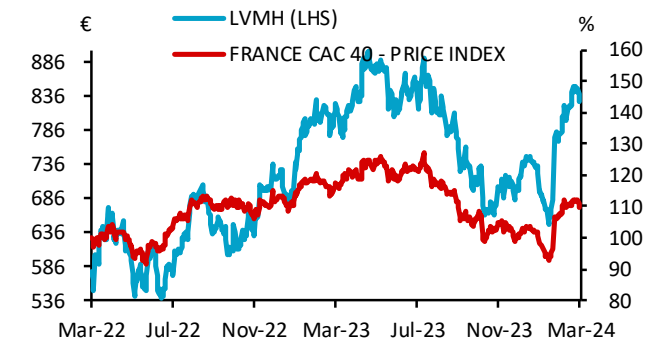
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Up/(downside): 35%

RIC code	LVMH.PA
Index	.FCHI
CAC 40 Index (5 March 2024)	7,932.82
Market cap (€ m)	414,154
Shares outstanding (million)	500
Par (€)	0.30



# LVMH: Revenue grows despite shrinking net margins & spirit sales

## Industry leader maintains high growth into the future

LVMH has grown from €1b at inception in 1987 by more than 50x to date, with a 4-year CAGR of 13% in 2023, however, a considerable revenue increase of 44% in 2021 and 23% in 2022 were post-Covid rebound sales, and sales growth averaged 8% in the last two quarters of 2023, and 9% for the whole year, which is expected to continue into the current year, the CEO Bernard Arnault has a target of 8% to 10% revenue growth in 2024.

Given this stabilization, I anticipate maintaining this growth rate, projecting an average of 8% growth in 2024, which aligns with industry analyst expectations.

## Net Margins dip in the short term

Despite increased revenue growth and gross margin in the last year, there could be significant increases in identified expenses that might pressure margins in the short term. Specifically, these could stem from borrowing costs, marketing, and R&D due to increased interest rates, over €150m pledged to the 2024 Olympics sponsorship campaign, and in line with expansion plans, as management is planning to focus more on organic growth this year.

Furthermore, net profit growth has declined YoY, and could fall further by 2% points in 2024, however, in the long term, margins could improve with gains from research, marketing, and reduced interest rates.

## The wines & Spirits division is expected to continue underperforming

The division whose main product is the Hennessy cognac represents 50% of the division's sales, has been on a decline YoY since 2019, in line with an industry-wide drop in sales of cognac due to customers shifting away from luxury drinks to more unique & rare brands. It was only part of the business to experience a revenue decline in 2023, representing 7% of the company revenues, down from 10% in 2019.

Despite these challenges, management does not seem to have a definite strategy, stating in their most recent report "The division is approaching 2024 with caution and pragmatism". As a result, I speculate a further decline, and the division might not be integral to future growth plans of the group, I expect the spirits division to drop to 5% of the group sales and even a possible divestment of the branch in the future.



Moët Hennessy Louis Vuitton (LVMH) is the market leader for luxury goods, in 2023, it became the first European company to surpass €500 bn in market value, commandeering over 15% of the industry revenue, estimated to surpass 20% in the next 5 years.

Its operational strategy runs semi-autonomous 'maisons' that include fashion & leather goods which is the highest selling with almost 50% of total revenue, wines & spirits, perfumes, Cosmetics, watches & Jewellery, selective retailing, and others such as cruise lines and hotels.

LVMH is notorious for aggressive acquisitions, with over 70 luxury brands under its umbrella including big brands such as; Christian Dior, Bulgari, TAG Heuer, and Tiffany & Co, cementing LVMH's place as a conglomerate of powerful brands.

# Luxury goods market shines with multiple bright aspects

## Leading players with robust customer loyalty dominate the luxury goods market

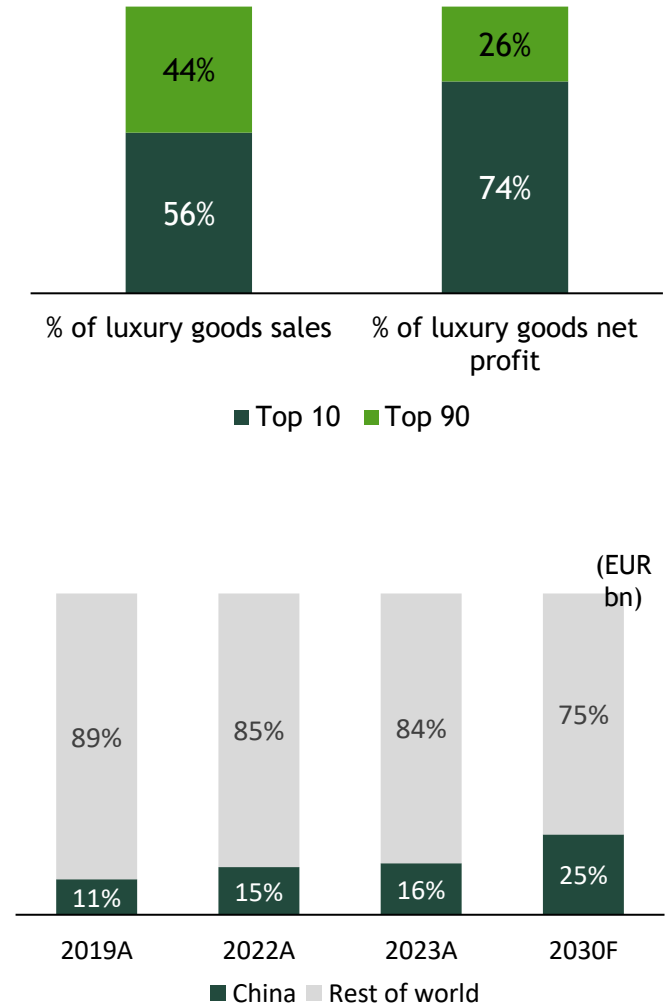
The luxury goods market size was valued at €362bn in 2023. Luxury goods encompass highly exclusive personal items such as apparel, footwear, accessories, watches, jewelry, and cosmetics. This sector is dominated by major players, with the top 10 companies sales accounting for 56% of the market and net profit of 74%. Leading the pack are LVMH (27%), Kering (6%), and Richemont (6%). These established players boast strong moats, thanks to strong customer loyalty. This dynamic presents a favorable outlook for the market, as it creates significant barriers to entry due to the substantial investment needed to establish customer loyalty. Consequently, established leaders within this industry can capitalize on this situation by maintaining high margins.

## The robust growth in China is expected to provide a significant boost to the luxury industry

According to research by Bain & Co, the luxury goods market is predicted to have a 6.5% CAGR from 2023 to 2030, with China contributing 25%, America and Europe each at 24% by 2030. China's remarkable 17% CAGR growth from 2019 to 2023, compared to the global luxury goods market 6.5% CAGR, is fueled by the rising middle to high-income classes. The Boston Consulting Group (BCG) further forecasts a promising future, indicating that an extra 80 million individuals in China are poised to ascend to the middle and upper classes between 2022 and 2030. This surge will constitute nearly 40% of the country's total population. However, due to near-term economic uncertainties in China, the luxury market there is projected to experience mid-single-digit growth in 2024.

## Luxury brands go direct-to-consumer for profit boost

Brands are exerting more control over their distribution, with directly operated channels increasing in importance. The industry is witnessing a trend toward reduced reliance on wholesale channels. According to a Bain & Co research, retail channels have now reached parity with wholesale, driven by an average growth of 14% from 2019 to 2023 across all segments of owned retail, compared to the wholesale has only seen an average growth of 1% since 2019. By managing their own distribution, brands can control brand image and customer experiences they delivered. While also gain higher profit margins by eliminating wholesale markup.



## LVMH: FY2H23 saw a big drop in net margin

(€ m)	2H21	1H22	2H22	1H23	2H23	YoY (%)
Revenue	35,550	36,729	42,455	42,240	43,913	3.4
Cost of sales	(11,246)	(11,418)	(13,570)	(12,923)	(13,953)	2.8
<b>Gross profit</b>	<b>24,304</b>	<b>25,311</b>	<b>28,885</b>	<b>29,317</b>	<b>29,960</b>	<b>3.7</b>
SG&A	(14,819)	(15,079)	(18,099)	(17,738)	(18,744)	3.6
Other (exp)/inc	(17)	-	(4)	3	(17)	nm
<b>EBIT</b>	<b>9,468</b>	<b>10,232</b>	<b>10,782</b>	<b>11,582</b>	<b>11,199</b>	<b>3.9</b>
Finance cost	(102)	(131)	(251)	(405)	(568)	126.3
Other inc/(exp)	41	(2)	81	49	124	53.1
<b>Earnings before taxes</b>	<b>9,407</b>	<b>10,099</b>	<b>10,612</b>	<b>11,226</b>	<b>10,755</b>	<b>1.3</b>
Income tax	(2,500)	(2,385)	(2,977)	(3,129)	(2,544)	(14.5)
<b>Earnings after taxes</b>	<b>6,907</b>	<b>7,714</b>	<b>7,635</b>	<b>8,097</b>	<b>8,211</b>	<b>7.5</b>
Equity income	34	3	34	(5)	12	(64.7)
Minority interest	(375)	(412)	(255)	(421)	(357)	40.0
<b>Earnings from cont. operations</b>	<b>6,566</b>	<b>7,305</b>	<b>7,414</b>	<b>7,671</b>	<b>7,866</b>	<b>6.1</b>
Forex gain/(loss) & unusual items	181	(773)	138	810	(1,173)	nm
<b>Net profit</b>	<b>6,747</b>	<b>6,532</b>	<b>7,552</b>	<b>8,481</b>	<b>6,693</b>	<b>(11.4)</b>
Recurring profit	6,613	7,107	7,452	7,882	7,555	1.4
EBITDA	15,674	16,247	17,256	17,735	19,407	12.5
Recurring EPS (€)	13.128	14.129	14.847	15.738	15.115	1.8
Reported EPS (€)	13.401	12.995	15.057	16.947	13.395	(11.0)
<b>Profits (%)</b>	<b>2H21</b>	<b>1H22</b>	<b>2H22</b>	<b>1H23</b>	<b>2H23</b>	<b>Diff (%)</b>
Gross margin	68.4	68.9	68.0	69.4	68.2	(0.1)
Operating margin	26.6	27.9	25.4	27.4	25.5	(1.1)
Net margin	19.0	17.8	17.8	20.1	15.2	(3.7)

In 2H23, LVMH experienced a slight revenue increase by 4% HoH and YoY.

Over the last 3 years under review, the highest net profit was recorded in the first 2 quarters of 2023.

For 2H23, the company saw a 21% HoH decrease in net profit, and a YoY decrease of 11.4%.

LVMH reported 2H23 recurring EPS of €25.5, which was +1.8% YoY and -4% HoH.

# LVMH: Consensus estimates

Analyst recommendations	Dec-23	Jan-24	Feb-24	Current
# of recommendations	31	31	31	30
1. Strong Buy	10	10	8	6
2. Buy	14	14	13	14
3. Hold	7	7	10	10
4. Sell	-	-	-	-
5. Strong Sell	-	-	-	-
Consensus recommendation	1.9	1.9	2.1	2.1

Price target rel. to current price (EUR)	Current price	Target price	up/(dn) %
Mean	829.1	861	3.8

Consensus forecast (%)	23	24E	25E	26E
Revenue growth	8.8	5.2	7.4	7.4
Gross margin	68.8	68.8	68.9	68.4
EBIT margin	26	26	27	27
Net margin	17.6	17.8	18.2	18.6

33% of analysts recommend holding LVMH, with the remaining 67% majority suggesting buy positions.

They have speculated a 3.8% upward movement relative to the current price.

Analysts, predict Gross and EBIT margins remain constant from 2023 to 2026, at 68% and 27%, respectively.

However, they forecast that revenue growth will slow from 9% in 2023 to 5% in 2024, before growing to 7% from 2025 onwards.

Furthermore, net margins are speculated to be constant at 18% from 2024 going forward.

# LVMH: Revenue structure

LVMH has 5 major revenue-generating divisions: Fashion & Leather goods (49%), Selective retailing (20%), Perfume & Cosmetics (10%), Watches & Jewellery (13%), Wines & Spirits (7%), other activities (1%).

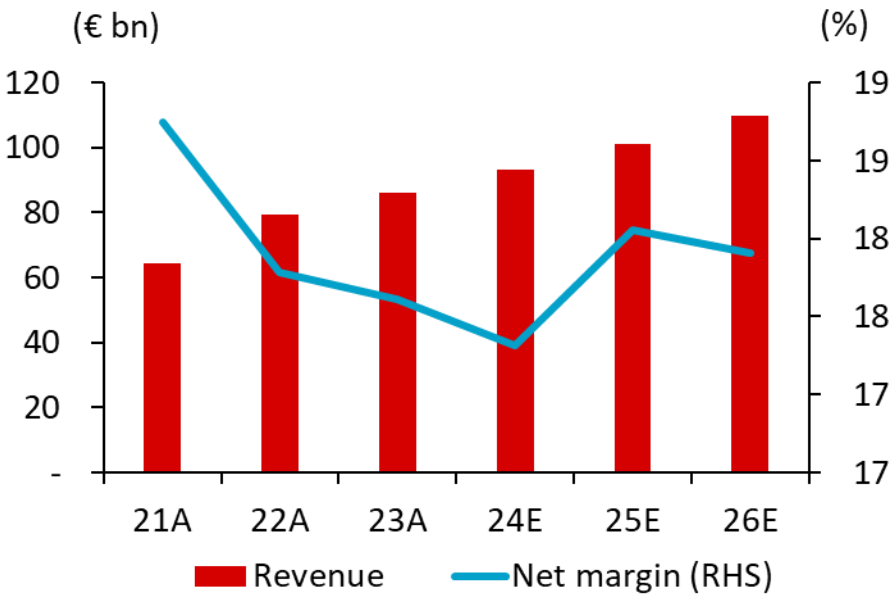
The selective retail division which aims to offer a unique customer experience in stores has the highest revenue growth of 25% in 2023.

The Wines & Spirits division’s sales have shrunk to 7%, declining by 7% in 2023 compared to others, raising questions about its strategic position in LVMH’s future.

With over 6,000 stores globally, revenue is spread geographically, with no risk exposure to any particular region. 19% of revenue is from US, even though it has 25% of its outlets, which is likely due to higher competition, and premium is highest in Europe with 20% revenue from 16% of its stores.

Although the company prides itself on organic growth, expansion has largely been due to major acquisitions of established brands. Nevertheless, revenue is expected to keep growing, surpassing €100bn in 2026.

Revenue breakdown, by segment and region 2023



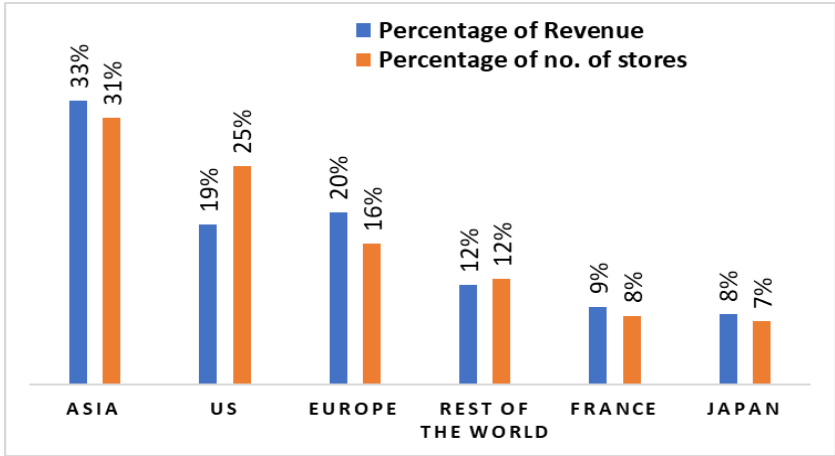
Fashion & Leather 49%



Selective retailing, Wines & Spirit 27%

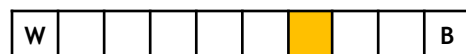


Perfume, Cosmetics & Jewelry 23%

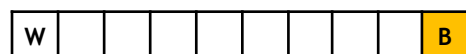




# FVMR INVESTING: A. Stotz Four Elements



(%)	Dec-19	Dec-20	Dec-21	Dec-22	PTM**
Operating profit margin	21.2	18.3	26.5	26.7	26.4
Recurring net margin	13.5	11.0	18.9	18.0	17.8
Asset turnover	62.8	43.5	54.9	60.9	61.9
Return on assets	8.5	4.8	10.3	11.0	11.0
Recurring return on equity	21.1	13.3	28.6	28.0	26.4



(%)	Dec-19	Dec-20	Dec-21	Dec-22	PTM**
Revenue growth	14.6	(16.8)	43.8	23.3	8.8
Recurring EPS growth	12.6	(32.6)	147.1	18.4	7.8
Operating profit margin chg. (bps)	(11)	(289)	827	20	(33)
	6mth	3mth	1mth	3wk	1wk
Price change	0.7	175.1	74.1	28.5	10.6



(x)	Dec-19	Dec-20	Dec-21	Dec-22	PTM**
Price-to-sales	3.2	6.4	5.1	5.4	4.9
Price-to-earnings	23.5	58.4	27.0	29.7	27.7
Price-to-book	4.7	7.7	6.9	7.7	6.8
PE-to-EPS growth (PEG)	1.9	nm	0.2	1.6	3.5
EV/EBIT	16.8	37.5	20.7	21.2	20.1



(x)	Dec-19	Dec-20	Dec-21	Dec-22	PTM**
Current ratio	1.2	1.6	1.2	1.3	1.3
Net debt-to-equity (%)	56.3	48.6	54.5	46.7	47.4
Times-interest-earned	25.5	22.3	70.4	55.4	23.4
	5yr	3yr	1yr	6mth	3mth
Beta	1.1	1.4	1.5	1.9	2.5

**Overall:** LVMH is slightly above average, ranking in the top 40% relative to 160 other non-financial companies in France, considering Fundamentals, Valuation, Momentum, and Risk.

**Fundamentals:** Ranked in the top 40% in France due to high operating profit, although asset turnover have remained flat.

**Valuation:** Performance is below average as it trades on high PE relative to other companies in France.

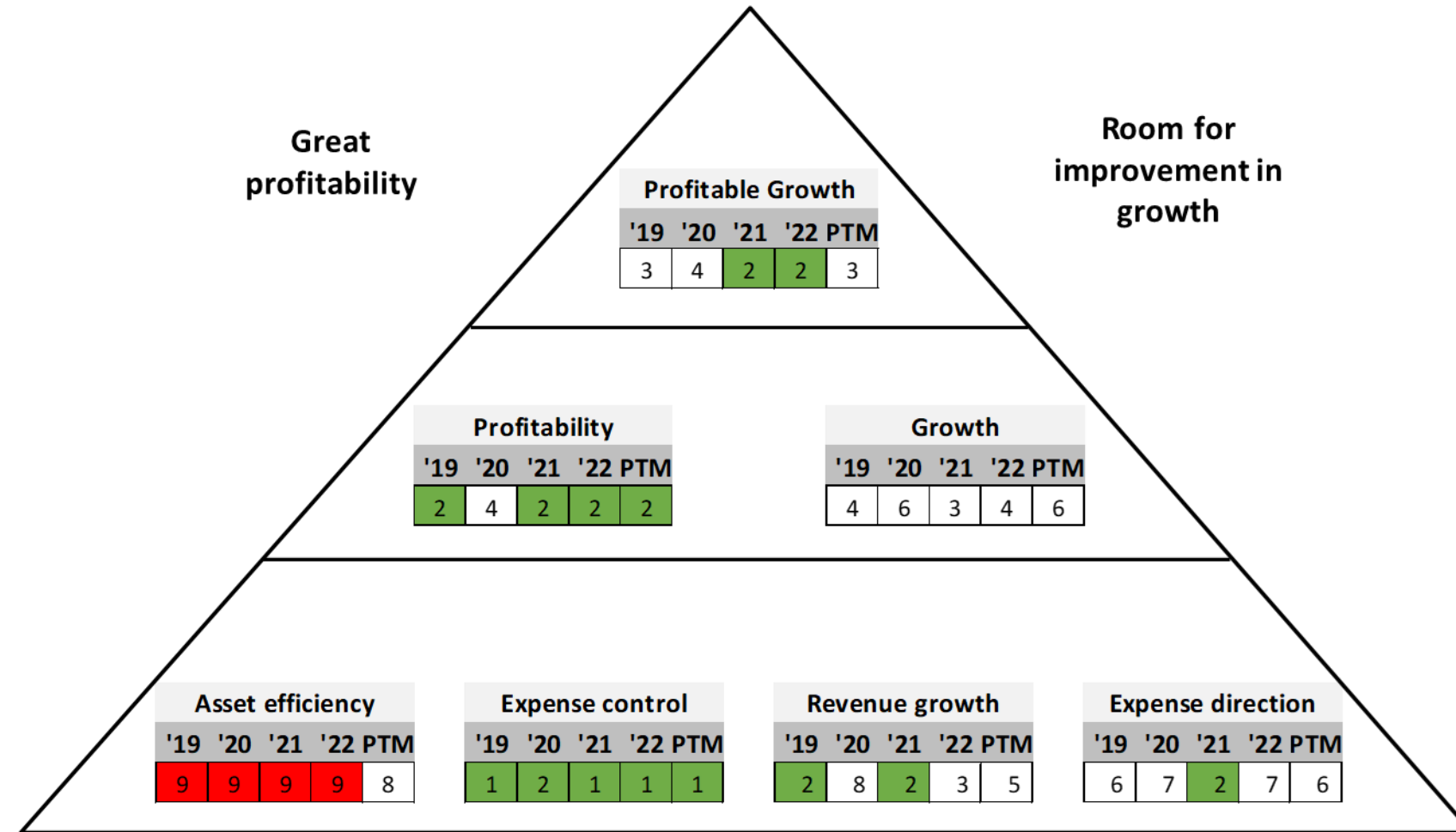
**Momentum:** Very attractive in both sales and price, LVMH is best in class for momentum, with high revenue and EPS growth.

**Risk:** LVMH is highly geared compared to its peers, performing worst and is in the lowest percentile of the group, this high balance sheet risk is combined with a high price risk as indicated in a high Beta value.

**Note:** Benchmarking against 160 non-financial companies in France.



# World Class benchmarking : A. Stotz Profitable growth



Benchmarked against 880 large Cons. Disc. companies worldwide.

Profitable Growth consistently ranked in the top 20% among 880 large Cons. Disc. companies globally in 2021 and 2022, however, has fallen to the top 30% in the past 12 months.

LVMH is highly profitable as seen, its profitability has ranked in the top 20% among similar companies, ranking #2 for almost the whole period, except a slight dip in 2020.

Asset efficiency has ranked among the worst in the period to date, ranking #9 since 2019, only climbing to #8 in the past 12 months.

A consistently strong expense control is the main driver of the overall profitability & profitable growth, ranking #1 over the last three years, offsetting the poor asset efficiency.

Growth has been volatile over the period, as indicated in sales & expense direction being average in the past 12 months compared to its peers.

# LVMH: Profit and loss statement

(YE Dec, € m)	2021A	2022A	2023A
Revenue	64,215	79,184	86,153
Cost of goods & services	(20,355)	(24,988)	(26,876)
<b>Gross profit</b>	<b>43,860</b>	<b>54,196</b>	<b>59,277</b>
SG&A	(26,722)	(33,178)	(36,482)
Other operating (exp)/inc	(17)	50	47
<b>EBIT</b>	<b>17,121</b>	<b>21,068</b>	<b>22,842</b>
Interest expense (net)	(198)	(269)	(761)
Other non-operating inc/(exp)	(30)	(34)	(39)
<b>Earnings before taxes (EBT)</b>	<b>16,893</b>	<b>20,765</b>	<b>22,042</b>
Income tax	(4,510)	(5,362)	(5,673)
<b>Earnings after taxes (EAT)</b>	<b>12,383</b>	<b>15,403</b>	<b>16,369</b>
Equity income/Minority interest	(649)	(630)	(771)
<b>Earnings from cont. operations</b>	<b>11,734</b>	<b>14,773</b>	<b>15,598</b>
Forex/Exceptionals before tax	302	(689)	(424)
<b>Net profit</b>	<b>12,036</b>	<b>14,084</b>	<b>15,174</b>
<b>Earnings per share adj.</b>			
<b>Net profit</b>	<b>12,036</b>	<b>14,084</b>	<b>15,174</b>
Less: Pref. share dividend & other adj.	-	-	-
<b>Profit attributable to common shares</b>	<b>12,036</b>	<b>14,084</b>	<b>15,174</b>
Add: Exceptional items after tax	(223)	505	313
Add: Forex loss/(gain) after tax	-	-	-
<b>Recurring profit after tax</b>	<b>11,813</b>	<b>14,589</b>	<b>15,487</b>
Recurring FDEPS (€)	23.4	29.0	31.0

2024E	2025E	2026E	2027E	2028E
93,304	101,048	109,637	118,956	129,067
(29,017)	(31,426)	(34,097)	(36,995)	(40,140)
<b>64,286</b>	<b>69,622</b>	<b>75,540</b>	<b>81,961</b>	<b>88,927</b>
(40,587)	(42,945)	(46,815)	(50,794)	(55,112)
31	22	(3)	34	12
<b>23,730</b>	<b>26,698</b>	<b>28,722</b>	<b>31,201</b>	<b>33,828</b>
(745)	(698)	(713)	(686)	(719)
(46)	(56)	(68)	(83)	(102)
<b>22,940</b>	<b>25,944</b>	<b>27,941</b>	<b>30,432</b>	<b>33,008</b>
(6,033)	(6,849)	(7,404)	(8,064)	(8,747)
<b>16,906</b>	<b>19,095</b>	<b>20,537</b>	<b>22,367</b>	<b>24,261</b>
(752)	(851)	(907)	(920)	(926)
<b>16,154</b>	<b>18,244</b>	<b>19,630</b>	<b>21,448</b>	<b>23,335</b>
-	-	-	-	-
<b>16,154</b>	<b>18,244</b>	<b>19,630</b>	<b>21,448</b>	<b>23,335</b>
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-	-	-	-	-
<b>16,154</b>	<b>18,244</b>	<b>19,630</b>	<b>21,448</b>	<b>23,335</b>
-	-	-	-	-
<b>16,154</b>	<b>18,244</b>	<b>19,630</b>	<b>21,448</b>	<b>23,335</b>
-	-	-	-	-
<b>16,154</b>	<b>18,244</b>	<b>19,630</b>	<b>21,448</b>	<b>23,335</b>
32.3	36.5	39.3	42.9	46.7

# LVMH: Balance sheet - Assets

(YE Dec, € m)	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Cash & short-term investments	10,565	10,852	11,264	12,036	12,833	13,705	14,870	16,133
Accounts receivable	4,564	5,133	5,578	6,039	6,484	6,974	7,534	8,174
Inventories	16,549	20,319	22,952	24,262	25,752	27,467	29,802	32,335
Other current assets	2,623	3,436	3,916	4,199	4,749	5,372	5,829	6,324
<b>Total current assets</b>	<b>34,301</b>	<b>39,740</b>	<b>43,710</b>	<b>46,535</b>	<b>49,818</b>	<b>53,518</b>	<b>58,034</b>	<b>62,967</b>
Long-term investments	2,929	2,729	2,931	2,940	2,949	2,967	2,988	3,009
Net fixed assets	33,591	37,387	42,686	48,783	57,385	69,060	81,530	95,461
Intangible assets	24,858	25,715	25,912	26,178	26,384	26,660	27,115	27,581
Goodwill	25,904	24,782	24,022	23,301	22,602	21,924	21,267	20,629
Other long-term assets	3,728	4,293	4,433	4,566	4,708	4,849	4,994	5,144
<b>Total assets</b>	<b>125,311</b>	<b>134,646</b>	<b>143,694</b>	<b>152,305</b>	<b>163,846</b>	<b>178,978</b>	<b>195,927</b>	<b>214,790</b>

(YE Dec, € m)	2021A	2022A	2023A
Overdrafts & short-term loans	10,401	11,931	13,448
Accounts payable	10,657	12,763	13,430
Other current liabilities	6,931	6,849	6,267
<b>Total current liabilities</b>	<b>27,989</b>	<b>31,543</b>	<b>33,145</b>
Long-term debt	24,052	23,156	25,037
Other long-term liabilities	24,361	23,343	22,811
<b>Total liabilities</b>	<b>76,402</b>	<b>78,042</b>	<b>80,993</b>
<b>Minority interest</b>	<b>1,790</b>	<b>1,493</b>	<b>1,684</b>
Paid-up capital - Common shares	2,377	1,440	681
Paid-up capital - Preferred shares	-	-	-
Retained earnings	12,036	-	15,174
Revaluation/Forex/Others	32,706	53,671	45,162
<b>Total equity</b>	<b>47,119</b>	<b>55,111</b>	<b>61,017</b>
<b>Total liab &amp; shareholders' equity</b>	<b>125,311</b>	<b>134,646</b>	<b>143,694</b>
<b>Book value per share adj.</b>			
Total Equity	47,119	55,111	61,017
Less: Pref. shareholders' equity	-	-	-
Less: Hybrid debt & others	-	(0)	-
<b>Common shareholders' equity</b>	<b>47,119</b>	<b>55,111</b>	<b>61,017</b>
BVPS (€)	93.6	110.0	122

2024E	2025E	2026E	2027E	2028E
13,666	12,976	11,628	13,019	15,005
14,348	15,364	16,575	17,984	19,512
4,665	5,052	7,675	8,327	9,035
<b>32,679</b>	<b>33,393</b>	<b>35,877</b>	<b>39,329</b>	<b>43,552</b>
24,440	24,317	25,201	25,957	26,736
22,355	21,863	21,316	20,677	20,057
<b>79,473</b>	<b>79,573</b>	<b>82,395</b>	<b>85,964</b>	<b>90,345</b>
<b>2,445</b>	<b>3,305</b>	<b>4,230</b>	<b>5,170</b>	<b>6,117</b>
681	681	681	681	681
-	-	-	-	-
24,543	35,125	46,510	58,950	72,485
45,162	45,162	45,162	45,162	45,162
<b>70,386</b>	<b>80,968</b>	<b>92,353</b>	<b>104,793</b>	<b>118,328</b>
<b>152,305</b>	<b>163,846</b>	<b>178,978</b>	<b>195,927</b>	<b>214,790</b>
70,386	80,968	92,353	104,793	118,328
-	-	-	-	-
-	-	-	-	-
<b>70,386</b>	<b>80,968</b>	<b>92,353</b>	<b>104,793</b>	<b>118,328</b>
141	162	184.9	209.8	236.9

# LVMH: Balance sheet - Liabilities and equity

(YE Dec, € m)	2021A	2022A	2023A
Net income	12,036	14,084	15,174
Depreciation & amortization	11,660	12,452	14,354
Calculated chg in net working capital	544	(3,128)	(3,473)
Other non-cash & balancing items	(5,592)	(5,575)	(7,655)
<b>Operating cash flow</b>	<b>18,648</b>	<b>17,833</b>	<b>18,400</b>
Capital expenditures	(2,664)	(5,009)	(7,671)
(Inc)/dec in other investments	(13,315)	(911)	(639)
<b>Investing cash flow</b>	<b>(15,979)</b>	<b>(5,920)</b>	<b>(8,310)</b>
Increase/(dec) in debt	(8,615)	(2,868)	(796)
Dividend paid	(4,161)	(6,353)	(6,627)
Change in equity	-	-	-
Others	(2,380)	(3,464)	(1,974)
<b>Financing cash flow</b>	<b>(15,156)</b>	<b>(12,685)</b>	<b>(9,397)</b>
<b>Net inc/(dec) in cash &amp; cash equi</b>	<b>(12,487)</b>	<b>(772)</b>	<b>693</b>
Beginning cash	20,715	10,565	10,852
Adjustment for historic data	2,337	1,059	(281)
<b>Ending cash</b>	<b>10,565</b>	<b>10,852</b>	<b>11,264</b>

2024E	2025E	2026E	2027E	2028E
16,154	18,244	19,630	21,448	23,335
16,656	18,622	20,630	23,977	27,875
(2,738)	(1,082)	1,005	(1,290)	(1,433)
(11,058)	(13,294)	(15,197)	(16,858)	1,564
<b>19,014</b>	<b>22,490</b>	<b>26,068</b>	<b>27,277</b>	<b>51,341</b>
(10,488)	(12,586)	(15,799)	(18,466)	(21,376)
(133)	(142)	(142)	(145)	(150)
<b>(10,622)</b>	<b>(12,728)</b>	<b>(15,941)</b>	<b>(18,611)</b>	<b>(21,525)</b>
(380)	(812)	(465)	2,147	2,765
(6,785)	(7,662)	(8,244)	(9,008)	(9,800)
-	-	-	-	-
(456)	(492)	(547)	(639)	(620)
<b>(7,620)</b>	<b>(8,966)</b>	<b>(9,255)</b>	<b>(7,500)</b>	<b>(7,655)</b>
<b>772</b>	<b>797</b>	<b>872</b>	<b>1,165</b>	<b>22,160</b>
11,264	12,036	12,833	13,705	14,870
-	0	(0)	0	(20,896)
<b>12,036</b>	<b>12,833</b>	<b>13,705</b>	<b>14,870</b>	<b>16,133</b>

# LVMH: Balance sheet - Cash flow statement

(YE Dec)	2021A	2022A	2023A	2024E	2025E	2026E	Dec '22	Jun '23	Dec '23
<b>Internal liquidity (x)</b>									
Current ratio	1.2	1.3	1.3	1.4	1.5	1.5	1.3	1.2	1.3
Quick, or acid test ratio	0.6	0.6	0.6	0.7	0.7	0.7	0.6	0.6	0.6
<b>Working cap. mgmt (Days)</b>									
Inventory conversion period	261	266	290	293	286	281	260	299	294
Receivables collection period	22	22	22	22	22	22	21	21	21
Days from raw mat to coll	284	288	312	315	309	303	281	320	315
Payables deferral period	161	169	175	172	170	169	155	170	162
Cash conversion cycle	122	119	137	143	139	134	126	151	154
<b>Profitability ratios (%)</b>									
Gross profit margin	68.3	68.4	68.8	68.9	68.9	68.9	68.0	69.4	68.2
EBIT margin	26.7	26.6	26.5	25.4	26.4	26.2	25.4	27.4	25.5
EBIT return on avg assets	14.6	16.2	16.4	16.0	16.9	16.8	16.2	16.9	15.8
Return on average assets	10.3	10.8	10.9	10.9	11.5	11.5	11.4	12.4	9.5
<b>Financial risk (x)</b>									
Liabilities-to-assets (%)	61.0	58.0	56.4	52.2	48.6	46.0	58.0	57.3	56.4
Debt-to-equity	0.7	0.6	0.6	0.5	0.5	0.4	0.6	0.7	0.6
Net debt-to-equity	0.5	0.4	0.4	0.4	0.3	0.3	0.4	0.5	0.4
Times-interest-earned	119	88	38	41	48	52	69	44	34
Effective interest rate (%)	0.7	1.1	2.6	2.6	2.5	2.5	1.4	2.2	3.0

# LVMH: Ratios

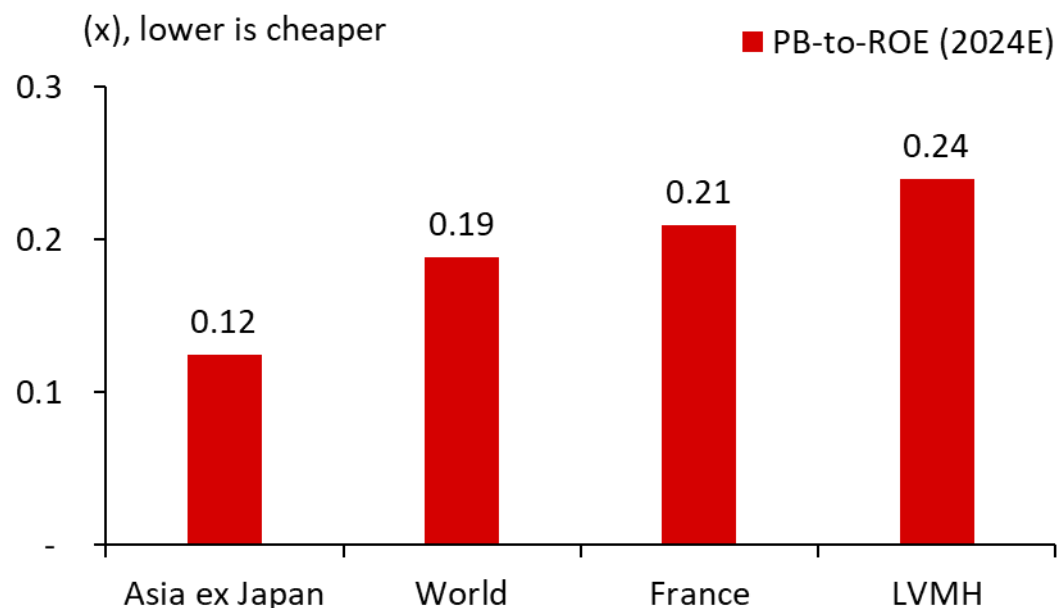
(YE Dec)	2021A	2022A	2023A	2024E	2025E	2026E	Dec '22	Jun '23	Dec '23
<b>General growth (YoY, %)</b>									
Revenue	43.8	23.3	8.8	8.3	8.3	8.5	19.4	15.0	3.4
Assets	15.3	7.4	6.7	6.0	7.6	9.2	7.4	6.1	6.7
Gross profit	52.4	23.6	9.4	8.5	8.3	8.5	18.8	15.8	3.7
Operating profit	101.4	23.1	8.4	3.9	12.5	7.6	13.9	13.2	3.9
Attributable profit	156.0	17.0	7.7	6.5	12.9	7.6	11.9	29.8	(11.4)
EPS	156.1	17.3	8.1	6.6	12.9	7.6	12.5	30.3	(11.1)
Recurring EPS	127.6	23.8	6.6	4.5	12.9	7.6	13.1	11.4	1.8
<b>Du Pont analysis (%)</b>									
Net profit margin	18.7	17.8	17.6	17.3	18.1	17.9	17.8	20.1	15.2
Revenue per €100 of assets	54.9	60.9	61.9	63.0	63.9	64.0	63.9	61.7	62.1
Assets/equity (x)	2.8	2.5	2.4	2.3	2.1	2.0	2.5	2.4	2.4
Return on equity	28.5	27.6	26.1	24.6	24.1	22.7	28.5	30.1	22.5
<b>Others (%)</b>									
Effective tax rate	26.2	26.7	26.2	26.3	26.4	26.5	27.7	26.0	26.5
Dividend payout ratio	42.7	41.4	41.9	42.1	41.9	42.0	47.3	35.0	49.7



## LVMH: Ratios (continued)

(YE Dec, € m)	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>EBIT</b>	17,121	21,068	22,842	23,730	26,698	28,722	31,201	33,828	37,556	40,942
<i>Est tax rate (%)</i>	26	27	26	26	26	27	27	27	27	27
<b>NOPAT</b>	<b>12,630</b>	<b>15,441</b>	<b>16,848</b>	<b>17,489</b>	<b>19,650</b>	<b>21,111</b>	<b>22,933</b>	<b>24,864</b>	<b>27,340</b>	<b>29,806</b>
Add: Depre & amort	11,660	12,452	14,354	16,656	18,622	20,630	23,977	27,875	31,013	34,220
<b>Cash NOPAT</b>	<b>24,290</b>	<b>27,893</b>	<b>31,202</b>	<b>34,145</b>	<b>38,272</b>	<b>41,741</b>	<b>46,909</b>	<b>52,738</b>	<b>58,354</b>	<b>64,027</b>
Chg in A/R	(1,234)	(569)	(445)	(461)	(445)	(490)	(560)	(640)		
Chg in inventory	(3,533)	(3,770)	(2,633)	(1,310)	(1,490)	(1,715)	(2,335)	(2,533)		
Chg in oth curr asst	289	(813)	(480)	(283)	(551)	(623)	(457)	(495)		
Chg in A/P	3,090	2,106	667	918	1,016	1,211	1,409	1,529		
Chg in oth curr liabs	1,932	(82)	(582)	(1,602)	387	2,622	652	708		
<b>Less: Chg in work cap</b>	<b>544</b>	<b>(3,128)</b>	<b>(3,473)</b>	<b>(2,738)</b>	<b>(1,082)</b>	<b>1,005</b>	<b>(1,290)</b>	<b>(1,433)</b>		
Less: CAPEX	(2,664)	(5,009)	(7,671)	(10,488)	(12,586)	(15,799)	(18,466)	(21,376)		
Less: Chg in invest cap									(25,376)	(28,000)
<b>FCF to firm</b>	<b>22,170</b>	<b>19,756</b>	<b>20,058</b>	<b>20,919</b>	<b>24,604</b>	<b>26,947</b>	<b>27,153</b>	<b>29,930</b>	<b>32,977</b>	<b>36,026</b>
<b>FCF to equity</b>	<b>13,377</b>	<b>16,608</b>	<b>18,544</b>	<b>19,808</b>	<b>23,093</b>	<b>25,789</b>	<b>28,615</b>	<b>31,970</b>	<b>36,614</b>	<b>39,645</b>
<i>FCF per share (€)</i>	44.0	39.3	40.1	41.9	49.3	53.9	54.4	59.9	66.0	72.1
<i>NOPAT growth (%)</i>	120.2	22.3	9.1	3.8	12.4	7.4	8.6	8.4	10.0	9.0
<i>FCF growth (%)</i>	38.8	(10.9)	1.5	4.3	17.6	9.5	0.8	10.2	10.2	9.2

# LVMH: Relative valuation



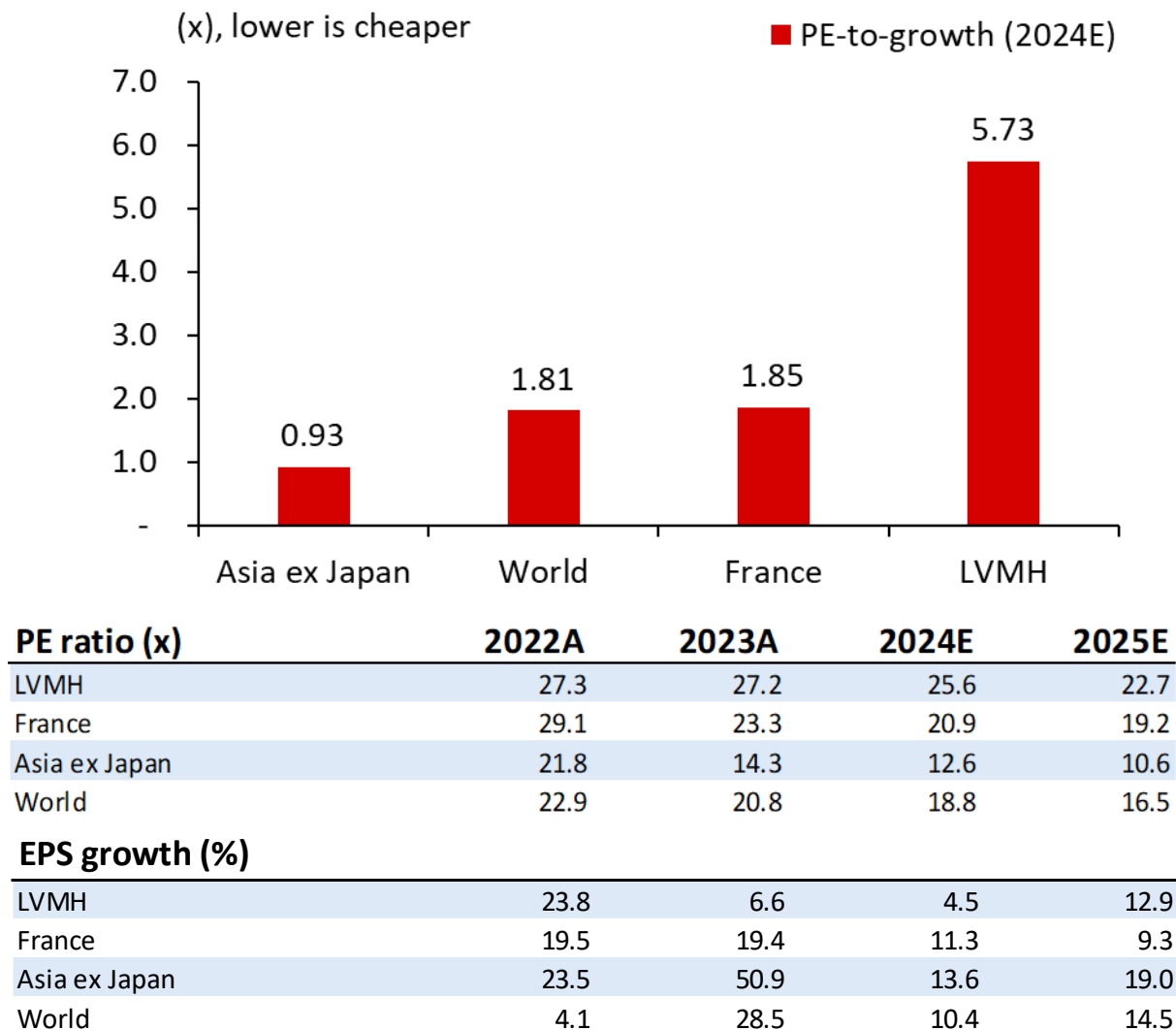
On the forward 2024E PB multiple, LVMH looks slightly expensive compared to the consumer discretionary sector in France, and the disparity is wider when compared to Asia and the rest of the world.

I forecast a return on equity (ROE) of around 25% in 2024E, higher than the sector average all over the world.

This results in LVMH trading at a higher premium relative to the sector average in France and the rest of the world, based on the 2024E PB-to-ROE multiple.

PB ratio (x)	2022A	2023A	2024E	2025E
LVMH	7.2	6.9	5.9	5.1
France	4.5	4.1	3.6	3.2
Asia ex Japan	1.9	1.9	1.7	1.5
World	3.1	3.6	3.2	2.8
ROE (%)				
LVMH	27.6	26.1	24.6	24.1
France	15.6	17.5	17.2	16.9
Asia ex Japan	8.9	13.2	13.4	14.3
World	13.5	17.4	17.0	17.1

# LVMH: Relative valuation



I expect PE multiple of around 26x in 2024E, and EPS growth could fall to 4.5% due to the drop in net margin growth from the past 2 years from post COVID boost in sales which I don't expect in the future.

Notwithstanding, LVMH 2024E PEG ratio of almost 6x is more expensive relative to other companies in the rest of the world.

# LVMH: Valuation and target price

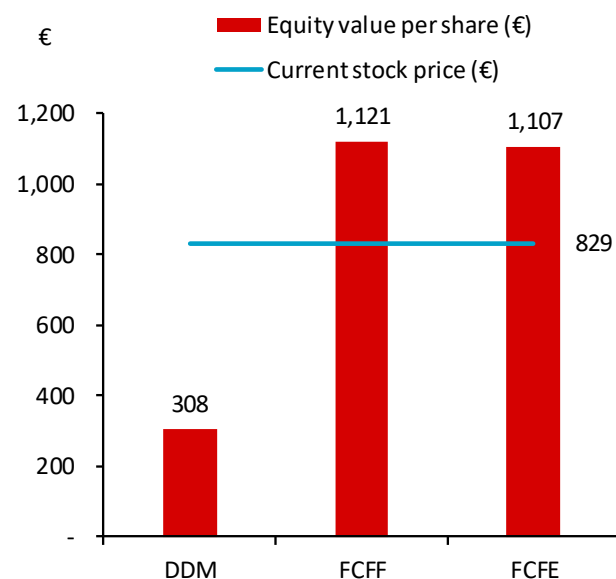
Calculation of cost of equity (COE, %)		Estimate					
Market: France							
Market risk-free rate	2.5						
Market equity risk premium	7.0						
Market return	9.5						
Company beta (x)	1.0						
COE	9.5						
Calculation of WACC		Average					
Cost of debt	3.2						
Average tax rate	26.9						
After tax cost of debt	2.3						
Cost of preferred stock	-						
Debt as a % of total capital	13.1						
Preferred stock as a % of total capital	-						
Equity market value as a % of total capital	86.9						
Weighted average cost of capital	8.6						
LVMH: Valuation (€ m)		DDM	%	FCFF	%	FCFE	%
PV of cash flow in years 2024-28		31,357	20	99,945	18	97,203	18
PV of fade period		53,688	35	189,096	34	182,553	33
PV of terminal value		68,614	45	297,092	53	259,127	47
Present value of future cash flows		153,659	100	586,133	105	538,883	97
Add: Cash & ST investments		na*	-	11,264	2	11,264	2
Add: Long-term investments		na	-	2,931	1	2,931	1
Corporate value		153,659	100	600,328	107	553,078	100
Less: Total debt, preferred stock & minorities		na	-	(40,169)	(7)	na	-
Shareholder value		153,659	100	560,159	100	553,078	100
Number of shares (m)		500		500		500	
Equity value per share (€)		308		1,121		1,107	

€

Equity value per share (€)

Current stock price (€)

Method	Equity value per share (€)	Current stock price (€)
DDM	308	829
FCFF	1,121	829
FCFE	1,107	829



I assume a risk-free rate of 2.5% and a market equity risk premium for France of 7%.

LVMH is as volatile as the market, so I assume a beta of 1x, in line with the past 5 years.

I forecast a capital structure with around 13% debt to total capital. This results in a WACC and a discount rate of 8.6%. I used a terminal growth of 3% and Free Cash Flow to Firm (FCFF) to value LVMH.

In my sensitivity analysis (on the following page) based on the FCFF methodology, my base case scenario anticipates sales growth of 8.4% for 5 years, leading to a value of €1,121 per share. This represents a 35% upside compared to the current market price.

The optimistic case assumes a sales growth of 9.3% for 5 years, resulting in a target price of €1,130. Conversely, in the pessimistic case, sales growth is assumed to be 7.6%, yielding a value of €1,113 per share.

# LVMH: Sensitivity analysis

LVMH	EPS growth	Net margin	ROE	DDM	FCFF	FCFE	PEG	PB/ROE
<b>What if sales growth changed by X% from base case?</b>								
+10 (9.3%)	nm	17.9	23.2	327.5	1,130.1	1,115.3	320.1	731.4
Base case of 8.4%	nm	17.9	22.8	307.6	1,121.4	1,107.2	268.0	725.3
-10 (7.6%)	nm	17.9	22.4	288.9	1,112.9	1,099.3	216.7	719.2
<b>What if gross margin changed by X percentage points from base case?</b>								
+2 (70.9%)	nm	19.3	24.1	333.3	1,146.5	1,119.5	840.2	788.2
Base case of 68.9%	nm	17.9	22.8	307.6	1,121.4	1,107.2	268.0	725.3
-2 (66.9%)	nm	16.4	21.4	281.9	1,096.2	1,094.9	na	663.0
<b>What if discount rate changed, by changing the risk factor (beta) from base case?</b>								
+10 (Beta 1.1x, COE 10.2%)				275.0	1,034.8	1,020.0		
Base case of 1.00x (COE 9.5%)				307.6	1,121.4	1,107.2		
-10 (Beta 0.9x, COE 8.8%)				348.2	1,224.4	1,211.3		
<b>What if terminal growth rate changed by X percentage points from base case?</b>								
+1				345.0	1,300.8	1,276.5		
Base case of 3%				307.6	1,121.4	1,107.2		
-1				280.1	997.2	989.9		

Note: PEG and PB/ROE are based on 2024E relative to the Cons Disc sector in France.

# LVMH: Main risk is the loss of strategic competence

## Talent management and the loss of strategic competencies

The LVMH Group's legacy of unparalleled craftsmanship of luxury and excellence is its moat and the heart of its premium pricing strategy. However, pursuit of profit and the CEO's vision of making luxury more accessible to a wider audience challenges the sustainability of this legacy, due the potential decline of quality materials and talent. There have been reports and articles on the drop in quality of luxury goods compared to the 80's and 90's, whereas premium goods today command a higher price compared to the same era.

## Business operations

LVMH is exposed to industrial and environmental risks, such as fires, water damage, and natural disasters, posing potential interruptions to its supply chain, although a lot of risk management policies and insurance coverage are in place, the group is already stretched in terms of liquidity, and could find it difficult to maintain operations in the short term if any major catastrophe were to disrupt its business.

## Liquidity risks

LVMH is highly geared when benchmarked against the industry and with high global interest rates, LVMH borrowing costs have more than doubled in the past year. The company stated in its report that it could have difficulties accessing liquidity to meet its financial obligations, with short term borrowings excluding derivatives of €10.7b and cash and equivalents a little over that at €11.3b.

## Forex fluctuations

With operations globally and high presence in multiple countries, finances are volatile marked by fluctuations in foreign exchange in the face of market uncertainties. Exchange rate fluctuations between the Euro and other major currencies have significantly impacted revenues and net assets in the past.

## Tax policy

LVMH is exposed to multiple tax regulations, presenting challenges such as potential double taxation and the complexities of tax laws across different jurisdictions.

## Risks to recommendation

1. **Data Accuracy:** The report's credibility relies on the accuracy of financial data and other information. Any inaccuracies or reliance on outdated information can lead to incorrect conclusions.
2. **Modeling Errors:** Financial models are essential tools in research, and any errors in their construction can lead to incorrect valuations or predictions.
3. **Market Volatility:** Sudden market movements can quickly make the report outdated.
4. **Confirmation Bias:** The risk exists of giving preference to information that confirms pre-existing beliefs or hypotheses.
5. **Human Error:** Simple errors or oversights by myself can lead to faults in the report.
6. **Miscommunication:** Inaccurate or unclear presentation of analysis and conclusions can lead to misinterpretation by the report's readers.