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LVMH Sees No Sign of Slowdown in Demand for Luxury Products (1)
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(Updates with new analyst comment in third paragraph, shares in fifth)

By Andrew Roberts

July 27 (Bloomberg) -- LVMH Moet Hennessy Louis Vuitton SA, the maker of Celine handbags and TAG Heuer watches, sees no sign of a slowdown in demand for luxury goods after reporting first-half profit that beat analysts' estimates.

Net income climbed 25 percent to 1.31 billion euros (\$1.9 billion), the Paris-based company said in a statement after the market closed yesterday. The average estimate of five analysts surveyed by Bloomberg was for profit of 1.25 billion euros.

Second-quarter sales advanced 9 percent to 5.05 billion euros.

"LVMH's performance is of great quality in our view given the tougher basis of comparison" in the second quarter, Thomas Chauvet, an analyst at Citigroup in London, wrote today in a note. He recommends buying the stock.

The world's largest maker of luxury goods has waiting lists for some of its leather products and plans to introduce new models of watches in the second half. LVMH agreed to buy Bulgari SpA in March and snapped up a stake in Hermes International SCA to benefit from surging demand for \$7,000 Birkin bags \$2,700 pink gold bracelets.

"We approach the second half of the year with confidence and are relying upon the creativity and quality of our products as well as the effectiveness of our teams to pursue further market-share gains," LVMH Chief Executive Officer Bernard Arnault said in a statement.

LVMH rose 50 euro cents to 130.5 euros at 9:27 a.m. today in Paris. The shares have gained 5.9 percent this year, giving the maker of Moet & Chandon champagne and \$6,000 TAG Heuer chronographs a market value of 65.4 billion euros. The company will pay an interim dividend of 80 cents on Dec. 2.

LVMH, which first disclosed it had built up stake in Hermes in October, now owns 21.4 percent of its Paris-based rival, up from 20.2 percent at the start of the year, its finance director said on a conference call yesterday.

Global Luxury Demand

Global sales of luxury goods may rise 8 percent in 2011 excluding currency swings as demand strengthens in the U.S. and Europe and emerging-market shoppers splurge, Bain & Co. estimated in May.

First-half profit from recurring operations rose 22 percent to 2.22 billion euros, LVMH said. The current operating margin reached 22 percent, a record for the period. First-half revenue increased 13 percent to 10.3 billion euros, or 15 percent excluding currency swings and acquisitions.

Selective Distribution

"LVMH published a strong set of" first-half figures, HSBC analysts including Antoine Belge wrote. "The growth and profitability prospects of the selective distribution division, both short and longer term, have been clearly underestimated by the market and ourselves, which should lead to some consensus earnings upgrades." He has a neutral rating on the stock.

First-half profit from recurring operations at the unit, which includes DFS and Sephora, climbed 63 percent, LVMH said. Revenue rose 18 percent in the period, excluding currency swings and acquisitions, as growth at Sephora benefited from new stores, particularly in China, LVMH said.

On a local currency basis, first-half sales gained 26 percent in Asia, 17 percent in the U.S., excluding Hawaii and 8 percent in Europe. Revenue fell 6 percent in Japan, though sales grew there in June, Finance Director Jean-Jacques Guiony said.

Sales at the company's fashion and leather-goods business rose 14 percent on an organic basis, boosted by demand for Monogram Empreinte soft-leather collections at Vuitton. LVMH raised prices at Vuitton in the second quarter by 2 percent to 3 percent in the euro zone, Guiony said.

Currency impacts will be "significantly negative" for the rest of the year if exchange rates stay where they are today, Guiony said on the call.

Extra Capacity

LVMH posted growth in watch and jewelry sales of 27 percent, excluding currency swings and the impact of acquisitions. The unit opened more TAG Heuer stores and introduced a women's range in the Formula 1 line. LVMH plans to accelerate the development of its watch-making capacity in 2011.

LVMH, which owns 76.1 percent of Bulgari, will probably make a tender offer for the remaining shares at the end of August, according to Guiony. The deal should close in late September, he said.

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