

FLASH REPORT


Hennes & Mauritz AB (SS: HMB) FY16 Results: Tough Year, but Better-Than-Expected January Sales

	FY16	FY15	YoY Change
Revenues (SEK Bil.)	SEK192.3	SEK180.9	6.3%
Gross Margin	55.2%	57.0%	(180) bps
SG&A/Sales	42.8%	42.1%	70 bps
Adjusted Operating Margin	12.4%	14.9%	(250) bps
Adjusted EPS	SEK11.26	SEK12.63	(10.9)%

Source: Company reports/Fung Global Retail & Technology

- Swedish fast-fashion retailer Hennes & Mauritz AB reported SEK192.3 billion in net sales excluding VAT in FY16, slightly below the consensus estimate of SEK192.8 billion and up 6.3% year over year. Net sales including VAT increased by 7% year over year on a constant currency basis. The company did not provide comparable stores sales growth rates.
- Diluted EPS was SEK11.26 for FY16, down 10.9% from SEK12.63 pence in FY16 and above the consensus estimate.
- The company introduced a new growth target to increase group sales by 10%–15% in constant currencies, reflecting the growing impact of the online sales contribution. The company stated that group sales including VAT in the period 1 January to 29 January 2017 increased by 11% year over year in constant currencies, above the consensus estimate of 10% year-over-year sales growth.

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The gross margin contracted by 180 bps in FY16 to 55.2%, negatively affected by the strong US dollar on purchasing costs and increased discounting activity. The SG&A margin increased by 70 bps year over year to 42.8% in FY16. The adjusted operating margin also contracted by 250 bps from 14.9% in FY15 to 12.4% in FY16. Diluted EPS was SEK11.26 for FY16, down 10.9% from SEK12.63 in FY15 and above the consensus estimate.

In FY16, the company opened a net of 427 stores, including 352 H&M stores, 41 COS and 15 & Other Stories stores.

4Q16 Results

In 4Q16, H&M reported SEK52.72 billion in net sales excluding VAT, representing an 8.3% year-over-year increase. The gross margin for 4Q16 contracted by 50 bps year over year to 57.0% and operating margin declined by 60 bps year over year to 13.9% from 14.5%. For 4Q16, EPS increased by 6.9% year over year from SEK3.34 to SEK3.57. The company opened a net 216 stores in 4Q16, including 178 H&M stores, 17 COS stores and 9 & Other Stories Stores.



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Outlook

The company introduced a new growth target to increase group sales by 10%–15% in constant currencies, reflecting the growing impact of the online sales contribution. The company stated that group sales including VAT in the period 1 January to 29 January 2017 increased by 11% year over year in constant currencies, higher than consensus of 10% year-over-year growth. For January, there is a negative calendar effect of approximately 2%, which occurs at the end of the month.

For FY17, H&M plans to open 430 new stores, at the lower end of its company target to increase global stores by 10%–15% annually. H&M will enter new markets for the first time, including Kazakhstan, Colombia, Iceland, Vietnam and Georgia. H&M also plans to launch online sales in six new markets, including Turkey, Taiwan, Hong Kong, Macau, Singapore and Malaysia. The H&M group also plans to launch one or two new brands in FY17.

FY17 revenue consensus estimates stand at SEK214.7 billion, implying annual year-over-year growth of 11.7%. Consensus expects operating profit of SEK26.6 billion, implying a year-over-year operating profit increase of 11.7%. The FY16 consensus EPS estimate is SEK12.46, implying a year-over-year EPS increase of 10.7%.



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