

 **(SS: HMB) 1Q17 Results: Below Target Sales Growth; New Concept To Be Launched in Early Fall 2017**
Figure 1. H&M 1Q17 Key Metrics

	1Q17	1Q16	YoY Change
Revenues (SEK Bil.)	SEK47.0	SEK43.7	8.0%
Gross Margin	52.1%	52.0%	10 bps
SG&A/Sales	45.3%	44.5%	80 bps
Adjusted Operating Margin	6.7%	7.5%	(80) bps
Earnings per Share	SEK1.48	SEK1.54	(3.9)%

Source: Company reports/Fung Global Retail & Technology

- Swedish fast-fashion retailer Hennes & Mauritz AB reported SEK47.0 billion in net sales in 1Q17, slightly below the consensus estimate of SEK48.1 billion and up 8.0% year over year. Constant-currency sales increased by 4.0% in the quarter and UK sales increased 5.0%.
- Gross margin expanded by 10 basis points year over year to 52.1%, reversing the trend of gross margin erosion in the past year. EPS was SEK1.48 for 1Q17, down 3.9% year over year and above the consensus estimate of SEK1.39.
- The company stated that group sales including VAT in the period March 1 to March 28, 2017 increased by 7% year over year in constant currencies. H&M is targeting to increase group sales by 10%–15% in constant currencies in FY17. H&M will launch new brand ARKET in early autumn 2017 and open its first H&M Home standalone stores in 2018.

1Q17 Results

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The gross margin expanded by 10bps in 1Q17 to 52.1%, reversing the trend of gross margin erosion in the past year. The SG&A margin increased by 80 bps year over year to 45.3% in the quarter. The adjusted operating margin contracted by 80 bps year over year to 6.7%. EPS was SEK1.48 for 1Q17, down 3.9% year over year and above the consensus estimate of SEK1.39.

In 1Q17, the company opened a net of 42 stores, including 39 H&M stores, five COS and three & Other Stories stores. H&M opened its very first store in Kazakhstan—in Almaty—in mid-March.

Outlook

The company stated that group sales including VAT in the period March 1 to March 28, 2017 increased by 7% year over year in constant currencies. H&M is targeting to increase group sales by 10%-15% in constant currencies in FY17.

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. For the remainder of FY17, H&M will enter four more new markets for the first time including Colombia, Iceland, Vietnam and



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Georgia. H&M also plans to launch online sales in six new markets including Turkey, Taiwan, Hong Kong, Macau, Singapore and Malaysia, which are planned for 1H17.

H&M will launch new brand ARKET and open the first store in London and online in 18 European markets in early autumn 2017. The first standalone H&M Home stores are planned to open in 2018.

FY17 revenue consensus estimates stand at SEK212.5 billion, implying annual year over year growth of 10.5%. Consensus expects operating profit at SEK26.2 billion, implying an operating profit margin of 12.3%. The FY16 consensus EPS estimate is SEK12.25, implying a year over year EPS increase of 8.8%.



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Deborah Weinswig, CPA

Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Eva Kubicka

Senior Research Associate

Hong Kong:

8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:

242–246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:

1359 Broadway, 9th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com