

H&M (STO: HM-B) 1H17 Results: Sales Growth Mainly Driven by New Store Openings

Figure 1. H&M 1H17 Key Metrics

	1H17	1H16	YoY Change
Revenues (SEK Mil.)	98,368	90,565	8.6%
Gross Margin	54.7%	54.9%	(20) bps
SG&A/Sales	43.7%	43.6%	10 bps
Operating Margin	11.0%	11.3%	(30) bps
Diluted EPS (SEK)	5.05	4.77	5.9%

Source: Company reports/Fung Global Retail & Technology

- Swedish fast-fashion retailer H&M reported SEK 98.4 billion in net sales in 1H17, slightly below the consensus estimate of SEK 98.8 billion and up 8.6% year over year. Constant-currency sales increased by 5.0% in 1H17 and UK sales increased by 6.0%.
- The company's gross margin contracted by 20 basis points year over year, to 54.7%. Diluted EPS was SEK 5.05, up 5.9% year over year and above the consensus estimate of SEK 4.84.
- H&M expects June 2017 group monthly sales including VAT to increase by 7% year over year in constant currencies. The company is targeting a 10%–15% increase in group sales in constant currencies in FY17.

1H17 Results

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The company's gross margin contracted by 20 basis points year over year, to 54.7%, and the SG&A margin increased by 10 basis points, to 43.7%. The adjusted operating margin contracted by 30 basis points year over year, to 11.0%. Diluted EPS was SEK 5.05 for 1H17, up 5.9% year over year and above the consensus estimate of SEK 4.84.

In 1H17, the company opened a net 147 stores, including 125 H&M stores, 15 COS stores and 10 & Other Stories stores. In 2Q17, H&M opened its first store in Kazakhstan and its first store in Colombia. The company also launched online sales in six new markets: Turkey, Taiwan, Hong Kong, Macau, Singapore and Malaysia.

Inventory levels were up 27% year over year at the end of 1H17, which the company attributed to continued expansion, higher inventory levels going into the second quarter and a lower-than-planned sales increase.



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Outlook

H&M expects June 2017 group monthly sales including VAT to increase by 7% year over year in constant currencies. The company is targeting a 10%–15% increase in group sales in constant currencies in FY17. Management estimates that online sales will grow by at least 25%–30% annually going forward and said that online sales already account for 25%–30% of total sales in some markets.

H&M's target is to increase global stores by 10%–15% annually. For FY17, the company plans to open 400 net new stores, which would represent the lower end of its target range. By the end of FY17, H&M will enter four more new markets, including Iceland, Vietnam and Georgia. The company will open online stores in Cyprus and the Philippines in 2H17.

H&M will launch a new brand called Arket with five stores and an online offering in 18 European markets in early autumn 2017. The company plans to open the first stand-alone H&M Home stores in 2018. The company also plans to launch H&M online in India and to open new H&M stores in Uruguay and Ukraine in 2018.

The consensus estimate for FY17 revenue stands at SEK 210.0 billion, implying year-over-year growth of 9.2%. Consensus expects H&M's operating profit to be SEK 25.0 billion, implying an operating profit margin of 11.9%. The FY17 EPS consensus estimate is SEK 11.74, implying a year-over-year EPS increase of 4.2%.



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