FINANCIAL SERVICES

China's rebound boosts luxury valuations

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Prada had the largest stock price bump among the SLI brands in January. Image credit: Prada

By SARAH JONES

The Savigny Luxury Index grew 2 percent in January, as the luxury business shows further signs of recovery.

Following tough years for luxury, a number of brands ended 2017 with sales growth, with LVMH, Richemont and Swatch all reporting significant increases. Luxury is poised for growth in the United States thanks to new tax cuts, but index author Savigny Partners cautions that economic and geopolitical movements such as currency shifts and tensions could have a negative affect on the market.

"The U.S. tax reform is boosting the overall mood," said Ludovic Granchamp, partner at Savigny Partners, London. "If you pay $1 million in taxes and you suddenly have only half to pay, $500,000, you feel like investing more but also spending more, and as buying luxury is a bit of both, happy days ahead."

Optimistic outlook

A measurement of stock performance of about 20 publicly traded luxury companies, the Savigny Luxury Index outperformed the MSCI in January, which only rose 1.5 percent in the same timeframe.

From the beginning of the month to Jan. 31, companies such as Richemont, Kering, Swatch and Este Lauder saw their share prices grow between 1 and 7 percent.

Prada Group shares saw the biggest bump, growing 12.9 percent. Savigny attributes this to improved trading in China, a key market for Prada.

A comparably late adopter of ecommerce, Prada has also launched an online store in China (see story).

Major groups including LVMH, Richemont and Swatch have all noticed a rebound in demand in China.

Along with Prada, another big mover was Ralph Lauren, whose stock price grew 10.2 percent, as investors and brokers anticipated the release of its results in February.

Luxury brands are getting a boost from increased Chinese demand. Image credit: Peninsula

Driven by an increased emphasis on digital and social marketing campaigns, U.S. fashion brand Ralph Lauren reported better-than-expected financial results for third quarter of the 2018 fiscal year.

Ralph Lauren pointed to a few different projects, including a Create-Your-Own customization launch and a holiday campaign themed around teddy bears, as part of the reason the company did better than expected in the third quarter of fiscal 2018. The brand is hoping to continue this trend with more digital and personalized campaigns over the course of the next year (see story).

Savigny notes that luxury is focusing on bridging the gap between online and offline.

Multichannel efforts launched include a Farfetch wishlist feature that enables customers to tag items they want on their devices. When they walk into a store, this allows them to share their interests with sales associates or indicate to frontline staff that they would prefer not to be bothered.

While currently in a trial, Farfetch's feature is expected to roll out to stores soon.

Kering's Saint Laurent is also working with JD.com to build an ecommerce presence in China.

While many luxury companies gained stock value as they entered 2018, on the opposite end were Burberry and Mulberry, which lost 11.9 percent and 5.8 percent of their respective share values. Following the announcement of Brexit, the devalued pound led shoppers to buy luxury in the United Kingdom, as the exchange offered a discount on goods.

Mulberry is also growing its Asian presence. Image credit: Mulberry

Now the pound's value against the dollar has grown again, and this behavior has dropped off.

A number of factors are set to impact luxury in the months ahead.

LVMH's Cline is getting new creative leadership, as Hedi Sliman takes over and attempts to grow it into a 2 billion euro brand with the launch of new categories such as fragrance and menswear (see story).

Louis Vuitton's Kim Jones also departed the brand, leaving his position as menswear creative director (see story).

There were also a number of investment moves, as Richemont attempts to take full control of Yoox Net-A-Porter Group and Kering plans to sell off control of Puma to focus more on luxury. Kering is also said to be in talks with Stella McCartney to sell its stake in the brand to Ms. McCartney.

China connection

China's spectacular growth in luxury consumption recently is primarily driven by Chinese women buying ready-to-wear fashion, jewelry and cosmetics, according to Bain & Company.

Per Bain's "2017 China Luxury Market Study," China's luxury consumption is outstanding and outpaces much of the world. In addition to the value of Chinese consumers traveling outside of Asia, Bain's report also notes that Chinese domestic spending has outpaced overseas purchases in the last year (see story).

After luxury hit a rough patch the last few years, it is likely hitting its stride again with a 5 percent growth this year, according to a new report by Altagamma and Bain & Company.

According to the "Altagamma Worldwide Market Monitor 2017" report, the luxury market grew to 1.2 trillion euros, $1.4 trillion at current exchange, in 2017 across both goods and services (see story).

"We are bullish on the luxury market: America's economy shows strong signs and lower taxes can only help, emerging markets keep bringing new savvy customers and Europe will benefit from positive macro trends and growing tourism," Mr. Granchamp said.