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FINANCIAL SERVICES

Stocks plummet as investors scare early due to China slowdown

October 11, 2018

Luxury sees a positive half, but now investors are panicking. Image credit: Nordstrom

By BRIELLE JAEKEL

Despite positive results and earnings for luxury groups and brands in the first half of the year, in the last few days stocks have been dropping as investors panic.

Many investors are extremely worried in regards to the United States-China trade war, especially as Chinese affluents' luxury consumption remains the main growth driver for the luxury business. The Savigny Luxury Index for September shows that luxury companies are continuing to invest into Chinese territory, but tensions between the U.S. and China are concerning investors.

"This report, which covers September, was a case of 'the calm before the storm,'" said Pierre Mallevays, managing partner at Savigny Partners LLP. "In the last few days luxury stocks have been in freefall as fears of a slowdown of consumption in China have given investors the jitters."

Time for luxury

As another month came to a close with a multitude of luxury groups seeing positive results, Herms spearheaded the growth with record-breaking profits.

The brand is another indicator of the possibilities in China, with the region pushing its forward momentum.

Groups LVMH and Richemont follow this sentiment, with the latter seeing double-digit growth in the months leading up to August.

SLI's chart leading up to September. Image credit: Savigny

But for this past month in particular, ethics dominated China in terms of headline news, with brands such as Burberry vowing to do better. The brand recently announced it will stop its previous practice of burning unsold products to prevent them from losing value, in a move that aims to help the environment.

During London Fashion Week, no fur was the main theme, as the company declared itself fur-free (see story).

Index Components	Market Cap Eur m	MTD Price Change (%)	P/E 2018 (x)	EV/2018 Sales (x)	EV/2018 EBITDA (x)	Est. Sales Growth (%)
LVMH	154,242	0.9	23.8	3.4	13.2	12.4
Hermès	60,398	1.9	44.2	9.7	25.3	7.0
Kering	58,459	(1.3)	21.6	4.6	14.4	23.2
Estée Lauder	45,874	3.7	30.5	3.8	18.2	11.3
Richemont	36,818	(6.7)	24.8	2.7	12.5	25.9
Luxottica	28,467	2.5	29.3	3.3	15.3	(1.8)
Swatch	18,979	(5.6)	20.0	2.4	11.4	13.5
Tiffany	13,600	5.2	26.7	3.4	14.6	12.1
Tapestry	12,543	(0.8)	18.1	2.4	10.9	5.1
Prada	10,560	5.9	33.8	3.3	16.3	9.1
Ralph Lauren	9,614	3.6	20.6	1.6	9.9	1.2
Moncler	9,508	(4.8)	31.1	6.6	19.3	18.5
Burberry	9,302	(9.9)	24.7	2.8	12.8	(1.9)
Michael Kors	8,819	(5.6)	13.6	2.1	9.4	19.3
Ferragamo	3,491	0.6	33.0	2.5	15.7	(6.5)
Brunello Cucinelli	2,287	(11.6)	45.2	4.1	23.7	10.7
Tod's	1,949	(1.7)	26.1	2.0	12.3	(1.3)
Safilo	133	(40.6)	(3.7)	0.3	7.1	(10.7)
SLI	**485,044**	**0.0**	**27.2**	**4.2**	**15.4**	**12.4**

Source: Reuters. Data as at 30 September 2018

Month to Date ("MTD") price change reported in local currency whereas the SLI and the MSCI are expressed in euros

SLI valuation multiples and estimate sales growth calculated on the basis of the market capitalisation-weighted average of the constituents

MTD price change based on opening share price at beginning of month

2018 multiples calculated on basis of company fiscal year end financials

Reuters analyst consensus estimates used for forecasts

List of SLI brands. Image credit: Savigny

Despite this growth in ethics, the SLI itself has been impacted by threat of a trade war between the U.S. and China, falling slightly. While the MSCI has maintained a steadier course as a whole, it also saw a flat performance in September.

Tiffany continued its upward slope, with share prices growing after the announcement of its positive earnings.

Prada saw growth as well, at 6 percent, after it also announced positive sales.

Previous insight
Despite strong showings from Kering, Moncler and Herms earlier this year, the overall luxury industry took a slight hit due to fears of inflation across the globe.

According to London's Savigny Partners, its global luxury index fell by 2.2 points in February, likely due to fears of inflation and interest rates, particularly in the U.S., which has a major role in the global luxury business. However, this slight decline was expected and Savigny points out that the decline is minor in the grand scheme of things (see story).

Previous positive financial results from the world's leading luxury houses have reinstated sector optimism for the first time in years, according to London's Savigny Partners last year.

In January 2017, for the fourth consecutive month, Savigny Partner's Savigny Luxury Index (SLI) gained by nearly 4 percent, while the MSCI World Index (MSCI), a global equity benchmark, remained flat. After a challenging 2016, forecasts are being corrected thanks to a bounceback in China, President Trump's campaign promise of lower taxes for the wealthy and higher oil prices, among other factors (see story).

"In our view the downward adjustment has been an overreaction – time to buy," Mr. Mallevays said.