

Research on the Investment Value of Kerings Group Based on the Multiple Valuation Method

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Abstract. Estimating the company value of major luxury jewelry is one of the key topics of research today. Researchers have found that Kering Group's stock has slowly improved as the epidemic stabilized. However, the mechanism behind its formation and the scope of its impact lacks a uniform explanation. Therefore, this paper explores the investment value of Kering Group by collecting data for 2021 and analyzing the data through two different approaches of P/E ratio and EV/EBITDA. The results of both sets of calculations are that the share price of Kering Group is undervalued. It indicates that Kering Group has much investment value in the future. However, a low valuation does not reduce investment risk, but a low valuation has a clear advantage when the holding period is extended. This paper is a reference for investors to make investment decisions and provide constructive recommendations for the Kering Group.

Keywords: Investment Value; Kerings; Multiple Valuation Method.

1. Introduction

Today's world epidemic is gradually stabilizing and the share prices of some luxury brands with large scale have recovered. Does Kering Group have some investment value as a luxury jewellery giant? This is a question worth studying and calculating. First of all, many brands of the Kering Group have shown exceptional solidarity in the moment of the epidemic. Even two unrelated brands have appeared in joint styles to promote the group as a whole [9]. Furthermore, the financial statements for this year 2022 are more informative for the next analysis [6]. It is found that the Kering Group is in a state of slow recovery. This is followed by an analysis of the financial situation of the Kering Group in recent years [1] [2] and the asset-liability ratio, sales growth rate and return on assets [10]. From the data [7], it is obvious that the impact of the epidemic is the greatest in the two years of 2019 and 2020. Most importantly, it will summarize the trend of Kering Group's figures since the last few years and the reasons and factors influencing this change. This is followed by a comparison with several of the most competitive luxury brands [9]. Although Kering Group does not have a higher structural attractiveness and higher stock market multiples like LVMH, however, Kering Group offers one of the most convincingly low valuations in the industry [8]. This paper is based on the use of multiple valuation method [5] to explore the investment value of Kering Group. The two different methods are P/E ratio [3] and EV/EBITDA respectively [4]. Finally, two sets of data are used to calculate and estimate whether Kering Group has some investment value. This paper will use data, calculations and analysis to provide investors with more effective reference solutions. It also provides structural recommendations on some of the issues of the Kering Group.

The rest of this paper is organized as follows. Section II is the strategy analysis of Kering. Section III analyses the financial performance of Kering. Section VI is Kering Group's valuation methodology and investment value. Section V concludes.

2. Investment value of Kering: strategy analysis

2.1 Overview of the Kerings

As people's standard of living progresses, more attention is being paid to outward adornment. Kering is a French company with international holdings, listed on the Euronext Paris and a component of the French stock index the CAC 40. It owns a range of internationally renowned brands (including

luxury, sports & lifestyle and retail brands) and is present in over 120 countries. For example, its brands include fashion and leather goods brands, watch and jewellery brands, etc. Familiar brands like Gucci, Saint Laurent, Balenciaga, Alexander McQueen and many more are all part of the Kering Group [9]. Over the years, the Kering Group has grown to become the third largest luxury group in the world.

2.2 Main strategies

Kering's strategy is mainly based on natural growth of existing brands: expansion into new markets, consolidation of existing mature markets and further development of its distribution network and channels, including e-commerce [2].

The Kering Group has launched a triangular plan of Gucci, Balenciaga and BV in order to promote its companies [1]. Over the past six years, Gucci's creative director Alessandro Michele's distinctive, highly recognisable aesthetic system has quickly swept the market in tandem with marketing initiatives. Yet a strong aesthetic style can be both an advantage and a disadvantage. It can become a global sensation in a short period of time, but it is also more likely to cause aesthetic fatigue. In terms of the brand's performance, the novelty of Gucci has begun to wear off. Compared to Gucci, which is entering the second half of its life cycle and aiming for the €10 billion club, the €1 billion-plus Balenciaga is still climbing the ladder and the brand is becoming more and more vocal on social media and is one of the hotter brands at the moment. It is one of the more popular brands at the moment, thanks mainly to pop-up products such as handbags and sneakers. In the first half of this year, the Gucci × Balenciaga collection blew up at Gucci's 'Aria - Aria of Fashion' show and became the talk of the town. The familiar sans-serif logo was emblazoned on Gucci's classic Jackie bag [9]. While Balenciaga's Hourglass bag was Gucci's monogram print. Remember Balenciaga's classic sock boots, which were also emblazoned with Gucci's iconic print? It was breath-taking for everyone. This was one of the hottest stories in the fashion world as the two brands which are similarly positioned and even rivals, were not expected to come together and 'come together' with a joint collection. In fact, in terms of the Kering Group's overall strategy, Gucci which was once a growth engine, has launched a collaborative collection with up-and-comer Balenciaga. Not only do they combine the marketing resources and consumer base of both brands, but it is also a strategy to share resources and exploit synergies within the group. It is easy to see that the brands of the Kering Group are now becoming increasingly united and rebellious, fighting against traditional rules with unconventional forms of fashion presentation.

3. Investment value of Kerings: financial analysis

With regard to China, Jean-Marc Duplaix, Kering Group's chief financial officer, said in a conference call that the growth of the group's brands in the country had been hampered, with nearly a third of its shops affected, and that the shopping appetite of young Chinese people had waned during the period [6]. However, the group said it expected Chinese consumer demand to recover gradually as the outbreak improved.

3.1 The asset-liability rate

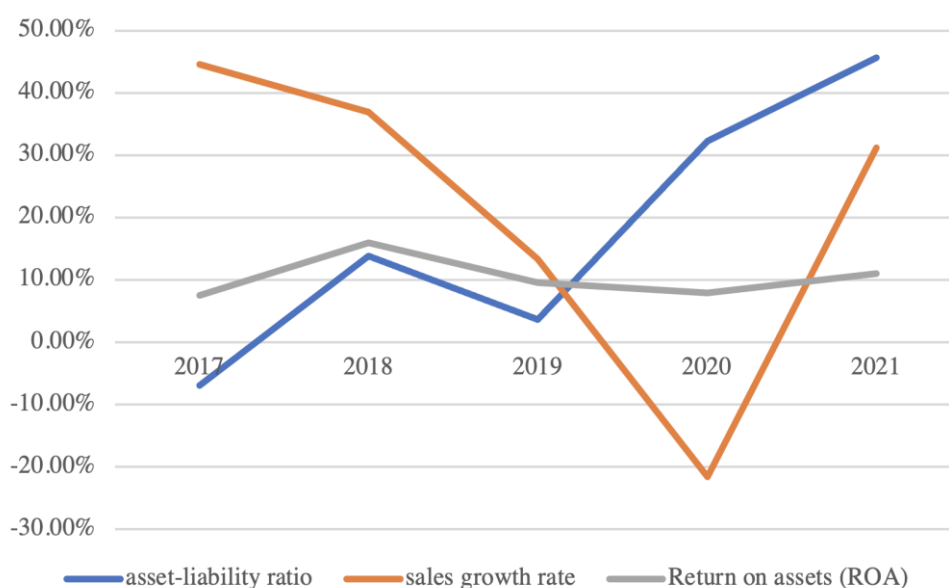
The asset-liability ratio reveals how much of a company's total funding is provided by its creditors [1]. The figure 1 gearing ratio shows an upward trend since 2017 except for a 10.2% decrease in 2019. From a creditor's point of view, the lower the balance sheet ratio the better [7]. By contrast for investors or shareholders, a relatively high debt ratio may be of some benefit. The overall increase in the ratio of Kering Group's assets and liabilities is mainly due to the company's stronger profitability and the repurchase of some shares. In general, debt ratios of companies and in the absence of a debt-servicing crisis, although they may choose to be high [2].

3.2 The sales growth rate

Balenciaga and Alexander McQueen were among them, with revenue growth driven by all regions [7]. Sales growth was driven by strong momentum in the Western European, North American and Japanese market regions [1]. However, in Asia Pacific, sales declined due to the impact of outbreak control in certain major cities in China. The figure 1 sales growth rate shows that the two years 2019 and 2020 are the most affected by COVID-19. Although the figures show a decline in overall sales over the two years, Kering Group rebounded in terms of sales in 2021 but still not as much as before the outbreak.

3.3 The return on assets (ROA)

It is clear from figure 1 that the return on assets has not risen abruptly or fallen continuously [7]. It is worth noting that in 2018 the return on assets reached 16.00% which means that the business is achieving positive results in terms of increased revenues and savings in the use of capital. In contrast in 2019, the return on assets also declined. This shows that the overall profitability of the company has decreased. The main reasons for this decline are lower liabilities and a significant increase in the company's net assets factor [10]. It is worth noting that although the return on net assets declined due to the impact of the epidemic but it is also a disguised reflection of the fact that the Kering Group has adopted a sound and prudent financial policy for financial leverage.



Data source: annual report of Kering Group

Figure 1. Kering Group's Asset-liability ratio, Sales Growth and Return on Assets from 2017 to 2021

4. Investment value of Kerings: valuation method

4.1 Competitors

LVMH, Kering and Hermes are the "triumvirate of luxury goods", and these three giants control most of the resources of the global luxury sector. LVMH, Kering and Hermes are the three giants that control most of the resources in the global luxury goods sector, and it is worth noting that the competition between LVMH and Kering is more intense. The brightest performers were Gucci, YSL and BV, contributing €4,479 million, €1,045 million and €707 million respectively, an increase of 82.4%, 169.4% and 197.5% respectively compared to the same period in 2020 [2]. Although Kering's brands are sold in more than 120 countries, there is still a big gap compared to the world's largest luxury giant, LVMH, which specialises in acquisitions and is characterised by its ability to acquire

high-end brands at low cost in times of crisis, achieving a category expansion from "soft luxury" to "hard luxury" [8]. The most important feature of LVMH is that in times of crisis, it will acquire high-end brands at low cost, so as to expand the category from "soft luxury" to "hard luxury" [10]. For example, after the acquisition of Tiffany & co, sales of its watches and jewellery business unit soared. In the first half of 2021, LVMH's sales rose 56% year-on-year to €28,665 million, with a net profit of €5,576 million, exceeding last year's full-year net profit by more than €600 million, more than ten times that of the same period last year and up 62% compared to the same period (before the epidemic) in 2019 [7]. Among the Group's categories, the most outstanding performances were in the Fashion and Leather Goods Division and the Watches and Jewellery Division. The Fashion and Leather Goods Division generated sales of €13.86 billion in the first half of the year, up 32.98% compared to €10.42 billion in the same period in 2019. The best performing brands were Louis Vuitton, Dior, Fendi, Loewe and Celine. Although still at a distance from LVMH in the fashion and leather goods business, Kering Group has in fact been reluctant to settle for the second position, and has been making a lot of moves in recent years in order to catch up with LVMH.

Table 1. Comparison on the key figures of the Kering Group with LVMH and Hermes

	Kering	LVMH	Hermes
Revenue	€ 17.645 b	€ 642.2 b	€ 89.82 b
Increase Rate	35.2% of revenue increase	44% of revenue increase	40% of increase
Profit	€50.17 b with 60% of increase	€171.5 b (doubled)	€24.45 b
Main Brands	GUCCI YSL	LV DIOR Tiffany	Hermes
Valuations (\$)	65.1 b	310.7 b	117.9 b
Net Income	€3.2b	€12.7b	17.9 b
Stores Number	1.3K	4.4 k	Around 311

4.2 Valuation results

4.2.1 P/E ratio as a multiple

The first method is the P/E ratio as a multiple [5]. The calculation is the ratio of the stock price divided by the earnings per share. The main advantage for investors to calculate the P/E ratio is to compare the value of different stocks [3]. Theoretically, the lower the P/E ratio of a stock the more worthwhile the investment. Comparing different industries and different countries over time is greatly unreliable.

$$P = P/E \text{ Average} * EPS = 8.21 * 3.02 = 85.19 \quad (1)$$

This is because the calculated price is 85.19, which is greater than the current share price of 57.28 (2022.07.31). So, it is concluded that the share price is undervalued.

4.2.2 EV/EBITDA as the multiples

The second method is the EV/EBITDA multiple method, which is comparable to the first method [5]. The method used is similar in principle, but the caliber of the selected indicators is different. The advantage of this method is that it makes up for some of the shortcomings of the PE multiple and is more widely used [4]. Since it is not affected by different income tax rates, it makes the valuation of listed companies in different countries and markets more comparable.

$$EV = EV/EBITDA \text{ Average} * EBITDA = 11.35 * 7.395 = 83.93325 \quad (2)$$

$$P = \frac{EV}{\text{shares}} \text{ outstanding} = 83.93325/1.246 = 67.36 \quad (3)$$

This calculation shows a price of 67.36, which is greater than the current share price of 57.28 (2022.07.31). It is clear that the share price is also undervalued.

Table 2. Financials of Kering Group and LVMH, Hermes financials

	Kering SA	LVMH	Hermes International SA
Price/Earnings	20.876	25.38	46.76
EPS (\$)	3.02	-	-
Enterprise Value/EBITDA	11.08	14.15	27.44
EBITDA (Billion \$)	7.395	-	-
Shares outstanding (Billion \$)	1.246	-	-
Comps Average P/E	28.21	-	-
Comps Average EV/EBITDA	11.35	-	-

4.3 Discussion

Overall, the impact of the epidemic in 2019 did have a negative impact on the Kering Group. It is clear that in 2021, various figures show that Kering Group has slowly come out of the doldrums. For example, the balance sheet ratio and sales growth rate, as analysed earlier. In addition, by using two different calculations, it suggests that investors recognize Kering Group's strategy and remain convinced that there is an unpredictable future. More importantly, the figures for the last few years also show that Kering Group has the strength and ability to support a rising share price. In the long run, the Kering Group has a tendency to move towards normal prices in the future and is a valuable investment for the future. The discussion in this study suggests that investors can achieve their long-term financial goals by purchasing shares of Kering Group.

5. Conclusion

In this paper, two different approaches, P/E ratio and EV/EBITDA, are used to study the Kering Group. There are 3 main findings in this paper. The first is about the entrepreneurial development of the Kering Group. In order to share its resources and exploit synergies within the Kering Group, the companies of the Kering Group are now showing great cohesion. In recent years, joint collections with subsidiaries have begun to appear as well. Thus, breaking the traditional fashion market to reflect the value of Kering Group itself. The second is the financial indicators of the Kering Group. It is notable that in 2019 the overall global economy was affected by the epidemic Kering Group is no exception. The current trend shows that Kering Group's indicators are developing in a good trend. The third is that Kering Group's share price is undervalued. Now that the epidemic has been effectively controlled proves that Kering Group has potential upside. From the strength point of view, Kering Group has enough ability to keep the share price up.

The findings of this paper are useful for investors to refer to in order to achieve the desired level of performance. It also has some implications for the Kering Group. It helps to recognize some of the problems in its development and how to achieve sustainable growth, etc.

However, as this paper only focuses on recent years, the impact of the length of the interval has not been fully considered. In the future, the length of the interval can be further refined to facilitate in-depth research and further investigation.

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