



# Luxury Goods Sector – LOOK AT ME?

*“The idea of offering beauty refinement and exclusivity at a premium over function and on a large scale has caught on like wildfire”*

Luxury Goods consumption is associated with a feeling of wealth - **“I am rich, I can afford this”** Such a feeling may well inspire confidence and well being. Whilst newer, increasingly affluent consumers prefer more flamboyant visible branding, their more sophisticated counterparts opt for *quieter* niche brands. Higher taxes in the USA and the major western economies tackling their balance sheet problems may have had a knock on effect among some Western consumers of the sector. However, the economic growth engines of the Middle East, Japan and Russia have produced successive waves of new aspirational consumers. On top of this, if you look at demand from the explosive growth countries China, South Korea, Singapore and Emerging Markets which have contributed enormously, it is not surprising that the Luxury Goods Sector has enjoyed a 300% growth since 2009, (up 31% in 2012). Today most of the luxury goods companies quoted on major stock exchanges are truly global in their reach, offering clients a broad portfolio of brands tailored to each local market.

In London, Burberry’s share price has more than doubled in the last three years despite a stumble in September last year, surprising a couple of analysts who had labelled it now “a one stop shop over it’s sector peers” Moving further afield, June 2011 saw the much publicised and eagerly awaited floatation of Italian Fashion House, Prada on the Hong Kong Stock Exchange. The stock came to market at HKD 39.50 and although the dividend is minimal the share

price has risen to HKD 69.65. Prada, offers a more diverse range of goods and is a strong leader with its diffusion line Miu Miu. Louis Vuitton Moet Hennessy (LVMH), that owns brands Tag Heuer, Hublot & Bulgari and Pinault Printemps Redoute (PPR) whose stable includes Gucci, Yves Saint Laurent, Stella McCartney and Puma are the current clear leaders within the Soft Luxury Goods Sector.

Within the ‘Hard’ Luxury Goods Sector Compagnie Financiere Richemont (CFR) and Swatch, stand out. CFR houses several of the more prestigious names within the luxury time piece / jewellery sector with its Cartier, Piaget, IWC, Panerai, Van Cleef & Arpels and Montblanc offerings. Many people may think of Swatch as the multi coloured, inexpensive watch that was the mode in the 80s and early 90s. However, this group has evolved somewhat from the once “disposable watch” to a constituent company of the Swiss SIX Exchange, with flagship brands such as Omega, Breguet, Blancpain, Longines and Rado, and the very recent purchase of Harry Winston (the New York Watchmaker and Jeweller) for USD 1 Billion.

Although we might not see the full picture of extraordinary consumption of this sector in Britain and Europe, I have witnessed this sector growth with two visits to Singapore within the past two years. To see a constant flow of consumers waiting to be admitted into the boutiques of Gucci and LVMH is truly amazing. With the exclusive Marina Bay Sands development set to eclipse the famous and ever popular Orchard

Road premises of ION, Takashimaya and Paragon and surrounding stores and stories of LVMH at MBS averaging takings of seven figures per day, there is clear anecdotal evidence that suggests growth in the luxury goods sector looks set to continue. It is easy to believe the story of one Singaporean couple shopping at Louis Vuitton for hand luggage, after enquiring what colour schemes were available, they decided on purchasing all seven of them, quite astonishing when you learn that they were USD 5,500 each (equivalent to £3,500)!

As with all equity investments, an investment into the luxury goods sector carries its own risks. Companies are susceptible to profits warnings and a sharp slowdown in global economic growth remains an obvious threat. Brands (like fashion) can drift in and out of favour among consumers. But with an increasing global population, the rise of social media and an increasingly affluent Asian consumer, it is quite possible that the sector will continue to prosper in the coming years.

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