

Company

20 October 2009 | 16 pages

PPR (PRTP.PA)

 Equity
 Estimate change

Looking Beyond 3Q09

- 3Q09 sales a bit light, October trends encouraging** — Group comparable sales of -8% (Luxury -10%, Retail -7%, Puma -10%) were a bit light vs. our numbers (-7%) and consensus (-7.5%), while the market may have expected a positive surprise. It was largely attributable to deteriorating luxury trends over the summer (weak inbound tourism, difficult wholesale activity). The good news, however, stems from positive October trends at Gucci (positive in DOS c70%, signs of re-order in Wholesale), positive trends at Fnac, Conforama France and improving trends at La Redoute. Management seemed confident about Christmas on the basis of easier comparatives, improved consumer confidence in developed markets and accelerating trends in Asia.
- Cost savings** — PPR is on track to execute its key priorities for 2009 – restructuring/cost control, gross margins protection, cashflow generation and balance sheet preservation. We expect the company to deliver greater than expected cost savings in 2H09 in Retail (Fnac, Conforama and La Redoute in particular) and at Gucci Group thanks to supply chain optimization and tight control on expenses/headcount. Significantly, management indicated that Puma will generate additional cost savings from its restructuring plan in 2H09 (not quantified, we assume at least €10-20m). It also indicated that additional plans will soon be triggered to reduce cost further and enhance cash flow generation.
- FY09 estimates reduced marginally reflecting CFAO guidance** — We reduce our FY09 group EBIT by 1% to reflect guidance of €210-220m contained in CFAO's IPO prospectus. This is partly offset by higher profit forecast for Fnac on the back of rapidly improving trends. We leave our Gucci Group and Puma forecasts virtually unchanged, with upside risks in our view.
- Clear strategy, good value, reiterate Buy** — While PPR's current structure remains that of a diverse conglomerate, its strategic objectives are clear – a focus on products/markets with good medium-term growth prospects and a willingness to sell parts of the business which do not offer sufficient growth and profit potential. PPR's potential transformation into a "pure play" luxury/lifestyle company could well create significant value. In this regard, shares look good on value at 12.0x 2010E P/E, at a significant discount to both UK General retailers (c13x) and Luxury peers excluding Hermes (18.5x). Buy/Medium Risk rating maintained, target price maintained at €106.

Buy/Medium Risk	1M
Price (20 Oct 09)	€85.10
Target price	€106.00
Expected share price return	24.6%
Expected dividend yield	3.6%
Expected total return	28.2%
Market Cap	€10,770M
	US\$16,117M

Price Performance (RIC: PRTP.PA, BB: PP FP)



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See Appendix A-1 for Analyst Certification and important disclosures.

3Q09 sales a bit light – Actual vs. forecast

Figure 1. PPR – Retail comparable and reported sales growth, Actual vs. forecast

Format	3Q09 as reported	3Q09 as forecast
Conforama	-10%	-10%
Redcats	-10%	-10%
Fnac	+1%	-3%
CFAO	-11%	-11%
Comparable growth	-7%	-8%
FX/other	-1%	0%
Reported growth	-8%	-8%
Reported sales	€3,075m	€3,090m

Source: Company reports and Citi Investment Research and Analysis

Figure 2. PPR – Luxury comparable and reported sales growth, Actual vs. forecast

Brand	3Q09 as reported	3Q09 as forecast
Gucci	-7%	-5%
YSL Couture	-20%	-13%
Bottega Veneta	-12%	-9%
Other luxury brands	-15%	-10%
Comparable growth	-10%	-7%
FX/other	+3%	+4%
Reported growth	-7%	-3%
Reported sales	€819m	€846m

Source: Company reports and Citi Investment Research and Analysis

Figure 3. PPR – Puma comparable and reported sales growth, Actual vs. forecast

Puma	3Q09 as reported	3Q09 as forecast
Comparable growth	-10%	-6%
FX/other	+4%	+5%
Reported growth	-6%	-1%
Reported sales	€673m	€704m

Source: Company reports and Citi Investment Research and Analysis

Figure 4. PPR – Group comparable and reported sales growth, Actual vs. forecast

PPR Group	3Q09 as reported	3Q09 as forecast
Comparable growth	-8.0%	-7.2%
FX/other	+0.4%	+1.0%
Reported growth	-7.6%	-6.2%
Reported sales	€4,563	€4,634

Source: Company reports and Citi Investment Research and Analysis

FY09-10 estimates virtually unchanged

Figure 5. PPR – Revised estimates, 2009-10 (Euros in Millions)

	FY09E New	FY09E Old	Change		FY10E New	FY10E Old	Change
Group comparable sales growth	-6.0%	-5.3%	-0.7pp	Group comparable sales growth	1.1%	0.9%	0.2pp
of which Retail	-6.3%	-6.1%	-0.2pp	of which Retail	0.6%	0.4%	0.2pp
of which Gucci Group	-5.0%	-3.6%	-1.4pp	of which Gucci Group	1.7%	1.3%	+0.4pp
of which Puma	-6.0%	-3.0%	-3.0pp	of which Puma	3.0%	3.0%	0.0pp
Group reported sales growth	-5.4%	-4.3%	-1.1pp	Group reported sales growth	0.8%	0.6%	0.2pp
Group reported sales (€m)	19,125	19,342	-1%	Group reported sales (€m)	19,278	19,453	-1%
Retail EBIT (€m)	606	616	-2%	Retail EBIT (€m)	652	656	-1%
Luxury EBIT (€m)	671	674	0%	Luxury EBIT (€m)	718	711	1%
Puma EBIT (€m)	290	290	0%	Puma EBIT (€m)	330	330	0%
Central costs (€m)	-50	-50	0%	Central costs (€m)	-54	-54	0%
Group EBIT (€m)	1,517	1,530	-1%	Group EBIT (€m)	1,646	1,643	0%
EPS (€)	6.07	6.14	-1%	EPS (€)	7.08	7.06	0%

Source: Citi Investment Research and Analysis

Revised 4Q09 sales estimates

Figure 6. PPR – Quarterly Comparable Sales Trends, 2005-2009e

	%	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09E	H2 09E	FY 09e
Retail	71%	+4.3	+2.9	+1.9	-0.4	+3.0	+4.1	+6.2	+4.0	+2.3	+2.2	-1.4	-2.9	-5.6	-8.0	-7.2	-4.7	-5.8	-6.3
Luxury	17%	+18.4	+22.4	+17.1	+15.8	+15.9	+13.5	+15.9	+14.3	+9.5	+15.9	+8.8	+0.1	-3.5	-3.9	-10.1	-4.2	-7.0	-5.0
Puma	12%						+3.1	-0.5	+10.3	+6.6	+11.2	+9.2	+7.3	-3.3	-4.3	-9.8	-6.2	-8.2	-6.0
Group	100%	+6.8	+6.2	+4.9	+2.4	+5.6	+5.6	+7.0	+6.3	+4.7	+5.4	+1.8	-1.5	-4.9	-6.9	-8.1	-4.3	-6.1	-6.0

Source: Company Reports and Citi Investment Research and Analysis

Figure 7. Retail – Quarterly Comparable Sales Trends, 2005-2009e

	%	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09E	H2 09E	FY 09e
Conforama	22%	+4.4	+3.0	+1.9	-3.8	+2.6	+2.5	+1.4	-2.3	-0.9	-1.7	-6.3	-8.7	-10.5	-12.3	-9.9	-6.0	-7.9	-9.6
Redcats	26%	-1.0	-3.7	-3.5	-3.5	-5.1	-4.2	-0.6	-2.9	-4.4	-3.9	-5.5	-7.8	-7.4	-11.0	-10.2	-9.0	-9.5	-9.4
Fnac	32%	+5.5	+5.8	+5.7	+1.1	+5.2	+6.3	+7.1	+7.9	+2.7	+3.1	-3.4	-1.3	-4.2	-5.4	+0.5	+1.0	+0.8	-1.6
CFAO	20%	+13.5	+12.2	+5.5	+8.1	+17.6	+21.3	+23.7	+18.6	+17.5	+14.2	+14.5	+8.6	+0.3	-3.5	-10.9	-9.6	-10.2	-6.0
Retail	100%	+4.3	+2.9	+1.9	-0.4	+3.0	+4.1	+6.2	+4.0	+2.3	+2.2	-1.4	-2.9	-5.6	-8.0	-7.2	-4.7	-5.8	-6.3

Source: Company Reports and Citi Investment Research and Analysis

Figure 8. Gucci Group – Quarterly Comparable Sales Trends, 2005-2009e

	%	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09E	H2 09E	FY 09e
Gucci	65%	+17.7	+25.0	+13.9	+12.5	+10.2	+9.8	+10.8	+12.7	+2.4	+11.1	+6.2	-1.1	+1.0	-2.3	-7.0	-2.0	-4.3	-2.6
YSL	8%	+8.0	+28.8	+18.6	+22.3	+35.5	+12.9	+20.1	+20.4	+20.2	+33.4	+27.4	+10.3	-10.2	-11.5	-20.0	-12.1	-16.3	-12.0
Bottega Veneta	12%	+77.0	+81.2	+56.5	+65.8	+55.3	+47.9	+48.1	+44.6	+31.5	+19.6	+10.3	-8.8	-13.4	-1.9	-11.6	-2.0	-6.8	-7.0
Other brands	15%	+36.9	+13.1	+33.2	+35.9	+22.4	+24.1	+28.9	+18.1	+20.8	+30.5	+9.9	+9.7	-9.5	-9.4	-15.3	-13.0	-14.3	-10.2
Gucci Group	100%	+18.4	+22.4	+17.1	+15.8	+15.9	+13.5	+15.9	+14.3	+9.5	+15.9	+8.8	+0.1	-3.5	-3.9	-10.1	-4.2	-7.0	-5.0

Source: Company Reports and Citi Investment Research and Analysis

Financials

Figure 9. PPR – Profit & Loss, 2004-2011E (Euros in Millions)

Calendar Year	2004A	2005A	% chg	2006A	% chg	2007A	% chg	2008A	% chg	2009E	% chg	2010E	% chg	2011E	% chg
Turnover															
Conforama	3,097	3,140.0	1%	3,275	4%	3,313	1%	3,168	-4%	2,878	-9%	2,907	1%	2,965	2%
Redcats	4,403	4,377.3	-1%	4,332	-1%	3,765	-13%	3,699	-2%	3,389	-8%	3,321	-2%	3,321	0%
Fnac	4,130	4,354.1	5%	4,538	4%	4,584	1%	4,587	0%	4,505	-2%	4,550	1%	4,687	3%
CFAO	1,859	2,034.3	9%	2,219	9%	2,535	14%	2,875	13%	2,558	-11%	2,622	3%	2,754	5%
Total Retail	14,358	13,906	-3%	14,365	3%	14,196	-1%	14,328	0%	13,330	-7%	13,400	1%	13,726	2%
Gucci	1,590	1,807.1	14%	2,101	16%	2,175	4%	2,206	1%	2,248	2%	2,260	0%	2,327	3%
YSL (inc YSL Beauté royalties from 2008)	169	162.0	-4%	194	20%	221	14%	263	19%	238	-10%	240	1%	247	3%
YSL Beauté	621	611.4	-2%	626	2%	649	4%								
Bottega Veneta	100	159.7	60%	267	67%	366	37%	402	10%	395	-2%	399	1%	411	3%
Other luxury brands	232	294.2	27%	380	29%	455	20%	509	15%	462	-9%	466	1%	485	4%
Total Luxury Goods	2,712	3,034	12%	3,568	18%	3,867	8%	3,380	5%	3,343	-1%	3,365	1%	3,471	3%
Total Puma						1,718		2,524	47%	2,471	-2%	2,533	3%	2,609	3%
Less internal sales	-29	-2		-2		-20		-21		-19		-20		-22	
Group Sales	17,042	16,938	-1%	17,931	6%	19,761	10%	20,212	6%	19,125	-5%	19,278	1%	19,784	3%
EBIT															
Conforama	207	177	-14%	182	3%	168	-8%	118	-29%	107	-10%	110	3%	115	5%
Redcats	231	231	0%	225	-3%	187	-17%	115	-37%	101	-12%	109	8%	112	3%
Fnac	138	154	11%	170	11%	199	17%	181	-7%	178	-2%	183	3%	188	3%
CFAO	159	167	5%	182	9%	232	27%	277	19%	220	-20%	250	14%	274	10%
Total Retail	760	729	-4%	759	4%	785	3%	691	-11%	606	-12%	652	8%	689	6%
Gucci	423	485	15%	612	26%	647	6%	625	-3%	605	-3%	625	3%	660	6%
YSL (inc YSL Beauté royalties from 2008)	-71	-66	-7%	-49	-25%	-32	-35%	0	na	-13	-4433%	0	-100%	10	#DIV/0!
YSL Beauté	23	18	-20%	32	80%	65	101%								
Bottega Veneta	-7	14	-288%	55	299%	92	69%	101	9%	89	-12%	96	8%	104	8%
Other luxury brands	-39	-14	-65%	10	-175%	33	221%	39	17%	21	-46%	30	43%	35	17%
Luxury corporate costs	-41	-46	11%	-94	107%	-74	-21%	-33	-55%	-31	-7%	-33	6%	-36	9%
Total Luxury Goods	288	392	36%	565	44%	731	29%	731	10%	671	-8%	718	7%	773	8%
Total Puma						236		350	-6%	290	-17%	330	14%	372	13%
Central Holding Costs	-61	-59	-4%	-50	-15%	-57	13%	-54	-4%	-50	-8%	-54	8%	-56	4%
Group EBIT	986	1,063	8%	1,275	20%	1,696	33%	1,717	-2%	1,517	-12%	1,646	9%	1,778	8%
<i>Group EBIT margin (%)</i>	<i>5.8%</i>	<i>6.3%</i>		<i>7.1%</i>		<i>8.6%</i>		<i>8.5%</i>		<i>7.9%</i>		<i>8.5%</i>		<i>9.0%</i>	
Net interest income/(charge)	-299	-307	3%	-290	-6%	-322	11%	-373	-4%	-400	7%	-310	-23%	-240	-23%
Clean PBT	688	755	10%	985	30%	1,374	40%	1,344	-6%	1,117	-17%	1,336	20%	1,538	15%
Non-recurring items	47					100		-361		-136		0		0	
Tax	-310	-187	-40%	-260	39%	-298	15%	-334	-8%	-286	-14%	-367	28%	-423	15%
Tax (% of reported PBT)	42.2%	25%		26%		24%		34%		29%		28%		28%	
Post-tax profit	378	568	50%	725	28%	1,124	55%	650	-45%	831	28%	969	17%	1,115	15%
Associates	14	3	-76%	2	-35%	1	-45%	1	17%	1	-29%	1	0%	1	0%
Minorities	-36	-38	7%	-47	22%	-119	154%	-117	-17%	-64	-45%	-75	16%	-84	12%
Reported net income group share	356.3	533	50%	680	28%	1,006	48%	534	-48%	767	44%	895	17%	1,032	15%
Citi adjustments (non-recurring items and dilution)	47	0		0		100		-361		-136		0		0	
Adjusted net income group share (excluding non recurring items)	404	533	32%	680	28%	906	33%	895	-4%	767	-14%	895	17%	1,032	15%
Shares (m)	119.2	118.7	0%	121.5	2%	128.3	6%	126.0	-2%	126.5	0%	126.5	0%	126.5	0%
Shares (m) fully diluted	125.4	132.5	6%	121.4	-8%	128.7	6%	126.0	-2%	126.5	0%	126.5	0%	126.5	0%
EPS (€) Published	3.39	4.49	33%	5.59	25%	8.63	54%	1.38	-84%	4.99	263%	7.08	42%	8.16	15%
Adjusted EPS (€) (fully diluted)	3.22	4.02	25%	5.60	39%	7.04	26%	7.10	-2%	6.07	-15%	7.08	17%	8.16	15%
DPS	2.52	2.72	8%	3.00	10%	3.45	15%	3.30	-4%	3.10	-6%	3.30	6%	3.65	11%

Source: Company Reports and Citi Investment Research and Analysis

Figure 10. Retail Division and Puma – Profit & Loss, 2004-2011E (Euros in Millions)

	2004A	2005A	2006A	2007A	2008A	2009E	2010E	2011E
Conforama								
Sales	3,097	3,140	3,275	3,313	3,168	2,878	2,907	2,965
% change	+5.0	+1.4	+4.3	+1.8	-0.8	-9.2	+1.0	+2.0
% comparable	+4.7	+1.3	+1.1	+0.8	-4.7	-9.6	+1.0	+2.0
EBIT	206.8	177.1	181.7	167.5	118.3	107.0	110.0	115.0
% change	na	-14.4	+2.6	-7.8	-29.4	-9.6	+2.8	+4.5
% Margin	6.7%	5.6%	5.5%	5.1%	3.7%	3.7%	3.8%	3.9%
Redcats								
Sales	4,403	4,377	4,332	3,765	3,699	3,389	3,321	3,321
% change	-0.5	-0.6	-1.0	+1.2	-1.7	-8.4	-2.0	+0.0
% comparable	+1.1	+0.0	-2.9	-2.2	-5.5	-9.4	-2.0	+0.0
EBIT	231.2	231.3	225.1	186.6	114.6	101.0	109.0	112.0
% change	na	+0.0	-2.7	-17.1	-36.6	-11.9	+7.9	+2.8
% Margin	5.3%	5.3%	5.2%	5.0%	3.1%	3.0%	3.3%	3.4%
Fnac								
Sales	4,130	4,354	4,538	4,584	4,587	4,505	4,550	4,687
% change	+8.4	+5.4	+4.2	+7.4	+0.1	-1.8	+1.0	+3.0
% comparable	+8.6	+5.5	+4.1	+7.4	+0.0	-1.6	+1.0	+3.0
EBIT	138.4	154.0	170.2	199.0	181.1	178.0	183.0	188.0
% change	na	+11.3	+10.5	+16.9	-9.0	-1.7	+2.8	+2.7
% Margin	3.4%	3.5%	3.8%	4.3%	3.9%	4.0%	4.0%	4.0%
CFAO								
Sales	1,859	2,034	2,219	2,535	2,875	2,558	2,622	2,754
% change	+8.2	+9.4	+9.1	+14.2	+13.0	-11.0	+2.5	+5.0
% comparable	+10.3	+9.5	+9.8	+20.3	+13.6	-6.0	+3.0	+5.0
EBIT	158.9	167.0	182.4	232.3	276.7	220.0	250.0	274.0
% change	na	+5.1	+9.2	+27.4	+19.1	-20.5	+13.6	+9.6
% Margin	8.5%	8.2%	8.2%	9.2%	9.6%	8.6%	9.5%	10.0%
RETAIL								
Sales	14,358	13,906	14,365	14,196	14,328	13,330	13,400	13,726
% change	+3.3	-3.1	+3.3	-1.2	+0.9	-7.0	+0.5	+2.4
% comparable	+5.3	+3.1	+1.9	+5.0	-0.1	-6.3	+0.6	+2.4
EBIT	760	729	759	785	691	606	652	689
% change	na	-4.0	+4.1	+3.4	-11.4	-12.3	+7.6	+5.7
% Margin	5.3%	5.2%	5.3%	5.5%	4.8%	4.5%	4.9%	5.0%
PUMA								
Sales				1,718	2,524	2,471	2,533	2,609
% change				+0.2	+47.0	-2.1	+2.5	+3.0
% comparable				+4.6	+8.5	-6.0	+3.0	+3.0
EBIT				236	350	290	330	372
% change				+0.8	-5.7	-17.1	+13.8	+12.7
% Margin				13.7%	13.9%	11.7%	13.0%	14.3%

Source: Company Reports and Citi Investment Research and Analysis

Figure 11. Gucci Group – Profit & Loss, 2004-2011E (Euros in Millions)

	2004A	2005A	2006A	2007A	2008A	2009E	2010E	2011E
Gucci								
Sales	1,590	1,807	2,101	2,175	2,206	2,248	2,260	2,327
% change	+5.0	+13.7	+16.3	+3.5	+1.4	+1.9	+0.5	+3.0
% comparable	+13.3	+18.4	+16.9	+11.0	+4.3	-2.6	+1.5	+3.0
EBIT	423.2	485.4	611.8	646.9	624.8	605.0	625.0	660.0
% change	na	+14.7	+26.0	+5.7	-3.4	-3.2	+3.3	+5.6
% Margin	26.6%	26.9%	29.1%	29.7%	28.3%	26.9%	27.7%	28.4%
YSL (inc YSL Beauté royalties from 2008)								
Sales	169	162	194	221	263	238	240	247
% change	na	-4.3	+19.5	+14.3	+18.7	-9.5	+1.0	+3.0
% comparable	+15.2	-1.0	+19.2	+22.0	+22.0	-12.0	+2.0	+3.0
EBIT	(70.8)	(65.8)	(49.4)	(31.9)	0.3	(13.0)	0.0	10.0
% change	na	-7.1	-24.9	-35.4	-100.9	-4,433.3	-100.0	#DIV/0!
% Margin	-41.8%	-40.6%	-25.5%	-14.4%	0.1%	-5.5%	0.0%	4.0%
YSL Beauté								
Sales	621	611	626	649				
% change	na	-1.6	+2.4	+3.7				
% comparable	+7.6	+1.3	+3.0	+6.5				
EBIT	22.5	17.9	32.2	64.7				
% change	na	-20.4	+79.9	+100.9				
% Margin	3.6%	2.9%	5.1%	10.0%				
Bottega Veneta								
Sales	100	160	267	366	402	395	399	411
% change	na	+60.3	+67.1	+37.2	+9.8	-1.8	+1.0	+3.0
% comparable	+56.5	+67.5	+69.2	+48.6	+11.1	-7.0	+2.0	+3.0
EBIT	(7.3)	13.7	54.6	92.2	100.7	89.0	96.0	104.0
% change	na	-287.7	+298.5	+68.9	+9.2	-11.6	+7.9	+8.3
% Margin	-7.3%	8.6%	20.5%	25.2%	25.0%	22.5%	24.1%	25.3%
Other luxury brands								
Sales	232	294	380	455	509	462	466	485
% change	na	+26.7	+29.3	+19.7	+15.1	-9.2	+1.0	+4.0
% comparable	+7.4	+29.6	+30.5	+23.5	+17.4	-10.2	+2.0	+4.0
EBIT	(38.9)	(13.7)	10.3	33.1	38.6	21.0	30.0	35.0
% change	na	-64.8	-175.2	+221.4	+16.6	-45.6	+42.9	+16.7
% Margin	-16.8%	-4.7%	2.7%	7.3%	7.6%	4.5%	6.4%	7.2%
Luxury corporate costs	(41.0)	(45.5)	(94.3)	(74.1)	(33.4)	(31.0)	(33.0)	(36.0)
GUCCI GROUP								
Sales	2,712	3,034	3,568	3,867	3,380	3,343	3,365	3,471
% change	+5.7	+11.9	+17.6	+8.4	+5.5	-1.1	+0.7	+3.1
% comparable	+12.6	+16.0	+18.3	+14.9	+8.1	-5.0	+1.7	+3.1
EBIT	288	392	565	731	731	671	718	773
% change reported		+36.3	+44.2	+29.3	+9.7	-8.2	+7.0	+7.7
% change comparable					+9.7	-8.2	+7.0	+7.7
% Margin	10.6%	12.9%	15.8%	18.9%	21.6%	20.1%	21.3%	22.3%

Source: Company Reports and Citi Investment Research and Analysis

Appendix 1: French Retail Sales

September: another tough month

Figure 12. French Retail Sales (Banque de France) – Monthly trends (non seasonally adjusted), 2008-09

% chg YoY	Jun 08	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09
DIY	-4.1%	0.0%	-0.5%	1.8%	-1.4%	-3.2%	-2.4%	-1.7%	-9.5%	0.7%	-0.5%	-4.9%	-3.1%	-2.7%	-5.8%	-3.4%
Clothing	-5.0%	1.0%	-9.8%	0.2%	-2.5%	-6.5%	-4.2%	6.5%	-14.4%	-3.5%	-1.4%	-12.3%	-0.5%	-8.7%	-10.1%	-10.4%
White Goods *	-11.9%	0.5%	-5.8%	-3.4%	-2.5%	1.2%	-6.4%	0.7%	-8.5%	-1.9%	-6.5%	-12.6%	3.7%	-1.0%	-1.3%	-2.7%
Brown & Grey Goods *	-9.3%	-5.6%	-9.6%	-8.4%	-5.4%	-5.4%	-10.6%	-3.7%	-4.2%	-14.4%	-16.3%	-19.2%	-10.5%	-12.2%	-11.4%	-20.9%
Furniture *	-13.2%	-3.8%	-6.2%	-4.3%	-5.5%	-8.4%	-8.9%	-3.9%	-13.2%	-12.0%	-12.6%	-11.4%	-8.4%	-7.0%	-10.5%	-6.6%
Clothing & Textile Mail Order *	4.2%	-7.0%	-22.3%	9.7%	-10.8%	-21.9%	-7.5%	-11.8%	-17.2%	-3.4%	2.7%	-21.6%	-21.8%	-18.6%	-18.2%	-21.1%
Books *	-11.6%	0.1%	-2.4%	0.0%	-3.7%	-2.4%	-0.6%	3.2%	-5.9%	-4.2%	-6.3%	-4.6%	2.2%	-0.6%	0.6%	0.4%
Jewellery	-17.2%	1.7%	-4.8%	-5.3%	3.7%	-2.6%	-8.7%	4.2%	-9.1%	-12.3%	-0.8%	-13.9%	10.3%	-2.4%	-6.9%	-0.2%
Supermarkets	-2.1%	6.6%	3.3%	3.7%	4.1%	0.8%	3.2%	3.6%	-5.0%	-5.4%	1.9%	-4.7%	0.9%	-0.9%	-1.6%	-1.8%
Hypermarkets	-5.8%	4.2%	0.3%	1.3%	1.4%	0.1%	-1.3%	2.3%	-6.6%	-7.5%	1.6%	-5.6%	3.3%	-1.1%	-2.7%	-2.2%
All Retail (inc auto)	-5.1%	2.5%	-3.0%	0.0%	-0.3%	-3.0%	-2.6%	2.7%	-7.8%	-6.2%	-1.8%	-7.9%	0.4%	-3.3%	-4.2%	-4.5%

* In bold: most relevant product categories for Fnac, Conforama and Redcats

Source: Banque de France and Citi Investment Research and Analysis

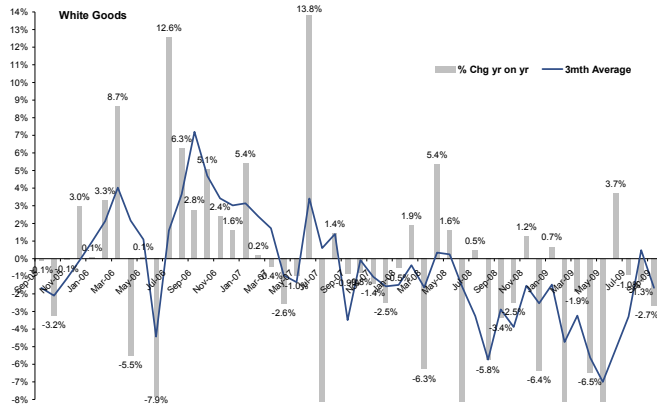
Figure 13. French Retail Sales (Banque de France) – 3-month moving average trends (non seasonally adjusted), 2008-09

% chg YoY	Jun 08	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09
DIY	-1.0%	0.5%	-1.5%	0.4%	0.0%	-0.9%	-2.3%	-2.4%	-4.6%	-3.5%	-3.1%	-1.6%	-2.8%	-3.6%	-3.9%	-4.0%
Clothing	-2.8%	0.8%	-4.6%	-2.9%	-4.0%	-2.9%	-4.4%	-1.4%	-4.0%	-3.8%	-6.4%	-5.7%	-4.7%	-7.2%	-6.4%	-9.7%
White Goods *	-1.6%	-3.3%	-5.7%	-2.9%	-3.9%	-1.5%	-2.5%	-1.5%	-4.7%	-3.2%	-5.6%	-7.0%	-5.1%	-3.3%	0.5%	-1.7%
Brown & Grey Goods *	-0.5%	-5.4%	-8.2%	-7.9%	-7.8%	-6.4%	-7.1%	-6.6%	-6.1%	-7.4%	-11.6%	-16.7%	-15.3%	-14.0%	-11.4%	-14.8%
Furniture *	-3.1%	-7.4%	-7.7%	-4.8%	-5.3%	-6.1%	-7.6%	-7.0%	-8.7%	-9.7%	-12.6%	-12.0%	-10.8%	-8.9%	-8.6%	-8.0%
Clothing & Textile Mail Order *	-5.3%	-1.9%	-8.3%	-6.5%	-7.8%	-7.7%	-13.4%	-13.7%	-12.2%	-10.8%	-6.0%	-7.5%	-13.6%	-20.6%	-19.5%	-19.3%
Books *	-0.3%	-4.4%	-4.6%	-0.8%	-2.0%	-2.0%	-2.2%	0.1%	-1.1%	-2.3%	-5.5%	-5.1%	-2.9%	-1.0%	0.7%	0.1%
Jewellery	-1.8%	-3.3%	-6.8%	-2.8%	-2.2%	-1.4%	-2.6%	-2.4%	-4.5%	-5.7%	-7.4%	-9.0%	-1.5%	-2.0%	0.3%	-3.2%
Supermarkets	3.3%	4.6%	2.6%	4.5%	3.7%	2.9%	2.7%	2.5%	0.6%	-2.3%	-2.8%	-2.7%	-0.6%	-1.6%	-0.6%	-1.5%
Hypermarkets	1.0%	1.6%	-0.5%	1.9%	1.0%	0.9%	0.1%	0.4%	-1.9%	-4.0%	-4.2%	-3.8%	-0.2%	-1.1%	-0.2%	-2.0%
All Retail (inc auto)	0.4%	0.8%	-1.9%	-0.2%	-1.1%	-1.1%	-2.0%	-1.0%	-2.6%	-3.8%	-5.2%	-5.3%	-3.1%	-3.6%	-2.4%	-4.0%

* In bold: most relevant product categories for Fnac, Conforama and Redcats

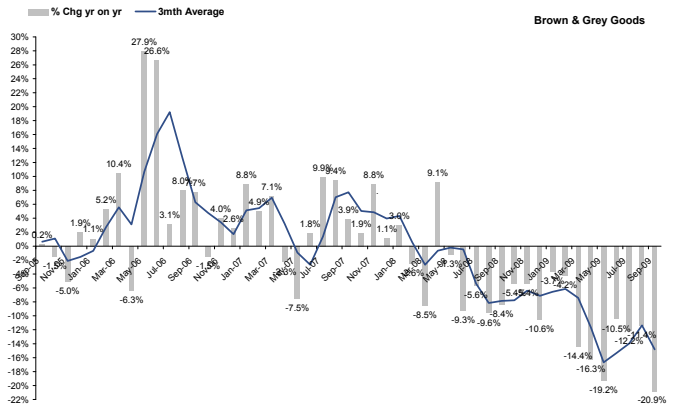
Source: Banque de France and Citi Investment Research and Analysis

Figure 14. White Goods – Monthly Retail Sales, 2005-2009



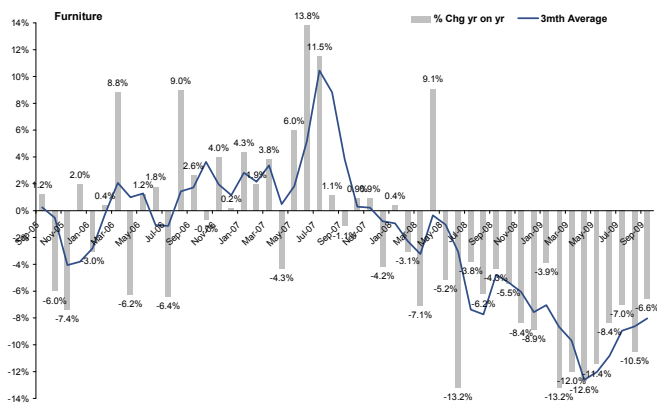
Source: Banque de France and Citi Investment Research and Analysis

Figure 15. Brown & Grey Goods – Monthly Retail Sales, 2005-2009



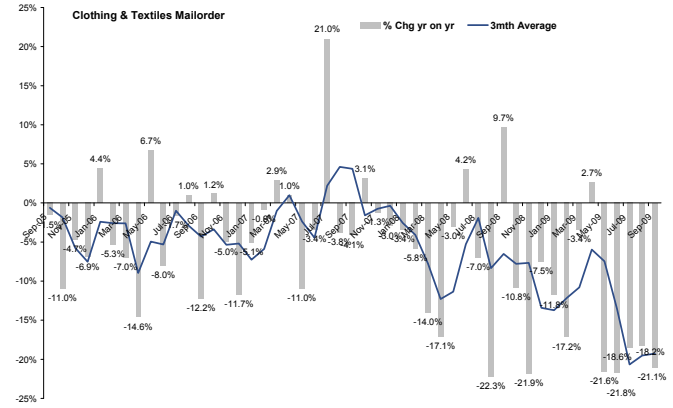
Source: Banque de France and Citi Investment Research and Analysis

Figure 16. Furniture – Monthly Retail Sales, 2005-2009



Source: Banque de France and Citi Investment Research and Analysis

Figure 17. Clothing & Textile Mail Order – Monthly Retail Sales, 2005-2009

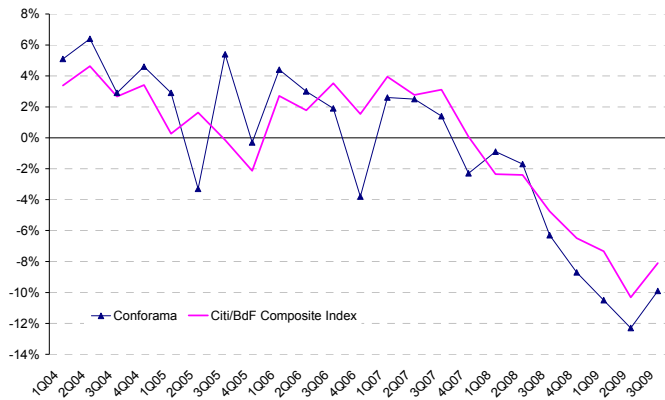


Source: Banque de France and Citi Investment Research and Analysis

Appendix 2: PPR vs. Citi/BdF Index

Fnac historically outperforming its market, Conforama and Redcats more closely correlated to the Banque de France index

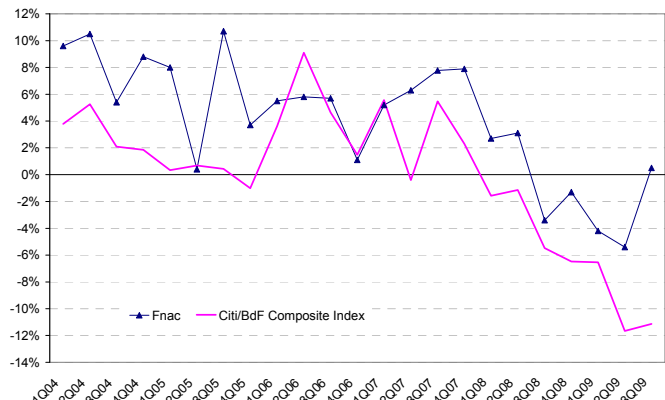
Figure 18. Conforama comparable sales trends vs. Citi/BdF Index*



* Citi/BdF index for Conforama has been calculated by taking the weighted average growth of the following product categories: Furniture (55%), Brown & Grey goods (21%), White Goods (17%), All Retail (7%)

Source: Company Reports, Banque de France and CIRA

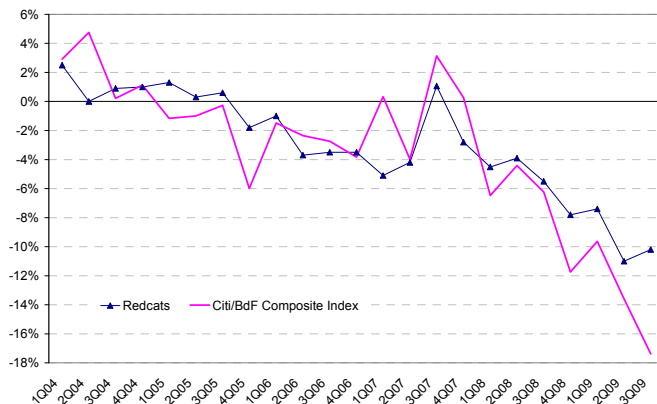
Figure 19. Fnac comparable sales trends vs. Citi/BdF Index*



* Citi/BdF index for Fnac has been calculated by taking the weighted average growth of the following product categories: Brown & Grey goods (58%), Books (19%), All Retail (23%)

Source: Company Reports, Banque de France and CIRA

Figure 20. Redcats comparable sales trends vs. Citi/BdF Index*



* Citi/BdF index for Redcats has been calculated by taking the weighted average growth of the following product categories: Clothing Mail Order (78%), Brown & Grey goods (14%), White Goods (2%), All Retail (5%)

Source: Company Reports, Banque de France and CIRA

PPR

Company description

PPR was established in 1963 by François Pinault. He retains a majority holding. PPR grew in the retail sector in the mid-1990s. The purchase of a controlling stake in Gucci Group in 1999, followed by a multi-brand luxury goods/lifestyle strategy and the acquisition in 2007 of a 62% stake in Puma (69.4% as of October 2009), means that the group is now split 70/20/10 Retail/Luxury/Puma by sales and 40/40/20 by EBIT

Investment strategy

PPR shares trade on a significant discount to both UK General retailers and European luxury peers excluding Hermes. With recent debt and refinancing issues under control, PPR is on track to execute its key priorities for 2009 – restructuring/cost reduction, cashflow generation and balance sheet preservation. Difficult economic conditions for luxury and mass-market retailers do not necessarily bode well for a conglomerate like PPR, however the company has undergone a fundamental change in culture and capital efficiency in the past few years, which should continue to reap benefits.

While PPR's current structure remains that of a diverse (unattractive?) conglomerate, its strategic objectives are clear – a focus on products/markets with good medium-term growth prospects and a willingness to sell parts of the business which do not offer sufficient growth and profit potential. PPR's probable transformation into a "pure play" luxury/lifestyle company could well create significant value.

Finally, investors should be reassured that financial indebtedness is not a major issue at PPR for the time being, following €1bn operating FCF generation in 2008, solid cashflow expected in 2H09 and recent refinancing operations. With fixed charge cover of 2.3x and net debt/EBITDA of 2.9x for Dec 09e, PPR is not excessively geared to our mind. Significantly, PPR has repeatedly said it does not intend to acquire any asset prior to achieving a disposal, a sound approach aimed at maintaining or improving its credit rating.

We have a Buy/Medium Risk (1M) rating and €106 price target.

Valuation

We look at a Sum-of-the-Parts approach as an important valuation indicator for what remains a diverse group. Our simple SOTP suggests fair value of €101 per share. However, SOTP can be overly harsh in its treatment of debt implicitly placing debt at "face value". We therefore also use an allocated interest SOTP (suggesting a fair value of €112), which effectively accepts that investors are not too particular in thinking about differing capital structures when applying the shorthand metrics (P/E) that are the norm in the market. Also, PPR is not excessively geared with a fixed charge cover of c2.3x and net debt/EBITDA of 2.9x. We set a price target half way between the simple and allocated interest methods at €106.

Risks

We rate PPR as Medium Risk. The risk rating is derived after consideration of several factors, including industry, financial and management risks. For PPR, we highlight the group's still high level of indebtedness and the complexity of the organisation, offset by improvements in its portfolio. The following risks may impede the share price from reaching our target price:

- The French economy remains subdued
- Changes in demand for luxury goods are correlated to the macroeconomic environment and the health of consumer spending patterns. Thus, any major change in the political or economic situation is a risk to PPR's Luxury division.
- PPR still has above industry average leverage, increasing P&L volatility.
- PPR's credit rating (BBB-/A-3) leaves little room for manoeuvre.

EU152021

Appendix A-1

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PPR (PRTP.PA)

Ratings and Target Price History Fundamental Research

Analyst: Thomas Chauvet
Covered since March 5 2008

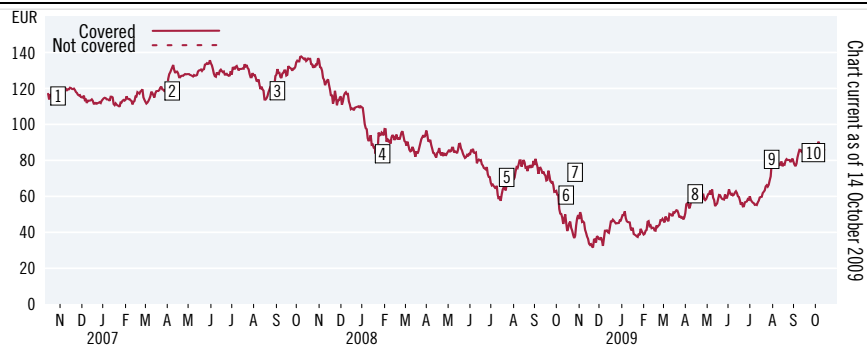


Chart current as of 14 October 2009

Date	Rating	Target Price	Closing Price
1 30-Oct-06	2M	*116.00	117.00
2 9-Apr-07	*1M	*146.00	128.94
3 4-Sep-07	1M	*150.00	130.74
4 30-Jan-08	1M	*110.00	94.94

Date	Rating	Target Price	Closing Price
5 23-Jul-08	1M	*90.00	66.60
6 15-Oct-08	1M	*77.00	45.18
7 28-Oct-08	1M	*59.00	38.00
8 15-Apr-09	1M	*65.00	57.48

Date	Rating	Target Price	Closing Price
9 31-Jul-09	1M	*74.00	78.19
10 29-Sep-09	1M	*106.00	84.85

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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Citigroup Global Markets Ltd

Thomas Chauvet

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