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Yuan devaluation points to growing China risk for LVMH, BMW

11/08/2015 - By Phil Serafino and Mathieu Rosemain

(**Bloomberg**) -- For companies from LVMH Moet Hennessy Louis Vuitton SE to BMW AG to Kone Oyj, China is delivering a one-two punch.

Years of surging economic growth that spurred sales of Louis Vuitton handbags, BMW 5-Series cars and Kone elevators already had given way to the deepest slowdown since 1990. Chinese policy makers on Tuesday added to the pain for international companies by devaluing the yuan by the most in two decades, sending shares of European automakers, luxury manufacturers and industrial companies slumping. The devaluation of the currency in the short term reduces the value of their sales in the country and makes Chinese producers more competitive. While in the longer term it will help revive growth in China, for now it signals just how concerned the authorities are about the slowdown, and that there may be further pain ahead for companies operating there.
"China is clearly becoming a growing risk that materializes day after day," said Anne d'Anselme, a fund manager at Cogefi Gestion, which oversees 600 million euros ($662 million) in Paris. LVMH sank 4.7 percent to 166.10 euros in Paris, while BMW lost 4.2 percent to 89.34 euros. Kone, the Finnish elevatormaker, dropped 3.7 percent to 38 euros.

Luxury Slump

Louis Vuitton sales in China, Macau and Hong Kong fell about 10 percent in the second quarter, Paris-based LVMH said last month. Asia excluding Japan accounted for about 27 percent of sales last quarter at LVMH, which also owns Moet champagne and Hennessy cognac. Thomas Roborel de Climens, a spokesman for company, declined to comment. Other luxury-goods companies also slumped, with Gucci owner Kering SA dropping 3.2 percent to 174 euros and Swatch Group AG, owner of the Omega watch brand, declining 5.5 percent to 408.20 Swiss francs. One bright spot for luxury-goods companies has been that, even as sales in mainland China and Hong Kong suffered, Chinese travelers continued to spend when traveling to Paris and other cities. The devaluation of the yuan means their purchasing power outside China will be hurt, said Alessandro Migliorini, an analyst at Mirabaud Securities LLP.
"What really counts is what lies beneath the decision to devalue the yuan," he said. "The most significant worry is the big picture, that China's economy is weakening."

Prospects Intact

BMW's sales in China dropped 0.1 percent in June, as the new-car market contracted for the first time in more than two years. China has low rates of car ownership and a growing middle class, the company said in an e-mailed statement Tuesday.
"Current business developments in China present us and other automobile manufacturers with challenges we foresaw a long time ago," BMW said. China's low rates of car ownership and a growing middle class mean the prospects for mid- to long-term growth remain unchanged, the manufacturer said.
Among other automakers, Daimler AG lost 5.2 percent to 79.77 euros and Volkswagen AG fell 4.6 percent to 185 euros. Kone, which got more than a third of sales from China in the second quarter, surprised investors last month when it raised its full-year profit forecast said the Chinese market may remain stable this year even as the pace of new construction slumps.

Good Performance

Newly-started property developments by area plunged 16 percent in China in the first half, including a 17 percent drop in residential property. The company plans to highlight its China business at a day-long presentation for investors in Shanghai and Kunshan, China, next month.
"Given that we operate locally in China, the impact of yuan devaluation is not significant for us," Eriikka Söderström, chief financial officer at Kone, said Tuesday in an email. "There has been plenty of volatility in the foreign exchange market this year, and compared to that, this is a small correction."
European multinational companies, especially those in the euro region, do have a lot going in their favor elsewhere to help offset the China slowdown.
The euro has weakened, falling 17 percent against the dollar in the past year. That's boosting the competitiveness of companies with expenses in euros, and it also means businesses that sell in the U.S. take home more euros when they convert dollars to their home currency. The plummeting oil price also has put more cash into the pockets of consumers and energy- consuming companies, helping to propel economic growth.
Still, Cogefi, the Paris asset-management firm, cut back its ownership of luxury and auto stocks a month ago, said d'Anselme. "The reaction of luxury and auto stocks is very easy to understand," she said. "Those are sectors that have so far performed very well, and they're exposed to the Chinese slowdown."