Hermes

Last week end I was walking down Bond Street when I came to the Hermes shop. Nice clothes, nice bags, nice scarves, nice long queues at the till, and with a clientele that isn't as predominantly Asian as LVMH.

I'm not sure I would buy the clothes, JP Gaultier has just quit womenswear, the menswear is nothing to write home about, Birkin's have gone from a rare sight to de regueur in the more fashionable parts of London, I don't really care for alligator luggage. I would, however, consider buying the stock, if only it wasn't so bloody expensive.

Hermes trades on a PE of 60, an EBITDA multiple of 20, a P/CF of 40, a P/Book of 10, and pays a dividend yield of 60 basis points. That said it has almost no debt, has an operating margin of 25% and an ROE of 17%.

Asian growth is more than making up for the slowdown in growth in Europe. US sales have recovered and are growing fast. Asia Ex Japan grew at over 30% in 2009. US sales grew at over 10%. European growth was flat. France and Japan sales grew at about 3%. With the exception of Japan where sales faltered in 2007 and 2008, Europe, US and Asia ex Japan all registered consistent growth in sales across the credit crisis year of 2008.

Hermes goods are not as cyclical as LVMH, they sell at a significantly higher price point. The business is therefore more resilient in downturns. Cyclicality is introduced by the fragrances, home and leisure lines.

This is not a detailed analysis of Hermes as a stock pick but a highlight that here is a great company that is trading at very high multiples on almost all metrics. For all that it has created an unparalleled franchise. Between the company and its goods, I would buy the company. Not the stock mind you, the company, all of it.