Kering shares notch best-ever quarter as De Meo readies overhaul

Investors have pushed Kering shares up 64% since De Meo's appointment, betting the new CEO can reverse Gucci's eight-quarter sales decline and close the gap with LVMH and Hermès. Even before Kering's Luca de Meo has had a chance to turn around stumbling fashion label Gucci , investors have rewarded him with a surging stock price. If the new CEO pulls it off, the shares could have a lot further to go.

That's the view of analysts such as John San Marco at Neuberger Berman, who say De Meo has already started to put the pieces in place for a recovery, naming a new boss at Gucci and vowing to cut costs. The shares have surged 64% since news broke in June that he was joining the company; the third-quarter gain of 53% is the biggest-ever quarterly advance for Kering.

“There's a very high ceiling should they start to get the creative and product right,” San Marco said in an interview. “The leadership overhaul we've seen in rapid succession threads a difficult needle of cleaning up lines of accountability and responsibility.”

A revival of Gucci would end a long run of frustration for shareholders of Kering, founded by billionaire Francois Pinault and run by his son, Francois-Henri Pinault, before De Meo's arrival in September. In the decade before the Italian executive's appointment, the shares limped along with a return of 3.8% annually, while French rivals LVMH Moët Hennessy Louis Vuitton and Hermès International returned 13% and 21% a year, respectively.

Kering representatives didn't respond to a request for comment.

In the past three years, Gucci, Kering's biggest brand, has faced management and design upheaval, just as the market for luxury goods weakened, especially in China.

The fashion house has had four CEOs since September 2023, as well as three designers after Alessandro Michele left in November 2022 following a successful creative period that introduced an exuberant and bohemian style to the fashion crowds. Revenue at Gucci has declined for eight straight quarters and is expected to do so again when Kering reports third-quarter sales on October 22.

One thing both bulls and bears agree on is that it's too soon to see the fruits of De Meo 's changes. HSBC analysts including Anne-Laure Bismuth, who raised their rating on the stock to buy from hold last month, said Gucci isn't likely to start reporting sales growth until the second quarter next year. But the lackluster performance analysts expect for the third quarter won't really matter, they said.

“We believe the new management gets a pass as the next few quarters will be deemed to be the legacy of the previous management,” Bismuth and colleagues said in a report this week. “It will be another opportunity for the market to grasp what profound changes have already been implemented in quite a short period of time.”

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Skeptics point out that the market is already pricing in a turnaround. Since July, Kering shares have been more expensive relative to earnings than an industry basket compiled by Goldman Sachs Group, after having been significantly cheaper for more than five years.

That valuation might leave investors hesitant going forward, said Flavio Cereda, investment director at GAM UK, who sold his stake in March when Kering appointed

Balenciaga's Demna Gvasalia as Gucci's artistic director.

“You need a genuine reversal of trend for long-only funds to become interested again, and there's no reason for that to happen yet,” Cereda said. “We'll see the real impact from next spring onwards. That's when we'll know whether the perception of Gucci is changing and whether the brand is becoming more relevant again.”

Demna, as the artistic director is known, will unveil his first catwalk collection in Milan in February.

Analysts turned much more bearish on Kering over the past three years than on its competitors. The stock now has 10 sell ratings, 15 holds and only seven buys, according to data compiled by Bloomberg, and the average target price of 225.45 euros ($264.73) is 20% below where the shares are trading. LVMH has only one sell recommendation and Hermès two, with targets above the current stock price.

Still, analysts are growing a bit more optimistic: The recommendation consensus — proxy for the ratio of buy, hold, and sell ratings — has ticked higher since De Meo was named CEO.

“Whilst we are encouraged by a new external and well-regarded CEO, we do not expect an overnight fix,” RBC analyst Piral Dadhania, who has a neutral rating on the stock, wrote last month.

And even Kering's high price-earnings ratio isn't an obstacle to further gains: In addition to the higher share price, the valuation reflects the collapse in earnings estimates over the past year. Any upward revisions to estimates would quickly bring the PE ratio back down.

Already traders have trimmed their bearish bets on the stock. Shares out on loan, an indication of short interest, represented about 7% of the company's free float, as of Monday, according to data from S&P Global Market Intelligence, down from 21% in May.

Kering will require investors' patience on Gucci's turnaround and the overall recovery of the luxury sector, Morningstar analyst Jelena Sokolova wrote in a note.

“Gucci should be in a position to regain its pricing and desirability in the long run,” Sokolova said. “Although the catalysts are unclear, we have yet to see a brand of Gucci's global recognition and scale fall permanently out of fashion.”

By Levin Stamm

Demna's Balenciaga: The anatomy of disruption