

Burberry Group PLC

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Burberry profits slip as Hong Kong teeters

Burberry Group plc (LON:BRBY) warned that it expects a further cut to profit margins due to disruption at its high-earning Hong Kong stores.

In its half-year results on Thursday, the luxury fashion house said that the gross margin, which slipped 10 basis points to 67.5% in the period, is expected to shrink another 100bps to 66.6% in the coming year.

READ: Burberry downgraded by Jefferies after shares jump on well-received trading update

Protests continue to wrack the commercial hub after first erupting in June over government plans to allow extradition of citizens to mainland China.

Hong Kong sales already declined double digits in the 26 weeks to the end of September, and this affected the FTSE 100 company's adjusted operating profit, which fell 4% to £187m compared to the same period last year despite revenues rising 3% to £1.3bn.

Richard Hunter at Interactive Investor noted: "The fact that Hong Kong finds itself in a technical recession given the disruptions is a blow to Burberry's trading in the region, where it is more profitable than most. In addition, as the company continues its transformation, it has needed to discount prices on older lines more deeply, as well as ploughing more resources into investing in product quality."

The luxury goods firm is in the second year of chief executive Marco Gobbetti's plan to shift the brand further upmarket under new creative director Riccardo Tisci. Signs that this may be working were perceived in retail comparable store sales rising 4% thanks to new collections growing at strong double digits.

Fellow luxury brand Mulberry Group PLC (LON:MUL) also had a tough time this week, with shares sinking on Wednesday as the luxury brand said consumers were less willing to splash the cash in the first half of the year.

Shares were up 6% to 2,189p in early trading on Thursday, as investors took heart from news that Burberry is reinventing itself with 70% of its retail offer now coming from new products.

"The enthusiastic reaction to these numbers has improved a share price which had struggled recently given the Hong Kong situation, dipping 12% in the last three months," added Hunter.

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Price: 2099.83

Market Cap: £85.39 m

1 Year Share Price Graph



Share Information

Code: BRBY

Listing: LSE

52 week High Low
2362 1678

Sector: Retail

Website: www.burberry.com

Company Synopsis:

Burberry Group designs, sources, manufactures and distributes luxury mens, womens and childrenswear and non-apparel accessories globally through its own retail stores, concessions and wholesale customers. Burberry also licenses third parties to manufacture and distribute products using the Burberry trademarks.

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