

press release

19 October 2011

The Share Centre downgrades Burberry to a 'sell'

- Turnover in Asia increases by 62%
- Pressure on consumer budgets impact Burberry
- Burberry could struggle to see further growth

As The Share Centre downgrades luxury goods brand Burberry to a sell Nick Raynor, investment adviser, explains why.

"Recent results reported that turnover in the Asia Pacific region had increased by 62%. Although this may have pleased growth seeking investors, for us it highlighted Burberry's dependency on China. Turnover was lower in other regions rising by 12.5% in Europe and by 9% in the Americas. Chinese consumers are becoming more affluent and spending more on luxury goods, however growth in the region has started to slow and it is uncertain how long this trend will continue.

"Burberry's PE valuation is close to the sector average and it is forecasted to fall below average in the next two years. Further growth could therefore be a struggle for the company and, should Asian markets weaken, we could see substantial downside to the share price.

"There is also pressure on Burberry's home market with high inflation, higher VAT and high unemployment all contributing to fewer pounds in the pocket for UK and European consumers.

"The level of cash in the company, which currently stands at 8%, is a concern for us. We would like to see the funds used for acquisitions or a special dividend for shareholders, however there has been no mention of this. We believe the shares are overvalued so it is unlikely a share buyback scheme will be put in place.

“The company currently offers little for income seeking investors and increases in the yield are expected to be minimal in the coming years. By 2013 Burberry estimates its income yield will be just over 2%.

“We believe the risks of holding Burberry outweigh the benefits and suggest investors take the profits and sell. There has been plenty of growth in recent years with the share price rising from 250p in March 2009 to a high of 1610p in July 2011; however we feel investors could receive higher yields and better growth opportunities elsewhere.”

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The Share Centre was established in 1990 to provide value-for-money share services for private investors. Its range of services includes buying and selling shares (by Internet, telephone and post) and a comprehensive share administration and safe custody service. Tax-efficient investment 'wrappers' including ISAs, CTFs and SIPP's are also available.

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