14th January 2016

Luxury & Consumer Goods

Richemont

Price CHF65.55

4% organic sales decline in Q3, slowdown vs H1 as expected

Fair Value CHF90 (+37%) **BUY**

Bloomberg	CFR VX
Reuters	CFR.VX
12-month High / Low (CHF)	91.1 / 65.0
Market Cap (CHF)	36,708
Ev (BG Estimates) (CHF)	28,751
Avg. 6m daily volume (000)	1,673
3y EPS CAGR	19.9%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-7.1%	-21.7%	-14.0%	-26.2%
Pers & H/H Gds	-2.2%	-4.9%	-4.4%	13.0%
DJ Stoxx 600	-3.5%	-5.1%	-11.7%	0.2%

YEnd Mar. (EURm)	03/15	03/16e	03/17e	03/18e
Sales	10,410	11,350	12,030	12,760
% change		*9.0%*	*6.0%*	*6.1%*
EBITDA	3,060	2,900	3,160	3,445
EBIT	2,436	2,500	2,760	3,070
% change		*2.6%*	*10.4%*	*11.2%*
Net income	1,336	1,850	2,077	2,303
% change		*38.5%*	*12.3%*	*10.9%*

	03/15	03/16e	03/17e	03/18e
Operating margin	23.4	22.0	22.9	24.1
Net margin	12.8	16.3	17.3	18.0
ROE	9.3	10.8	10.4	10.1
ROCE	23.3	21.3	21.2	21.4
Gearing	-39.6	-42.6	-45.8	-48.6

(EUR)	03/15	03/16e	03/17e	03/18e
EPS	2.39	3.30	3.71	4.11
% change	-	*38.5%*	*12.3%*	*10.9%*
P/E	25.3x	18.3x	16.3x	14.7x
FCF yield (%)	4.4%	7.3%	8.1%	9.1%
Dividends (EUR)	1.60	1.85	2.10	2.20
Div yield (%)	2.7%	3.1%	3.5%	3.6%
EV/Sales	2.7x	2.3x	2.0x	1.8x
EV/EBITDA	9.2x	9.1x	7.8x	6.6x
EV/EBIT	11.5x	10.6x	8.9x	7.4x

Richemont this morning reported Q3 sales at EUR2.93bn (+3%), implying a 4% organic sales decline (-4.5% expected by BG) after +3% in H1 and -6% in October. Europe sales are down 3% during the quarter versus +24% in H1 while the situation is Asia-Pacific is less dramatic (-9%) than in the H1 (-17%). We maintain our Buy recommendation with an unchanged CHF90 FV.

ANALYSIS

- **Richemont's 9m and Q3 sales reached a respective EUR8.75bn (+11%) and EUR2.93bn (+3%)** with 1% organic sales growth for 9m and 4% organic sales decline in Q3 alone (almost in line with our estimates but below consensus -3%), versus -6% in October. The better trend in November and December vs October is due to better distribution mix in our view. By geographical area, we would highlight the still-strong increase in **Japan** (9% of Group sales) with +9% in Q3 despite some slowdown versus H1 (+44%) , affected by a tougher comparison basis. Sales in **Europe** (31% of Group sales) declined 3% in Q3 following +24% in H1, given the lack of tourism from November, we assume this to be the consequence of the attacks in Paris on November 13. On the other hand, while the momentum remained negative in **Asia-Pacific** (33% of Group sales) with a 9% revenue decline, it did show some sequential improvement after the 17% decrease in H1). The rate of sales growth continues to improve in **Mainland China** (8% of sales) while momentum in **Hong Kong** (13% of sales) and Macau is still negative. Poor watch demand in APAC is driving a sales decline. Sales in the **Americas** (15% of CFR revenues) declined by 3% in Q3 after a poor +1% in H1, here too affected by weak demand for watches while jewellery showed good growth.

Quarterly organic sales growth by geographical area

Ifl chge %	5m 2016	H1 2016	Q3 2016	9m 2016
Europe	26	24	-3	15
Middle East	2	4	0	2
Asia Pacific	-18	-17	-9	-15
America	2	1	-3	-1
Japan	48	44	9	30
Group	**4**	**3**	**-4**	**1**

Source : Company Data; Bryan Garnier & Co. ests.

- **By business, it is worth noting that in Q3 Jewelry Maisons (Cartier and Van Cleef & Arpels) performed in line with Specialists Watches** with a revenue decline of 4%. We assume that again Jewelry did fairly well with "good demand" and watches suffered significantly even at the Cartier brand. We also assume that Cartier jewellery has likely been impacted by the Paris attacks. **Others** sales were up by 3% in Q3, thanks to positive performances at Montblanxc and Chloé. By **distribution mix**, Retail sales (55% of CFR revenues) remained stable in Q3, affected by the European sales decline. Wholesale sales suffered even more with a 8% revenue decline. The trend of Retail outperformance continues at Richemont.
- Our FY 2015/16 sales forecasts remain unchanged at EUR11.33bn with the -0.5% sales decline this implies for Q4 (-4.5%), almost the same trend as in Q3, in line with the management's commentary on a still "challenging environment in the final quarter". We expect the FY EBIT margin to be down by 210bp to 21.3%.

VALUATION

- We maintain our Buy recommendation on the stock despite the challenging current environment, as it looks attractive in terms of valuation with a 7% discount vs peers on 2016 EV/EBIT.

NEXT CATALYSTS

- FY 2015/16 results to be reported on May 20.

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Analyst :
Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com

Sector Team :
Nikolaas Faes
Antoine Parison
Cédric Rossi

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

New Delhi
The Imperial Hotel
Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062