

The Swatch Group

Price CHF348.40

Deterioration expected in H2

Fair Value CHF420 vs. CHF440 (+21%)

NEUTRAL

Bloomberg	UHR VX
Reuters	UHR.VX
12-month High / Low (CHF)	445.7 / 313.9
Market Cap (CHF)	19,161
Ev (BG Estimates) (CHF)	17,978
Avg. 6m daily volume (000)	243.5
3y EPS CAGR	1.0%

The Swatch Group will release its FY 2015 sales and results during the current week (likely Thursday). Ahead of this publication, we have slightly adjusted our sales and EBIT 2015-2016 estimations following the recent poor Swiss watches exports publications. Our 2015-16 EBIT estimates have been trimmed by almost 5%. Consequently, we have reduced our FV to CHF420 from CHF440 and we remain Neutral on the stock, given still weak visibility on watches industry.

ANALYSIS

- Swatch Group is expected to release its FY 2015 sales and results in the following days (likely on wednesday or Thursday this week). Following Swiss watches exports figures that have been released last week (-3.3% including -7% in H2), we prefer to be cautious ahead of this publication and we revise down our sales expectations by close to 2%. FY sales should reach CHF8.60bn (consensus: CHF8.66bn) and be down 1.5% on reported including -4.3% in H2 (despite easier comparison basis). **At same forex, FY 15 sales should be almost stable (+0.5%), implying 2.3% decline in H2 alone after +3.6% in H1.** FX impact should be negative close to 2.3% on FY implying around -3% in H2 (-1.4% in H1).
- Concerning watches and jewelry division, we expect FY sales to be down 1.1% to CHF8.34bn with a 0.5% increase organically implying a 2.6% decline in H2 alone (+3.4% in H1). The Swatch Group Watches & Jewelry division sales performance should nevertheless imply some market share gains vs industry trend which can be explained by the group's brands strength and in all price segments and by Harry Winston jewellery.
- Consequently, we revise down our FY 2015 EBIT by almost 4.5% and FY Group EBIT should therefore be down 13% to CHF 1.53bn (consensus: CHF1.58bn), including -16% in H2 after -8% in H1. This implies a 230bp EBIT margin decline to 17.8% (previously expected 18.5%), after -440 reported in 2014. Our FY 15 EBIT estimates imply a profitability deterioration in H2 with a 250bp decline following -200bp in H1, consequence of weaker sales momentum in H2 than in H1 and some deleverage effect, as we see likely that the Group did not take any measures to adapt its production capacity to lower sales momentum.

Sales and EBIT adjustments

CHFm	2015 prev	2015 curr	dev %
Net sales	8 710	8 600	-1.3
o/w Watches & Prod	8 440	8 310	-1.7
Recurring EBIT	1 620	1 530	-4.5
o/w Watches & Prod	1 730	1 630	-5.5
EBIT margin (%)	18.5	17.8	-60bp
o/w Watches & Prod	20.5	19.6	-80bp

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

VALUATION

- Following our downwards 2015 and 2016 sales and EBIT estimates, we adjust our Fair Value from CHF440 to CHF420. We remain Neutral on the stock, despite some upside on our FV, as the visibility on the watches industry is too weak in our view and the high exposure to Greater China (35% of sales) is one of the highest in our luxury groups sample, even if we have recently seen some stabilisation or slight improvement in Mainland China. The sales momentum will still remain under pressure on coming weeks in our view. The stock is trading with a 2% discount vs peers average.

NEXT CATALYSTS

- FY 2015 results to be reported on February 3rd or 4th.

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BUY ratings 60.2%

NEUTRAL ratings 30.8%

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