

Richemont

Price CHF61.60

FY results below expectations and poor start of the year!

Fair Value UNDER REVIEW

BUY

Bloomberg	CFR VX
Reuters	CFR.VX
12-month High / Low (CHF)	86.9 / 59.0
Market Cap (CHF)	34,496
Ev (BG Estimates) (CHF)	26,373
Avg. 6m daily volume (000)	1,763
3y EPS CAGR	17.1%

Richemont reported FY 16 (end March 16) this morning with revenues at EUR11.1bn (consensus:EUR11.16bn), implying a 1% organic sales decline of which -6% in Q4 alone. FY current EBIT stood at EUR2.15bn (consensus: EUR2.27bn), down 11%. Current EBIT margin is down 400bp to 19.5%. Furthermore, April sales are clearly disappointing with a 15% sales decline.

ANALYSIS

- Richemont 2015/16 sales grew 6.4% to EUR11.1bn and declined 1% organically (consensus: -1%). This implies a 6% decline in Q4 alone after -4% in Q3 and +1% on 9m. By geographical area and at same forex, we want to highlight the clear deterioration during the last quarter in **Europe** (-8% in Q4 following -3% in Q3), as some peers, consequence of significant lower tourists flows (mainly Chinese clientele) since the beginning of the year. On the other hand, **Asia Pacific (36% of sales)** sales were down 13% on FY, implying -7% in Q4 after -9% in Q3, as Mainland China was better oriented recently (even if in Hong Kong, trend remained strongly negative). **America** (16% of sales) momentum was not so bad in Q4 with a 1% decline following -3% in Q3. Luxury market in US is clearly slowing down (fewer tourists, weak local demand...). Lastly and surprisingly, in **Japan** (9% of sales) revenues declined in Q4 by 8% following +9% in Q3 as we have seen less Chinese tourists given the recent JPY strength. FY Retail sales grew by 5% (+8% on 9m) while wholesale revenues declined 7% (-7% on 9m).

Quarterly organic sales growth by geographical area

lfl chge %	H1 16	Q3 16	9m 16	Q4 16	FY 16
Europe	24	-3	15	-8	10
Middle East	4	0	2	2	2
Asia Pacific	-17	-9	-15	-7	-13
America	1	-3	-1	-1	-1
Japan	44	9	30	-8	20
Group	3	-4	1	-6	-1

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

- By division, the worst performance has been achieved by the Watchmakers (30% of sales) with around a 4% decline while Jewelry Maisons (53% of sales) momentum was almost stable. By business, Jewelry revenues grew while watches were down.
- Recurring Group EBIT declined 11% to EUR2.15bn (consensus: EUR2.27bn)**, implying a 400bp EBIT margin decline to 19.5%. The reported EBIT stood at EUR2.04bn as it includes a one-off charge of EUR97m (restructuring costs and one-time charges in order to adjust fixed costs) that concerns all the divisions. Gross margin declined 4% and gross margin decreased 180bp to 64.3%. Gross profit includes a one-off charge of EUR67m.
- This negative move has been driven by the Watchmakers division (-730bp to 16.1%), while profitability of Jewelry Maisons are down 360bp to 31.3%, mainly due to Cartier watches sales significant decline. Lastly ...
- Furthermore, April has achieved a clear disappointing performance with a 15% sales decline at constant exchange rate. The only good news is coming from Mainland China where sales were up 26%, and retail outperforming wholesale.

VALUATION

- The stock is trading with a 6% discount vs peers.

NEXT CATALYSTS

- 5m trading statement to be reported on September 14th.



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