

## Richemont

Price CHF59.80

13% sales decline in first 5m

Fair Value CHF63 (+5%)

NEUTRAL

Over the first five months (April to August 2016), Richemont sales declined 13% at same forex, versus -10% expected by consensus, following -6% in Q4 March 2016 and -15% in April 2016 alone. H1 recurring EBIT should be down around 37%. Given this release and poor short-term prospects, we remain Neutral on the stock with an unchanged CHF63 FV.

## ANALYSIS

- The Swiss Group achieved a 14% sales decline for the first 5m of FY March 2017 (April to August). At same forex, sales were down 13% (consensus: -10%) versus -6% in Q4 March 2016. In April alone sales were down 15% on an undemanding comparison basis. We want to highlight the steep revenue decrease in **Europe** (-18%) following -8% in Q4 2016 which is the consequence of significantly lower tourists flows, particularly in **France** where we estimate that CFR achieves 7% of its sales. In the UK, sales growth was driven by GBP weakness. Even **Middle East** sales declined during the period (-10%). It is also worth noting that Asia-Pacific is still suffering with a 9% decline following sales -7% in Q4 March 2016. This is the consequence of buying back inventories in Hong Kong and Macau despite better momentum in **Mainland China** which accounts for 9% of CFR sales, as Chinese clients are buying more at home than last year (terrorist attacks in France, stronger JPY, more customs checks). Japan suffered from a very demanding comparison basis and higher JPY (less Chinese tourists).

## Organic sales growth by geographical area

| lfl chge %   | Q3 16     | Q4 16     | 5m 17      |
|--------------|-----------|-----------|------------|
| Europe       | -3        | -8        | -18        |
| Middle East  | 0         | 2         | -10        |
| Asia Pacific | -9        | -7        | -9         |
| America      | -3        | -1        | -6         |
| Japan        | 9         | -8        | -25        |
| <b>Group</b> | <b>-4</b> | <b>-6</b> | <b>-13</b> |

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

- By business, **Jewelry Maisons** revenues sales declined 15% during the period, particularly affected by poor Cartier watch sales as the brand bought back some high-end sku's inventories in the retail in US, Hong Kong and in Europe, while jewelry sales were more resilient. **Watchmakers** sales decreased 18% during the period. Retail sales were down 6%, consequence of lower sales in France and in Japan, despite positive momentum for jewellery in other regions. Wholesale sales were even more affected by the current environment (overall negative trend and watch inventory buy backs) with a 21% decrease.
- H1 EBIT should be down approximately 45% due to the sales decline and a EUR65m one-off restructuring charge. Recurring EBIT should therefore be down around 37%.

## VALUATION

- CFR share price has declined 19% YTD (13% underperformance vs the DJ Stoxx) and remained almost unchanged over the last three months. The stock is trading at 13.8x on 2016 EV/EBIT, implying a 7% premium vs peers average. We remain Neutral on the stock with an unchanged CHF63 FV.

## NEXT CATALYSTS

- H1 results to be reported on November 4<sup>th</sup>.

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|                            |             |
|----------------------------|-------------|
| Bloomberg                  | CFR VX      |
| Reuters                    | CFR.VX      |
| 12-month High / Low (CHF)  | 86.6 / 53.5 |
| Market Cap (CHF)           | 33,488      |
| Ev (BG Estimates) (CHF)    | 23,489      |
| Avg. 6m daily volume (000) | 1 845       |
| 3y EPS CAGR                | 0.6%        |

|                | 1 M   | 3 M  | 6 M    | 31/12/15 |
|----------------|-------|------|--------|----------|
| Absolute perf. | -1.1% | 3.7% | -10.0% | -17.1%   |
| Pers & H/H Gds | -3.4% | 3.3% | 1.4%   | 0.6%     |
| DJ Stoxx 600   | -2.1% | 3.6% | -1.0%  | -7.4%    |

| YEnd Mar. (EURm) | 03/16  | 03/17e | 03/18e | 03/19e |
|------------------|--------|--------|--------|--------|
| Sales            | 11,076 | 10,540 | 11,100 | 11,700 |
| % change         |        | -4.8%  | 5.3%   | 5.4%   |
| EBITDA           | 2,471  | 2,110  | 2,460  | 2,720  |
| EBIT             | 2,158  | 1,705  | 2,050  | 2,310  |
| % change         |        | -21.0% | 20.2%  | 12.7%  |
| Net income       | 1,688  | 1,310  | 1,550  | 1,720  |
| % change         |        | -22.4% | 18.3%  | 11.0%  |

|                  | 03/16 | 03/17e | 03/18e | 03/19e |
|------------------|-------|--------|--------|--------|
| Operating margin | 19.5  | 16.2   | 18.5   | 19.7   |
| Net margin       | 15.2  | 12.4   | 14.0   | 14.7   |
| ROE              | 9.8   | 6.6    | 6.8    | 6.6    |
| ROCE             | 18.6  | 12.9   | 13.8   | 14.3   |
| Gearing          | -42.6 | -45.8  | -48.6  | -51.0  |

| (EUR)           | 03/16 | 03/17e | 03/18e | 03/19e |
|-----------------|-------|--------|--------|--------|
| EPS             | 3.01  | 2.34   | 2.77   | 3.07   |
| % change        | -     | -22.4% | 18.3%  | 11.0%  |
| P/E             | 18.1x | 23.4x  | 19.7x  | 17.8x  |
| FCF yield (%)   | 8.1%  | 8.9%   | 10.1%  | 11.4%  |
| Dividends (EUR) | 1.85  | 1.55   | 1.90   | 2.00   |
| Div yield (%)   | 3.4%  | 2.8%   | 3.5%   | 3.7%   |
| EV/Sales        | 2.1x  | 2.0x   | 1.8x   | 1.5x   |
| EV/EBITDA       | 9.4x  | 10.2x  | 7.9x   | 6.4x   |
| EV/EBIT         | 10.8x | 12.6x  | 9.5x   | 7.5x   |

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|         |   |
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