

Richemont

Price CHF62.65

Poor H1, globally in line with expectations

Fair Value CHF73 (+17%)

BUY

Bloomberg	CFR VX
Reuters	CFR.VX
12-month High / Low (CHF)	86.6 / 53.5
Market Cap (CHFm)	35,084
Ev (BG Estimates) (CHFm)	28,109
Avg. 6m daily volume (000)	1 985
3y EPS CAGR	5.2%

Richemont sales fell 12% in H1 at same forex vs -13% over 5m. Excluding inventory buy-backs, sales would have dropped 8%. No figures were given on the October trend. H1 EBIT was down 43%, in line with initial guidance, to EUR798m. Excluding exceptional EUR249m one-time charges, EBIT should have fallen 25%. Furthermore, management is also ready to adapt over-capacity to final demand. Buy recommendation reiterated to play gradual improvement in coming quarters. FV unchanged at CHF73.

ANALYSIS

- Richemont sales fell 13% to EUR5.09bn in H1 (consensus: EUR5.0bn). At same forex, sales were down 12% versus -13% for 5m (April to August) which on our calculations implies -5-6% in September alone. Excluding exceptional inventory buy-backs, sales declined by 8% at same forex. **Europe** revenues (31% of total sales) were down 17% as revenues were below last year in most European countries and particularly in France while the trend was positive in the UK (double digit increase) given GBP weakness. In **Americas** (16% of sales), revenues were well oriented in jewelry and in accessories and nevertheless down in watches. **Japan** sales were clearly down due to very demanding comps (+44% in H1 16). In **Asia-Pacific** (35% of sales) revenues are down 8% despite growth in Korea and in Mainland China (9% of sales) but due to weakness in Hong Kong (13% of sales) and Macau. The policy of buying back inventory to assist multi-brand retail partners concerned mainly HK and a significant negative impact on sales decline

Organic sales growth by geographical area

lfl chge %	H1 16	Q3 16	Q4 16	5m 17	6m 17
Europe	24	-3	-8	-18	-17
Middle East	4	0	2	-10	-10
Asia Pacific	-17	-9	-7	-9	-8
Americas	1	-3	-1	-6	-5
Japan	44	9	-8	-25	-22
Group	3	-4	-6	-13	-12

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

- While retail sales (58% of sales) declined 5%, wholesale sales were down 20%. The retail sales decline in H1 was mainly due to Europe and Japan. Retail sales in APAC were up. We argue also that performance of jewelry was resilient.
- H1 EBIT is down 43% to EUR798m, implying 820bp decline to 15.7%.** This includes one-off charges at EUR249m concerning inventory buy-backs and distribution optimisation (stores closure). Excluding, these one-off charges, EBIT would have been down 25%. Gross margin lost 150bp to 64%, mainly due to inventory buy-backs, partly offset by growing proportion of retail sales and positive FX impact. Furthermore, it seems that management is ready to deal with overcapacity issues and therefore adapting manufacturing structures to the level of final demand, particularly in watches industry in our view.
- Mr. Richard Lepeu, current CEO, will retire from March 2017 and CFO, Mr. Gary Saage, will leave the company in July 2017, he will be replaced by the current Deputy CFO. Mr Johann Rupert will remain Executive Chairman of the Group.

VALUATION

- We leave unchanged our Buy recommendation with a CHF73 FV. Despite a 13% rally over the last three months, the CFR share price has still lost 13% YTD. We expect some gradual momentum improvement in coming quarters, combined with adapting manufacturing structures to final demand hence our Buy recommendation.

NEXT CATALYSTS

- Q3 sales to be reported mid January 2017.



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