7th November 2016

Luxury & Consumer Goods

Richemont

Price CHF66.35

Growth in October sales including in Greater China

Fair Value CHF73 (+10%) **BUY**

Bloomberg	CFR VX
Reuters	CFR.VX
12-month High / Low (CHF)	86.6 / 53.5
Market Cap (CHF)	37,156
Ev (BG Estimates) (CHF)	30,192
Avg. 6m daily volume (000)	2 039
3y EPS CAGR	5.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.5%	16.4%	7.2%	-8.0%
Pers & H/H Gds	-6.5%	-4.8%	-0.5%	-3.3%
DJ Stoxx 600	-5.0%	-2.7%	-0.9%	-10.1%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	11,076	10,290	10,860	11,575
% change		*-7.1%*	*5.5%*	*6.6%*
EBITDA	2,471	1,880	2,390	2,775
EBIT	2,061	1,470	1,990	2,370
% change		*-28.7%*	*35.4%*	*19.1%*
Net income	1,688	1,210	1,640	1,965
% change		*-28.3%*	*35.5%*	*19.8%*

	03/16	03/17e	03/18e	03/19e
Operating margin	18.6	14.3	18.3	20.5
Net margin	15.2	11.8	15.1	17.0
ROE	11.2	7.1	8.7	9.4
ROCE	21.1	13.5	16.5	18.3
Gearing	-36.7	-38.1	-39.5	-40.8

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	3.01	2.16	2.93	3.51
% change	-	*-28.3%*	*35.5%*	*19.8%*
P/E	20.4x	28.5x	21.0x	17.6x
FCF yield (%)	5.7%	6.2%	6.5%	7.4%
Dividends (EUR)	1.85	1.55	1.90	2.00
Div yield (%)	3.0%	2.5%	3.1%	3.2%
EV/Sales	2.6x	2.7x	2.5x	2.2x
EV/EBITDA	11.7x	14.9x	11.3x	9.4x
EV/EBIT	14.1x	19.1x	13.6x	11.0x

Richemont management hosted a conference call last Friday and the most significant information from it was, in our view, that group sales in October enjoyed positive momentum (without quantifying it), including also in Greater China (24% of Group sales), which confirms our view and our bet for 2017 of a gradual improvement in the country. Buy recommendation reiterated with an unchanged CHF73 FV.

ANALYSIS

- **In H1 2016/17**, the 12% same-forex sales decline was "driven" by the **Watches business** (41% of total sales) with a 24% decrease, particularly affectected by inventory buy-backs concerning mainly the Cartier brand. **Jewellery** (39% of total sales) was more resilient with stable revenues. This performance could seem somewhat disappointing given previous more positive momentum, but was mainly due to France and Japan in our view as both suffered from lower tourists flows with even a decline in Japan. Nevertheless, management is quite confident in this segment and particularly concerning high jewellery. On the other hand, **Leather goods** and **writing instruments** were both very well oriented with a 9% and 8% revenues increase respectively. Together, these two activities account for 11% of total sales.
- In our view, the most important information given by management, including by Mr Rupert, the current Executive Chairman, is that **Richemont group revenues were again up in October** and this was even the case for **Greater China** (Mainland China, Hong Kong and Macau together) which was not the case in previous quarters. **Greater China** accounts for around 22% of group sales. This positive move was not quantified during the call, but was partly the consequence of the end to buy backs at Cartier at the end of September and also an undemanding comparison basis (sales in October 2015 were down 6%). In MC, sales were up double digit in H1, including for watches. UK was up double digit following Brexit. The reopening of the Cartier flagships in NY and in Tokyo last September also helped slightly perhaps. Furthermore, VCA sales rose slightly in H1.
- **The 150bp decline in H1 gross margin to 63.5%** was the consequence of negative effects, of which -150bp due to inventory buy-backs, mainly at Cartier, and positive things like the distribution mix (outperformance of retail vs wholesale) and FX (+40bp positive impact). Among the EUR249m one-off charges in H1, EUR67m concerned Dunhill and Lancel with massive restructuring including numerous store closures particularly at Dunhill (with 25 DOS closures in H1 and 25 more will be closed in H2) and five Lancel DOS closures including the Opéra flagship one in Paris. The closed Dunhill stores were not profitable. On the other hand, in H1, Cartier opened six DOS. Globally, Richemont Group closed 12 stores (DOS and franchisees combined) in H1 to reach 1,154 boutiques. In the Friday press release, management added also that it was ready to deal with overcapacity issues and adapting manufacturing structures to the level of final demand. Nevertheless, the group's Executive chairman added during the call that the focus is clearly on sales momentum improvement and not only on cost-cutting and that the final target was to be more flexible.
- **Given the depature of Richard Lepeu as CEO**, he will not be replaced in his position. Mr Lambert, current Montblanc CEO, will become Head of Opeations and all Maisons other than Jewellery and Watchmaking and Mr Kern, current IWC CEO, will become Head of Watchmaking, Marketing and Digital.

VALUATION

- The stock has gained 16% over the last three months. We reiterate our Buy recommendation with an unchanged CHF73 Fair Value. Furthermore, Mr Rupert also added that his goal is to increase dividends by about 10 to 15% per year on average medium term.

NEXT CATALYSTS

- Q3 sales trading to be reported on 12th January.

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