BRYAN, GARNIER & CO

Consumer, Brands & Retail

Dow Jones: 25,745.67 (10.37% ytd) | CAC40: 5382.66 (13.78% ytd) | Stoxx 600: 380.84(12.79% ytd)

22nd March 2019

Please find our Research on Bloomberg BRYG <GO>)

RICHEMONT | BUY | CHF87 vs. CHF92

Investments in Cartier should weigh on EBIT margin

FY sales 2018/19 expected to grow 8%
Strong investments expected in Cartier
2018/19 EBIT revised down by 4%
New FV at CHF87 vs CHF92

Fashion & E-Commerce |

Solid Q3 results despite US sales miss

Q3 Sales in line despite US sales miss
Q3 EPS came in at 68₵, beating analysts' 65₵ estimate
No surprise to FY19 and FY20 outlook
NKE currently leads the race… but ADS is not far behind

Upcoming BG events :

Date	
3rd-Apr	CAPGEMINI | Luxembourg roadshow with CFO / IR
30th-Apr	BIOCARTIS | London roadshow with CEO/IR

Recent reports :

Date	
19th-Mar	SemiConductors | @BG Technology Conference 2019
18th-Mar	ONCODESIGN | Planets are aligning
12th-Mar	BLUELINEA | The Silver Economy: a golden opportunity!
12th-Mar	MEDINCELL | Injecting more value
12th-Mar	BLUELINEA | La Silver Economie : un marché en OR !
6th-Mar	AB INBEV | Battle for the Middle Kingdom

Q1 2019 Top Picks

SANOFI (Buy, FV EUR94)
NOVARTIS (Buy, FV CHF96)
ROCHE HOLDING (Buy, FV CHF315)
GALAPAGOS (Buy, FV EUR125)

RESEARCH AS A SERVICE

BRYAN, GARNIER & CO

RICHEMONT

Consumer, Brands & Retail
| Luxury Goods

22nd March 2019

BUY

Fair Value	CHF87 vs. CHF92 (+20%)
Share price	CHF72.22
EPS 3Y Cagr	17.5%

Investments in Cartier should weigh on EBIT margin

FY sales 2018/19 expected to grow 8%

We expect FY 2018/19 (March 2019) sales to grow 8% organically (o/w +10% for Jewellery Maisons) to EUR13.84bn, implying +12% in Q4 alone given a very undemanding comparison basis. Q4 2017/18 sales were impacted by inventories, watches, and a buyback in the "Specialists watches" division (EUR200m). Nevertheless, the watches business (37% of CFR sales) remains one of the most challenging in the global luxury goods industry, as highlighted by relatively poor figures of the Swiss watches exports (+2% YTD after +3% in H2 2018), even if the high-end segment (above CHF 3000) clearly outperforms (+6% YTD after +4% in H2 2018) the whole industry. On the other hand, the jewellery industry (36% of CFR sales) is much better oriented (+15% for Richemont in H1 2018 vs +5% for watches), partly thanks to an increasingly branded market, especially for the high-end segment.

Strong investments expected in Cartier

Recently, Cyrille Vigneron, CEO of Cartier since 2016, acknowledged that in some stores, the shopping experience was below what consumer could expect and that some adjustments were necessary. Actually, some stores are under renovation and refurbishment, which entails closure in some cases. This added to the costs linked to renovations should lead in H2 and also in 2019/20 to some pressure on EBIT margin. At year-end 2018, Cartier operated some 202 Directly Operated stores (DOS), combined with 72 franchised stores. We estimate Cartier sales at around EUR5.3bn o/w EUR1.4bn for watches (close to 400,000 units sold per year). This brand is quite exposed to millennials (45% of sales). Furthermore, a new jewellery line should be launched in Q1 2019/20 with some costs (mainly A&P) already affected Q4 2018/19. On the other hand, the 90 DOS of **Van Cleef & Arpels** (sales estimated at EUR1.5bn) do not need the same work. Therefore, we estimate that the 2018/19 EBIT margin of the "*Jewellery Maisons*" business should be limited at 32% (32.8% previously) versus 29.9% a year ago, implying in H2 a gain of only 150bp after +280bp in H1.

2018/19 EBIT revised down by 4%

Furthermore, we are also more cautious on profitability for the "*Specialists Watches*" business in terms of EBIT margin (14.8% vs 16% previously) given the strategy to optimize the wholesale network which accounts for 70% of the sales of this division. We recall investors that "*online distributors*" EBIT will reach EUR-235m, partly due to impairments following **YNAP** acquisition. Consequently, we revise down our 2018/19 EBIT estimates for Richemont by 4% with a 2018/19 EBIT margin at 15% (15.9% previously expected), down 180bp vs 2017/18.

New FV at CHF87 vs CHF92

We remain at Buy on the stock, but we lower our FV from CHF92 to CHF87 following our earnings adjustments. We still favour LVMH and Kering in our luxury sample.

Market Data

Bloomberg / Reuters	CFR VX/CFR.VX
Market Cap.	CHF37,699m
E.V.	CHF28.111m
Free Float	50
Avg. Daily volume (6m)	1,904
12m high / low	99.0 / 60.9
Ytd Perf.	14.6%

EURM	03/17	03/18e	03/19e	03/20e
Sales	10,979	13,845	14,615	15,465
% Change		*26.1%*	*5.6%*	*5.8%*
EBITDA	2,254	2,525	2,830	3,105
% Change		*12.0%*	*12.1%*	*9.7%*
EBIT	2,007	2,080	2,380	2,685
% Change		*3.6%*	*14.4%*	*12.8%*
Net Income	1,221	1,500	1,746	1,980
% Change		*22.9%*	*16.4%*	*13.4%*
ROE	0.08	0.11	0.12	0.13

	03/17	03/18e	03/19e	03/20e
EV/Sales	2.6x	2.2x	2.0x	1.9x
EV/EBITDA	12.5x	12.0x	10.6x	9.5x
EV/EBIT	14.0x	14.5x	12.6x	11.0x
EPS	2.18	2.68	3.12	3.54
% change		*22.9%*	*16.4%*	*13.4%*
P/E	29.4x	23.9x	20.5x	18.1x
Div Yield	3.0%	3.1%	3.4%	3.6%

Next Catalyst : FY results to be reported on May 17th

Last rating Change:
2016-9-14, 13% sales decline in first 5m

Last FV Change:
2018-11-12, 2018-2020 EPS revised down by 7%

Last Reports:
2019-1-11, Sligthly disappointing Q3 figures

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RICHEMONT

BUY

Fair Value	CHF87 vs. CHF92 (+20%)
Share price	CHF72.22
Market Cap.	CHF37,699m
EPS 3Y CAGR	17.5%

Income Statement (EURm)	2016	2017	2018e	2019e	2020e
Revenues	10,647	10,979	13,845	14,615	15,465
Change (%)	-3.9%	3.1%	26.1%	5.6%	5.8%
Gross margin	6.799	7.150	8.670	9.220	9.850
Change (%)	-4.5%	5.2%	21.3%	6.3%	6.8%
EBITDA	2.174	2.254	2.525	2.830	3.105
EBIT	1.764	2.007	2.080	2.380	2.685
Change (%)	-14.4%	13.8%	3.6%	14.4%	12.8%
Financial results	-160	-150	-120	-100	-85
Pre-Tax profits	1.604	1.857	1.960	2.280	2.600
Exceptionals	3	4	5	6	7
Tax	360	432	495	575	630
Profits from associates	-34	-41	0	1	0
Minority interests	3	4	5	6	7
Net profit	1.210	1.221	1.500	1.746	1.980
Restated net profit	1.210	1.221	1.500	1.746	1.980
Change (%)	-28.3%	0.9%	22.9%	16.4%	13.4%
Cash Flow Statement (EURm)					
Operating cash flows	1.619	1.781	1.959	2.155	2.370
Change in working capital	-50	-486	100	291	310
Capex, net	550	487	500	550	620
Financial investments, net	0	957	2.500	0	0
Dividends	878	918	925	1.018	1.119
Other	-215	425	0	0	0
Net debt	-5.795	-5.271	-3.203	-3.499	-3.821
Free Cash flow	1.119	1.780	1.359	1.314	1.440
Balance sheet (EURm)					
Tangible fixed assets	2.558	2.325	2.665	3.055	3.515
Intangibles assets	689	667	781	781	781
Cash & equivalents	7.931	13.458	11.392	11.688	12.010
current assets	6.502	6.126	6.324	6.754	7.213
Other assets	2.480	2.982	2.982	2.982	2.982
Total assets	20.160	25.558	24.144	25.260	26.501
L & ST Debt	2.140	8.189	8.189	8.189	8.189
Others liabilities	2.491	2.731	2.829	2.968	3.117
Shareholders' funds	15.529	14.638	13.126	14.103	15.195
Total Liabilities	20.160	25.558	24.144	25.260	26.501
Capital employed	8.037	7.296	7.850	8.531	9.301
Financial Ratios					
Gross margin	63.9%	65.1%	62.6%	63.1%	63.7%
Operating margin	16.6%	18.3%	15.0%	16.3%	17.4%
Tax rate	22.4%	25.5%	24.8%	24.8%	24.1%
Net margin	11.4%	11.1%	10.8%	11.9%	12.8%
ROE (after tax)	7.8%	8.3%	11.4%	12.4%	13.0%
ROCE (after tax)	17.0%	18.8%	20.3%	21.3%	22.0%
Gearing	-37%	-36%	-24%	-25%	-25%
Pay out ratio	83.3%	87.1%	74.7%	70.6%	65.1%
Number of shares, diluted	560.000	560.000	560.000	560.000	560.000
Data per Share (EUR)					
EPS	2.16	2.18	2.68	3.12	3.54
Restated EPS	2.16	2.18	2.68	3.12	3.54
% change	-28.3%	0.9%	22.9%	16.4%	13.4%
BVPS	27.73	26.14	23.44	25.18	27.13
Operating cash flows	2.89	3.18	3.50	3.85	4.23
FCF	2.00	3.18	2.43	2.35	2.57
Net dividend	1.80	1.90	2.00	2.20	2.30

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

22nd March 2019

Fashion & E-Commerce

Consumer, Brands & Retail

Solid Q3 results despite US sales miss

Q3 Sales in line despite US sales miss

Revenue for Q3 ended February came in at USD9.6bn (+7% reported and +11% FX-n), roughly in line with CS forecasts (USD9.65bn), having beaten expectations for six consecutive quarters. NIKE brand soared by 12% FX-n (Q2: +14% / H1: +12%), with digital sales surging 36%, whilst **Converse** missed expectations with -2% (+6% in Q2 and H1) due to weak trends in the US and Europe.

In Q3 alone for the NIKE brand: **North America** "only" grew by 7% (Q2: +9% FX-n / H1: +7%), shy of CS forecasts at ~8-9%, but we recall that many retailers pointed out particularly weak sell-out trends in February. Sales in **Western Europe** increased 12% (Q2: +14% / H1: +11%) on top of a challenging macro environment in some key markets (i.e. the UK, France especially). **Greater China** remained the fastest-growing market with 24%, even though, as seen at ADS, trends have started to normalize after a strong start to the year (Q2: +31% / H1: +26%).

Q3 EPS came in at 68¢, beating analysts' 65¢ estimate

GM expanded 130bp to 45.1%, beating CS expectations (44.7%e) and its own guidance ("approx. +70bp") thanks to: **(i)** a higher share of full-price sales (Q2 FY18 was still a bit promotional), **(ii)** a favorable channel-mix (NIKE Direct) and **(iii)** positive FX tailwinds. As in the previous quarters, NIKE continued to invest massively at the opex level (digital, DTC channels), with overhead expenses up 200bp to 23.2% whilst demand creation declined 60bp to 9%. Hence, NIKE's EBIT margin expanded 60bp to 13.6%, slightly topping CS expectations at ~13.5%.

No surprise to FY19 and FY20 outlook

For Q4, NIKE is guiding on a HSD FX-n growth and more adverse FX headwind (~6pp vs. -4% in Q3) and a GM expansion of approx. 75bp. As a consequence, FY19 outlook is also reiterated, i.e. FX-n revenue growth landing in the HSD-low DD range and GM improvement that will beat Nike's MT guidance (~50bp).

In our view, investors were also expecting first indications about FY20, given some major sporting events such as Tokyo 2020 Olympics and UEFA EURO 2020. Management provided with a HSD revenue growth (CS: ~8%) and expects a GM improvement in line with the above-mentioned target (CS: +60bp).

NKE currently leads the race… but ADS is not far behind

Despite some profit-taking due to the US sales miss, and even if ADS and NKE stocks have both risen by 14% ytd, we believe that the current market's positive stance in favor of NKE will remain, fueled by: **(i)** ADS' supply chain issues in North America (apparel category) in H1 will certainly facilitate NKE's market share gains, **(ii)** NKE's strong innovation pipeline and **(iii)** Western Europe's volatile environment which could be more harmful to ADS.

Yet, ADS is close second and remains one of the fastest-growing group in our Consumer coverage (CAGR EPS 18-21e of ~13%), driven by a ~6%e in FY19 (+7-8% in H2 though) and HSD FX-n sales growth in FY20 (Greater China, US post supply chain issues, digital), a solid execution in profitability improvement and a higher shareholder return.

BG Coverage

adidas Group | BUY | EUR218

INDITEX | BUY | EUR33

CECONOMY | NEUTRAL | EUR6,2

H & M | NEUTRAL | SEK175

MAISONS DU MONDE | NEUTRAL | EUR32

ZALANDO | NEUTRAL | EUR34

Last rating Change:

MAISONS DU MONDE - 08/11/2018
Visibility on the timing of the rebound in consumption in France is deteriorating

ZALANDO - 20/09/2018
The worst now seems to be behind us

MAISONS DU MONDE - 18/07/2018
Harder, Better, Faster, Stronger

Last FV Change:

adidas Group - 14/03/2019
Balancing earnings growth AND top line momentum

adidas Group - 14/03/2019
Balancing earnings growth AND top line momentum

MAISONS DU MONDE - 13/03/2019
Disappointing guidance for 2019 growth

ZALANDO - 01/03/2019
CMD points to an unattractive 3-year transition period

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Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 54.2% NEUTRAL ratings 39% SELL ratings 6.8%

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A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

BRYAN, GARNIER & CO

DAILY EQUITY RESEARCH UPDATE
Wake-up Call

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IMPORTANT INFORMATION