



GMG Equity Research

LINDT & SPRUENGLI

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17/10/2019

Key data

Market capitalization (millions CHF)	18.785
Entreprise value (million CHF)	19.022
Share price (CH)	80000

Stock absolute and relative performance (CHF)

In %	Absolute	Relative *
1 month	-1,2%	-1,3%
3 months	-0,1%	-1,1%
6 months	3,4%	-2,5%
YTD	10,6%	-13,0%
1 year	0,8%	-13,4%
2018	5,3%	13,9%
2017	15,4%	-4,6%

*relative to SPI

Description

The firm is the 6th largest chocolate producer worldwide with a market share of 5%. It is the clear leader in the premium segment.

While the chocolate market as a whole is negatively impacted by the efforts of many consumers to improve their diet, the premium segment has remained on a growing path. Notably, the anglo-saxon consumers, who were used to sweeter chocolates are still in the trend of discovering better quality chocolate (the main differentiating point is that a quality chocolate has got more cocoa and less sugar).

L&S sells mostly in developed countries where consumers appreciate more high end chocolate. In general, older consumers prefer higher rates of cocoa; younger consumers prefer higher rates of sugar.

The firm's products are sold mostly in food supermarkets and groceries. The firm also owns 370 shops across the globe; they are to some extent aimed at rising the brand's profile and awareness.

L&S sells mostly in developed countries. Quality chocolate is little known in most of the developing countries.

The main brands are Lindt, which is distributed worldwide, Ghirardelli and Russel Stover, which are distributed in the USA. Russel Stover was bought in 2014.

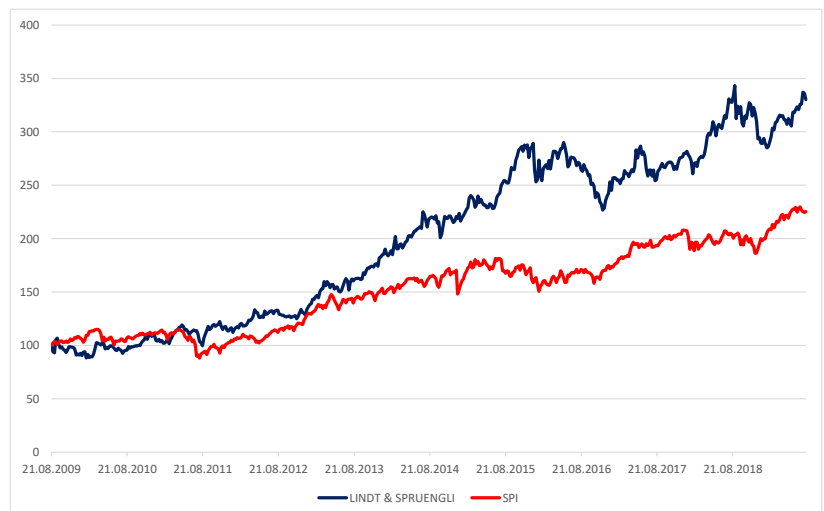
Firm's performance

L&S has a long track record of superior growth and improving profitability.

Since 1999, the average sales growth has been 6%. The operating margin has improved close to 40% in the same period. Cash flows generation has been strong and improving over the years.

These outstanding trends have been weakened after L&S took over US chocolate producer Russel Stover in 2014. The subsidiary booked declining sales until 2018. L&S acknowledged that the integration and the realignment of the Russel Stover products range took longer than expected. This episode seems to have come to an end in H1 2019, when Russel Stover published rising sales again.

Share price (10 years)





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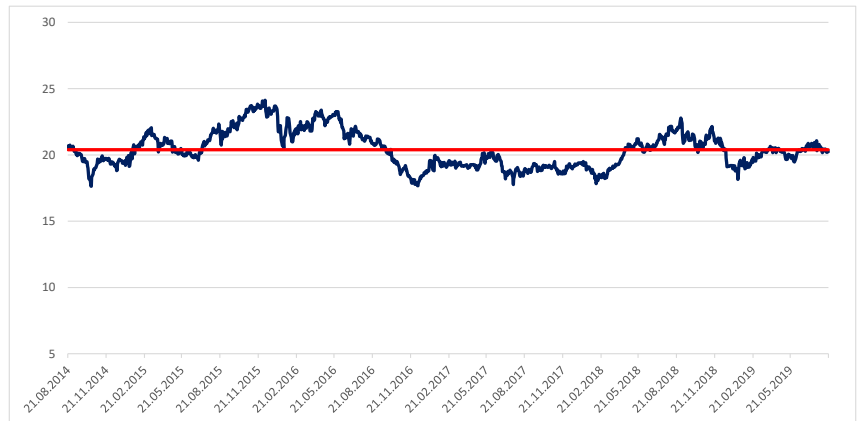
Valuation ratios

	12/16	12/17	12/18	12/19e	12/20e
EV/EBITDA	19,6	20,9	20,3	21,1	19,6
PER	34,9	37,3	36,5	37,0	34,1
Free Cash Flow Yield	3,0%	3,4%	3,2%	3,3%	3,6%
Dividend Yield	1,4%	1,3%	1,4%	1,3%	1,4%
P/BV	3,7	3,8	3,7	4,2	4,2

Bloomberg ESG ranking

Global ESG	31,8
Environment	27,1
Social	36,8
Governance	37,5

EV / EBITDA



Environment, Social & Governance comments

Environment

- The firm aims at reaching that 100% of its cocoa supplies are traceable in 2020; by 2025, the target is that all of the cocoa used is labelled as sustainable (no deforestation). The next step is to extend this approach to all the ingredients.

Social

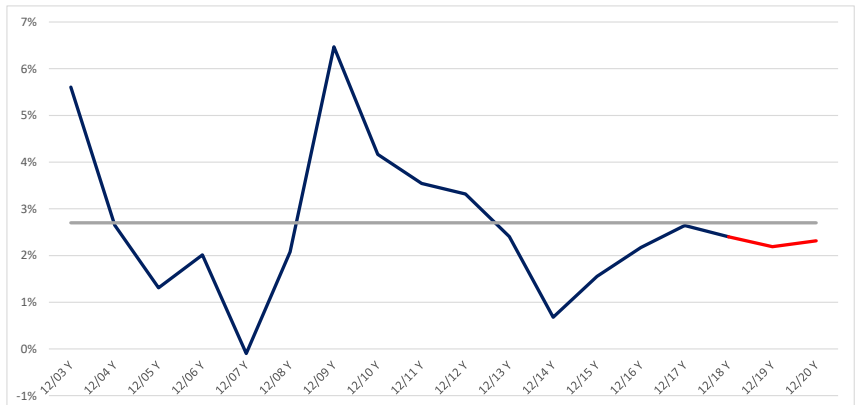
- The firm runs communities and farming programs in all the countries where its cocoa is sourced. This helps many rural families, mostly in Ghana. Moreover, it is a way to secure good quality supply and a way to reduce costs by buying upstream rather than downstream after a chain of middlemen has been involved. The SECO (Swiss Confederation) helps finance the Ghana program.

Governance

- The capital is divided between registered shares with voting rights (the board of directors can enact a voting caps on shareholders' voting right above 2%) and bearer participation certificates without voting rights.

- A trust related to the employees' pension fund and a trust dedicated to the promotion of chocolate hold over 20% of the registered shares. Both trusts, which are the main shareholders of L&S, are effectively controlled by the directors of L&S.

Free Cash Flow Yield

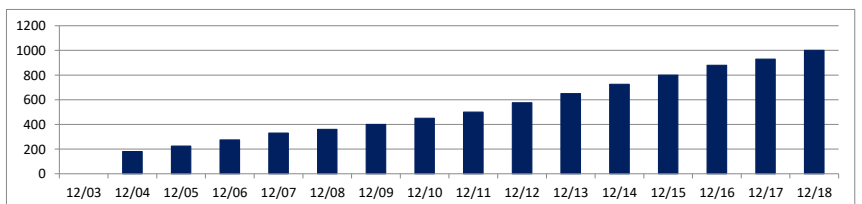


ESG affiliations and codes of conduct

UN Global Compact	✓
UN PRI (responsible investment)*	✓
Anti bribery policy	✓
Employee CSR training	✗
Fair remuneration policy	✗

* Applicable to financial institutions

Dividend per share (CHF)





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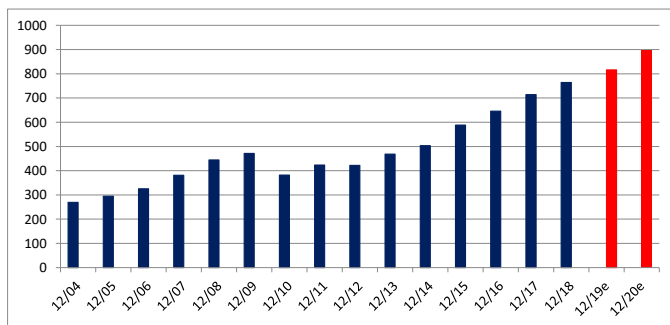
Performance ratios

	12/16	12/17	12/18	12/19e	12/20e
Operating Margin	14,4%	14,6%	14,8%	15,0%	15,4%
ROIC	8,3%	8,5%	8,4%		
ROE	11,8%	11,5%	11,2%		
WC / Sales	28,5%	42,3%	44,2%		
Net Debt / EBITDA	31,2%	20,2%	1,6%		
Net Debt / Equity	6,1%	3,7%	0,3%		
Capex / D&A	143,1%	102,5%	136,4%		

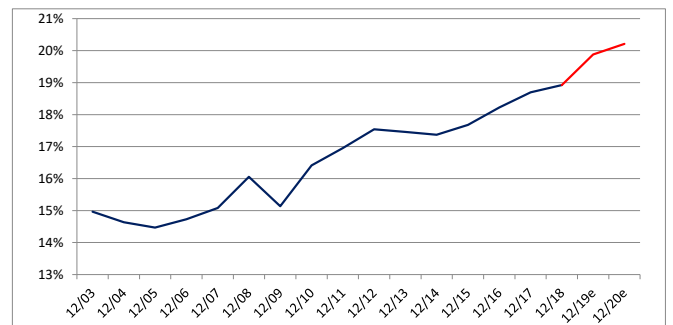
Financial statements (million CHF)

		12/16	12/17	12/18	12/19e	12/20e
Chairman:	Ernst Tanner					
Tenure (years):	25,9					
CEO:	Dieter Weisskopf					
Tenure (years):	3,1					
CFO:	Martin Hug					
Tenure (years):	2,8					
Sales		3.918	4.088	4.313	4.526	4.764
<i>variation</i>			4,3%	5,5%	4,9%	5,3%
D&A costs		152	169	180		
EBITDA		714	764	816	900	963
<i>variation</i>			7,1%	6,8%	10,2%	7,0%
Net earnings		422	452	485	520	562
Total current assets		2.375	2.781	2.933		
Total fixed assets		4.054	4.195	4.317		
Shareholders equity		3.674	4.195	4.486		
Working capital		1.116	1.731	1.905		
Net debt		223	154	13		
Operating cash flow		515	591	652	696	753
Capex		-217	-173	-245	-292	-326
Free cash flow		299	418	407	404	427

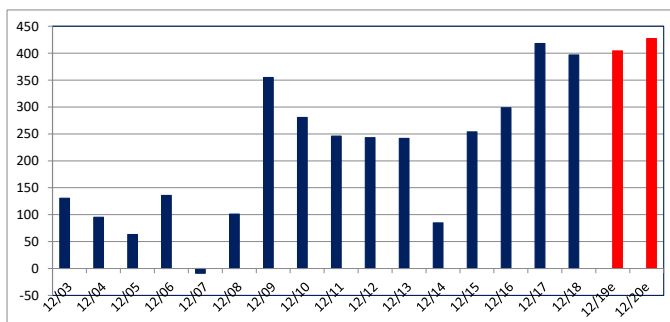
EBITDA



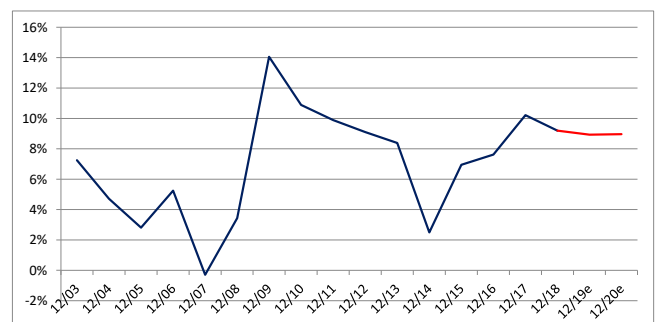
EBITDA margin



Free cash flow



Free cash flow & Free cash flow / sales





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SWOT

Strengths

- Superior growth in a defensive market
- High value of the brands Lindt, Girardelli and Russel Stover
- Long and successful track record of the management

Weaknesses

- Sensitivity to volatile raw materials prices, especially cocoa
- Lack of products diversification

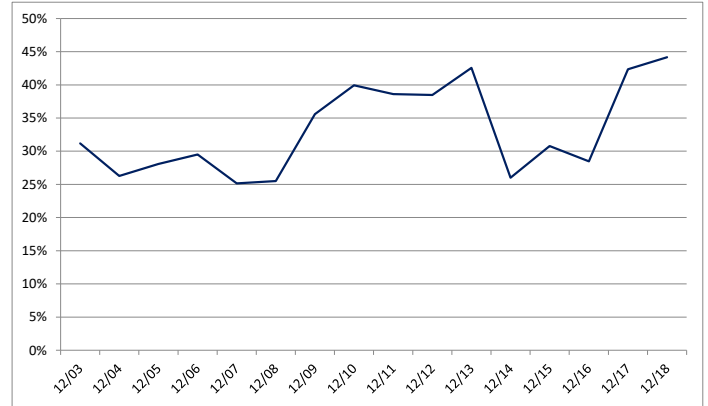
Opportunities

- The premium chocolate is a category that has scope for progression in many countries, for the example, the USA, which is the largest chocolate market worldwide. Chocolate is consumed only in small quantities in most emerging countries

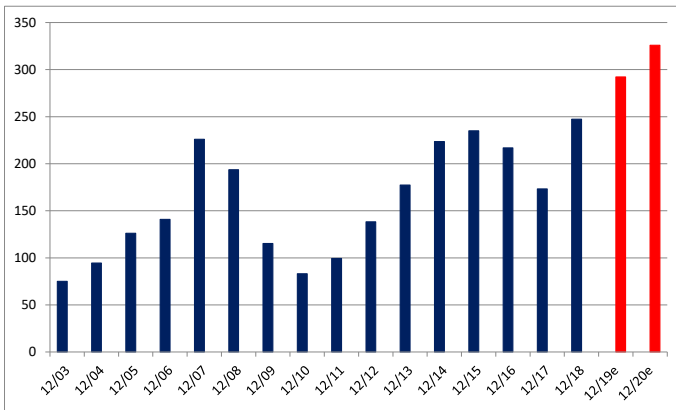
Threats

- Chocolate consumption is negatively impacted by a rising sensitivity to sugar and fat intake
- Controversies on raw materials sourcing could impact the firm

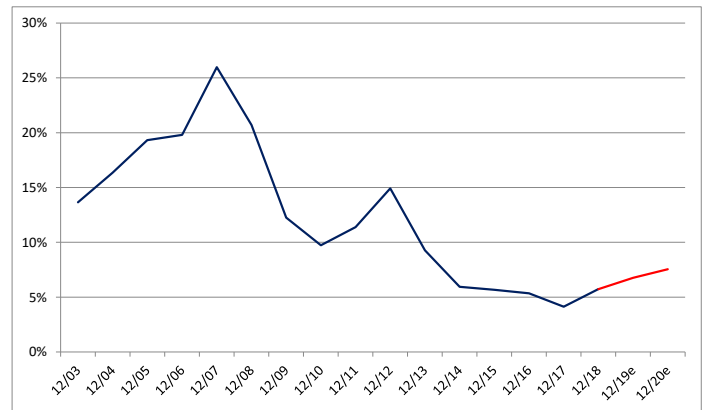
Working capital / sales



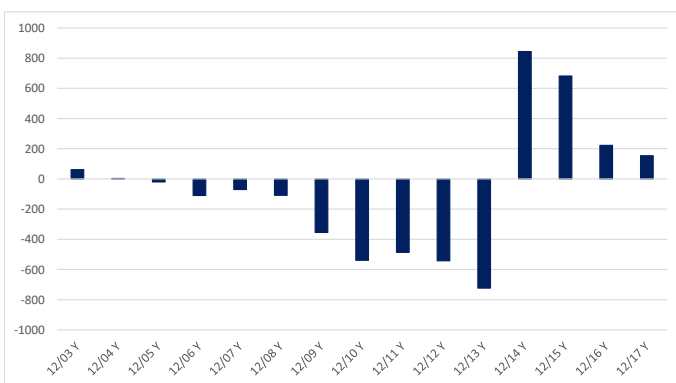
CAPEX



CAPEX / non current assets



NET DEBT



NET DEBT / EBITDA

