



## GMG Equity Research

## RICHEMONT

**Jean-Louis Richard, CFA, FRM**  
Senior Equity Analyst

17/10/2019

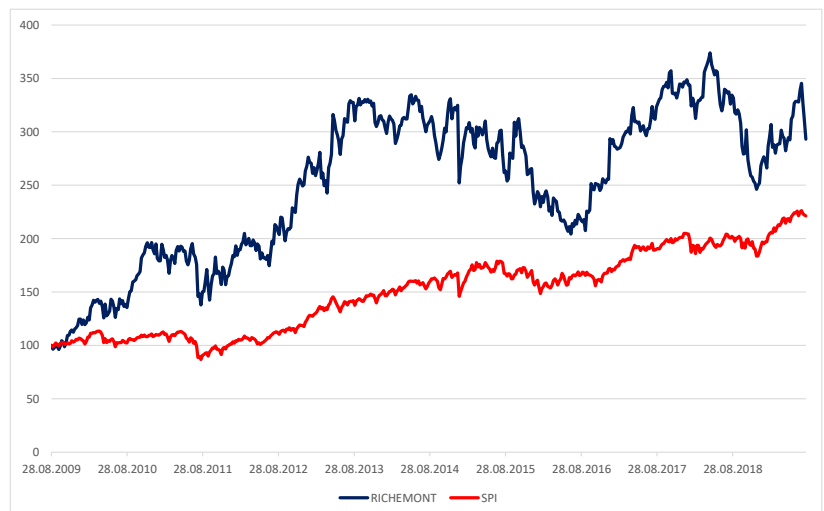
Key data			Description	
Market capitalization (millions CHF)	38.841		Compagnie Financière Richemont is a luxury goods company owning a number of high profile brands:	
Entreprise value (million CHF)	35.927		Jewellery(50% of sales): Cartier and Van Cleef & Arpels.	
Share price (CH)	74,52		Watches (20% of sales): A. Lange & Söhne, IWC Schaffhausen, Jaeger-LeCoultre, Officine Panerai, Piaget, Roger Dubuis, Vacheron Constantin and Baume & Mercier.	
Stock absolute and relative performance (CHF)			Other luxury (over 10% of sales): Alaïa, Lancel, Dunhill, Montblanc, Chloé, Peter Millar, Purdey.	
In %	Absolute	Relative *	Online distributors (15% of sales): Watchfinder and YOOX NET-A-PORTER (YNAP).	
1 month	-3,1%	-3,4%	Chinese customers, buying in their country, in Hong Kong or while travelling abroad, account for over half of the sales.	
3 months	-10,5%	11,7%		
6 months	0,6%	-5,4%		
YTD	21,5%	-2,4%		
1 year	3,8%	10,6%		
2018	-26,9%	18,4%		
2017	33,6%	13,7%		
		*relative to SPI		

### Firm's performance

The firm is a beneficiary of the rising number of people accessing wealthier lifestyles across the world, especially in emerging countries. This has enabled Richemont to post rapid growth over the recent years. This trend will most likely go on in the future.

Cash flows generation has been good despite a high working capital. As the group is shifting towards a model in which supply is more closely matched to end-customer demand, working capital should decrease, which should help improve cash flows over time.

### Share price (10 years)



**GMG Equity Research**
**RICHEMONT**

17/10/2019

**Valuation ratios**

	03/17	03/18	03/19	03/20e	03/21e
EV/EBITDA	15,7	14,7	11,8	11,5	10,6
PER	34,2	30,8	25,0	22,1	19,6
Free Cash Flow Yield	2,4%	4,5%	3,2%	3,1%	3,5%
Dividend Yield	2,1%	2,0%	2,8%	2,7%	2,7%
P/BV	2,7	2,9	2,2	2,3	2,3

**Bloomberg ESG ranking**

<b>Global ESG</b>	<b>46,7</b>
Environment	43,4
Social	38,6
Governance	62,5

**EV / EBITDA**

**Environment, Social & Governance comments**
**Environment**

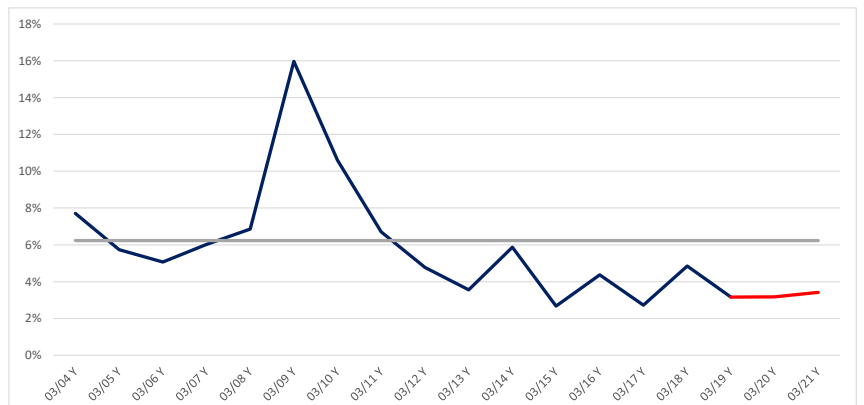
- The firm has enacted a Code of Conduct for its suppliers. Audits are performed on a regular basis, especially for the producers of leather (tanning industry).
- Over 95% of gold and diamonds that the firm buys are labelled RJC (Responsible Jewellery Council). 90% of the gold is from recycled sources.
- Cartier, Chloé, Montblanc, Peter Millar and YNAP are committed to stop selling fur.

**Social**

- Sales of guns (James Purdey), smoking accessories and alcohol (Dunhill) account for "significantly less than 1%" of the turnover.
- The brands support cultural programs (30 million a year) such as Cartier Philanthropy, Fondation Cartier pour l'art contemporain, Michelangelo Foundation for Creativity and Craftsmanship, Fondation de la Haute Horlogerie, Peace Parks (which supports wildlife reserves in Africa), Laureus Foundation.

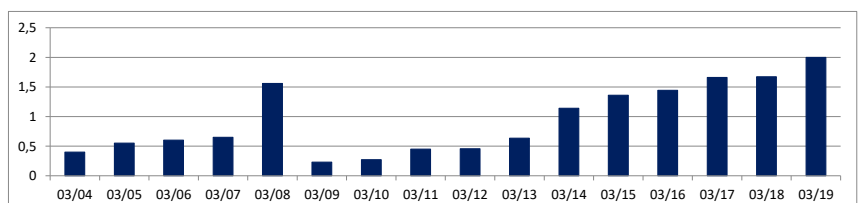
**Governance**

- Johann Rupert, former CEO and current chairman of the board, owns 9% of the capital, but commands 50% of the votes.
- Other members of the Rupert family sit in the board
- The firm has introduced a whistleblowing policy.

**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)**




**GMG Equity Research**

**RICHEMONT**

17/10/2019

**Performance ratios**

	03/17	03/18	03/19	03/20e	03/21e
Operating Margin	16,6%	16,8%	13,9%	15,0%	15,9%
ROIC	7,9%	6,9%	7,3%		
ROE	7,7%	8,6%	9,4%		
WC / Sales	98,9%	120,9%	78,5%		
Net Debt / EBITDA	-247,4%	-211,7%	-86,0%		
Net Debt / Equity	-37,3%	-36,0%	-14,8%		
Capex / D&A	95,5%	121,9%	88,7%		

**Financial statements (million EUR)**

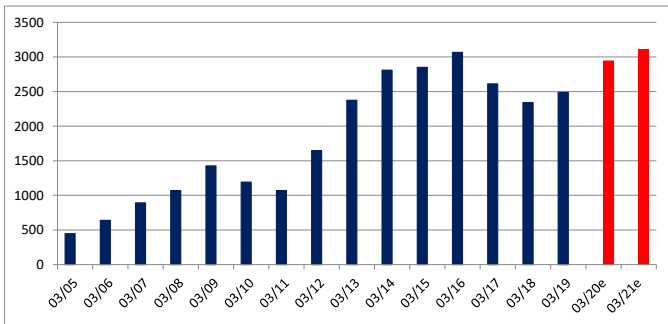
	03/17	03/18	03/19	03/20e	03/21e
Sales	10.647	10.979	13.989	15.188	16.149
<i>variation</i>		3,1%	27,4%	8,6%	6,3%
D&A costs	561	539	812		
EBITDA	2.341	2.489	2.940	3.112	3.356
<i>variation</i>		6,3%	18,1%	5,9%	7,8%
Net earnings	1.223	1.339	1.467	1.725	1.941
Total current assets	14.433	19.678	17.278		
Total fixed assets	5.727	5.974	10.761		
Shareholders equity	15.529	14.638	17.039		
Working capital	10.533	13.269	10.975		
Net debt	-5.791	-5.269	-2.528		
Operating cash flow	1.619	2.384	2.026	2.254	2.402
Capex	-536	-657	-720	-895	-940
Free cash flow	1.083	1.727	1.306	1.359	1.462

**Chairman:** **Johann P Rupert**  
Tenure (years): 5,2

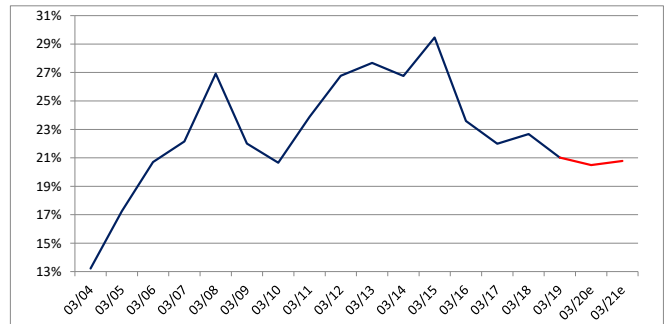
**CEO:** **Jerome Lambert**  
Tenure (years): 1,2

**CFO:** **Burkhardt Grund**  
Tenure (years): 1,8

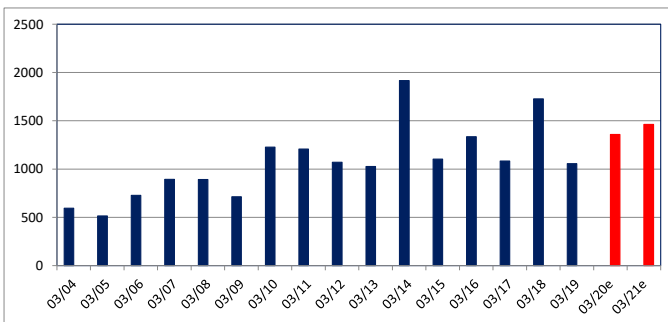
**EBITDA**



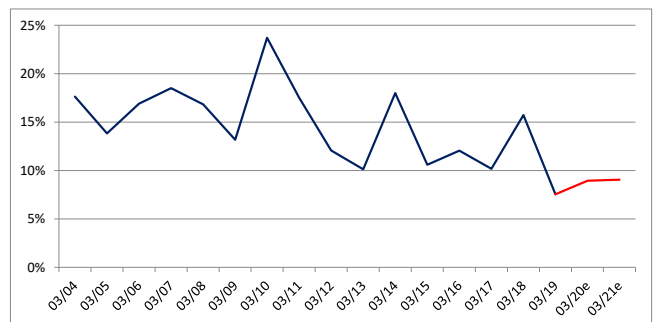
**EBITDA margin**



**Free cash flow**



**Free cash flow & Free cash flow / sales**





## GMG Equity Research

## RICHEMONT

17/10/2019

### SWOT

#### Strengths

- Rich portfolio of well established brands
- Barriers to entry
- Strong balance sheet

#### Weaknesses

- High exposure to mainland China and Hong Kong
- Lasting underperformance of some of the brands (Dunhill, Montblanc)

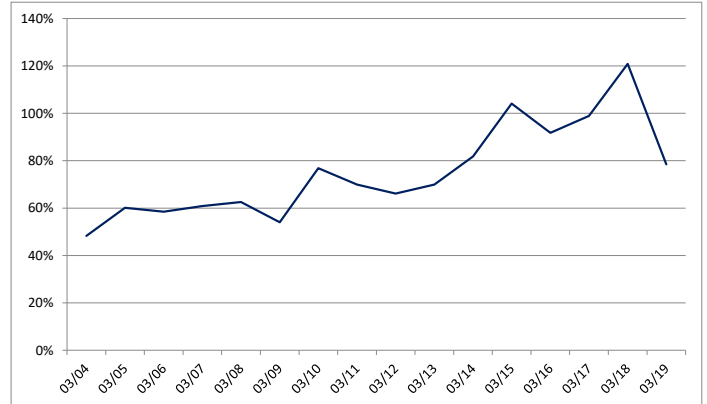
#### Opportunities

- Large emerging countries such as India and Brazil remain underpenetrated
- Development of the online business

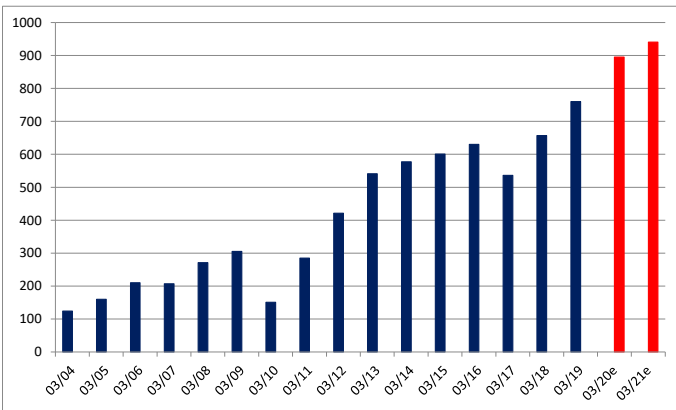
#### Threats

- Younger generations may be less attracted to wearing jewellery or watches
- Connected watches are an alternative to traditional mechanical watches

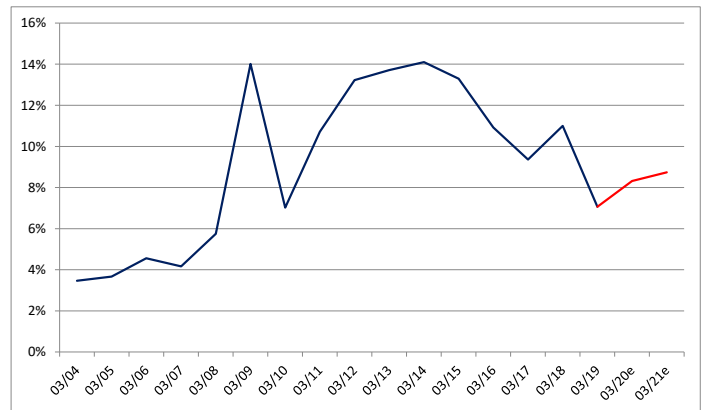
### Working capital / sales



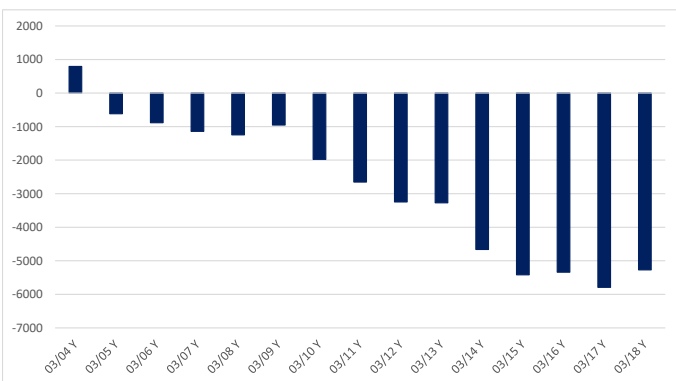
### CAPEX



### CAPEX / non current assets



### NET DEBT



### NET DEBT / EBITDA

