STONEHAGE FLEMING

EQUITY MANAGEMENT (SOUTH AFRICA)

EQUITY INSIGHTS

Compagnie Financiere Richemont

Issue date: 12 June 2018

YEAR END RESULTS

During the month of May, Richemont released their 2018 year-end results. Sales increased by 3% (actual exchange rates) with operating profit and earnings increasing by 5% and 1% respectively. The results were negatively impacted by the company buying back some EUR203million worth of watches during the year. The highlight of the results was the exceptionally strong cash flow generation (EUR2.7billion) over the period. The 6% increase in dividends is, in our view, probably the biggest disappointment given the strong cash generation and growing cash pile.

CORPORATE ACTIVITY

Given the strong cash flow generation during the period, it was interesting to note the issuance of EUR4billion in corporate bonds despite the EUR5.8billion (12% of market capitalisation) of net cash already on the balance sheet. Management's reasoning being to 'take advantage of a low interest rate environment to raise long-term debt to fund the development of our businesses as we continue to adapt and evolve'.

During the period, Richemont increased their stake in duty free retailer Dufry, and launched an offer for all Yoox Net-a-Porter shares not already owned by the Group. Subsequent to the year-end, Richemont announced the sale of the loss making Lancel division and purchase of Watchfinder.co.uk, an online retailer of pre-owned premium watches.

INVESTMENT CASE

The Cartier brand remains the biggest profit driver in the Group, and although not disclosed, is estimated to contribute around 65% of Group profits (Cartier and Van Cleef & Arpels together make up around 86% of profits).

Richemont offers investors exposure to a basket of exceptional brands with strong brand equity in an industry with high barriers to entry given the importance of brand heritage and control over supply chains and distribution channels. Operating within a long-term oriented corporate culture, notwithstanding some recent executive level changes, management have shown a willingness to adapt to changing consumer needs without damaging their brands.

SUMMARY

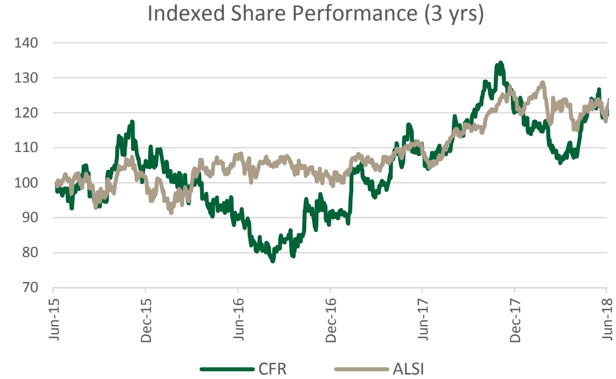
Despite the recent rerating, Richemont continues to offer a compelling investment case for long-term oriented investors looking for a high quality company with 'hard currency' rand-hedge characteristics supported by favourable earnings momentum. **HOLD.**

Industry
Luxury Goods
Industry View
Neutral
Current Recommendation
HOLD

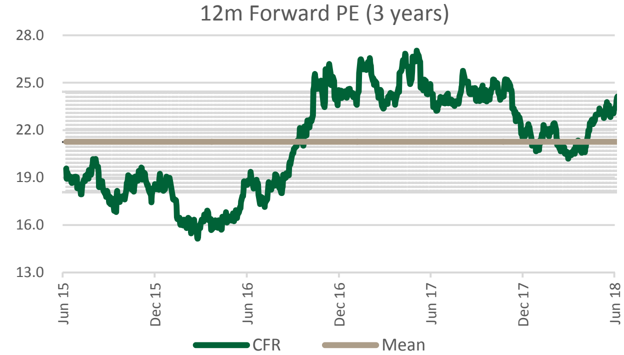
	CFR
Market Capitalisation	R705 billion
Share Price	R122.95
Consensus Rating	Overweight
52w Low-High Range	R101.51-R131.53
Estimated Forward PE	25.3x
Estimated Forward DY (Ordinary)	2.3%
Next Reporting Date (Period)	10/11/2018 (HYE Sept-18)

Sources: Factset 11/06/18

Indexed Share Performance (3 yrs)

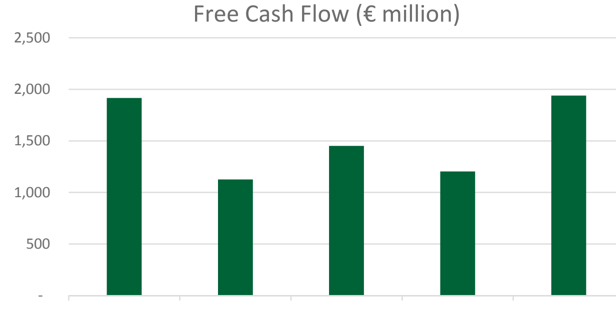


12m Forward PE (3 years)



Sources: Factset 11/06/18

Free Cash Flow (€ million)



Sources: Factset 11/06/18

FOR MORE INFORMATION PLEASE CONTACT:

JP du Plessis
Director – Equity Management
t: +27 21 446 2106
e: jp.duplessis@stonehagefleming.com

Jeremy Gorven, CFA
Senior Analyst – Equity Management
Representative under supervision
t: +27 21 446 2172
e: jeremy.gorven@stonehagefleming.com

Ryan de Kock, CFA
Analyst – Equity Management
Representative under supervision
t: +27 21 446 2112
e: ryan.dekock@stonehagefleming.com