HSBC Global Research

8 June 2020

# Richemont Br (CFR SW)

## Hold: Never too late to do the right thing

Equities
Global Luxury Goods

Switzerland

- HR changes and inculpatory media articles suggest an unhealthy group culture
- Chair's vision was clear, but poor execution has resulted in laggard status in ESG, diversity & inclusion, and share price
- Status quo and complacency jeopardize group's relevance; being bold pays off in luxury. Maintain Hold and CHF63 TP

***"The older you get, the better you used to be"* – John McEnroe:** No need to be nostalgic about how the Richemont group was run 20 years ago. We are not convinced the group was more transparent or forward-thinking then, but recent press articles (BusinessMontres; Miss Tweed – both published on 5 June) and the group's press release from Friday, which confirmed an extensive review of the HR function, made issues a lot more visible. Richemont recently announced it would review its HR function, and recent press articles announced that the HR director has been let go after, among other things, allegedly pushing to increase executive compensation by 35% while other employees saw their compensation cut. We believe the group has suffered from a lack of vision and an excessive focus on cost cutting, frustrated by the reality that luxury peers are doing a lot more in the COVID-19 era in terms of giving back to the community and being good corporate citizens.

***"I want to see less… gray haired Frenchmen, we have too few women and not enough diversity"* – Johann Rupert:** Richemont's chair, Johann Rupert, said this in late 2016, and not much has changed since then on these metrics. It is not just about gender or diversity – many luxury boardrooms are still male-dominated and with very few non-Caucasian members. The male head of Corporate Social Responsibility at Richemont reports to the CFO, which, given the importance of these issues with today's luxury consumers, looks odd to us. By contrast, the Chief Sustainability Officer at Kering is a woman who sits on the board. These issues are difficult to plug into a model, and Cartier and Van Cleef & Arpels, two assets representing all of the group's profits, both have CEOs with a strong track record. But these issues, along with losses at YNAP and a substantial watch portfolio (which, as we have previously argued, may not be a sustainable long-term growth driver), have likely weighed on share price performance relative to luxury peers.

***"If you think adventure is dangerous, try routine; it is lethal."* – Paulo Coelho:** It is perhaps a platitude to claim that only the bold get rewarded and that younger consumers are informed, demanding, and can make or break brands, yet proof is in the pudding, given how peers have fared vs Richemont over the past four years. The group could change its culture as complacency comes with a cost – evidenced, we think, by the recent underperformance. For a more complete investment case on Richemont, please see [Hold: Should I stay or should go now] (27 May 2020). Our CHF63 TP is unchanged and we maintain our Hold rating.

**MAINTAIN HOLD**

| TARGET PRICE (CHF) | PREVIOUS TARGET (CHF) |
|---|---|
| **63.00** | **63.00** |

| SHARE PRICE (CHF) | UPSIDE/DOWNSIDE |
|---|---|
| **65.16** | **-3.3%** |
| (as of 08 Jun 2020) | |

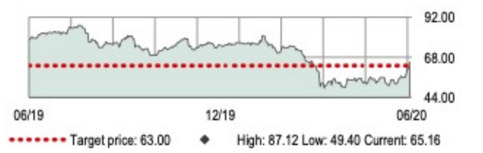
MARKET DATA

| | | | |
|---|---|---|---|
| Market cap (CHFm) | 36,825 | Free float | 91% |
| Market cap (USDm) | 38,265 | BBG | CFR SW |
| 3m ADTV (USDm) | 249 | RIC | CFR.S |

FINANCIALS AND RATIOS (EUR)

| Year to | 03/2020a | 03/2021e | 03/2022e | 03/2023e |
|---|---|---|---|---|
| HSBC EPS | 1.65 | 1.16 | 2.27 | 2.67 |
| HSBC EPS (prev) | 1.65 | 1.16 | 2.27 | 2.67 |
| Change (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| Consensus EPS | 2.33 | 1.52 | 2.35 | 2.93 |
| PE (x) | 36.4 | 51.5 | 26.4 | 22.4 |
| Dividend yield (%) | 1.9 | 1.4 | 2.7 | 3.1 |
| EV/EBITDA (x) | 11.9 | 14.7 | 10.1 | 8.8 |
| ROE (%) | 5.5 | 3.8 | 7.3 | 8.4 |

52-WEEK PRICE (CHF)




Source: Refinitiv IBES, HSBC estimates

**Erwan Rambourg**
**Global Co-Head of Consumer and Retail Research**
HSBC Securities (USA) Inc.
erwanrambourg@us.hsbc.com
+1 212 525 8393

**Antoine Belge***
**Global Co-Head of Consumer and Retail Research**
HSBC France, S.A.
antoine.belge@hsbc.com
+33 1 56 52 43 47

**Anne-Laure Bismuth***
**Analyst, Global Consumer and Retail**
HSBC Bank plc
annelaure.bismuth@hsbcib.com
+44 20 7991 6587

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