

Swatch Group

Valor: 1 225 515 Industry: Watches

BUY
UHR 5Y Price Target: **CHF 405.-** Price: **CHF 321.-** Upside: **26.6%**

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Stock Data in Mio.

Price	320.5 CHF
52-Week Range	183.4 CHF -333.9 CHF
P/E	24.7x
Price/Book	1.5x
Dividend yield	1.1%
Market cap.	9,274 CHF
Sales	5,595 CHF
EBIT	52 CHF
Earnings	-51 CHF

Description

Swatch Group is the world's largest watch manufacturer, supplying customers in all price segments with its 20 brands. Its brands include Blancpain, Breguet, Omega, Tissot, Swatch and others. In 2020, it posted a loss for the first time in its history. Low-priced watches in particular have been slowly displaced by smartwatches in recent years. According to Bloomberg, more than 400 boutiques were closed in 2020, allowing Swatch Group to greatly reduce its cost base. With 33,870 employees, Swatch Group operates globally with a particular focus on China.

Outlook

In the luxury sector, 2021 is shaping up to be a recovery that will last longer. Due to the lower cost base, the operating margin should exceed the level of 2019. In addition, Swatch Group is well positioned with plenty of liquidity. At the end of 2020, Swatch had CHF 1.7 billion in liquid assets and a very high equity ratio of more than 80%. Investments for the future can be made very well with these prerequisites. Challenges remain nevertheless, especially in the low-priced brands and online retailing. In the longer term, an investment in Swatch Group should pay off.

Valuation

Swatch Group's valuation is historically slightly above average. This has to do with the fact that the pandemic has led to a sharp drop in sales and the recovery will take time. The P/B ratio, however, is at a rather lower level. The valuation is therefore not yet exhausted.

	12/2017	12/2018	12/2019	12/2020
P/E	28.7x	17.8x	19x	-
Price/Book	5.50x	3.97x	3.45x	3.23x

Growth

The share came under particular pressure from the Corona pandemic. In the first half of 2020 in particular, watch sales fell sharply due to the lockdown. As a result, Swatch Group suffered a loss for the first time in 2020. To cut costs, CEO Nick Hayek has already closed more than 60 boutiques and cut more than 1000 jobs in 2019. The lower costs and the recovery in the luxury sector should lead to higher profits.

	12/2017	12/2018	12/2019	12/2020
Sales	7,989	8,475	8,243	5,595
Growth		6.0%	-2.7%	-32.1%
Earnings (EBIT)	1,002	1,154	1,023	52
Growth		15.2%	-11.4%	-94.9%

Efficiency

The jewelry and watch business offer high margins. Nevertheless, the return on sales is considerably lower than that of the competitor Richemont. This is mainly due to the fact that Richemont is more diversified. In the future, the return on sales should increase due to lower costs.

	12/2017	12/2018	12/2019	12/2020
Return on sales	9.5%	10.2%	9.1%	-0.9%
Sales per employee	225,113	228,295	228,408	172,557

Profitability

Swatch Group has a very high equity ratio. It is therefore all the more pleasing that they nevertheless generate a reasonably stable return on equity. Profitability should also increase again in the future and could thus exceed the 2018 level again.

	12/2017	12/2018	12/2019	12/2020
Return on equity	6.6%	7.5%	6.5%	-
e.g. GN Store Nord	7.8%	8.4%	16.4%	5.4%

Balance sheet quality

With liquid assets of CHF 1.7 billion, Swatch Group's balance sheet is very stable. Larger investments are therefore possible. Debt is very low and the equity ratio is very high. Crises like the one in 2020 cannot shake Swatch Group.

	12/2017	12/2018	12/2019	12/2020
Equity ratio	83.8%	82.5%	83.9%	85%
Net. Liquidity	1,589	1,015	1,348	1,700
Debt-equity ratio	19.6%	21.3%	19.3%	17.7%

SWOT-Analysis

Strengths <ul style="list-style-type: none"> ▪ Very strong capital cushion with ample cash. ▪ Represented in all price segments with strong brands. ▪ Management focus on China. 	Weaknesses <ul style="list-style-type: none"> ▪ Negative profit for the first time in history. ▪ Weak representation in jewelry industry.
Opportunities <ul style="list-style-type: none"> ▪ Digitalization offers opportunities for Swatch Group. ▪ 2021 should be a recovery in the watch industry. 	Threats <ul style="list-style-type: none"> ▪ Smartwatches displacing low-priced watches. ▪ Cheap imitation watches threaten business in the low-price segment.

Appointments

GA: 11.05.2022, Grenchen
 Year-end figures: 28.01.2022
 Quarterly statement: 30.7.2021

Website

<https://www.swatchgroup.com>

Investor Relations

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