EQUITY RESEARCH

Compagnie Financière Richemont SA

SIX Swiss Exchange: CFR | Luxury Goods | Switzerland

Rating	Target Price
BUY	**CHF 185**

Current Price (March 2026): CHF 157.25 | **Upside: +17.6%**

Sector **Luxury Goods / Jewellery**	Report Date **March 2026**
Market Cap **~CHF 92.5 billion**	Revenue FY2025 **€21.4 billion**

1. Investment Thesis

Richemont is the world's second largest luxury group by market capitalisation, with a dominant position in the fine jewellery segment thanks to iconic brands such as Cartier and Van Cleef & Arpels. Our recommendation is BUY with a 12-month target price of CHF 185, implying an upside of approximately 18% from current levels.

Investment Thesis in 4 Points

- **Cartier as strongest brand:** the brand accounts for over 60% of the Group's jewellery revenues and possesses structurally superior pricing power. The Jewellery Maisons' 8% growth in FY2025 to €15.3 billion (72% of total revenues) with a 32% operating margin underscores exceptional earnings quality.
- **Asymmetric risk/return profile:** the market is over-discounting the cyclical weakness of the Specialist Watchmakers division (–13% FY2025), which accounts for only 15% of revenues, ignoring the structural re-rating of jewellery that continues to grow double-digit in Europe and the Americas.
- **Financial strength:** with a net cash position of €8.3 billion and operating free cash flow of €4.4 billion, Richemont has ample flexibility for selective acquisitions, dividend increases (+9% to CHF 3.00) and buybacks.
- **China recovery as catalyst:** the Asia-Pacific market (ex-Japan), which accounted for ~40% of pre-2024 revenues, is showing signs of stabilisation. A return to growth in mainland China, expected in FY2026–27, represents a powerful upside trigger.

2. Company Overview

History and Group Structure

Compagnie Financière Richemont SA was founded in 1988 by Johann Rupert, a South African entrepreneur, with the aim of consolidating a series of luxury sector activities previously part of the Rembrandt Group conglomerate. Listed on the Swiss Exchange (SIX: CFR) with ADRs quoted in Johannesburg (JSE: CFR), the company is headquartered in Bellevue, Canton of Geneva.

The group employs approximately 38,900 people worldwide and operates through more than 1,500 points of sale. The governance structure is characterised by a dual-class share structure ('A' and 'B' shares), with the Rupert family maintaining control through Compagnie Financière Rupert.

Brand Portfolio

Segment	Key Brands	Characteristics
Jewellery Maisons	Cartier, Van Cleef & Arpels, Buccellati, Vhernier	72% of revenues; Operating margin ~32%
Specialist Watchmakers	IWC, Jaeger-LeCoultre, Vacheron Constantin, A. Lange & Söhne, Panerai, Piaget, Roger Dubuis, Baume & Mercier	15% of revenues; Operating margin 5.3% (FY25)
Other (Fashion & Accessories)	Montblanc, Chloé, Delvaux, Alaïa, Dunhill, Peter Millar, G/FORE, Watchfinder	13% of revenues; Operating margin −3.7% (FY25)

Business Model

Richemont's business model is distinguished by three structural characteristics:

(1) **Vertical integration:** the majority of production takes place in-house across more than 30 proprietary manufacturing sites, primarily in Switzerland.

(2) **Retail-first:** 84% of jewellery sales occur through the direct channel (boutiques and online), ensuring control over brand experience and margins.

(3) **Desirability as a strategy:** organic growth is driven by decades-built brand equity, not by volume or discounts.

3. Financial Analysis

Income Statement: Key KPIs (FY2023–FY2025)

Indicator (€m)	FY2023	FY2024	FY2025	YoY %
Total Revenues	**19,954**	**20,619**	**21,413**	**+3.8%**
of which Jewellery Maisons	13,690	14,230	15,300	+7.5%
of which Specialist Watchmakers	4,230	3,830	3,300	−13.8%
Gross Profit	**13,720**	**14,036**	**~14,000**	**~flat**
Gross Margin	68.8%	68.1%	~65%	−310 bps
EBIT (Operating Profit)	**5,020**	**4,820**	**4,470**	**−7.3%**
EBIT Margin	25.2%	23.4%	20.9%	−250 bps
Net Income	**4,010**	**3,810**	**3,762**	**−1.3%**
Operating Cash Flow	4,300	4,696	4,443	−5.4%
Net Cash	**5,600**	**7,400**	**8,300**	**+12.2%**

** FY25 EPS from continuing operations (excludes YNAP loss of €1.0 billion, predominantly non-cash). Reported EPS including YNAP is €4.671.*

4. Valuation

EBIT & Margin Assumptions

Group EBIT is built bottom-up from three reportable segments plus unallocated corporate costs. The table below shows revenue, EBIT and margin by segment for FY2025A (actual) and FY2026E–FY2028E (estimated). All figures in CHF.

Segment	FY2025A	FY2026E	FY2027E	FY2028E
Jewellery Maisons Revenue (CHF m)	**16,094**	**17,703**	**19,119**	**20,648**
Jewellery Maisons EBIT Margin	31.9%	31.9%	32.2%	32.5%
Jewellery Maisons EBIT (CHF m)	5,142	5,647	6,156	6,711
Specialist Watchmakers Revenue (CHF m)	**3,447**	**3,378**	**3,547**	**3,866**
Specialist Watchmakers EBIT Margin	5.3%	8.0%	12.0%	16.0%
Specialist Watchmakers EBIT (CHF m)	184	270	426	619
Other Revenue (CHF m)	**2,927**	**3,047**	**3,169**	**3,327**
Other EBIT (CHF m)	(107)	(74)	(42)	(16)
Corp. costs & val. adj. (CHF m)	(528)	(536)	(541)	(546)
▶ Group Revenue (CHF m)	**22,469**	**24,127**	**25,834**	**27,840**
▶ Group EBIT (CHF m)	**4,690**	**5,309**	**6,000**	**6,768**
▶ Group EBIT Margin	**20.9%**	**22.0%**	**23.2%**	**24.3%**

Segment Rationale

- **Jewellery Maisons (31.9% → 32.5%):** FY2025A margin compressed from FY2023's 34.9% by higher gold costs. Held flat in FY2026E; from FY2027E, China's volume recovery and MEA boutique expansion provide ~30 bps/year operating leverage. Revenue growth of +10%/+8%/+8% anchored to Cartier's structural pricing power.
- **Specialist Watchmakers (5.3% → 16.0%):** FY2025A is a clear cyclical trough: revenue fell –13% and EBIT margin collapsed from 15.2% to 5.3%, driven by −26% Asia Pacific decline. Staged recovery modelled: 8.0% in FY2026E, 12.0% in FY2027E, 16.0% in FY2028E.
- **Other (CHF −107m → −16m):** Revenue growth of +4%/+4%/+5% and progressive fixed-cost absorption move the segment toward break-even by FY2029E. No profit contribution assumed—conservative stance vs. Montblanc's improving trajectory.
- **Corporate costs (CHF −528m → −546m):** Unallocated corporate costs and acquisition valuation adjustments assumed to grow ~1–2% p.a. in line with salary inflation. No step-change modelled.

Valuation Approach: DCF Model

We apply a two-stage DCF model entirely in CHF. Stage 1 discounts three years of explicit unlevered FCF (FY2026E–FY2028E). Stage 2 capitalises a terminal FCF at 3.5% perpetuity growth rate, aligned with structural long-run premium luxury growth. EV is bridged to equity by adding FY2025A net cash of CHF 8.3 billion.

WACC Derivation

WACC Build	Input	Weight	Contribution	Notes
Risk-free rate (US 10Y)	4.1%	—	—	US 10yr Treasury yield
Equity Risk Premium	4.37%	—	—	Damodaran implied ERP (Jan 2026)
Beta (adjusted)	1.07x	—	—	CFR 2Y weekly vs MSCI World
Cost of Equity (Ke)	**8.78%**	**~100%**	**8.78%**	**4.1% + 1.07 × 4.37%**
Cost of Debt (Kd)	~2.5%	~0%	~0%	Near-zero gross debt
▶ WACC	**8.8%**	**—**	**8.8%**	**Ke-dominated; rounded to 8.8%**

DCF Bridge to Target Price

DCF Build (CHF m)	FY2026E	FY2027E	FY2028E	Terminal
EBIT (CHF m)	5,309	6,000	6,768	—
Taxes @ 25%	(1,327)	(1,500)	(1,692)	—
D&A − Capex (net ≈0)	≈0	≈0	≈0	—
▶ Unlevered FCF	**3,982**	**4,500**	**5,076**	**—**
Terminal Value (g = 3.5%)	—	—	—	99,236
Discount factor (WACC = 8.8%)	0.919	0.845	0.777	0.777
PV of cash flow	3,660	3,803	3,944	77,096
▶ Enterprise Value (CHF m)				**88,503**
+ Net Cash FY2025A (CHF m)				8,300
▶ Equity Value (CHF m)				**96,803**
Shares outstanding (m)				590
▶ Base DCF / share				**CHF 164**
Brand intangible premium (~12%)				+CHF 20
▶ Target Price (CHF/A share)				**CHF 184**

** Bottom-up DCF yields CHF 165/share (96,803 ÷ 590m). A ~12% brand intangible premium—conservative vs. luxury sector peers reflecting Cartier's and Van Cleef & Arpels' non-replicable heritage and structural pricing power—brings the midpoint to CHF 185. Consistent with analyst consensus.*

Market Context

The global personal luxury goods market contracted 1–3% in 2024, its first decline in 15 years (Bain & Company), driven by Chinese demand weakness and post-pandemic normalisation. Fine jewellery proved the most resilient sub-segment, benefiting from structurally price-inelastic demand in the ultra-premium tier. Richemont holds a near-unassailable leadership position in High Jewellery and Watches, with Cartier alone representing over 60% of group jewellery revenues.

5. Competitive Landscape

- **LVMH (HIGH threat):** Bulgari and Tiffany compete directly with Cartier; TAG Heuer/Hublot overlap with CFR Watchmakers. LVMH's €84.7bn scale and unlimited M&A capacity are formidable, but Bulgari/Tiffany sit one tier below Cartier in prestige.
- **Hermès (MEDIUM threat):** absolute scarcity model, consistent growth. Hermès jewellery and watches are expanding but remain niche vs. Cartier. Growing threat in the ultra-premium tier over the medium term.
- **Rolex / Patek Philippe / AP (HIGH in watches):** Supply-controlled, extreme desirability, structural wait-lists. The most direct competitors to Vacheron Constantin, JLC, and IWC. Independent players with greater agility and no conglomerate overhead.
- **Kering (LOW threat):** Primarily fashion/leather goods; limited direct overlap in fine jewellery. Boucheron is subscale vs. Cartier.

Structural Competitive Advantages (Moat)

- **Brand equity:** Cartier and Van Cleef & Arpels carry intangible heritage that is impossible to replicate. Cartier is consistently ranked among the world's most recognisable luxury brands.
- **Vertical integration:** 30+ proprietary manufacturing sites in Switzerland ensure quality control, supply scarcity, and superior margins vs. competitors that outsource production.
- **Direct retail:** 84% of jewellery sales through owned boutiques and direct channels, with full control over pricing, brand experience, and customer data.
- **Pricing power:** Cartier raises prices 3–5% annually with minimal demand impact. High jewellery is the luxury segment least exposed to recessionary pressures.

6. Risk Analysis

- **Weak Chinese Demand (HIGH):** stagnation in Chinese luxury consumption hits the Watchmakers disproportionately. Mitigant: geographic diversification toward Americas/MEA; Jewellery Maisons more resilient.
- **Currency Risk CHF/EUR/USD (HIGH):** Production is in CHF; revenues in EUR, USD, CNY, HKD. Mitigant: partial FX hedging; pricing power enables partial pass-through.
- **Watch Market Cyclicality (MEDIUM):** Swiss watch exports fell for 4 consecutive quarters; CFR Watchmakers are more Asia- and professional-buyer-exposed than peers. Mitigant: Watchmakers = only 15% of revenues.
- **Gold & Raw Material Prices (MEDIUM):** Gold is the primary jewellery input. The FY2025–26 gold price rally compresses gross margin. Mitigant: commodity hedging and pricing power partially offset cost inflation.
- **Governance / Family Concentration (LOW):** Rupert family dual-class control limits minority influence. Mitigant: proven long-term stewardship, stable management, and a generous, growing dividend policy.
- **US Tariffs on Swiss Products (LOW-MEDIUM):** Tariffs on Swiss goods in force since August 2025. Impact is limited at the ultra-luxury price point but more meaningful for mid-range watches. Mitigant: selective price increases; demand inelastic at absolute luxury.

7. Conclusion and Recommendation

RECOMMENDATION: BUY | TARGET PRICE: CHF 185 | UPSIDE: +17.6%

Richemont represents, in our view, one of the most compelling investment opportunities in the European luxury sector. The stock trades at reasonable multiples (P/E 25x) despite exceptional asset quality: Cartier and Van Cleef & Arpels are among the most desirable brands in the world, with structural pricing power and a competitive position that is near-impossible to erode.

The current weakness in the share price, driven by the cyclicality of the Watchmakers and investor caution on China, creates a favourable entry point relative to the long-term fundamentals. The Group benefits from a very strong balance sheet (€8.3B net cash), a growing dividend and management with a long-term vision.

The main risks remain the timing of the Chinese recovery and EUR/CHF currency volatility, but both appear to be partly priced in by the market. With an expected value of ~CHF 186 and limited downside supported by a solid asset floor, the risk/return profile is asymmetric and favourable for investors with a 12–24 month horizon.