MORNING CALL NOTES

INVESTMENT SOLUTIONS

13 SEPTEMBER 2017

Apple – will you buy a phone at USD 1,000 ?

- It was clear for a while now that Apple would be the highlight of the week with the release of its new products. Despite one of the biggest leak in history just a few days before the presentation, the group made a great show around the launch of the next generation of iWatch and iPhones, with a special focus on the latter: two standards iPhone 8 and iPhone 8 Plus and a brand new OLED iPhone X. The iPhone X functionalities include an OLED edge-to-edge screen, a better camera and faster processor; no home button, a facial recognition to unlock the phone, wireless charging device and many more features.
- **Despite the impressive event, we believe it is time to take some profit.** Now, you might all remember that we burnt our fingers last time we tried to bet against Apple. However, we see 3 reasons to take profit at this stage:
- **First** of all, a lot of good news is currently discounted in the share price: **Apple is up 40% YTD**, just shy of its all-time-high level of USD 165. The market has been buying the "rumour" of the new iPhone for a while now… Just for us all to realise what this means: Apple's market cap grew by USD 240bn YTD. This is the equivalent of Visa's market cap, and is more than the cumulated market caps of giants like McDonald's and Starbucks!
- **Second**, **the valuation looks stretched** with the 12-months forward PE standing at 15x. This is the highest multiple in 7-years after the stock re-rated by more than 50% since January 2016.
- **Third**, we think that **consensus expectations** are already very ambitious as it now expects revenues to grow by 15% next year (!). And this is against comps getting gradually tougher, quarters after quarters (-9%, +3%, +5%, +7% in Q4 16, Q1, Q2, Q3)
- All-in-all, we have no doubt that the iPhone X will be a great product in itself. However, as Marco Barresi said in our MM yesterday, **long-term challenges remain unsolved**. Two third of Apple's revenues remain linked to the iPhone, a product that is exposed to a saturated market in mature countries, and which is too expensive for most emerging consumers. The iPhone X will indeed be sold at around USD 1,000.
- **Technically**, we note that the stock left two open gaps during its 2-year rally: one at USD 150 and another at USD 120. If history is a guide, markets hate that and could be tempted to close them at some stage.
- Finally, despite the fact that the stock is no longer in our Research List, Apple remains a **top holding in our House**. It is currently ranked number 15 in our managed account, with close to CHF 100mn invested on the name. This ranks higher than Facebook (CHF 93mn) and not far below core convictions such as Zalando (CHF 103mn) or Visa (CHF 111mn).
- **Conclusion**: for all those reasons, we would advise taking some profit on Apple.

Nike (Advisory – PT USD 63)

- We would like to reiterate our conviction on Nike, an idea we initiated in G2 in January and which delivered a flat performance so far. We think that now is the right time to buy the name for those who haven't followed us yet.
- **On the technical side**, the stock retraced back to its support of USD 52 after Foot Locker issued a profit warning last month. This sent Nike down as much as -10%, and left a gap open at USD 57.4, or 7% above the current spot price.
- We feel this correction is unjustified, especially as it occurred just a few weeks after Nike gave investors reasons to be optimistic with a high quality beat quarter and a clear guidance for the next 12 months.
- We indeed continue to think that **fundamentals are solid** for the group. Yes, the fact that Foot Locker and other brick-and-mortar retailers have warned is worrying. However, we strongly believe that these warnings only illustrate the fact that consumers are buying online rather than in shops. It doesn't mean that they don't buy footwear anymore, as demonstrated by the double digit growth achieved by Nike's Direct-to-

Consumer (DTC) channel. This channel now represents around 30% of sales vs. only 16% in 2012. And it will grow further thanks to the new partnership signed with Amazon in June.

- We would also highlight that **Bernstein** – the American broker – released an initiation report on Nike on 12 September, with a buy rating, target USD 63. They believe that most of the bad news is reflected in the share price and that sales are set to accelerate at the group level with some margin expansion along the way.
- We therefore take the **recent correction as a buy opportunity**, and urge investors to accumulate ahead of next results on 26 September. Also note that Nike is a beneficiary of the weaker US dollar.
- **Conclusion**: buy Nike.

Fares Benouari (700 1721)

US Consumer Staples conference feedback

- We attended global staples conference last week. Our meetings were supportive to our investment recommendations, in particular to Mondelez. After our meeting with the CFO of MDLZ, we do not see the reason to worry about the current run of the company. Consequently, we upgrade the company to the Research Focus. The company has a 28% upside and the valuation at 18x NTM P/E is well below 20x multiple of the US Food sector. In our view, there is no reason for such a big discount. MDLZ has advantage of being the leader in the attractive category of snacking and is currently launching several new products with more health & wellness appeal, including the Véa brand. Unlike the most of its peers, it is present in emerging countries, which were reported during the conferences as stabilising or even improving, with Russia and India particularly strong. The CFO reassured us that the CEO-transition was very carefully prepared by the Board, which considered several candidates. Mr. Van de Put is already involved in the meetings with managers and top-100 talent group of employees. The sudden strategy shift is unexpected as the company is already finalising its 2018 plan with a commitment to margin expansion. Management is dissatisfied with the current sales growth rate and is making investments in this direction. Last but not least, despite no interest from Kraft Heinz MDLZ still has M&A room to run. IN conclusion, after the sale-off by event-driven funds, we expect the share price to recover from current levels.

Richemont (RL - PT CHF 82)

- The group released the 5M trading statement. Sales in constant currencies grew 12%, 200 bps above consensus estimates. The sales growth ex buybacks from distribution would be 7%. Jewellery maisons, which include also Cartier watches grew 17% in cc, other watches 7% and other products 3%. Both retail and wholesale performed well. Asia Pacific reported the strongest growth at 23% in cc but keep in mind the region was affected by the buybacks (we estimate the adjusted growth rate at 8%), Europe grew 3% and Americas 9%. LO Analyst view: The results are above consensus and given high expectations, the stock reaction might be positive today. We think Cartier watches outperformed the industry - in comparison to Swiss watch exports in the high-end category, which were up 6% in value in this period. However, the valuation remains so high - stock trades already at 24x NTM P/E and, we recommend profit-taking.

Gosia Eggimann (700 3959)

Partners Group (R – PT UR from CHF 600)

- Mauro Carli, our analyst, is currently in the United States at the annual Barclays Global Financial Services Conference. He will send his analyst view in the CAD (cross asset daily) that we will send later this morning.
- Following “bombastic” H1 results Mauro shall raise his Price Target to a level that will be decided on his return. Difficult to find a weak spot in those results! We clearly don’t see much downside from here and feel it is too soon to Sell. In H1, management fees came in 13% above consensus while performance fees were 12% higher than consensus. H1 EBITDA was 25% above consensus. Overall a very solid set of numbers and we continue to see the valuation premium to US private equity houses as justified, given Partners revenue mix of 70-80% longer duration management fees vs. US PE firms with 50-60% of management fees. These figures reflect PGHN’s superior capacity to match increasing investors demand for private markets investment solutions with high-performing investment programs and deals. Our investment thesis on PGHN is therefore fully validated and all the company’s key performing indicators are in the “dark green”. **Conclusion**: continue to buy.
- Note: CFO in-house 26 September 10h30 DSA.

CS Group (R – PT CHF 16.50)

- CSGN recovered on the back of a sector rebound as well an upgrade by Societe Generale from hold to buy PT 16.50. Last week we mentioned market concerns about Investment Banking business activity in the current quarter. On Monday 11 September, Citigroup CFO John Gerspach spoke at the Barclays Global Financial Services Conference and said, he expects ‘Markets’ (sales & trading) revenues down 15% y/y and underwriting & advisory slightly down from Q2-17 and more in line with Q1-17.
- **Conclusion**: *continue to accumulate* below CHF 14.5. *(By the way worth mentioning that SocGen expects material increases in excess capital and dividends ahead. For 2019, the expected dividend is 75 centimes for a yield of 5.2% at CHF 14.50.)*

Swiss Conference (UBS)

- The end of the week will be exciting as far as corporate communication is concerned; broker UBS will be hosting its annual Swiss market conference on Thursday and Friday. Attending companies included in our recommended lists (RL + SCL) :
- **First day** : Swisscom, Partners Gp, Givaudan, Sika, Clariant, Bucher, SGS on the. Cembra Money Bank.
- **Second day**: Landis+Gyr, Dufry, Schindler et Sunrise.

Rolf Baertschi (700 2437)

Contact: cp-inv-advisory@lombardodier.com