GLOBAL IDEAS

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Lindt: Paying up for quality

Investment thesis:

- Lindt is a high-end chocolate manufacturer based in Switzerland.
- It remains a very Eurocentric business, with more than 50% of its sales generated in France, Switzerland, Italy, Germany and the UK.
- Despite a stagnant chocolate market and tough economic conditions the brand seems to be in great shape.
- EPS has been growing at around a 12% CAGR since 2009 (when earnings declined) but only just surpassed FY08 levels in FY12.
- The company has guided further sales growth of 6-8% in FY13 with EBIT margins expanding 20-40bpts.
- Assuming 10% profit growth, the share trades at a forward 25x P/E multiple to December 2013.
- Although this is no bargain we like the stock as a steady, top-quality "banker" that seems to be delivering growth well ahead of industry norms

Lindt's forecasts are as follows:

Lindt					
December y/e		2012	2013F	2014F	2015F
EPS (CHF)		119.80	132.24	145.81	159.75
% growth			10%	10%	10%
DPS (CHF)	na		64.99	72.15	78.62
P/E		29.1x	25.1x	23.9x	21.8x
DY			1.9%	2.1%	2.3%
Share Price	CHF 3 485.00				
12M Fwd P/E		25.0x			

Source: Bloomberg, Anchor Capital

Lindt's metrics are as follows:

Spot (CHF)	3 485.00
Mkt Cap CHFbn	8.7
12M trailing P/E	2.94
Est. FWD P/E (Dec 2013)	25.1
10-year average P/E	2.7
FYE	31-Dec
P/Book ratio	0.45
12M fwd DY	1.86

Source: Bloomberg, Anchor Capital

What it does:

Lindt & Spruengli AG is a high-end chocolate and confectionary product manufacturer, based in Switzerland. The company markets its products through its own specialty stores and boutiques, as well as through retail outlets and catalogue sales. Lindt operates subsidiaries in Europe, North America and Asia and also sells its products through various distributors in other world regions.

Global Ideas is a newsletter published four times a week (Monday, Wednesday-Friday) and available only to clients of Investor Campus and Anchor Capital. The key objective of this newsletter is to provide ideas for investment in the global investment universe.

We scan the globe looking for good opportunities. We provide our model portfolios, as well as news and views on our watchlist, which is continually reviewed and updated.

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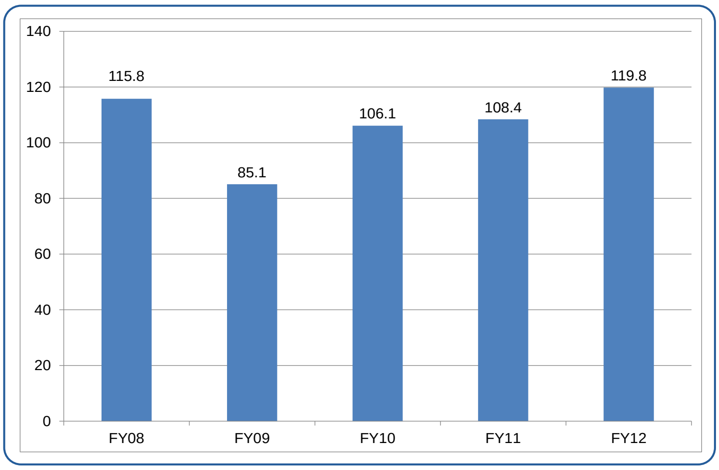
Lindt continued...

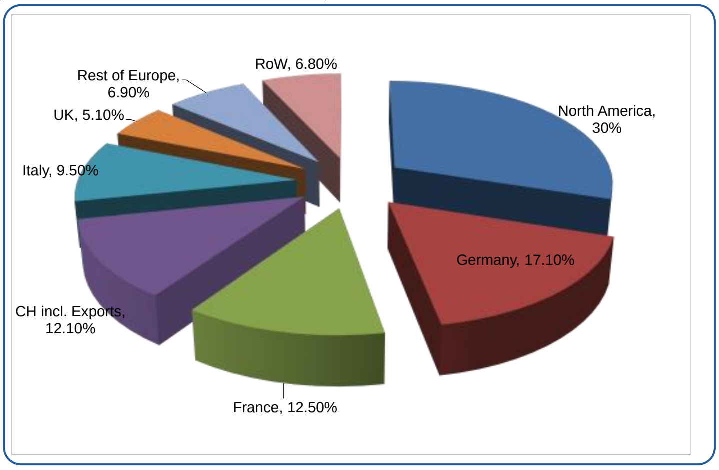
Earnings per participatory unit (1/10th of a normal share), CHF:



Source: Company reports, Anchor Capital

The business is still very Eurocentric , with more than 50% of sales generated in France, Switzerland, Italy, Germany and the UK. The rest is made up of the US (30% vs virtually zero 20 years ago) and exports to the rest of the world, South Africa included.

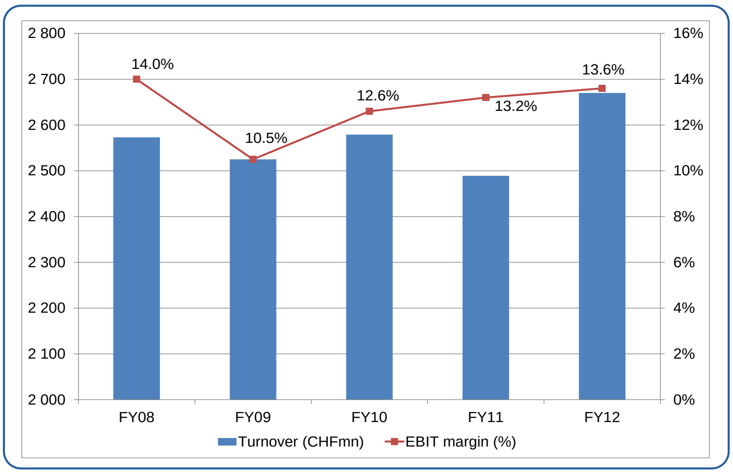
Sales analysis by market:



Source: Company reports

Remarkably, this brand seems to be in great shape as it is still delivering sales growth in the mid-to-high single-digits in the core European countries in a stagnant chocolate market and despite tough economic conditions. The major exception is Italy where sales are declining as a result of a very tough economy. The US is increasing sales at 10% p.a., and the company reckons that Lindt is the fastest-growing chocolate brand in the US. After earnings declined in 2009 during the global financial crisis (GFC), EPS has been increasing at around a 12% CAGR since but only just surpassed FY08 levels in FY12. The business appears top quality with a 65% gross profit (GP) margin, translating into a c.13% EBIT margin and an RoE of 25% if the substantial cash hoard of CHF590mn is stripped out from the equity base (CHF1.7bn) - cash earns nothing in Europe. With those GP margins, if robust sales growth continues, EBIT margins could have a long way to go up.

Turnover and EBIT margins:



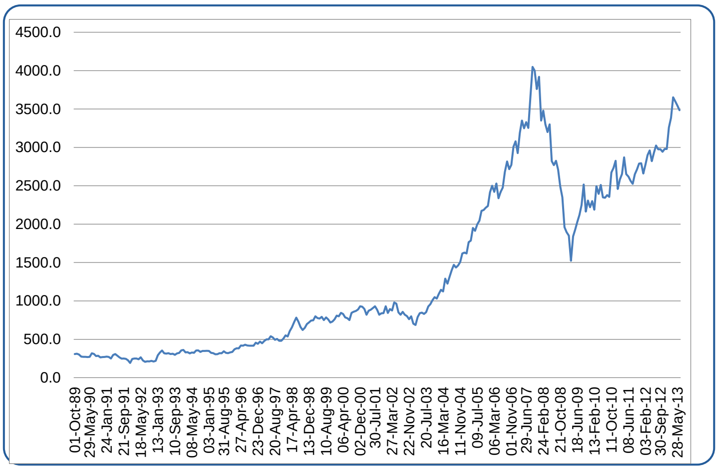
Source: Company reports, Anchor Capital

The company has guided further sales expansion of 6-8% in FY13 with EBIT margins increasing 20-40bpts - the top end of those guidance ranges will give investors around 11% earnings growth. Here it is important to bear in mind that sales growth at those rates in Swiss francs is very strong given the current low inflationary environment, particularly in Switzerland (12% of sales with inflation virtually at zero).

Assuming 10% profit expansion, the share trades at a forward 25x P/E multiple to December 2013, with a 1.9% DY. Although it might not be a bargain at current levels we quite like the stock as a steady, top-quality "banker" that seems to be delivering growth well ahead of industry norms.

The share price has risen by 20% over the past year, but is down from its recent highs. The relevant price to look at is the participatory units (Bloomberg code LISP:SW).

Lindt share price performance, CHF:



Source: Bloomberg, Anchor Capital

Sean Ashton

The business of money: Global asset management and stockbroking

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