



Friday Morning Coffee

Nr. 158 — What should we expect from the quartermaster?

Swatch, the Swiss watch maker, presiding over 18 household names like Tissot and premium brands like Omega, James Bond's favourite watch since the GoldenEye première, was hit hard by the covid crisis, as consumers, due to lock downs could not or maybe even would not go shopping for luxury items.

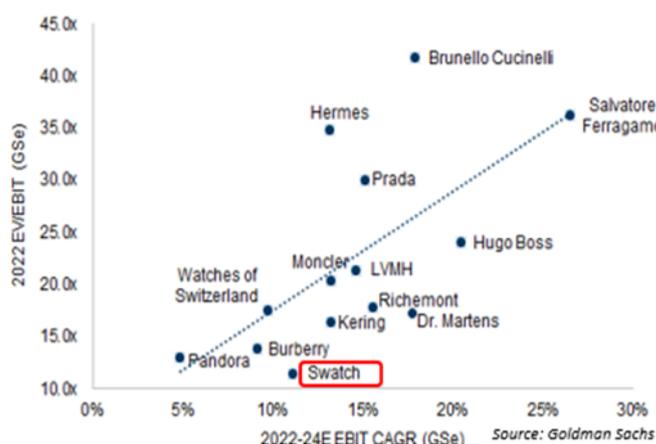
Therefore, the share price also suffered because of the covid crises plunging more than 40 per cent during the first quarter of 2020. Meanwhile, as James Bond would have said: "Noblesse oblige". Hence, it was only natural that the company's reaction to the covid crisis has been quite swift in taking out cost whilst optimizing its distribution network. Indeed, as painful as it is for investors to watch stock prices plummet it is comforting that Swatch remained on its toes or in fact rather stepped up to the challenge when faced with a pandemic hitting watch and certainly luxury sales across and thus taking the opportunity to align the company with future challenges and opportunities to grow.

Nevertheless, not only has the company cut cost and optimized the distribution, particularly in China, which represents around 30 per cent of revenues, but also Swatch Group continued to innovate (or cover a blind spot, others would say). This recently resulted in the market introduction of the Tissot T-Touch Connect Solar – a watch even James Bond could well be wearing. Not only is it a good-looking watch which can be worn both with a suit or for occasions requiring solidity, but it also is being powered by solar energy. It connects to your phone enabling to see messages and notifications from calls or calendar, and Tissot's website says that more apps will come. We are excited to see if James Bond's Quartermaster, Q, comes up with interesting, maybe even dangerous new apps.



Source: Swatch

Of course, as investors we are looking more at the numbers than the gadgets. We are however pleased that Goldman Sachs shares our view that Swatch group trades at a clear discount to the luxury industry when considering the earnings growth potential near term. **And with a 5% Free Cash Flow yield and growing earnings, we are confident it will be a solid quality investment at a value price.**



I wish you a nice weekend,

Karsten Løngaard,
Portfolio Manager
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