

Salvatore Ferragamo

Price EUR20.08

FY sales above CS despite same-store deterioration in Q4 for retail

Fair Value EUR26.5 (+32%)

BUY

Bloomberg	SFER IM
Reuters	SFER MI
12-month High / Low (EUR)	31.9 / 19.8
Market Cap (EUR)	3,389
Ev (BG Estimates) (EUR)	3,348
Avg. 6m daily volume (000)	883.7
3y EPS CAGR	6.4%

Salvatore Ferragamo's 2015 sales reached EUR1.43bn (consensus: EUR1.42bn) up 7.4%, of which +1.3% in organic growth (+2.1% in Q4 following +1.1% over 9M). The main information from this publication were i/ sales above expectations but of relatively poor quality, particularly in Q4 (momentum deterioration at same store) and ii/ a sales rebound in MC in Q4. We remain at Buy on the stock with an unchanged FV of EUR26.5.

ANALYSIS

- Yesterday, Salvatore Ferragamo announced 2015 sales of EUR1.43bn (consensus: EUR1.42bn), up 7.4% and 1.3% in organic terms. Full-year organic sales growth of 1.3% implied a 2.1% increase in Q4 alone following +1.1% over 9M and -0.6% in Q3. FY same-store retail sales fell 3% with a 4% decrease in Q4 vs -2% over 9m. By region, note that the best performer in 2015 was unsurprisingly Japan (9% of group sales) with a 15% increase (in line with 9M). On the other hand, the worst one was Asia-Pacific (36% of sales), which registered a 3.3% revenue decline over the year (-0.3% in Q4 following -4.5% on 9M), due to a plunge in sales in Hong Kong as for other luxury players. Retail in China grew 1% at same forex in Q4 vs -7% in Q3. SFER was not the only luxury group to highlight a better trend in Mainland China in Q4. The situation in Europe (26% of sales) was well oriented with sales up 6% over the year and 7.5% in Q4 alone, 2015 revenues in North America (23% of sales) were down 1.6% (-3% in Q4 alone after -0.9% over 9M).

Quarterly organic sales growth by geographical area

LFL chge (%)	H1 2015	Q3 2015	9M 2015	Q4 2015	2015
Europe	6.2	3.6	5.4	7.5	6.0
North America	3.2	-9.0	-0.9	-3.2	-1.6
Japan	11.3	25.3	15.6	13.2	15.0
Asia-Pacific	-4.1	-5.5	-4.5	-0.0	-3.3
Others	12.2	9.1	11.2	-3.3	8.5
Total	2.0	-0.6	1.1	2.1	1.3

Source : Company Data; Bryan Garnier & Co. ests.

- 2015 revenues were fuelled equally by retail (64% of sales) and wholesale with both showing a 1.2% organic sales increase. Nevertheless, in Q4, wholesale outperformed retail (respectively at +4% and +0.5%). Furthermore wholesale activity rebounded vs 9M (+0.2%). On a same store basis, FY retail sales fell 3% implying some deterioration in Q4 (-4%) vs -2% over 9M. The group opened 18 DOS in 2015 to reach 391 stores. Wholesale sales grew 1.3% (+4% in Q4 alone). The distribution mix is likely to weigh on the margin in Q4. The wholesale channel included 271 third party stores versus 270 at end-2014. By business, we would highlight that in 2015, leather goods (37% of sales) outperformed footwear (42% of sales) rising 6.4% vs. a 0.9% decline, and this is positive for the product mix. This was even more true in Q4 (respectively +7.4% vs -1.4%).
- For 2015, we still expect an EBIT margin at 17.8% (EUR255m), implying a 60bp decline vs 2014 (18.4%), of which -60bp in Q4 alone after -60bp over 9M. Ahead of this publication, the consensus was expecting a FY 2015 EBIT margin at 17.9% (-50bp vs 2014).

VALUATION

- The Salvatore Ferragamo share price has dropped 16% over the past three months versus -11% for the sector average. SFER stock is trading at 11.8x on 2016 EV/EBIT, an 8% premium vs peer average. We remain at Buy on the stock with an unchanged EUR26.5 FV.

NEXT CATALYSTS

- FY 2015 SFER results should be reported on 17th March.

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