

## Safilo

Price EUR9.93

Safilo ended a difficult transition year, looking forward to seeing improvements in 2016!

Fair Value EUR14 (+41%)

BUY

|                            |            |
|----------------------------|------------|
| Bloomberg                  | SFL IM     |
| Reuters                    | SFLG.MI    |
| 12-month High / Low (EUR)  | 15.1 / 9.3 |
| Market Cap (EUR)           | 622        |
| Ev (BG Estimates) (EUR)    | 768        |
| Avg. 6m daily volume (000) | 143.1      |
| 3y EPS CAGR                | 10.1%      |

|                | 1 M   | 3 M    | 6 M    | 31/12/15 |
|----------------|-------|--------|--------|----------|
| Absolute perf. | -8.9% | -10.3% | -13.1% | -7.3%    |
| Consumer Gds   | -4.5% | -5.3%  | -4.7%  | -3.4%    |
| DJ Stoxx 600   | -7.4% | -8.9%  | -13.1% | -6.4%    |

| YEnd Dec. (EURm) | 2014  | 2015e  | 2016e | 2017e |
|------------------|-------|--------|-------|-------|
| Sales            | 1,179 | 1,279  | 1,359 | 1,286 |
| % change         |       | 8.5%   | 6.2%  | -5.3% |
| EBITDA           | 111   | 109    | 138   | 134   |
| EBIT             | 75.3  | 68.2   | 97.5  | 95.5  |
| % change         |       | -9.3%  | 42.8% | -2.1% |
| Net income       | 39.0  | 22.5   | 57.6  | 59.5  |
| % change         |       | -42.3% |       | 3.3%  |

|                  | 2014 | 2015e | 2016e | 2017e |
|------------------|------|-------|-------|-------|
| Operating margin | 6.4  | 5.3   | 7.2   | 7.4   |
| Net margin       | 3.3  | 1.8   | 4.2   | 4.6   |
| ROE              | 4.0  | 2.2   | 5.5   | 5.4   |
| ROCE             | 4.0  | 3.2   | 5.1   | 5.1   |
| Gearing          | 16.8 | 14.4  | 11.7  | 5.6   |

| (EUR)           | 2014  | 2015e  | 2016e  | 2017e |
|-----------------|-------|--------|--------|-------|
| EPS             | 0.71  | 0.39   | 0.92   | 0.95  |
| % change        |       | -46.0% | 139.0% | 3.3%  |
| P/E             | 13.9x | 25.8x  | 10.8x  | 10.4x |
| FCF yield (%)   | NM    | NM     | 6.0%   | 12.6% |
| Dividends (EUR) | 0.10  | 0.13   | 0.16   | 1.16  |
| Div yield (%)   | 1.0%  | 1.3%   | 1.6%   | 11.7% |
| EV/Sales        | 0.7x  | 0.6x   | 0.5x   | 0.5x  |
| EV/EBITDA       | 7.1x  | 7.0x   | 5.4x   | 5.1x  |
| EV/EBIT         | 10.4x | 11.3x  | 7.6x   | 7.2x  |

Last Friday Safilo released an unexpected FY15 preliminary sales publication. FY sales came in at EUR1,279m (+8.5% as reported and flat FX-n) in line with our forecast (EUR1,280m) but below an overly-optimistic CS (EUR1,299m). However, the quality of top line growth in Q4 was lower we expected (-2.7% FX-n vs. +1.5%e) due to North America (retail, winter sport products) and Asia-Pacific (reset plan, H-K), despite a good acceleration in Europe. Although implementing the first initiatives to strengthen the organisation (loss of Kering's small licences, new distribution model in Asia-Pacific, etc.) proved to be more painful than initially thought, we are still optimistic for 2016 given sales and margin tailwinds.

## ANALYSIS

- **Q4 sales of EUR319.2m up 2.6% as reported but down 2.7% FX-n.** While sales matched our expectations (EUR320m), they were of lower quality given a 2.7% FX-n sales decline as softer trends in North America and a further drop in sales in Asia-Pacific dragged down the group's performance. Last but not least, Safilo's top line was also negatively impacted by the loss of three small Kering brands with the "going-forward" portfolio (i.e. excl. all Kering licences) up 2% in Q4.
- By region, note the strong acceleration in **Europe** (+11.1% FX-n vs. +5.4% in Q3) driven by all the group's key markets and Germany where the group is strengthening its presence. On the other hand, sales contracted by 3.8% in **North America** due to: (i) a weak performance by Safilo's winter sport products (Smith brand mainly) following a mild winter across the region and (ii) ongoing sluggish trends at Solstice (BG: -15-20%e) since the chain closed a few stores (out of ~125 DOS initially). However underlying trends remained robust in this region and growth prospects remain very attractive for Safilo and the rest of the industry.
- **LatAm** is gradually recovering (-5.3%) after two difficult quarters, mainly driven by a strong sales development in Mexico. **Asia-Pacific** posted a worse-than-expected drop (-28.7%) as the "Reinvention Project" (i.e. new commercial and distribution model) was more difficult to implement, all the more since market conditions were more challenging, especially in China (BG: ~40-45%e of Asian sales).

## Safilo FX-n growth by region:

| % change      | Q1 15      | Q2 15      | Q3 15      | Q4 15       | 2015       |
|---------------|------------|------------|------------|-------------|------------|
| Europe        | 2.8        | 5.4        | 5.4        | 11.1        | 6.0        |
| North America | 5.3        | 0.8        | 1.5        | -3.8        | 0.8        |
| Latin America | 23.4       | -6.0       | -8.1       | -5.3        | -1.1       |
| Asia-Pacific  | -22.9      | -13.4      | -15.5      | -28.7       | -20.5      |
| ROW           | 16.0       | 41.3       | 32.3       | -17.1       | 11.6       |
| <b>Total</b>  | <b>0.8</b> | <b>1.2</b> | <b>0.9</b> | <b>-2.7</b> | <b>0.0</b> |

Source: Company Data

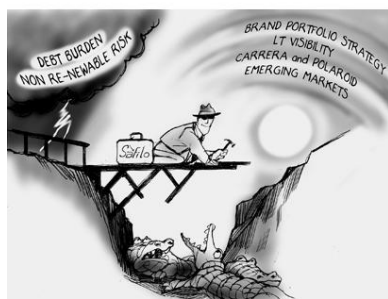
- **Showing improvements in 2016 will be crucial!** The launch of the 2020 Strategic Plan proved to be more costly and difficult than initially anticipated, particularly in Asia-Pacific (~3 p.p. impact on group's FX-n growth) where the group also faced tough market conditions. In addition to a normalisation expected in this region for 2016, Safilo can also count on other catalysts: (i) favourable momentum in the "going-forward" PF (+4.3% FX-n in 2015), (ii) launch of the Havainas licence in H2 16 (mostly in Brazil and LatAm first) and (iii) a higher contribution from the proprietary brands (especially Carrera).

## VALUATION

- Although sales were in line with our expectations, we expect a negative market reaction given the weak FX-n growth in Q4 and possible downward revisions by the CS which was too optimistic
- In our view, Safilo must succeed in showing better sales and earnings momentum throughout 2016 to help regain investors' confidence.

## NEXT CATALYSTS

- Safilo is due to report its FY15 results on 14<sup>th</sup> March 2016.



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|         |   |
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