

## Salvatore Ferragamo

Price EUR21.98

FY 2015 EBIT above expectations and profitability gain expected in 2016

Fair Value EUR26.5 (+21%)

BUY

Bloomberg	SFER IM
Reuters	SFER MI
12-month High / Low (EUR)	31.9 / 18.8
Market Cap (EUR)	3,710
Ev (BG Estimates) (EUR)	3,658
Avg. 6m daily volume (000)	870.4
3y EPS CAGR	10.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.2%	-0.4%	-9.2%	1.1%
Pers & H/H Gds	1.6%	-1.4%	2.2%	-1.2%
DJ Stoxx 600	3.6%	-6.6%	-5.7%	-6.9%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	1,332	1,430	1,500	1,600
% change		7.4%	4.9%	6.7%
EBITDA	293	324	348	377
EBIT	245.5	264.7	291.0	322.0
% change		7.8%	9.9%	10.7%
Net income	157.5	172.6	192.0	214.0
% change		9.6%	11.2%	11.5%

	2014	2015e	2016e	2017e
Operating margin	18.4	18.5	19.4	20.1
Net margin	11.8	12.1	12.8	13.4
ROE	34.5	31.8	30.3	29.2
ROCE	31.7	31.6	31.3	31.7
Gearing	-3.1	-9.0	-12.7	-15.9

(EUR)	2014	2015e	2016e	2017e
EPS	0.94	1.02	1.14	1.27
% change	-	9.6%	11.2%	11.5%
P/E	23.5x	21.4x	19.3x	17.3x
FCF yield (%)	2.9%	2.9%	3.0%	3.5%
Dividends (EUR)	0.42	0.47	0.53	0.60
Div yield (%)	1.9%	2.1%	2.4%	2.7%
EV/Sales	2.8x	2.6x	2.4x	2.2x
EV/EBITDA	12.6x	11.3x	10.4x	9.5x
EV/EBIT	15.0x	13.8x	12.5x	11.1x

After releasing FY 2015 organic sales growth of 1.3% (EUR1.43bn) on 28th January, the group has reported 2015 EBIT of EUR265m (consensus: EUR255), up 8% and implying a 10bp widening in EBIT margin to 18.5% (of which +180bp in Q4 alone). We are making no change to our Buy recommendation with an unchanged FV of EUR26.5. In our view, the stock's premium to the luxury sector average is deserved in view of i/ a profitability improvement in 2016 and ii/ speculation potential.

## ANALYSIS

- On 28th January, the group reported 2015 sales of EUR1.43bn (up 7.4%), slightly above the consensus, with a 1.3% organic sales increase, +2.1% of which in Q4 versus +1.1% over 9m. ZFY same-store retail sales fell 3% with a 4% decline in Q4 alone. While Japan was the best performer last year with a 15% increase, Asia-Pacific sales were down 3.3% due to a plunge in Hong Kong. In MC, retail sales grew 1% in Q4 after falling 7% in Q3. Retail and wholesale performed in line despite some wholesale outperformance in Q4 that explained the sales rebound. SFER opened 18 new DOS in 2015 (net of closures) to reach 391 stores. It is worth noting that leather goods (business with the highest profitability) significantly outperformed the group average (+6.4% vs +1.3%).
- FY 2015 SFER EBIT grew 8% to EUR265m (cs: EUR255m). EBIT margin was therefore up 10bp to 18.5% last year of which +180bp to 22.2% in Q4 alone (-70bp on 9M). While 2015 gross margin grew 260bp to 66.3% thanks to i/ positive product mix, ii/ more production efficiency and iii/ fewer discounts (particularly in Q4), despite a negative hedging impact, total OPEX accounted for 47.6% of group sales versus 45.3% in 2014, which explains the low FY EBIT margin increase (Q4 OPEX remained almost unchanged as % of sales). The main deviation compared with last year came from "selling and distribution costs" which were 260bp higher than in 2014 (31.8% of sales vs 29.2% in 2014), due to 18 DOS openings in 2015 and a poor same store sales performance (-3%). On the other hand, communication costs were under control (5.1% of sales, unchanged).

## Full Year results

EURm	2014	2015	chge %
Sales	1,332	1,430	7.4
Gross profit	848	948	11.8
as % of sales	63.7	66.3	260bp
EBITDA	293	324	10.6
as % of sales	22.0	22.7	70bp
EBIT	245	265	7.8
as % of sales	18.4	18.5	10bp

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

- Concerning 2016, we expect sales to reach EUR1.5bn (consensus: EUR1.52bn), up 4.5% organically with a tougher H1. Japan should lead positive sales momentum again this year, but Asia/Pacific should restore growth (+3.5%) thanks to a better trend in MC and in Korea. We expect operating margin to be better oriented in 2016, after the stability seen in 2015, with a 90bp margin increase to 19.4%. The two main drivers of 2016 profitability improvement should be i/ higher organic sales growth and ii/ the end to the negative impact from hedging. MT gross margin should reach 69% (66.3% in 2015).

## VALUATION

- The share has been virtually stable YTD (in line with the sector average) and has outperformed the DJ Stoxx by 8.5%. We are maintaining our positive view on the stock with an unchanged FV. SFER is trading on 2016 EV/EBIT of 12.5x vs 11.6x for the luxury peer average (8% premium). In our view, this is merited by i/ a profitability improvement in 2016 and ii/ potential speculative appeal.

## NEXT CATALYSTS

- Q1 2016 results are expected to be released on May 13th.



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