

Tod's Group

Price EUR73.40

FY 2015 EBIT margin declined 110bp to 14.3% and disappointing start of the year
Fair Value EUR82 vs. EUR84 (+12%)
NEUTRAL

Bloomberg	TOD.IM
Reuters	TOD.MI
12-month High / Low (EUR)	94.8 / 65.5
Market Cap (EURm)	2,429
Ev (BG Estimates) (EURm)	2,282
Avg. 6m daily volume (000)	136.7
3y EPS CAGR	6.4%

FY 2015 sales grew 1.8% organically to EUR1.03bn, with a slight rebound in Q4 (but with relatively poor quality). 2015 EBIT margin declined 110bp to 14.3% and EBIT reached EUR149m (consensus: EUR153m) Group EBIT margin lost 570bp on last two years. Furthermore, despite undemanding comparison basis, sssg YTD is still negative (slightly above -6%). We reduce our 2016 EBIT by 2%. We remain Neutral on the stock with a new EUR82 FV vs EUR84 previously. The valuation is already demanding at 13.6x 2016 EV/EBIT.

ANALYSIS

- **After having released its full year sales on January 21st with a 1.8% organic sales increase to EUR1.03bn, Tod's Group reported after market closure yesterday, its FY 2015 results which were slightly below expectations (with some disappointment at EBIT line).** FY EBIT reached EUR148.6m (consensus: EUR153m). Profitability lost 110bp last year at 14.3%. In Q4 alone, EBIT margin declined 200bp to 10.5% partly due to negative product and distribution mix.
- As a reminder, **Tod's Group FY 15 sales grew 1.8% organically including +4.5% in Q4 alone** (+0.5% on 9m). Nevertheless, Q4 sales rebound was mainly due to low profitable activity. Actually wholesale outperformed retail (+5.5% vs -0.2%) and apparel did better than leather goods (+17% vs -5.1%). Tod's Group opened 25 DOS (net of closures) in 2015 to a total of 257 stores. Retail same stores sales declined 6% after -7.1% in 2014. Although November 2015 momentum was poor in Europe due to the Paris attacks, the December trend was better. In 2015, sales growth has been strongly impacted by Greater China negative trend (-12%) despite some "improvement" in Q4 (-6% vs -17% in Q3. Greater China accounts for 22% of sales.
- **FY 2015 Tod's Group EBIT remained almost unchanged at EUR149m (consensus: EUR153m).** EBIT margin fell 110bp to 14.3%, implying 11% in Q4 alone (-200bp). Profitability decline came from **i/** negative geographical, distribution and product mix particularly in Q4 and **ii/** operating deleverage and particularly from higher rents (+100bp to 12.4% of sales), consequence of 2014 and 2015 stores openings and higher labour costs (+110bp to 17.7% of sales). Actually, on last two years, Tod's Group profitability lost 570bp, consequence of too ambitious expansion strategy for Tod's brand (in ready-to-wear for instance), inefficient merchandising, lack of it-bags (leather goods sales were down 5% in 2015 after -2% in 2014) and same stores sales decline (see above).

FY sales and EBIT

EURm	2014	2015	chge %
Sales	966	1,037	7.3
EBITDA	194	203	4.4
as % of sales	20.0	19.5	-50bp
EBIT	148	149	0.5
as % of sales	15.4	14.3	-110bp

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

- **At this stage, for 2016, we still expect sales to grow 4%** (at same forex) and EBIT margin to gain 90bp to 15.2%. YTD, same stores sales declined close to 7% which can appear disappointing given the undemanding comp (-10.6% on first 10 weeks of 2015!), but with some improvement in the recent period thanks to s/s collection. Furthermore, given lower 2015 EBIT than expected, we are slightly reducing our 2016 EBIT by 2%.

VALUATION

- **Tod's Group share price remained almost unchanged YTD** (+7% vs DJ Stoxx). Nevertheless, at 13.6x 2016 EV/EBIT, the stock is still trading with a 13% premium vs luxury peers average. Therefore, given a demanding valuation, we remain Neutral with an unchanged EUR84 FV.

NEXT CATALYSTS

- Q1 2016 results to be released on May 11th

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