

12th May 2016

Luxury & Consumer Goods

Tod's Group

Price EUR61.00

Q1 below expectations with 12% same store sales decline. Lack of visibility on ST.

Fair Value EUR60 vs. EUR78 (-2%)

SELL vs. NEUTRAL

Bloomberg	TOD IM
Reuters	TOD.MI
12-month High / Low (EUR)	94.8 / 59.1
Market Cap (EURm)	2,019
Ev (BG Estimates) (EURm)	2,031
Avg. 6m daily volume (000)	116.2
3y EPS CAGR	6.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.2%	-6.9%	-23.0%	-16.5%
Pers & H/H Gds	1.5%	9.7%	-5.4%	-0.7%
DJ Stoxx 600	0.6%	10.3%	-11.6%	-8.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,037	1,057	1,112	1,165
% change		1.9%	5.2%	4.8%
EBITDA	203	204	222	237
EBIT	148.7	148.0	165.0	180.0
% change		-0.5%	11.5%	9.1%
Net income	92.8	95.0	112.0	121.0
% change		2.4%	17.9%	8.0%

	2015	2016e	2017e	2018e
Operating margin	14.3	14.0	14.8	15.5
Net margin	8.9	9.0	10.1	10.4
ROE	13.6	13.5	15.2	16.3
ROCE	17.9	17.7	19.9	21.3
Gearing	-15.2	1.7	-2.3	-6.7

(EUR)	2015	2016e	2017e	2018e
EPS	3.03	2.88	3.39	3.67
% change	-	-5.0%	17.9%	8.0%
P/E	20.1x	21.2x	18.0x	16.6x
FCF yield (%)	2.5%	4.8%	5.2%	5.7%
Dividends (EUR)	2.00	2.20	2.30	3.30
Div yield (%)	3.3%	3.6%	3.8%	5.4%
EV/Sales	1.8x	1.9x	1.8x	1.7x
EV/EBITDA	9.3x	10.0x	9.0x	8.3x
EV/EBIT	12.7x	13.7x	12.1x	10.9x



Q1 sales stood at EUR250m vs consensus at EUR257m, down 3.1%. Organically, sales declined 4% (consensus:-1.5%), following +5.9% in Q4 2015. The Q1 figures highlighted a very poor performance in the Americas and in Greater China. More importantly, same store sales were down 12% in Q1. Consequently, we have lowered our 2016 EBIT by 10% and adjusted our FV from EUR78 to EUR60. Given low visibility for coming quarters, some questions on strategy and a disappointing Q1, we adopt an even more cautious view on the stock with a SELL recommendation versus NEUTRAL previously.

ANALYSIS

- **The Italian Group has reported very poor Q1 sales of EUR250m (consensus: EUR257m), down 3.1% and 4% organically.** This implies a clear slowdown versus Q4 2015 and the FY 2015 performance (respectively +5.9% and +1.8%). Q1 retail sales (63% of sales) fell 1.4% with a 12.4% same-store sales decline (-6% in 2015). Sales momentum slowed in March compared with January and February. The group opened four DOS in Q1 to reach 260 stores (+18 stores vs end of March 2015). Wholesale sales fell 7% in Q1, mainly due to a different timing of deliveries that occurred in Q4 2015 (impact of EUR10m).
- **By geographical area**, note the disappointment in the **Americas** (10% of sales,) where revenues declined 8.7% despite an undemanding comparison basis. Americas is an increasingly volatile market with particularly poor activity in Department Stores (DOS sales were stable). **Europe** excluding Italy (24% of sales) also suffered with stable sales in Q1, affected by negative momentum both in France and in the UK. Revenues in **Italy** were down 3%. The situation in **Greater China** (22% of sales) remained under pressure with a 12% decline (-5.9% in Q4 and -12% on FY 2015), strongly affected by Hong Kong and Macau. Sales in mainland China were almost stable in Q1, showing some slight improvements.

Organic sales growth by geographical area

same forex (%)	Q3 15	9m 15	Q4 15	2015	Q1 16
Italy	0.3	1.9	11.0	3.7	-3.0
Europe	5.8	8.8	11.4	9.4	0.3
Americas	-3.7	3.0	10.9	5.3	-8.7
Greater China	-17.2	-14.0	-5.9	-12.0	-12.0
RoW	5.3	7.2	3.6	6.3	1.2
Total	-2.2	0.5	5.9	1.8	-4.0

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

- Again in Q1, despite the 2.8% sales decline, the **Footwear** business (78% of group sales), partly driven by **Roger Vivier** sales (+6.2%), outperformed the **Leather Goods** division (15% of sales) where sales fell 12.4%. Roger Vivier delivered the best performance among the group's brands while the **Tod's** and **Hogan** brands were quite soft, dropping 8.3% and 1.7% respectively.
- Following the Q1 sales disappointment and also a lack of visibility, we have lowered our 2016 sales by 3% (we currently expect 1% organic sales growth vs +4% previously). Given negative product and distribution mixes, our downward revision is even stronger in terms of EBIT (-10%). 2016 EBIT margin is set to narrow by 30bp to 14% (+70bp expected previously).

VALUATION

- **Tod's share price has lost 10% over the last three months**, the worst performance among our luxury sample. Taking in account our new 2016-17 EBIT assumptions, we adjust our Fair Value from EUR78 to EUR60. Consequently, we have downgraded our recommendation from Neutral to Sell. Actually, beyond our results and FV adjustment, visibility on the short term is increasingly poor with some questions on strategy. The stock is trading on an 18% premium vs the peer average!

NEXT CATALYSTS

- H1 sales to be reported on 21st July.



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