

Salvatore Ferragamo

Price EUR18.07

Some cautiousness ahead of H1 results

Fair Value EUR23 vs. EUR25 (+27%)

BUY

Bloomberg	SFER IM
Reuters	SFER MI
12-month High / Low (EUR)	30.3 / 17.5
Market Cap (EURm)	3,050
Ev (BG Estimates) (EURm)	3,043
Avg. 6m daily volume (000)	724.1
3y EPS CAGR	7.8%

Ahead of the H1 results publication (2nd August), we are more cautious for the short term even if we remain confident in medium-long term expectations. As for some others peers, we expect Q2 2016 to mark a slowdown versus Q1 2016 and are forecasting a 3% organic decline in sales after -2.4% in Q1. Nevertheless, H1 EBIT margin should grow 60bp to 19.4%. For 2016, we have lowered our sales expectations (from +2% to no growth) and our 2016-2017 EBIT by 5% and, consequently, our Fair Value from EUR25 to EUR23.

ANALYSIS

- Given the tough current environment, **we have adopted a cautious view on Salvatore Ferragamo** and expect a poor Q2 with sales down 3% organically following -2.4% in Q1. The reasons for this slowdown are i/ lower sales in **Europe** (27% of sales): after a 4.2% revenue decline in Q1, we expect sales to decrease 6% in Q2 as tourists (mainly from China) were lacking during the quarter and as locals did not compensate; and ii/ a slowdown in **North America** (23% of sales), due to soft local consumption (negative impact from elections) and fewer tourists from Europe (strong USD). Q2 sales are expected to be down 4.7% versus -3.8% in Q1. On the other hand, we cannot rule out a positive surprise coming from **Asia-Pacific** (36% of sales), mainly driven by **Mainland China** and by **Korea** but still a negative trend in **Hong Kong** (down close to double digit even if at a lower pace than in Q1) and Macau. For this reason, we anticipate a flattish performance in APAC after -2% in Q1. Moreover, momentum in Japan (9% of sales) should also deteriorate as there were less Chinese tourists in the country due to the strenght of the JPY.
- In Q2, Retail should outperform wholesale** sales as wholesale will be penalised by two factors: i/ the new Men fragrances will have a positive impact in Q3 but not yet in Q2 and ii/management has been very cautious in deliveries to retailers particularly in the US to avoid some discounts. On the other hand, we assume some improvements for Retail sales in Q2 which should nevertheless be down (-2.5%) but at a lower pace than in Q1 (-4.2%).
- After an improvement of 90bp in Q1, EBIT margin should again show some positive signs in Q2.** Once again, gross margin is set to be the main driver behind this profitability gain as in Q1 (+250bp). Nevertheless, for H1, we anticipate a lower EBIT margin improvement than in Q1 (+60bp in H1 to 19.4% implying +40 in Q2 alone) given the deterioration in sales momentum.
- Consequently, given the current fairly challenging environment for the Luxury goods industry, we prefer to be cautious on FY 2016 and now expect no organic sales growth vs +2% previously and therefore, we lower our 2016-2017 EBIT expectations by 5%. 2016 EBIT margin could nevertheless gain 40bp to 18.9% thanks to gross margin improvement, whereas we were previously factoring in a 90bp gain.**

Earnings adjustments

	2016e old	2016e new	2017e old	2017e new
Sales (EURm)	1,475	1,445	1,585	1,530
org growth (%)	2.5	0	5	5
EBIT (EURm)	283	273	312	295
As % of sales (%)	19.2	19.0	19.7	19.5

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

VALUATION

- The SFER share price has fallen 7% over the last month, and the stock is trading on a 4% discount versus peers. Following earnings adjustments, we lower our Fair Favue from EUR25 to EUR23.

NEXT CATALYSTS

- H1 figures on 2nd August

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	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.8%	-15.6%	-9.6%	-16.9%
Pers & H/H Gds	-1.8%	2.6%	6.8%	0.3%
DJ Stoxx 600	-5.0%	-1.4%	-4.1%	-10.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,430	1,445	1,515	1,600
% change		1.0%	4.8%	5.6%
EBITDA	324	330	350	377
EBIT	264.7	273.0	295.0	322.0
% change		3.1%	8.1%	9.2%
Net income	172.6	178.0	194.0	216.0
% change		3.1%	9.0%	11.3%

	2015	2016e	2017e	2018e
Operating margin	18.5	18.9	19.5	20.1
Net margin	12.1	12.3	12.8	13.5
ROE	30.0	27.7	26.8	26.8
ROCE	26.2	24.3	24.3	24.8
Gearing	0.8	-1.1	-2.3	-3.6

(EUR)	2015	2016e	2017e	2018e
EPS	1.02	1.06	1.15	1.28
% change	-	3.1%	9.0%	11.3%
P/E	17.6x	17.1x	15.7x	14.1x
FCF yield (%)	3.5%	3.1%	3.5%	4.0%
Dividends (EUR)	0.47	0.53	0.60	0.68
Div yield (%)	2.6%	2.9%	3.3%	3.8%
EV/Sales	2.1x	2.1x	2.0x	1.9x
EV/EBITDA	9.4x	9.2x	8.7x	8.0x
EV/EBIT	11.5x	11.1x	10.3x	9.4x



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