

# Tod's Group

Price EUR47.49

**H1 sales slightly above expectations but of poor quality. H1 profitability decline very likely.**

Fair Value EUR53 (+12%)

SELL

Bloomberg	TOD IM
Reuters	TOD.MI
12-month High / Low (EUR)	94.8 / 46.0
Market Cap (EUR)	1,572
Ev (BG Estimates) (EUR)	1,583
Avg. 6m daily volume (000)	96.50
3y EPS CAGR	4.4%

Tod's Group has reported H1 2016 sales down 4.3% to EUR498m, slightly above market expectations (EUR493m). H1 retail sales were down 5.7% with a same store decline of 14.3%, including -16% in Q2 following -12.4% in Q1. The better than expected performance stemmed from low margin activities such as apparel and ready to wear, such that we expect a profitability deterioration. We remain Sell with an unchanged EUR53 FV.

## ANALYSIS

- **The Italian group has reported H1 2016 sales of EUR498m (cs:EUR493m)**, slightly above very cautious investors expectations. Sales were down 4.3% at same forex in H1, implying a 4.2% decline in Q2 alone following -4.2% in Q1. This very poor performance was no major surprise but nevertheless highlights that Tod's Group is underperforming peers. Retail sales (63% of sales) were quite soft with a further decline in momentum in Q2 (-9%) after -1.4% in Q1. Even same-store retail sales fell 16.2% in Q2 2016 following -12.4% in Q1 (-14.3% in H1). Over the past last 12 months, the group has opened 10 DOS. On the other hand, wholesale sales were down 1.9% in H1 implying some clear improvement in Q2 (+1.8% vs -7% in Q1).
- **By geographical area**, note the significant sales decline in Greater China (22% of sales) with no improvement in Q2 vs Q1 as most of peers have highlighted that momentum in Mainland China improved in Q2. Unsurprisingly, Europe excluding Italy deteriorated in Q2 (-4.1% ) vs Q1 already poor performance. Italy sales (-2.7% in H1) has been also penalised by Hogan. In Americas, situation remains difficult with a 8.6% sales decline in H1 (Q2 in line with Q1).

## Organic sales growth by geographical area

same forex chge (%)	Q4 2015	2015	Q1 2016	Q2 2016	H1 2016
Italy	11.0	3.7	-3.0	-2.3	-2.7
Europe	11.4	9.4	0.3	-4.1	-2.0
Americas	10.9	5.3	-8.7	-8.5	-8.6
Greater China	-5.9	-12.0	-12.0	-11.4	-11.7
RoW	3.6	6.3	1.2	6.5	3.9
<b>Total</b>	<b>5.9</b>	<b>1.8</b>	<b>-4.2</b>	<b>-4.2</b>	<b>-4.3</b>

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

- **The other important information from this H1 release is the strong sales decline in Leather Goods** (-12% in H1), while the shoes business (78% of sales) performance was not so good in Q2 (-4% following -2.8% in Q1). On the other hand, apparel was the positive surprise of this release with a 6% increase in Q2 alone. By brand, the Tod's brand (58% of sales) achieved the worst performance in H1 with -8%, as it is the most exposed to tourists flows in Europe and the US. Fay was the good news with an 8.8% revenue increase, implying +18% in Q2 alone thanks to a strong performance on Asian markets where volumes are not very significant yet. Globally the sales mix was not very positive in H1.
- **We expect H1 EBIT (to be released mid September) to be down 12% at EUR69m**, implying -130bp to 13.8% for EBIT margin due to sales decline, negative product mix (Leather Goods down 12%) and distribution mix (retail sales down 5.7%). For FY 2016, we expect revenues to be down 3.5% with a new profitability deterioration (EBIT margin is expected to decline 150bp to 12.8%).

## VALUATION

- We leave unchanged our estimates and our sell recommendation with an unchanged EUR53 FV. The stock has lost 23% over the last three months and is trading on a 4% premium vs the luxury sector average.

## NEXT CATALYSTS

- H1 results to be reported mid September.

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