

Salvatore Ferragamo

Price EUR20.57

H1 results slightly below expectations but encouraging July

Fair Value EUR23 (+12%)

BUY

Bloomberg	SFER IM
Reuters	SFER MI
12-month High / Low (EUR)	30.3 / 17.5
Market Cap (EUR)	3,472
Ev (BG Estimates) (EUR)	3,465
Avg. 6m daily volume (000)	681.0
3y EPS CAGR	7.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.2%	1.1%	1.3%	-5.4%
Pers & H/H Gds	0.1%	3.3%	3.3%	2.0%
DJ Stoxx 600	1.0%	-1.7%	0.3%	-8.3%

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	20.1x	19.5x	17.9x	16.0x
FCF yield (%)	3.0%	2.7%	3.0%	3.5%
Dividends (EUR)	0.47	0.53	0.60	0.68
Div yield (%)	2.3%	2.6%	2.9%	3.3%
EV/Sales	2.4x	2.4x	2.3x	2.2x
EV/EBITDA	10.7x	10.5x	9.9x	9.1x
EV/EBIT	13.1x	12.7x	11.7x	10.7x

SFER H1 2016 results were slightly below investor expectations. Sales (EUR710m) fell 3.1% organically (consensus: -2.7%), while EBITDA reached EUR166m (cs: EUR169m) almost stable vs H1 2015 implying a 60bp margin gain to 23.4%. We remain at Buy on SFER with an unchanged EUR23 Fair Value.

ANALYSIS

- Yesterday, Salvatore Ferragamo reported H1 2016 results slightly below expectations. Sales declined 3.1% organically** (consensus:-2.7%), implying -3.7% in Q2 alone, following -2.3% in Q1. By geographical area, we would highlight the slight improvement in trends in **Europe** (27% of sales), despite a tough comparison basis (thanks to Italy), where revenues were down 3.1% in H1 of which -2.2% in Q2 alone. In **Asia-Pacific** (36% of sales), momentum even deteriorated with a 6% decline in Q2 vs -2% in Q1, despite a return to growth in **Mainland China** (11% of sales) particularly in retail but due to a still very challenging situation in **Hong-Kong** and **Macau** (10% of sales). Other Asian countries enjoyed a sales increase especially Korea. In **North America** (23% of sales), the situation did not improve in H1 with a 2.6% decline in revenues of which -1.6% in Q2. In US, momentum remained penalised by a subdued consumption environment (mainly in Department stores) and by lower tourist flows given the strength of the USD. In **Japan**, the very poor H1 performance (-5.2% of which -11% in Q2 alone) was penalised by the strength of the currency, implying far fewer Chinese tourists and by a tough comparison basis. **Nevertheless, note that group sales momentum was much better in July with an increase in retail sales.**
- Retail sales (62% of sales) down 3.1% in H1 of which -2.2% for Q2 alone** after -4.2% in Q1. Same-store retail sales declined mid single digit in Q2 after around -8-9% in Q1. Wholesale sales momentum decelerated in Q2 with -5.6% (stable in Q1) due to the late delivery of new Men fragrance (positive impact to be felt in Q3), lower Travel Retail (less tourist flows in Europe) and management's cautiousness on deliveries to retailers particularly in the US to avoid some discounts. **Footwear revenues** (42% of sales) were slightly down (-0.8% in H1 of which -0.7% in Q2 alone) while **Leather Goods** sales declined much more significantly (-4%) during the period (partly explained by tough comps) while some other brands such as LV, Gucci and Hermès did better.
- SFER was able to increase its profitability in H1 (+30bp to 19.1%) despite the poor sales performance.** H1 EBIT margin grew 30bp to 19.1% implying a slight decline (-20bp) in Q2 alone after +80bp in Q1. This positive HY performance was driven by gross margin which gained 120bp to 67% (but stable in Q2) thanks to **i/** a less negative hedging impact, **ii/** the lower weight of discount sales following classic products, which also helps to enhance brand positioning, **iii/** better production capacity efficiency and **iv/** a positive distribution mix (retail outperformed wholesale). Total OPEX remained unchanged (despite the higher weight as a % of sales of "sales & distribution costs") and accounted for 47.9% of sales versus 47% in H1 2015. However, the Q2 performance was much better than in Q1 with stability as a % of sales whereas in Q1 it was up 170bp.

Half year results

EURm	H1 15	H1 16	chge (%)
Sales	722	710	-1.7
Gross margin	475	475	0.0
as % of sales	65.8	67.0	120bp
EBIT	135.6	135.5	0.0
as % of sales	18.8	19.1	30bp

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

VALUATION

- The stock has gained 2% over the past 3m (+12% over the past month) vs 2% for our luxury goods sample. Its is trading at 12.7x on 2016 EV/EBIT implying a 4% premium vs average.

NEXT CATALYSTS

- Q3 results to be reported on 14th of November.



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