

Tod's Group

Price EUR51.30

Profitability still under pressure

Fair Value EUR53 (+3%)

SELL

Bloomberg	TOD IM
Reuters	TOD.MI
12-month High / Low (EUR)	82.0 / 46.0
Market Cap (EUR)	1,698
Ev (BG Estimates) (EUR)	1,710
Avg. 6m daily volume (000)	73.70
3y EPS CAGR	4.4%

Again, Tod's results are below market expectations. In H1, EBITDA reached EUR86.3m while consensus was anticipating EUR87.6m. Profitability declined 270bp to 17.3%. Furthermore, sales momentum did not likely improve during the summer as same stores sales declined in line with almost the same trend as H1. Nevertheless, management estimates that FY consensus is still feasible, although "challenging".

ANALYSIS

- On July 21st, the Italian group 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 highlighted 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 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). And more importantly, Tod's CFO added at the yesterday's conference call that the trend in July and August was not very different from the H1 performance. It is only in Q4 that management expects some improvement, as the last quarter will benefit from a new bags collection.

- EBIT in H1 2016 declined 20% to EUR62m, implying a significant profitability decrease (-260bp to 12.5%). EBITDA is down 16.2% to EUR86.3m (consensus: EUR87.6m) with an EBITDA margin down 270bp to 17.3%.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.5%	-1.1%	-30.1%	-29.8%
Pers & H/H Gds	-4.3%	4.4%	-0.4%	-0.3%
DJ Stoxx 600	-2.2%	5.6%	-1.8%	-7.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,037	1,015	1,070	1,120
% change		-2.1%	5.4%	4.7%
EBITDA	203	185	205	225
EBIT	148.7	130.0	148.0	168.0
% change		-12.6%	13.8%	13.5%
Net income	92.8	82.0	100.0	114.0
% change		-11.6%	22.0%	14.0%

	2015	2016e	2017e	2018e
Operating margin	14.3	12.8	13.8	15.0
Net margin	8.9	8.1	9.3	10.2
ROE	13.6	12.2	13.8	15.7
ROCE	17.9	16.1	18.3	20.7
Gearing	-15.2	1.7	-1.1	-5.2

(EUR)	2015	2016e	2017e	2018e
EPS	3.03	2.48	3.03	3.45
% change		-18.0%	22.0%	14.0%
P/E	16.9x	20.6x	16.9x	14.9x
FCF yield (%)	3.0%	5.8%	5.6%	6.6%
Dividends (EUR)	2.00	2.20	2.30	3.30
Div yield (%)	3.9%	4.3%	4.5%	6.4%
EV/Sales	1.5x	1.7x	1.6x	1.5x
EV/EBITDA	7.7x	9.2x	8.2x	7.4x
EV/EBIT	10.5x	13.2x	11.4x	9.9x

Half Year P&L

EURm	H1 2015	H1 2016	chge %
Sales	515	498	-3,4
EBITDA	103	86	-16,2
as % of sales	20,0	17,3	-270bp
EBIT	77,7	61,9	-20,1
as % of sales	15,1	12,5	-260bp

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

- Since the departure of Alessandra Facchinetti, the Tod's brand is very clear: be less fashion (no more fashion shows), be more entry price or mid range focused and less high end, be more classic both in shoes and bags. And this will lead also to cost savings that we can estimate at EUR10-20m.
- Tod's CFO, M. Emilio Maccelari, added that he was comfortable with the current sales consensus (-1 to -2%) but said that EBITDA margin consensus was perhaps challenging, but still feasible despite likely poor sales performance in Q3. Therefore, all will depend on the Q4 trend which means that visibility the on FY2016 performance remains very weak. Consequently, we leave our FY 2016 estimates unchanged.

VALUATION

- Tod's share price has lost 30% YTD and even 5% vs last month, but the stock is still trading at a small 3% premium versus our luxury groups sample average. Given the still weak visibility on short term prospects and a weak track record in recent quarters, we prefer to keep our Sell recommendation with an unchanged EUR53 FV.

NEXT CATALYSTS

- Q3 sales to be reported on October 24th.

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