

Tod's Group

Price EUR50.80

Q3 sales declined 4.8% at same forex

Fair Value EUR53 vs. EUR55 (+4%)

SELL

Bloomberg	TOD IM
Reuters	TOD.MI
12-month High / Low (EUR)	80.7 / 46.0
Market Cap (EUR)	1,681
Ev (BG Estimates) (EUR)	1,698
Avg. 6m daily volume (000)	65.60
3y EPS CAGR	4.4%

9m revenues (EUR757m) were down 4.4%, implying -4.8% in Q3 alone, following -4.3% in H1. Same stores sales declined 14.6% on 9m, implying -15.5% in Q3 alone, that highlights some deterioration vs H1 (-14.3%), and almost no improvement vs Q2 (-16.2%). We reiterate our Sell recommendation. New FV at EUR53 vs EUR55 previously.

ANALYSIS

- Tod's Group reported yesterday 9M sales at EUR758m (consensus:EUR761m), down 4.4% organically and -4.9% in Q3 alone, versus consensus at -2.6%. This follows a 4.2% revenue decline in Q2 and -4.3% in H1. Retail sales (63% of group sales) were down 6.8% on 9m (-9% in Q3 alone vs -5.7% in H1). Same stores sales growth declined 14.6% on 9m versus -14.3% in H1, which highlights again the challenging situation of the brand, with a new deterioration in Q3 (-15.5%). Nevertheless, Group management highlighted that September and even October saw a better trend, but obviously still negative. We can argue at this point that Tod's Group is the worst performer among Soft Luxury groups.
- Tod's Group has opened 9 DOS over the last 12 months. Tod's brand sales (58% of sales) declined 8.4% on 9m versus -8.1%, implying a 9% decrease in Q3 alone. Hogan brand achieved a slightly better trend with a 2.9% decline in Q3 alone. If the shoes business (78% of sales) is down 3.5% on 9m, almost in line with H1 performance, Leather Goods (15% of sales) is still significantly down (-11.8% on 9m, here too, in line with H1 decline. This highlights, in our view, that Tod's brand LG lines are losing market share vs competitors.
- By region, it is worth noting the 4% decline in Italy in 9m (-6% in Q3), due to a demanding comparison base (Milan expo). Nevertheless, the Rest of Europe grew 2% in Q3, despite some demand weakness in the third quarter (-% on 9m). In Greater China (20% of group sales), Tod's Group activity was still very poor on 9M with a 10.4% decline, implying nevertheless a slight improvement in Q3 alone with a 7% decrease. Group saw some improvement in Greater China in recent weeks, coming mainly from Mainland China (11% of group sales), as Chinese clients buy more at home than last year given currency issues (stronger JPY).

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.2%	4.3%	-17.4%	-30.5%
Pers & H/H Gds	-2.3%	-2.0%	1.0%	0.0%
DJ Stoxx 600	-0.3%	1.2%	-1.2%	-5.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,037	1,008	1,070	1,120
% change		-2.8%	6.2%	4.7%
EBITDA	203	178	205	225
EBIT	148.7	123.0	148.0	168.0
% change		-17.3%	20.3%	13.5%
Net income	92.8	75.0	100.0	114.0
% change		-19.2%	33.3%	14.0%

	2015	2016e	2017e	2018e
Operating margin	14.3	12.2	13.8	15.0
Net margin	8.9	7.4	9.3	10.2
ROE	13.6	11.2	13.8	15.7
ROCE	17.9	14.9	18.3	20.7
Gearing	-15.2	2.3	-0.2	-4.3

(EUR)	2015	2016e	2017e	2018e
EPS	3.03	2.27	3.03	3.45
% change		-25.0%	33.3%	14.0%
P/E	16.8x	22.4x	16.8x	14.7x
FCF yield (%)	3.0%	5.6%	5.5%	6.6%
Dividends (EUR)	2.00	2.20	2.30	3.30
Div yield (%)	3.9%	4.3%	4.5%	6.5%
EV/Sales	1.5x	1.7x	1.6x	1.5x
EV/EBITDA	7.6x	9.5x	8.2x	7.3x
EV/EBIT	10.4x	13.8x	11.4x	9.8x

Quarterly organic sales growth by region

same forex (%)	Q4 15	2015	Q1 16	Q2 16	H1 16	Q3 16	9M 16
Italy	11,0	3,7	-3,0	-2,3	-2,7	-6,0	-4,0
Europe	11,4	9,4	0,3	-4,1	-2,0	2,5	-0,4
Americas	10,9	5,3	-8,7	-8,5	-8,6	-6,6	-8,0
Greater China	-5,9	-12,0	-12,0	-11,4	-11,7	-7,3	-10,4
RoW	3,6	6,3	1,2	6,5	3,9	-11,0	-0,7
Total	5,9	1,8	-4,2	-4,2	-4,3	-4,8	-4,4

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

- Tod's Group CFO confirmed yesterday during the conference call that current sales consensus (-1.7%) is still "feasible even if challenging" as it implies a rebound in Q4 (sales need to be up 4% in Q4 to achieve sales consensus). Concerning 2016 EBITDA margin market expectations (18.1%), CFO added also that it should be "challenging but feasible"!
- We prefer to be cautious and we revise downward our 2016 EBIT assumptions by 3% as, in our view, the best scenario should be stable sales in Q4, implying a 3% sales decline. EBITDA margin should be no more than 17.7% (-200bp).

VALUATION

- Given our new earnings expectations, we leave unchanged our sell recommendation and we downgrade our FV from EUR55 to EUR53.

NEXT CATALYSTS

- FY 2016 sales to be reported end of January 2017.



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