

Salvatore Ferragamo

Price EUR21.81

Q3 results below expectations, penalised by wholesale

Fair Value EUR23,8 vs. EUR24,5 (+9%)

NEUTRAL vs. BUY

Bloomberg	SFER IM
Reuters	SFER MI
12-month High / Low (EUR)	23.2 / 17.5
Market Cap (EURm)	3,681
Ev (BG Estimates) (EURm)	3,686
Avg. 6m daily volume (000)	628.3
3y EPS CAGR	5.2%

Salvatore Ferragamo's Q3 results were below expectations, significantly penalised by wholesale sales with a 4% sales decrease, implying -6% in Q3 alone versus -3.1% in H1. Nevertheless, retail sales recovered in Q3 (+0.5% vs -3.1% in H1) while wholesale sales deteriorated significantly (-19%) during the quarter. We revise down our FY 2016 estimates by 3%. Given poor visibility on the short term, we downgrade our recommendation from Buy to Neutral with a new EUR23.8 FV vs EUR24.5.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.8%	4.3%	2.4%	0.3%
Pers & H/H Gds	-5.6%	-8.8%	-4.2%	-5.0%
DJ Stoxx 600	-0.5%	-2.3%	1.1%	-7.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,430	1,420	1,500	1,585
% change		-0.7%	5.6%	5.7%
EBITDA	324	318	340	362
EBIT	264.7	261.0	285.0	307.0
% change		-1.4%	9.2%	7.7%
Net income	172.6	167.0	184.0	201.0
% change		-3.2%	10.2%	9.2%

	2015	2016e	2017e	2018e
Operating margin	18.5	18.4	19.0	19.4
Net margin	12.1	11.8	12.3	12.7
ROE	30.0	26.4	26.2	26.1
ROCE	26.2	22.9	23.1	23.1
Gearing	0.8	0.6	0.4	0.7

(EUR)	2015	2016e	2017e	2018e
EPS	1.02	0.99	1.09	1.19
% change	-	-3.2%	10.2%	9.2%
P/E	21.3x	22.0x	20.0x	18.3x
FCF yield (%)	2.9%	2.3%	2.6%	2.9%
Dividends (EUR)	0.47	0.53	0.60	0.68
Div yield (%)	2.2%	2.4%	2.8%	3.1%
EV/Sales	2.6x	2.6x	2.5x	2.3x
EV/EBITDA	11.4x	11.6x	10.8x	10.2x
EV/EBIT	13.9x	14.1x	12.9x	12.0x

Salvatore Ferragamo's 9m sales reached EUR1.01bn (consensus: EUR1.02bn), down 0.7% and 4% at same forex. This implies a 6% organic revenues decrease in Q3 alone (consensus:-0.5%) versus -3.1% in H1 and -3.4% in Q2. The disappointment was due to wholesale sales (35% of group sales) down 7.3% over 9m and more importantly, down 19% in Q3, strongly penalised by a very cautious shipping approach towards Department Stores, particularly in US, in order to avoid markdowns that *in fine* had a negative impact on brand equity. On the other hand, **retail sales had a better performance in Q3** and were almost stable following -3% in H1 and even -6% in Q2. **Actually, on a same store basis**, retail sales declined 3% in Q3 after -6% in H1. This acceleration was driven in particular by **Mainland China** where sales were up 5% in Q3 versus -5% in H1.

By region, we would highlight the slight improvement in **Asia-Pacific** (35% of sales) with a 3.3% decrease following -4.4% in H1 and even -6.4% in Q3. This confirmed that momentum is clearly improving in Greater China (22% of group sales), while the trend remains very well oriented in other Asian countries like Korea and Singapore. In Q3, **Mainland China** (10% of sales) confirmed its turnaround, initiated in Q2 with 7% growth. On the other hand, **Hong Kong** and **Macau** remained clearly under pressure. In **Europe** (26% of sales), sales momentum deteriorated with a 9% decline mainly due to a lack of tourists and also to the wholesale business decrease (-12%), again due to delivery cautiousness. The faster decline in **North American** revenues (-7% vs -1.6% in Q3) was due to the clear deterioration in wholesale while retail sales were up.

Organic sales growth by region

in %	Q1 16	Q2 16	H1 16	Q3 16	9M 16
Europe	-4.2	-2.2	-3.1	-8.6	-4.8
North America	-3.8	-1.6	-2.6	-7.0	-3.9
Japan	0.0	-10.6	-5.2	-16.8	-9.1
Asia-Pacific	-2.0	-6.4	-4.4	-3.3	-4.1
Others	8.4	15.3	12.0	14.6	12.8
Group	-2.3	-3.4	-3.1	-5.9	-4.0

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

- 9m EBITDA of EUR216m (consensus: EUR223m) implied a 6% decline in Q3 alone, penalised by i/ lower than expected a sales and ii/ one-off costs linked to management changes, following the departure of Mr. Norsa as CEO. Therefore EBITDA margin lost 130bp in Q3 alone and remained stable over 9m.
- New CEO, Mr. Eraldo Poletto, is set to focus on i/ store efficiency (improving sales per store which is far below the sector average) instead of store openings, ii/ brand equity and iii/ products, hence new designer appointments (both for the leather goods and shoes activities). Following the poor 9m results, we adjust our FY estimates and expect a 2% organic sales decline (-0.5% previously) and EBITDA margin slight decline (-30bp).

VALUATION

- The stock is trading on a 3% premium versus the luxury sample 2017 EV/EBIT. Given our FV adjustments and low visibility on the short term, we prefer to **downgrade our recommendation from Buy to Neutral with a new FV at EUR23.8 vs EUR24.5.**

NEXT CATALYSTS

- FY 2016 sales to be reported end of January 2017



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