

16th October 2019

SALVATORE FERRAGAMO

Consumer, Brands & Retail
Luxury Goods

BUY

Fair Value EUR18.2 vs. EUR19 (+10%)
Share price EUR16.51
EPS 3Y Cagr 10.6%

A soft Q3 on the cards

Q3 sales under pressure

Q3 sales were under pressure in both the US (25% of sales) and APAC (40% of sales) and not only in Hong-Kong. Revenue from H-K (close to 7% of group sales via seven stores) was down 45% in Q3 (more than LVMH which reported a 25% sales decline). Management noted a deterioration in Macao and even in Mainland China (13% of sales) and in Korea. This implies that no repatriation was undertaken in Q3 by the Chinese cluster (28% of sales). While the brand, like other peers, is currently negotiating with landlords to lower rents, management is not ruling out the possibility of closing some minor stores in the former British colony. The situation deteriorated slightly in the US during Q3. On the other hand, momentum accelerated in Europe during the quarter, partially boosted by higher tourists flows, especially American. In all, retail sales should be up slightly with wholesale likely to be down close to 10%, **we expect SFER Q3 sales to be down 3% (at same FX), which implies +2.5% on 9m**. While the Italian brand is facing tougher macro events, it is also in a transforming brand journey which is always more difficult in an adverse macro environment.

Higher OPEX implying profitability erosion

Despite lower sales but thanks to a better channel mix (outperformance of primary channel among retail and retail versus wholesale) and product mix, we expect gross margin to gain 60bp (63%) in Q3, in line with the H1 performance. Nevertheless, given lower sales and with OPEX (mainly marketing and communication costs, retail and digital investments...) still expected to increase by 6-7%, we anticipate a clear deterioration in EBITDA margin (-350bp). Management is still in an expansion and investment strategy as it has a long-term view.

2019-20 earnings revised down 6%

In order to take account of a less buoyant Q3 than expected (+1% initially), we have adjusted our 2019-20 earnings by 5%. For 2019, we expect now a 2% organic sales growth (no growth in Q4) vs +3.5% previously. EBITDA should reach EUR205m versus EUR220m previously (15% EBITDA margin or 90bp lower than in 2018).

Buy recommendation maintained but FV EUR18.2 vs EUR19!

Although we maintain our positive recommendation, we have lowered our Fair Value (EUR18.2 vs EUR19) to take account of our new earnings expectations. We argue that if management is not successful in relaunching the brand with a profitability improvement within 18 months, the Ferragamo family, which controls 65% of capital (of which 54% via a family holding), could be tempted, at some point, to reorganise the shareholding structure and therefore to let another shareholder and team relaunch the brand.

Market Data

Bloomberg / Reuters	SFER IM/SFER MI
Market Cap.	EUR2,787m
E.V.	EUR2,599m
Free Float	29%
Avg. Daily volume (6m)	573.4
12m high / low	EUR21.6 / EUR16.0
Ytd Perf.	-6.5%

EURM	12/18	12/19e	12/20e	12/21e
Sales	1,347	1,370	1,435	1,530
% Change		1.7%	4.7%	6.6%
EBITDA	214.3	205.0	226.0	251.0
% Change		-4.3%	10.2%	11.1%
EBIT	149.8	140.0	166.0	189.0
% Change		-6.5%	18.6%	13.9%
Net Income	89.4	87.0	106.0	121.0
% Change		-2.7%	21.8%	14.2%
ROE	0.12	0.11	0.13	0.14

	12/18	12/19e	12/20e	12/21e
EV/Sales	1.9x	1.9x	1.8x	1.7x
EV/EBITDA	12.1x	12.7x	11.6x	10.4x
EV/EBIT	17.4x	18.6x	15.7x	13.9x
EPS	0.53	0.52	0.63	0.72
% change		-2.7%	21.8%	14.2%
P/E	31.1x	32.0x	26.2x	23.0x
Div Yield	2.1%	2.3%	2.6%	2.6%

Next Catalyst: Q3 results on 12th November

Last rating Change:

2017-6-23, Some fears on H1 earnings...

Last FV Change:

2019-1-21, Challenging Q4 2018 and cautiousness for 2019

Last Reports:

2019-7-31, Slightly below estimates for EBITDA

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Share price	EUR16.51
Market Cap.	EUR2,787m
EPS 3Y CAGR	10.6%

Income Statement (EURm)	2017	2018	2019e	2020e	2021e
Revenues	1,394	1,347	1,370	1,435	1,530
<i>Change (%)</i>	-3.1%	-3.4%	1.7%	4.7%	6.6%
Gross margin	899	862	887	940	1,005
<i>Change (%)</i>	-6.9%	-4.1%	2.9%	6.0%	6.9%
Adjusted EBITDA	249	214	205	226	251
EBIT	186	150	140	166	189
<i>Change (%)</i>	-28.6%	-19.5%	-6.5%	18.6%	13.9%
Financial results	-13	-14	-13	-12	-12
Pre-Tax profits	173	136	127	154	177
Exceptionals	3	4	5	6	7
Tax	-59	-46	-41	-49	-57
Profits from associates	1	1	1	1	1
Minority interests	-4	2	0	0	0
Net profit	119	89	87	106	121
Restated net profit	119	89	87	106	121
<i>Change (%)</i>	-40.9%	-25.1%	-2.7%	21.8%	14.2%
Cash Flow Statement (EURm)					
Operating cash flows	147	117	115	134	149
Change in working capital	-105	25	21	22	23
Capex, net	79	76	70	70	70
Financial investments, net	0	0	0	0	0
Dividends	78	64	74	85	97
Other	-55	-88	-50	-30	-30
Net debt	-147	-188	-189	-176	-164
Free Cash flow	173	17	24	42	56
Balance Sheet (EURm)					
Tangible fixed assets	256	266	286	306	326
Intangibles assets	44	43	43	43	43
Cash & equivalents	212	209	210	197	186
current assets	474	506	535	565	598
Other assets	197	164	164	164	164
Total assets	1,182	1,187	1,237	1,275	1,316
L & ST Debt	67	21	21	21	21
Others liabilities	367	386	394	403	412
Shareholders' funds	749	781	822	852	883
Total Liabilities	1182	1187	1237	1275	1316
Capital employed	649	681	721	763	806
Financial Ratios					
Operating margin	13.4%	11.1%	10.2%	11.6%	12.4%
Tax rate	34.0%	33.6%	32.3%	31.8%	32.2%
Net margin	8.6%	6.6%	6.4%	7.4%	7.9%
ROE (after tax)	16.5%	11.9%	10.9%	12.8%	14.1%
ROCE (after tax)	18.9%	14.6%	13.1%	14.8%	15.9%
Gearing	-19%	-24%	-23%	-21%	-19%
Pay out ratio	53.6%	64.0%	73.6%	68.3%	59.8%
Number of shares, diluted	168,410	168,410	168,410	168,410	168,410
Data per Share (EUR)					
EPS	0.71	0.53	0.52	0.63	0.72
Restated EPS	0.71	0.53	0.52	0.63	0.72
<i>% change</i>	-40.9%	-25.1%	-2.7%	21.8%	14.2%
BVPS	4.44	4.64	4.88	5.06	5.24
Operating cash flows	0.87	0.70	0.68	0.80	0.88
FCF	1.03	0.10	0.15	0.25	0.33
Net dividend	0.38	0.34	0.38	0.43	0.43

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

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