

FERRAGAMO

Sector: Consumers

NEUTRAL

Price: Eu12.11 - Target: Eu13.50

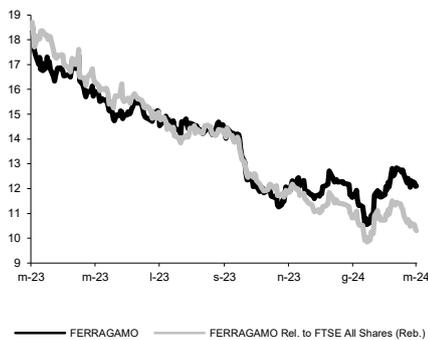
Margins Favoured by Savings, Revenue Trend Still Volatile

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| Stock Rating | | | |
|--------------------|---------------------|-------|-------|
| Rating: | Unchanged | | |
| Target Price (Eu): | from 12.00 to 13.50 | | |
| | 2024E | 2025E | 2026E |
| Chg in Adj EPS | -0.2% | -6.4% | |

Next Event 1Q24 Revenues
 Results out: 9 May 2024

FERRAGAMO - 12M Performance



| Stock Data | | | |
|-------------------------|-------------|-------|--------|
| Reuters code: | SFER.MI | | |
| Bloomberg code: | SFER IM | | |
| Performance | 1M | 3M | 12M |
| Absolute | 0.2% | 2.5% | -34.4% |
| Relative | -6.5% | -7.4% | -51.9% |
| 12M (H/L) | 18.57/10.56 | | |
| 3M Average Volume (th): | 289.60 | | |

| Shareholder Data | |
|---------------------------|-------|
| No. of Ord shares (mn): | 169 |
| Total no. of shares (mn): | 169 |
| Mkt Cap Ord (Eu mn): | 2,044 |
| Total Mkt Cap (Eu mn): | 2,044 |
| Mkt Float - Ord (Eu mn): | 593 |
| Mkt Float (in %): | 29.0% |
| Main Shareholder: | |
| Ferragamo Family | 65.0% |

| Balance Sheet Data | |
|---------------------------------|-------|
| Book Value (Eu mn): | 738 |
| BVPS (Eu): | 4.38 |
| P/BV: | 2.8 |
| Net Financial Position (Eu mn): | -612 |
| Enterprise Value (Eu mn): | 1,812 |

■ Margins beat expectations thanks to lower OpEx. On 25 January the group unveiled 4Q23 revenues of Eu312.1mn, down 5.7% YoY (-6.0% at constant ForEx). The gross margin was in line with our forecast at 73.0% in 2H23, marking a 90bp improvement (it was +40bp in 1H23). 2H EBIT came in at Eu25.0mn, down 23% YoY but Eu4.4mn better than expected, mainly thanks to slightly lower marketing expenses (9.3% on sales in 2H23 vs. 9.8% in 2H22) but also thanks to lower G&A costs (down Eu18mn YoY to Eu67mn). During the call management explained this reduction was also favoured by c.Eu10mn of non-recurring charges inflating the 2H22 figure. 2H23 net income amounted to Eu3.6mn, a touch better than expected after a higher-than-expected tax rate (42% in FY23). Finally, net cash excluding IFRS16 stood at Eu224.4mn, lower than expected: annual FCF was negative to the tune of Eu70mn burdened by NWC absorption (Eu37mn) and a strong increase in CapEx (+28% YoY). As a reminder, in 2H23 the group sustained a Eu39mn cash-out for the acquisition of the minority stakes in the three Greater China joint ventures.

■ Management comments. During the call management explained that the Retail channel was affected by a 1.5% negative space effect in FY23 from 15 net closures of non-strategic stores. A similar number of net closures is planned in 2024. In terms of pricing, new hikes are not being considered in 2024. Current trading is still volatile, with January soft, especially in Asia and the US, while February was better (positive calendar effect related to the Chinese New Year), also thanks to a recovery in Europe and the US. In February retail sales were broadly in line with February 2023. The FY24 gross margin should stabilise at the 2023 level, deemed quite pleasing. In terms of OpEx, Ferragamo will remain disciplined on G&A (expected up slightly YoY) while communications expenses should remain similar to 2H23 level. The new store concept made its debut in the Women's Store in Milan, opened during Fashion Week. Reaction has been extremely encouraging. Management is confident of having found the right direction. In 2024, there are plans to refurbish about 20 stores according to the new concept.

■ Change in estimates. In this report we are trimming our expected 2024/25 revenues by 1%, while assuming more gradual marketing spending, so we are slightly raising our 2024 EBIT margin (+20bp) but slightly reducing the 2025 EBIT margin (-10bp). Below EBIT, we are assuming a higher tax rate (33% and 32% in 2024 and 2025) before going back to our previous 30% assumption in 2026.

■ NEUTRAL confirmed; target from Eu12.0 to Eu13.5. We remain NEUTRAL on the stock pending greater visibility on top line recovery, which is yet to materialise (1Q24 sales should continue to show a declining trend). The company mentions positive signs, but without providing clear indicators to the market. Our target reflects a small change in fundamental value (from Eu10.9 to Eu11.3) but we are moving the weighting of a speculative scenario (in which we value the company at Eu22.5p.s.) from 10% to 20% to better reflect speculation over a possible takeover, which represents the main risk to our cautious view on the stock. The forthcoming AGM on 23 April 2024 will also be called upon to renew the BoD's mandate: current top management is expected to be confirmed.

| Key Figures & Ratios | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------|-------|-------|-------|-------|-------|
| Sales (Eu mn) | 1,252 | 1,156 | 1,169 | 1,243 | 1,348 |
| EBITDA Adj (Eu mn) | 299 | 252 | 262 | 295 | 330 |
| Net Profit Adj (Eu mn) | 70 | 26 | 31 | 48 | 66 |
| EPS New Adj (Eu) | 0.412 | 0.154 | 0.185 | 0.286 | 0.390 |
| EPS Old Adj (Eu) | 0.412 | 0.151 | 0.185 | 0.305 | |
| DPS (Eu) | 0.280 | 0.100 | 0.104 | 0.146 | 0.199 |
| EV/EBITDA Adj | 8.1 | 9.1 | 6.9 | 6.1 | 5.4 |
| EV/EBIT Adj | 18.9 | 31.8 | 24.0 | 18.2 | 14.7 |
| P/E Adj | 29.4 | 78.4 | 65.6 | 42.4 | 31.1 |
| Div. Yield | 2.3% | 0.8% | 0.9% | 1.2% | 1.6% |
| Net Debt/EBITDA Adj | 0.7 | 1.9 | 2.3 | 2.5 | 2.7 |

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- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

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Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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| | |
|--------------|---------|
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| NEUTRAL: | 26.02 % |
| UNDERPERFORM | 00.81 % |
| SELL: | 00.00 % |

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| | |
|--------------|---------|
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| UNDERPERFORM | 00.00 % |
| SELL: | 00.00 % |

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| Emittente | % | Long/Short |
|-----------|---|------------|
| | | |

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