Intermonte

Milan, 07 September 2023
Italian Equity Research – 1H23 Results

TOD'S

NEUTRAL

Sector: Consumers

Price: Eu37.82 - **Target: Eu43.00**

Raising EBIT Margin Forecasts After 1H23 Results

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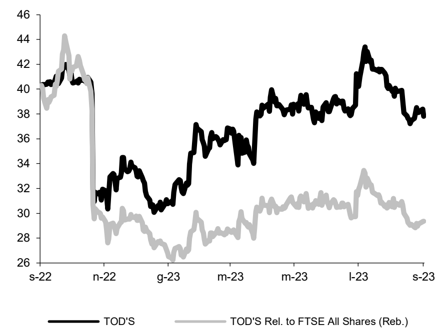
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 42.60 to 43.00
	2023E	**2024E**	**2025E**
Chg in Adj EPS	3.0%	1.8%	0.3%

Next Event 9M23 revenues
Results Out 8 November 2023

TOD'S - 12M Performance



Stock Data			
Reuters code:			TOD.MI
Bloomberg code:			TOD IM
Performance	**1M**	**3M**	**12M**
Absolute	-6.2%	-1.7%	-6.1%
Relative	-4.8%	-5.3%	-34.9%
12M (H/L)			43.40/30.08
3M Average Volume (th):			39.32

Shareholder Data	
No. of Ord shares (mn):	33
Total no. of shares (mn):	33
Mkt Cap Ord (Eu mn):	1,252
Total Mkt Cap (Eu mn):	1,252
Mkt Float - Ord (Eu mn):	264
Mkt Float (in %):	21.1%
Main Shareholder:	
Della Valle Family	63.6%

Balance Sheet Data	
Book Value (Eu mn):	1,088
BVPS (Eu):	32.86
P/BV:	1.2
Net Financial Position (Eu mn):	-546
Enterprise Value (Eu mn):	1,314

- **1H23 revenues up 21.7% YoY, as already announced.** On 26 July 2023 the group published preliminary 1H23 revenues. Looking at 2Q23, revenues came to Eu298.6mn, up 20.4% YoY (+22.3% at constant ForEx). By channel, the DOS contribution was Eu237.8mn, +23.5% YoY, while wholesale was up 9.8% YoY to Eu60.8mn. Geographically, Greater China revenues rose 57.5% YoY to Eu105.8mn (+5.4% better than our expectations), while growth in Italy, Europe and Rest of the World was 7.4%, 10.2% and 8.6% YoY respectively. The Americas was the only area to post a drop in turnover, by 8% YoY.
- **EBIT 25% higher than our above-consensus estimates.** In terms of margins, the main positive was the 1H23 gross margin, up 390bp to 85%. Below this line, OpEx was up 17.1% YoY, bringing EBIT to Eu60.3mn, up 241% YoY with a 10.6% margin on sales, 210bp better than expected (and we were above consensus).
- **Management indications**. Current trading: top line growth in July and August was positive but at a more normalised pace. In the Chinese market, the normalisation of the growth rate might have been driven by increasing worries on the macro trend. In the rest of Asia, Japan remained the top performing area while Korea remained the weakest market. In the US, demand was not brilliant but if we were also to factor in American tourists in Europe, the cluster would have been up high single-digit. In Europe, local demand was weaker than in 2Q23 but still up YoY. Gross Margin: the surprising 1H23 result was driven by favourable mixes for products (leather goods), channels (DOS) and geographical areas (China and Japan); the FY23 gross margin may rise 180-200bp YoY. FY23 Outlook: management does not expect 2H23 profitability to be higher than in 1H23, mainly because communication expenses on sales will be 200bp higher; 2023 EBIT can exceed current consensus of Eu85mn but should remain below Eu100mn. Working Capital: higher inventories at the end of June reflect the decision to bring the production of A/W collections forward; by YE23 net debt should be lower than at YE22, by Eu15-20mn. Capital Markets Day: presentation planned for March 2024, along with approval of FY23 results.
- **Change in estimates**. In this report we are leaving our 2023-2024 revenue estimates unchanged, assuming 9.8% growth in 2H23 (+12.1% at constant ForEx). In terms of margins, we are lifting our estimates, bringing the 2023 EBIT margin from 7.5% to 8.2%, assuming the 2H23 gross margin remains flat YoY at 81.8% but the 2H23 EBIT margin declines from 7.5% to 5.9% due to higher communication costs. At bottom line, the EPS revision is partly dented by our assumption of higher financial charges.
- **NEUTRAL confirmed; target Eu43.0 from Eu42.6.** Once again, we appreciate the improving momentum and expect a positive stock reaction to better-than-consensus results, but confirm our NEUTRAL stance as on the one hand we still have limited visibility on management's strategy to strengthen and sustain brand positioning and distribution, and on the other the increasing uncertainty, especially about Chinese consumer spending, might be particularly significant for a group that has 34% exposure to China and generally has a lower price point than peers. Our target is the combination of a fundamental fair value of Eu40.75 (from Eu40.4), and a speculative scenario (Eu51.8) to which we assign a 20% likelihood.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	884	1,007	1,161	1,252	1,351
EBITDA Adj (Eu mn)	161	207	256	283	308
Net Profit Adj (Eu mn)	-6	23	46	66	83
EPS New Adj (Eu)	-0.179	0.697	1.393	1.987	2.519
EPS Old Adj (Eu)	-0.179	0.697	1.352	1.952	2.511
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	9.3	6.4	5.1	4.5	4.0
EV/EBIT Adj	nm	22.6	13.8	10.9	8.8
P/E Adj	nm	54.3	27.1	19.0	15.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.2	2.7	2.1	1.8	1.5