

03 July 2009
Branded Goods
Update
Price: € 0.90
Target price: € 1.28
Reuters/Bloomberg
PQ.MI / PQ IM
Outperform

Feedback from investors meetings in Milan

Some improvement in current trading recorded

The start of FY09/10 recorded a better performance in the group's retail network, although volatility continued to be high: following a negative LFL sales performance of 1.5% in FY08/09 (ending 31 March 2009), the group's DOS network reported a mid-single digit LFL decline in April and a recovery thereafter, with June posting single-digit organic growth. On the other hand, the wholesale business continued to suffer, reporting a contraction in the mid to high single-digit range, but nevertheless outperforming the reference market (down by -15/-20%). By market, Piquadro is reporting some resilience in Italy and Spain, while Germany and Russia are suffering the most. For the current year, the management expects flat sales, a stable gross margin and the first benefits from cost-cutting measures (i.e. reducing in-house production to take advantage of cheaper outsourcing opportunities, renegotiating the rent for some POS, insurance and other central costs), while the planned network extension (15/20 new openings this year) should impact group EBITDA. Given the flat revenues, this is likely to lead to a decline of 10%-15% in EPS.

Brand extension opportunities in the pipeline

Following an initial test collection of apparel items (for FW09) made in collaboration with G&P Net SpA (producer and distributor of Goespirit and Peuterey brands), Piquadro feels comfortable and ready for a new adventure in the apparel business. This may include the set-up of a newco that is fully dedicated to the development of an apparel collection, the majority of which might be owned by Piquadro itself but with the participation of industrial players and other partners. The first launch of the new collection is likely to occur in 2010 and be distributed across the group's retail network (DOS and wholesale). The initial impact on the group's financials is expected to be limited (we expect revenues of €1-1.5m and break-even in the first year). However this is a sign that the group's brand is more mature and testifies to its positive brand awareness. Further opportunities for brand extension could arise afterwards.

OUTPERFORM rating confirmed with TP @ €1.28

At current prices, Piquadro is trading at 4.2x 09EV/EBITDA or at a 40% discount on peers, much higher than the historical 30%: the company's multiple expansions over the last six months amount to almost half that of the average re-rating of peers, owing to the limited stock liquidity and despite a higher cut in 09EBITDA estimates. We therefore confirm our target price of €1.28, since we consider fair a valuation of 5.6x 09EV/EBITDA providing a 30% discount on peers multiples at their target prices. This also takes into account Piquadro's positioning in the accessible luxury market, which is showing itself to be highly vulnerable to market downturns, coupled with the company's small size and limited stock liquidity. The 40% upside potential on the current price together with the current higher discount on peers' 09EV/EBITDA compared to the historical one and the clear undervaluation on fundamentals make us confirm our OUTPERFORM rating on the stock.

Market Data

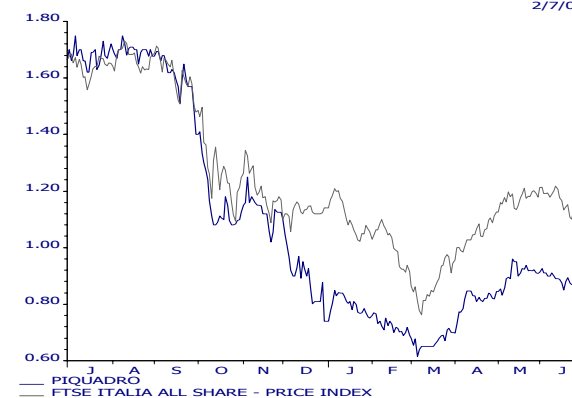
Market Cap (€ m)	45
Shares Out. (m)	50
Rel Perf vs Mibtel (%)	
-1m	2.9%
-3m	7.6%
-12m	-15.6%
21dd Avg. Vol. ('000)	46

Source: Mediobanca Securities, Datastream

	2008	2009E	2010E	2011E
EPS Adj. (€)	0.15	0.13	0.13	0.13
DPS (€)	0.06	0.06	0.05	0.00
BVPS (€)	0.33	0.40	0.48	0.56
EV/Ebitda(x)	5.2	4.2	3.7	3.4
P/E adj (x)	8.6	7.1	6.8	6.7
Div.Yield(%)	4.8	6.9	5.8	0.0
OpFCF Yield(%)	12.5	15.0	20.5	21.3

Source: Mediobanca Securities

2/7/09



Source: DATASTREAM

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