



Alpargatas

ALPA4

Rating	Outperform
Price (05/04/2012)	R\$15.45
YE12 Target Price	R\$16.38
Upside Potential	6.0%

	11E	12E	13E
P/E	15.9x	13.2x	11.4x
EV/EBITDA	12.0x	9.9x	8.2x

Source: Economática, Company & J.Safra

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1Q12 Results: Robust Top-Line But Low Margins, As Expected

BOTTOM LINE: Alpargatas has posted overall in line 1Q12 results. The highlight was the 11.1% YoY sandals volume growth. Despite being positive, we expect more moderate levels going forward. In the International Operations, sales in Argentina and Europe have disappointed us. Higher rubber prices and SG&A expenses are still negatively impacting margins, as expected. We expect a neutral market reaction on the shares. We are adjusting our target price to R\$16.38 (from R\$18.02), based on the share bonus (10 for each 100 shares, ex on April 26th).

ANALYSIS: Robust YoY sandals volume growth in Brazil. Net revenues in the domestic business were up by 22.6% YoY, 3.2% above our estimates. Such good performance was led by the expressive 11.1% YoY sandals volume growth (beating our 5.5%), combined with the 9.5% price raise implemented last year. In the Sporting Goods segment, volume of athletic shoes was down by 2.1% YoY, although offset by higher average prices.

Rubber prices still negatively impacting gross margins, as expected. Gross margin in the domestic business was down by 4.8pp YoY, mainly on the 29.3% higher rubber prices. On the positive side, EBITDA margin showed a smaller 2.7pp YoY drop, on lower expenses.

Poorer-than-expected sales in Argentina, on consumption slowdown. Alpargatas Argentina posted a 26% YoY volume drop. Despite poor volumes, net revenues were up by 2.6% YoY, as prices were adjusted in line with local inflation. Lower cotton prices in the textile business were offset by higher production costs for footwear, resulting in a flat YoY gross margin. EBITDA margin was down by 2.5pp YoY, primarily on higher storage costs (as inventory levels increased, following sales slowdown).

Lower YoY EBITDA margin in Alpargatas USA, Alpargatas Europe and Exports. Alpargatas USA and Exports posted a robust 38.9% and 24.2% YoY net revenues growth in USD, respectively. On the negative side, Alpargatas Europe net revenues were down by 14.4% YoY in EUR, on delays in deliveries from Brazil. Higher expenses more than offset higher gross margins, leading to a 4.1pp YoY EBITDA margin drop, as Alpargatas has increased investments to establish operations in the region (mainly marketing and expenses related to store openings in Europe).

