

China / Hong Kong Company Update

Prada

Bloomberg: 1913 HK Equity | Reuters: 1913.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 May 2022

BUY

Last Traded Price (19 May 2022): HK\$43.25 (HSI : 20,121)
Price Target 12-mth: HK\$67.41 (56% upside) (Prev HK\$65.02)

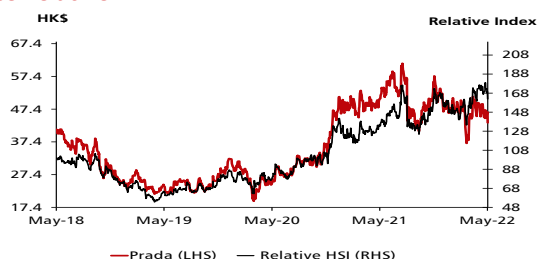
Analyst

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What's New

- Positive YTD performance driven by key markets including Europe, the US and Japan
- Double-digit revenue growth across all product categories as well as all brands of PRADA, MIU MIU and CHURCH's
- We project >25% earnings CAGR in FY21-23F; reiterate a BUY call with new TP of HK\$67.41

Price Relative



Forecasts and Valuation

FY Dec (EURm)	2020A	2021A	2022F	2023F
Turnover	2,423	3,366	3,806	4,158
EBITDA	689	1,120	1,277	1,396
Pre-tax Profit	(52)	422	569	677
Net Profit	(54)	294	397	472
Net Profit Gth (Pre-ex)(%)	N/A	N/A	34.9	19.0
EPS (EUR)	(0.02)	0.11	0.16	0.18
EPS (HK\$)	(0.18)	0.96	1.29	1.53
EPS Gth (%)	N/A	N/A	34.9	19.0
Diluted EPS (HK\$)	(0.18)	0.96	1.29	1.53
DPS (HK\$)	0.29	0.58	0.64	0.77
BV Per Share (HK\$)	9.19	10.11	10.75	11.52
PE (X)	nm	45.3	33.6	28.2
P/Cash Flow (X)	22.5	11.7	13.0	11.6
P/Free CF (X)	27.6	14.4	19.7	19.3
EV/EBITDA (X)	19.8	11.7	9.9	8.7
Net Div Yield (%)	0.7	1.3	1.5	1.8
P/Book Value (X)	4.7	4.3	4.0	3.8
Net Debt/Equity (X)	0.1	CASH	CASH	CASH
ROAE(%)	(1.9)	9.9	12.4	13.8
Earnings Rev (%)			16	3
Consensus EPS (EUR)			0.16	0.20
Other Broker Recs:		B:12	S:2	H:8

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Back in vogue

Investment Thesis

Omni-channel fuels growth. The COVID-19 pandemic has expedited Prada's digital transformation and produced robust online sales expansion, up by 5 times versus pre-pandemic level in 2019 to take up c.7% of FY21 total revenue. Overall, 2H21 retail revenue (including e-tailing) surged by 21% against 2H19. Looking ahead, Prada should continue to deliver a sound growth trajectory, as seen from its accelerated growth trend in 1Q22, and a sound 2Q22 so far fuelled by strong showing in key regions including Europe, the US, and Japan.

Gross margin uptrend. On the back of wholesale reforms and a quick rebound in retail sales, gross margin attained a 10-year high of 74.5% last year. The company targets to achieve c.78% gross margin in FY22F along with further efforts on branding, research & development, and product-mix refinement.

Ample room to grow. Prada has swiftly returned to its pre-pandemic sales level in FY21. Under an inflationary global market, strong brands with sound pricing power should stand out better. We are more convinced that the company could attain over EUR4bn sales and nearly 20% EBIT margin in 2-3 years, and potentially even better profitability ahead (record high EBIT margin: 27% in FY13).

Valuation:

Prada has demonstrated good capability to enhance its product and channel-mix. We lift our earnings estimates by 16%/3% for FY22F/FY23F in view of its sound YTD sales trend. Our new TP of HK\$67.41 is pegged at 44x FY23 PE, equivalent to its 4-year average PE (previous TP: HK\$65.02 on 41x FY23 PE).

Where we differ:

We are slightly more positive on our medium-term margin estimates vs. consensus. We believe Prada's swift COVID-19 recovery and strong efforts on e-commerce & cost control signal better returns ahead.

Key Risks to Our View:

Pandemics; economic slowdown; negative forex impact; etc.

At A Glance

Issued Capital (m shrs)	2,559
Mkt Cap (HKm/US\$m)	110,677 / 14,103
Major Shareholders (%)	
Prada Holdings S.P.A.	80.0
Free Float (%)	20.0
3m Avg. Daily Val. (US\$m)	6.17
GICS Industry: Consumer Discretionary / Retailing	



Watchlist the stock on Insights Direct to receive prompt updates



Prada

WHAT'S NEW

Growth accelerated in 1Q22. Despite lingering geopolitical issues and COVID-19 resurgence in selected countries globally, we believe Prada has score c.28-30% y-o-y revenue growth in 1Q22 for its core retail division (c.90% of total revenue), and a comparably strong momentum even weighing against 1Q19's pre-pandemic level. Such performance sustains an accelerated trend from its growth of 3% in 1Q21, 13% in 2Q21, 18% in 3Q21, and 24% in 4Q21 versus the respective quarters of 2019. Wholesale revenue (c.10% of total sales) is also estimated to post a slight increase and further supports overall top-line growth.

Strong brand and category performance. All major brands and product categories are estimated to have maintained double-digit y-o-y growth so far this year. Specifically, its PRADA brand has achieved the strongest momentum versus MIU MIU and CHURCH'S, while both ready-to-wear and footwear segments have attained relatively faster growth than the leather goods category. According to The Lyst Index that ranks fashion's hottest brands every quarter, PRADA continues to rank amongst the Top-5 brands in 1Q22, while MIU MIU improved immensely to No. 10, a big jump from No. 20 in 4Q21 as its viral mini-skirt moment drove up the brand's searches by 400% q-o-q.

The Lyst Index, 1Q22

1	Balenciaga	11	Off-White
2	Gucci	12	Burberry
3	Louis Vuitton	13	Loewe
4	Prada	14	Versace
5	Valentino	15	Diesel
6	Dior	16	Rick Owens
7	Moncler	17	Adidas
8	Bottega Veneta	18	Saint Laurent
9	Fendi	19	Nike
10	Miu Miu	20	Alexander McQueen

Source: www.lyst.com

Offsetting a slow China in 2Q22. While Prada has maintained sound sales performance in China during Jan-Feb 2022, the trend has started to slow since mid-Mar 2022 amid tightened social distancing policies and lockdowns in selected cities experiencing COVID-19 resurgence. China sales is estimated

to fall by a strong y-o-y double-digit rate in Apr-May 2022, thus dragging Asia momentum. Having said that, other parts of Asia including Japan, S. Korea, Singapore, the Middle East, etc. are still growing firmly, partly due to a low base, while Europe and the US are trending strongly to more than compensate for the sluggish China performance in 2Q22.

Improving products, supply chain & marketing. Prada continues to roll-out more new designs, especially in the ready-to-wear and leather categories, and has expanded its price range to approximately EUR800 to EUR5,000+ for leather goods to capture a wider customer base. Tailor-made products in ready-to-wear and footwear merchandises are also available to meet consumer demand. The company's internalized production strategy and further refinement of stock-keeping units (SKUs) has strengthened its supply chain management. A rising number of pop-up stores in various themes such as camping, beach, tropical, garden, etc. across different markets, coupled with increasing e-commerce & digital engagements with customers have also helped brand building and lifted sales performance.

Medium-term targets intact. On the back of an attractive growth trajectory, Prada is on track to record over EUR4bn sales and c.20% EBIT margin in the coming 2-3 years. Its e-commerce division (c.7% of revenue) continues to deliver decent, double-digit y-o-y sales growth YTD, aiming to contribute c.15% of group revenue over the medium-term. Despite the Russia-Ukraine tensions, the company maintains its target to score c.78% gross margin this year (2021: 75.7%), and potentially an even higher profitability ahead given its rising economies of scale.

Dividend payout. In FY21, Prada resumed to payout 61% of earnings as DPS. Sitting on over EUR200m net cash as of Dec 2021, the company strives to maintain a stable dividend policy, potentially at 60%+ payout each year. Trading at 28x FY23 PE, with our new TP of HK\$67.41 translating into a 56% upside from current price level, we reiterate our BUY rating on Prada.

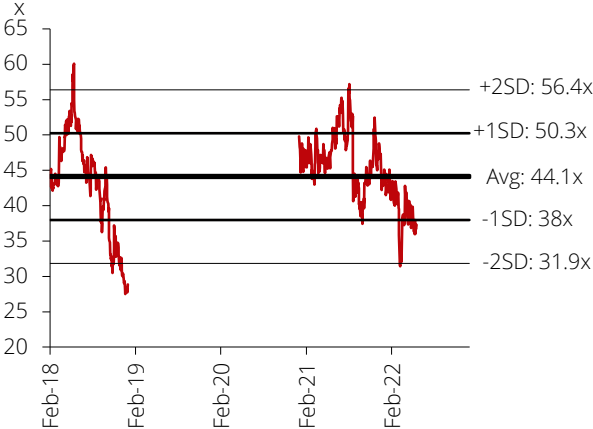
Company Background

Prada designs, manufactures, promotes, and sells high-end luxury products worldwide, ranging from leather goods to ready-to-wear (apparels) and footwear under four brands - PRADA, MIU MIU, CHURCH'S, and CAR SHOE.

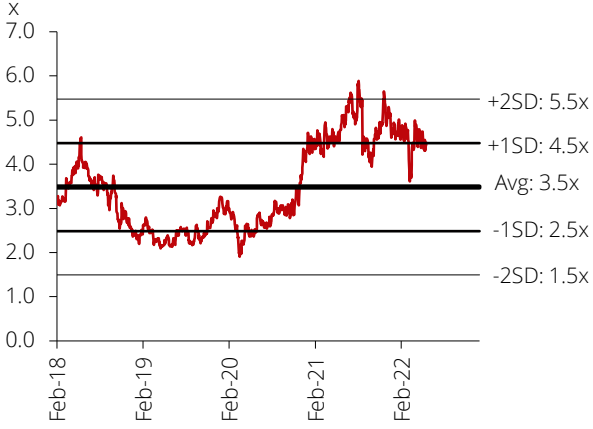
Prada

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

Prada

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Total no. of stores	641.0	633.0	635.0	640.0	646.0
EBIT margin	9.5	5.6	14.5	16.5	17.5

Source: Company, DBS HK

Segmental Breakdown (EUR m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (EUR m)					
Prada	2,643	2,013	2,858	3,258	3,560
Miu Miu	450	329	401	435	478
Church's	70	37	40	43	45
Car Shoe	10	5	8	7	7
Others	52	39	59	63	67
Total	3,226	2,423	3,366	3,806	4,158

Source: Company, DBS HK

Income Statement (EUR m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	3,226	2,423	3,366	3,806	4,158
Cost of Goods Sold	(906)	(679)	(818)	(857)	(913)
Gross Profit	2,320	1,743	2,547	2,949	3,245
Other Opng (Exp)/Inc	(2,013)	(1,607)	(2,058)	(2,320)	(2,516)
Operating Profit	307	136	489	629	729
Other Non Opg (Exp)/Inc	0	(116)	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(72)	(72)	(68)	(60)	(52)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	235	(52)	422	569	677
Tax	23	(3)	(127)	(171)	(203)
Minority Interest	(2)	0	(1)	(1)	(1)
Preference Dividend	0	0	0	0	0
Net Profit	256	(54)	294	397	472
Net Profit before Except.	256	(54)	294	397	472
EBITDA	997	689	1,120	1,277	1,396
Growth					
Revenue Gth (%)	2.7	(24.9)	38.9	13.1	9.2
EBITDA Gth (%)	80.9	(30.9)	62.6	14.0	9.3
Opg Profit Gth (%)	(5.3)	(55.7)	260.2	28.4	16.0
Net Profit Gth (%)	24.5	N/A	N/A	34.9	19.0
Margins & Ratio					
Gross Margins (%)	71.9	72.0	75.7	77.5	78.0
Opg Profit Margin (%)	9.5	5.6	14.5	16.5	17.5
Net Profit Margin (%)	7.9	(2.2)	8.7	10.4	11.4
ROAE (%)	8.8	(1.9)	9.9	12.4	13.8
ROA (%)	4.4	(0.8)	4.4	5.6	6.4
ROCE (%)	6.0	2.3	6.0	7.5	8.4
Div Payout Ratio (%)	0.0	N/A	60.9	50.0	50.0
Net Interest Cover (x)	4.3	1.9	7.2	10.5	13.9

Source: Company, DBS HK

Prada

Balance Sheet (EUR m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	1,642	1,506	1,565	1,535	1,514
Invt in Associates & JVs	81	66	6	6	6
Other LT Assets	3,617	3,301	3,219	2,932	2,706
Cash & ST Invt	421	442	982	1,478	1,969
Inventory	713	666	663	714	743
Debtors	318	290	330	355	369
Other Current Assets	246	256	196	196	196
Total Assets	7,038	6,528	6,959	7,215	7,502
ST Debt	241	301	249	249	249
Creditors	327	290	390	420	437
Other Current Liab	663	637	780	807	839
LT Debt	584	451	493	493	493
Other LT Liabilities	2,234	1,998	1,918	1,918	1,918
Shareholder's Equity	2,967	2,832	3,114	3,312	3,549
Minority Interests	21	20	15	16	17
Total Cap. & Liab.	7,038	6,528	6,959	7,215	7,502
Non-Cash Wkg. Capital	286	286	17	37	31
Net Cash/(Debt)	(405)	(309)	240	736	1,227
Debtors Turn (avg days)	36.2	45.8	33.6	32.8	31.8
Creditors Turn (avg days)	543.1	10,787.2	661.3	708.5	634.5
Inventory Turn (avg days)	1,136.4	24,110.1	1,292.9	1,203.3	1,077.6
Asset Turnover (x)	0.6	0.4	0.5	0.5	0.6
Current Ratio (x)	1.4	1.3	1.5	1.9	2.1
Quick Ratio (x)	0.6	0.6	0.9	1.2	1.5
Net Debt/Equity (X)	0.1	0.1	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	0.1	CASH	CASH	CASH
Capex to Debt (%)	37.7	14.6	29.6	47.4	61.6
Z-Score (X)	2.4	2.2	2.6	2.7	2.7

Source: Company, DBS HK

Cash Flow Statement (EUR m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	235	(52)	422	569	677
Dep. & Amort.	690	669	631	648	667
Tax Paid	(26)	(44)	(37)	(144)	(171)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(108)	106	78	(46)	(26)
Other Operating CF	20	(87)	51	0	0
Net Operating CF	810	592	1,144	1,027	1,146
Capital Exp.(net)	(311)	(110)	(220)	(351)	(457)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	9	(40)	82	0	0
Net Investing CF	(302)	(150)	(137)	(351)	(457)
Div Paid	(155)	0	(91)	(179)	(199)
Chg in Gross Debt	(538)	(395)	(403)	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	0	0	0	0	0
Net Financing CF	(692)	(395)	(495)	(179)	(199)
Currency Adjustments	6	(26)	28	0	0
Chg in Cash	(179)	21	539	496	491
Opg CFPS (EUR)	0.36	0.19	0.42	0.42	0.46
Free CFPS (EUR)	0.19	0.19	0.36	0.26	0.27

Source: Company, DBS HK

Prada

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	12-Nov-21	HK\$49.85	HK\$63.86	Buy
2:	9-Feb-22	HK\$48.15	HK\$65.02	Buy

Source: DBS HK

Analyst: Mavis Hui

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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