

China / Hong Kong Company Update

Prada

Bloomberg: 1913 HK Equity | Reuters: 1913.HK

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DBS Group Research . Equity

29 Jul 2022

BUY

Last Traded Price (28 Jul 2022): HK\$43.80 (HSI : 20,623)
Price Target 12-mth: HK\$68.30 (56% upside) (Prev HK\$67.41)

Analyst

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What's New

- 1H22 earnings jumped 94% y-o-y, above expectations
- Strong performance despite a higher base and macro uncertainties
- Raised FY22-23F earnings by c.2% and lifted TP to HK\$68.3; Maintain BUY on strong brand potential

Price Relative



Forecasts and Valuation

FY Dec (EURm)	2020A	2021A	2022F	2023F
Turnover	2,423	3,366	3,894	4,250
EBITDA	689	1,120	1,303	1,420
Pre-tax Profit	(52)	422	591	698
Net Profit	(54)	294	405	479
Net Profit Gth (%)	N/A	N/A	37.8	18.1
EPS (EUR)	(0.02)	0.11	0.16	0.19
EPS (HK\$)	(0.17)	0.92	1.27	1.50
EPS Gth (%)	N/A	N/A	37.8	18.1
Diluted EPS (HK\$)	(0.17)	0.92	1.27	1.50
DPS (HK\$)	0.28	0.56	0.63	0.75
BV Per Share (HK\$)	8.86	9.74	10.38	11.12
PE (X)	nm	47.6	34.5	29.3
P/Cash Flow (X)	23.6	12.2	13.5	12.1
P/Free CF (X)	29.0	15.2	20.5	20.1
EV/EBITDA (X)	20.8	12.3	10.2	9.0
Net Div Yield (%)	0.6	1.3	1.4	1.7
P/Book Value (X)	4.9	4.5	4.2	3.9
Net Debt/Equity (X)	0.1	CASH	CASH	CASH
ROAE(%)	(1.9)	9.9	12.6	13.9
Earnings Rev (%)			2.0	1.5
Consensus EPS (EUR)			0.16	0.20
Other Broker Recs:		B:9	S:2	H:7

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

Firm revenue momentum following strong 1H22

Investment Thesis

Sound performance across all categories. 1H22 sales up 27% y-o-y driven by robust 31% growth in retail division (including e-retailing). Revenue across all product categories and brands expanded strongly at double-digit rates. Excellent growth in Europe (+58%), Americas (+56%) and Japan (+25%) more than offset the impact of various COVID-19 lockdowns in China and sanctions on Russia. Prada is on track to sustain firm growth momentum on the back of positive brand potential ahead.

Margin uptrend. Strong retail performance, successful wholesale reforms, and targeted efficiency enhancements saw gross margin hit a new record of 77.7% in 1H22. EBIT margin headed 5ppts higher to 16%, and could climb to 20% in c.2 years along with better operating leverage.

Inflation favours strong brands. Prada has swiftly returned to pre-pandemic sales since FY21. With strong inflation in most major markets this year, sound brands with excellent pricing power should stand out better. Considering the rising popularity of both PRADA and MIU MIU brands, we are convinced on the company's strong multi-year prospects.

Valuation:

In view of Prada's robust 1H22 results and decent performance in Jul 2022, we lift FY22/23F earnings by 2%/1.5%. Our new TP of HK\$68.3 is still benchmarked to 44x FY23F PE, equivalent to its 4-year average PE (previous TP: HK\$67.41).

Where we differ:

We are slightly more positive on our medium-term margin estimates vs. consensus. We believe Prada's strong brands and attractive omni-channel performance signal better returns ahead.

Key Risks to Our View:

Pandemic; economic slowdown; negative forex impact; etc.

At A Glance

Issued Capital (m shrs)	2,559
Mkt Cap (HKm/US\$m)	112,084 / 14,279
Major Shareholders (%)	
Prada Holdings S.P.A.	80.0
Free Float (%)	20.0
3m Avg. Daily Val. (US\$m)	4.3
GICS Industry: Consumer Discretionary / Retailing	



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Prada**WHAT'S NEW**

1H22 growth beat expectations. Sales rose by 26.6% y-o-y to EUR1.9bn (or up 22% on constant rates), mainly driven by its robust retail division that scored 31% revenue growth to EUR1.7bn. Revenue across product categories expanded strongly, with sales of leather goods up 18% to EUR928m, ready to wear up 32% to EUR497m, and footwear up 39% to EUR406m. All brands also saw firm revenue growth, including PRADA up 29% to EUR1.6bn, MIU MIU up 13% to EUR216m, and CHURCH'S up 24% to EUR20m. Excellent growth in key markets of Europe (+58% to EUR590m), Americas (+56% to EUR409m) and Japan (+25% to EUR169m) had more than offset the impact of various COVID-19 lockdowns in China and sanctions on Russia.

Strong margin expansion. On the back of strong retail sales along with enriched product offerings and effective marketing strategies, completion of wholesale rationalization, and dedicated efforts on operational & efficiency enhancements, 1H22 gross margin climbed 3.4ppts y-o-y to a new record of 77.7% (FY21: 74.5%). EBIT margin also improved 5ppts to 16% (FY21: 14.5%). EBIT surged 83.7% to EUR305m even after the write-downs of EUR26m from Russia operations, while net profit jumped 93.6% to EUR188m, exceeding expectations. Further efforts on branding, research & development (R&D), product-mix refinement, coupled with better operating leverage should provide additional room for margin improvement ahead.

Latest sales trend on track. Despite low visibility in global political and economic outlook and a higher base for 2H22, we believe Prada delivered decent sales for Jul 2022. Mainland China is seeing improving sales trend since store re-openings in Jun 2022. While the US market could signal slower growth, the rising number of outbound travels especially to Europe should support tourist consumption there and benefit Prada's performance on the whole. Other regions in the Asia Pacific such as South Korea and

South East Asia have recorded decent performance and the company remains confident on the outlook.

Investment in the right areas. In recent years, Prada has invested in promising divisions that include retail, e-commerce, digital, vertical integration, talent, branding, ESG, etc. The company targets to complete the renovation of all stores by end-2023 (1H22: renovated c.60 stores) to further elevate its branding potential. It will also spend more effort on sourcing innovative materials, especially leather, and increase its visibility across the whole supply chain to align with environmental and social compliance targets. The increasing popularity of its brands, as seen from the rise in 2Q22 rankings for PRADA to No. 3 (1Q22: No. 4) and MIU MIU to No. 7 (1Q22: No. 10) off the Lyst Index that ranks fashion's hottest brands reinstates the growing attractiveness of Prada's brand portfolio.

Strategic product-mix refinement. To better ride on its growth potential, the company's priority is to lift leather goods' contribution to c.60% of group revenue (1H22: 51%) in about 5 years, through offering a bigger product portfolio via better R&D and closer collaboration with suppliers, while sustaining expansion of other product segments too. By doing so, we believe Prada should be able to further enrich its brand equity for market share gains. Overall, the company will continue to invest for the medium to longer term, and stays confident on its ability to achieve its medium-term targets despite macro uncertainties.

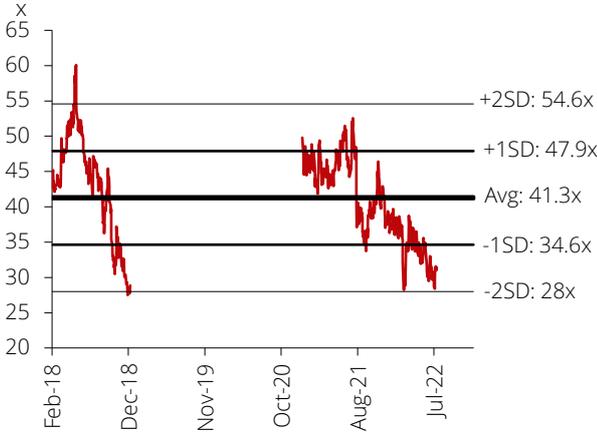
Company Background

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.

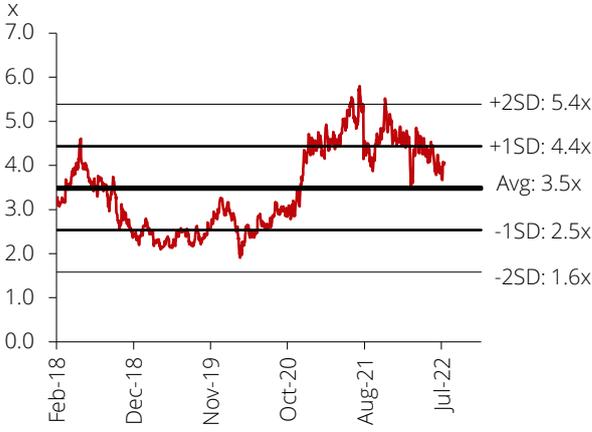
Prada

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	635.0	638.0
EBIT margin	9.5	5.6	14.5	17.5	17.7

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	3,342	3,647
Miu Miu	450	329	401	438	483
Church's	70	37	40	37	36
Car Shoe	10	5	8	7	7
Others	52	39	59	70	76
Total	3,226	2,423	3,366	3,894	4,250

Source: Company, DBS HK

Prada

Income Statement (EUR m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	3,226	2,423	3,366	3,894	4,250
Cost of Goods Sold	(906)	(679)	(818)	(877)	(933)
Gross Profit	2,320	1,743	2,547	3,017	3,316
Other Opg (Exp)/Inc	(2,013)	(1,607)	(2,058)	(2,337)	(2,563)
Operating Profit	307	136	489	680	753
Other Non Opg (Exp)/Inc	0	(116)	0	(26)	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(72)	(72)	(68)	(63)	(56)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	235	(52)	422	591	698
Tax	23	(3)	(127)	(183)	(216)
Minority Interest	(2)	0	(1)	(2)	(3)
Preference Dividend	0	0	0	0	0
Net Profit	256	(54)	294	405	479
Net Profit before Except.	256	(54)	294	405	479
EBITDA	997	689	1,120	1,303	1,420
Growth					
Revenue Gth (%)	2.7	(24.9)	38.9	15.7	9.1
EBITDA Gth (%)	80.9	(30.9)	62.6	16.3	9.0
Opg Profit Gth (%)	(5.3)	(55.7)	260.2	39.0	10.7
Net Profit Gth (%)	24.5	N/A	N/A	37.8	18.1
Margins & Ratio					
Gross Margins (%)	71.9	72.0	75.7	77.5	78.0
Opg Profit Margin (%)	9.5	5.6	14.5	17.5	17.7
Net Profit Margin (%)	7.9	(2.2)	8.7	10.4	11.3
ROAE (%)	8.8	(1.9)	9.9	12.6	13.9
ROA (%)	4.4	(0.8)	4.4	5.7	6.5
ROCE (%)	6.0	2.3	6.0	8.0	8.5
Div Payout Ratio (%)	0.0	N/A	60.9	50.0	50.0
Net Interest Cover (x)	4.3	1.9	7.2	10.7	13.5

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	2,928	2,703
Cash & ST Invt	421	442	982	1,485	1,980
Inventory	713	666	663	730	759
Debtors	318	290	330	363	377
Other Current Assets	246	256	196	196	196
Total Assets	7,038	6,528	6,959	7,243	7,535
ST Debt	241	301	249	249	249
Creditors	327	290	390	430	447
Other Current Liab	663	637	780	819	853
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	3,317	3,556
Minority Interests	21	20	15	17	20
Total Cap. & Liab.	7,038	6,528	6,959	7,243	7,535
Non-Cash Wkg. Capital	286	286	17	40	33
Net Cash/(Debt)	(405)	(309)	240	743	1,238
Debtors Turn (avg days)	36.2	45.8	33.6	32.5	31.8
Creditors Turn (avg days)	543.1	10,787.2	661.3	655.1	599.9
Inventory Turn (avg days)	1,136.4	24,110.1	1,292.9	1,112.6	1,018.8
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

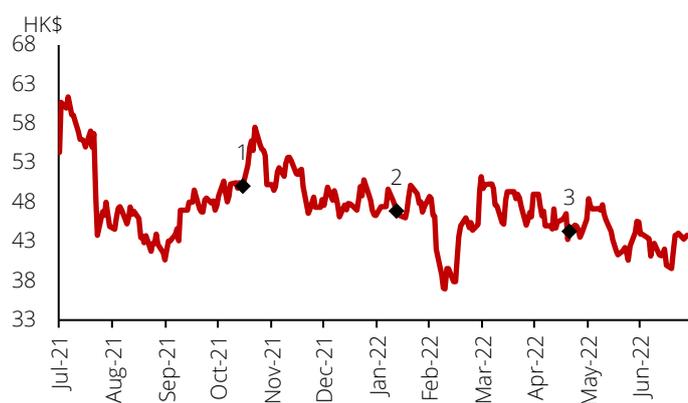
Cash Flow Statement (EUR m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	235	(52)	422	591	698
Dep. & Amort.	690	669	631	648	667
Tax Paid	(26)	(44)	(37)	(144)	(183)
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	(61)	(26)
Other Operating CF	20	(87)	51	0	0
Net Operating CF	810	592	1,144	1,034	1,155
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)	(203)
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)	(203)
Currency Adjustments	6	(26)	28	0	0
Chg in Cash	(179)	21	539	503	495
Opg CFPS (EUR)	0.36	0.19	0.42	0.43	0.46
Free CFPS (EUR)	0.19	0.19	0.36	0.27	0.27

Source: Company, DBS HK

Prada

Target Price & Ratings History



S.No.	Date	Closing Price	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
3	20-May-22	HK\$43.25	HK\$67.41	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

Completed Date: 29 Jul 2022 09:02:55 (HKT)

Dissemination Date: 29 Jul 2022 09:47:40 (HKT)

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