

China / Hong Kong Company Update

Samsonite International

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DBS Group Research . Equity

14 Nov 2023

BUY

Last Traded Price (13 Nov 2023): HK\$24.00 (HSI : 17,426)
Price Target 12-mth: HK\$43.30 (80% upside) (Prev HK\$39.41)

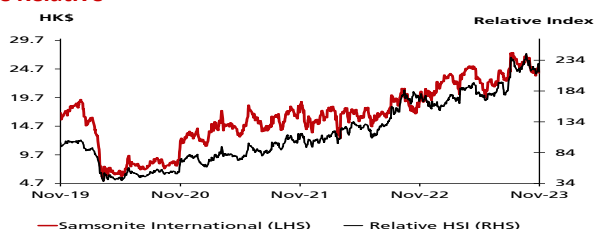
Analyst

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What's New

- Outstanding 3Q23 with sales expansion across all core brands and regions, and gross and Adjusted EBITDA margins at new highs. Adjusted Net income doubled, in line
- 4Q23 on track, a pivotal period for overall performance as 4Q normally accounts for 40-58% of full year earnings (ref. 2016-18)
- In view of positive prospects in the near- and medium-term, we maintain BUY with new TP of HK\$43.3 based on 15x rolling PE

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2021A	2022A	2023F	2024F
Turnover	2,021	2,880	3,900	4,308
EBITDA	333	651	970	1,132
Pre-tax Profit	(33)	363	629	800
Net Profit	14	313	436	550
Core Profit	17	296	436	550
Core Profit Gth (%)	N/A	1,611.0	47.2	26.3
EPS (US\$)	0.01	0.22	0.30	0.38
EPS (HK\$)	0.08	1.70	2.37	2.99
Core EPS (US\$)	0.01	0.21	0.30	0.38
Core EPS (HK\$)	0.09	1.61	2.37	2.99
EPS Gth (%)	N/A	2,086.7	39.3	26.3
Core EPS Gth (%)	N/A	1,611.0	47.2	26.3
Diluted EPS (HK\$)	0.08	1.70	2.37	2.99
DPS (HK\$)	0.00	0.00	0.00	0.90
BV Per Share (HK\$)	3.75	5.61	7.97	10.07
PE (X)	308.5	14.1	10.1	8.0
CorePE (X)	255.0	14.9	10.1	8.0
P/Cash Flow (X)	11.4	15.9	7.4	5.5
P/Free CF (X)	12.0	19.5	8.3	6.2
EV/EBITDA (X)	17.7	9.0	5.4	4.3
Net Div Yield (%)	0.0	0.0	0.0	3.7
P/Book Value (X)	6.4	4.3	3.0	2.4
Net Debt/Equity (X)	2.0	1.3	0.5	0.2
ROAE(%)	2.2	36.3	34.9	33.1
Earnings Rev (%)			Nil	Nil
Consensus EPS (US\$)			0.27	0.32
Other Broker Recs:		B:10	S:0	H:1

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

Ample room for further excellence

Investment Thesis

Sound 3Q23 on record margins. Samsonite's sales expanded across all core brands and regions in 3Q23. Revenue was up 21% y-o-y to US\$958m, largely driven by resilient travel demand in the summer. Both gross margin and Adjusted EBITDA margin reached record levels of 59.6% (up 4.6ppts) and 20.3% (up 3.3ppts), respectively, reflecting better sales-mix from the higher-margin Asia region (up 5.6ppts as % of group revenue) and "Tumi" brand (up 1.4ppts), as well as reduced promotional activities and benefits of a more efficient cost structure. Adjusted EBITDA surged 45% to US\$194m, and Adjusted Net Income doubled to US\$126m. Comparing to the pre-COVID level of 3Q19, revenue rose 14% (or up 22% ex-Russia and Speck); gross margin up 3.9ppts; Adjusted EBITDA margin up 5.8ppts, Adjusted EBITDA up 45%; Adjusted Net Income up 103%.

Positive multi-year prospects. Strong profits and free cash flows (up US\$89m y-o-y) in 3Q23 enabled a voluntarily repayment of US\$70m under the revolving credit facility, further de-leveraging the balance sheet to a net leverage ratio of 1.81x as of Sep 2023, the lowest since its "Tumi" acquisition in 2016. As outbound travel from China remains in an early stage of recovery and should improve in the coming quarters, while other markets like the US start to normalize from the effects of COVID-19, Samsonite is strategically prioritizing its investments in product innovation, global retail network expansion and marketing activities towards the higher-margin "Tumi" and "Samsonite" brands for better returns. The company currently targets 4Q23 revenue to grow by about 16-17% y-o-y (also vs. 4Q19), and 2024 revenue to grow at low-teens. With Asia to grow at a relatively faster pace in the next few years, plus "Tumi" sales to expand from nearly US\$1bn to US\$2bn over the medium-term, Samsonite should see ample room for stronger margins ahead.

New TP at HK\$43.3, as we continue to benchmark to 15x 12-month rolling PE (previous TP: HK\$39.41) given Samsonite's sound 3Q23 results and an early indication of holiday sales staying on track. Our valuation basis, equivalent to 0.5 S.D. below its average PE, stays prudent amid lingering global headwinds.

Key Risks

Catastrophic events; rising competition; foreign exchange fluctuations; execution risks on M&As; trade war; etc.

At A Glance

Issued Capital (m shrs)	1,439
Mkt Cap (HKm/US\$m)	34,536 / 4,423
Major Shareholders (%)	
Schroders PLC	6.0
Bank of New York Mellon Corp	5.4
Free Float (%)	88.6
3m Avg. Daily Val. (US\$m)	19.88
GICS Industry: Consumer Discretionary / Household & Personal Products	

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WHAT'S NEW

3Q23 results highlights and key takeaways from briefing

3Q23 revenue rose 21% y-o-y to US\$958m, largely driven by resilient travel demand during the summer. Both gross margin and Adjusted EBITDA margin hit record highs of 59.6% (up 4.6ppts y-o-y) and 20.3% (up 3.3ppts y-o-y), respectively. Adjusted EBITDA surged 45% y-o-y to US\$194m, and Adjusted Net Income doubled y-o-y to US\$126m. Compared to the pre-COVID level of 3Q19, revenue up 14% (or up 22% ex-Russia and Speck); gross margin up 3.9ppts; Adjusted EBITDA margin up 5.8ppts, Adjusted EBITDA up 45%; and Adjusted Net Income up 103%.

In terms of 3Q23 brand performance: "Samsonite", "Tumi" and "American Tourister" brands achieved y-o-y sales growth of 20.1%, 29.8% and 19.8%, respectively. Overall, the travel product category was supported by a robust recovery in both leisure and business travel, with revenue up 19.7% y-o-y and accounting for 67.3% of group revenue (3Q22: 68.1%), while non-travel product category posted 24.3% y-o-y sales growth to account for 32.7% of group revenue (3Q22: 31.9%), primarily driven by strong growth in Asia and the "Tumi" brand.

In terms of 3Q23 regional performance: Sales climbed 44.9% y-o-y to US\$373m in Asia (including China up 72.6%, Japan up 69.2%, South Korea up 42.2%, Hong Kong up 69.4%) where travel had reopened later than other regions; while sales rose 10% y-o-y to US\$321m in North America (including the US - up 9.5%; Canada - up 17.8%); up 6.7% y-o-y to US\$214m in Europe (including Germany - up 24.5%; Spain - up 15.4%, Italy - up 4.5%, as well as France - down 0.2%, and the UK - down 6.2% due to higher base); and jumped 16.5% y-o-y to US\$49m in Latin America (including Mexico - up 25.9%, Chile - up 3.5%, and Brazil - down 8.2% due to nonrecurrence of certain 3Q22 sales). Compared to 3Q19: Asia rose 24.4%; North America was up 9.1% (ex-Speck) or up 15.3% (ex-Speck and ex-ebags' third-party brand sales); Europe up 20.2% (or up 31% ex-Russia); and Latin America up 65.6%.

Samsonite's direct-to-consumer (DTC) channel, comprising company-operated retail stores and DTC e-commerce, posted 26.9% y-o-y sales growth to US\$361m in 3Q23, and represented 37.7% of group revenue (3Q22: 35.9%). The company also opened 25 self-operated stores and closed 5 stores in 3Q23, resulting in a net increase of 20 self-operated stores (3Q22: +3 stores) to bring the total number to 1,021 self-operated stores as of Sep 2023 (Sep 2022: 965; Sep 2019: 1,285).

In 9M23, Samsonite scored 35.6% y-o-y growth in sales to US\$2.7bn (or up 36.2% ex-Russia), with "Samsonite", "Tumi" and "American Tourister" brands achieving robust y-o-y revenue growth of 36.3%, 43.6% and 33.8%, respectively. In terms of y-o-y regional growth, revenue was up 69.9% in Asia (where travel reopened later than other regions), up 19.6% in North America, up 18.5% in Europe (or up 20.9% ex-Russia), and up 23.3% in Latin America. Gross margin

increased by 3.7ppts y-o-y to 59.1% along with better sales-mix from higher-margin Asia region (+7.2ppts y-o-y to 39.1% of group revenue), the "Tumi" brand (+1.4ppts y-o-y to 23.2% of group revenue), and DTC sales as well as reduced promotional activities. Adjusted EBITDA margin surged by 3.3ppts y-o-y to 19.3% despite the planned increase in marketing spend to 6.4% of sales (+1.4ppts y-o-y). Adjusted EBITDA jumped by 60.2% y-o-y to US\$528m, and Adjusted Net Income surged 100.1% y-o-y to US\$297m.

Comparing 9M23 to the pre-pandemic level of 9M19: revenue increased by 18.3%, and gross margin increased by 3.2ppts fueled by high-margin divisions of Asia (up 2.6ppts to 39.1% of group revenue) as well as "Samsonite" brand (up 5ppts to 50.4% of group revenue) and "Tumi" brand (up 2.8ppts to 23.2% of group revenue). Adjusted EBITDA margin increased by 6.3ppts to 19.3% despite the increase in marketing expense of 0.9ppt to 6.4% of sales), Adjusted EBITDA increased by 52.1% to US\$528m, and Adjusted Net Income jumped by 86.5% to US\$297m.

During the results briefing, management expects the company to continue to outperform the industry's projected sales growth of high-single-digit rate along with the normalizing operating conditions in North America, and to some extent, Europe. By guiding prudently, the company is looking at approximately 16-17% y-o-y growth for 4Q23 as well as a low-teens' growth for 2024.

China posted mid-teens growth in 3Q23 vs. 3Q19, hence it is still in its early recovery phase for outbound travel and should see stronger momentum in the coming quarters, especially with the normalization of international flight capacities (e.g., India: almost 90-100% growth in past few months vs. 2019 level). Overall business travel should also continue to recover strongly in the coming quarters as more conferences and trade shows are expected to be held from 4Q23 onwards. In general, early indications of impending holiday sales also seem on track.

On "Tumi", there could be opportunities in Asia, Europe as well as Latin America ahead, while North America could also deliver decent growth at a low-double digit CAGR from category and product expansions, including accelerated expansion of its women's category during 2024-2025. Other markets, like India, are seeing good tractions from "American Tourister", with the "Samsonite" and "Tumi" brands also doing well there.

Store expansions will be prioritized in great locations with tremendous traffic, and an increased focus will be placed in Asia, followed by Europe, with more selective openings in Latin America and North America. Additionally, the company will continue to invest more in advertising to further strengthen its brands, aiming to c.7% of sales for 4Q23 (3Q23: 6.2%; 9M23: 6.4%) to round off the full-year

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ad spend at around 6.6% of sales (within its target of 6.5-7%), with 2024 ad spend capped at c.7% of sales.

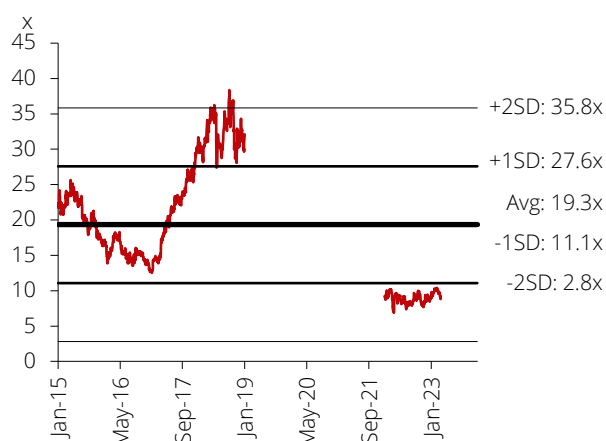
Riding on better operating leverage and strong cash flows, and careful management of inventory days and working capital, management is targeting to return cash to shareholders by next year. As Asia is moving at a faster pace (e.g., double-digit CAGR in the coming few years), while revenue from “Tumi” is growing from US\$1bn to US\$2bn, Samsonite should also see further room to deliver better Adjusted EBITDA margins of perhaps c.20% or higher in the medium-term.

Company Background

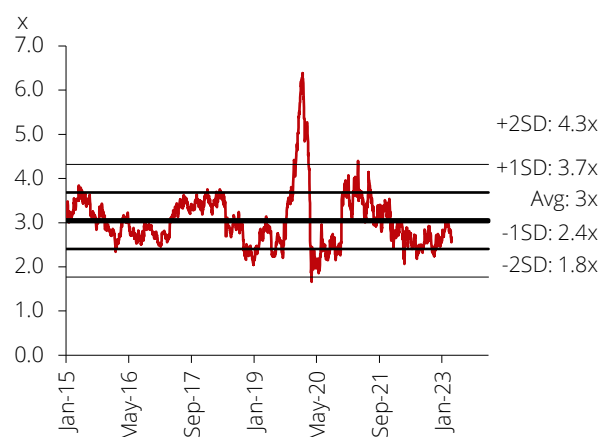
Samsonite is the world's largest travel luggage company with over 110 years of heritage. The company principally engages in the design, manufacture, sourcing, and distribution of luggage, business and computer bags, outdoor and casual bags, and travel accessories, primarily under its key product brands of “Samsonite”, “American Tourister”, “High Sierra”, “Hartmann”, “Lipault”, “Gregory”, “Kamiliant”, and “ebags”, as well as other self-owned and licensed brand names. Its acquisition of “Tumi” in August 2016, a brand that focuses on the premium business and travel segment, has completed Samsonite’s product offerings. Currently, its products are sold in more than 100 countries through a variety of wholesale and retail distribution channels, including e-commerce.

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

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Segmental Breakdown (US\$ m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenues (US\$ m)					
Asia	559	688	916	1,512	1,739
North America	602	808	1,117	1,363	1,445
Europe	302	419	676	824	907
Latin America	71	105	169	199	215
Corporate	2	2	1	2	2
Total	1,537	2,021	2,880	3,900	4,308
Operating profit (US\$ m)					
Asia	(164)	34	149	291	387
North America	(621)	96	209	259	279
Europe	(138)	42	103	132	150
Latin America	(48)	2	21	25	27
Corporate	(296)	(41)	10	76	92
Total	(1,266)	133	492	784	935
Operating profit Margins (%)					
Asia	(29.3)	5.0	16.2	19.2	22.2
North America	(103.0)	11.8	18.7	19.0	19.3
Europe	(45.5)	10.0	15.3	16.1	16.6
Latin America	(67.1)	1.9	12.2	12.4	12.6
Corporate	(14,815.0)	(2,118.3)	703.4	4,194.3	4,040.1
Total	(82.4)	6.6	17.1	20.1	21.7

Source: Company, DBS HK

Income Statement (US\$ m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	1,537	2,021	2,880	3,900	4,308
Cost of Goods Sold	(830)	(919)	(1,274)	(1,601)	(1,764)
Gross Profit	706	1,102	1,605	2,299	2,544
Other Opng (Exp)/Inc	(1,101)	(966)	(1,130)	(1,516)	(1,609)
Operating Profit	(395)	136	475	784	935
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(116)	(165)	(130)	(155)	(135)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(872)	(3)	17	0	0
Pre-tax Profit	(1,382)	(33)	363	629	800
Tax	94	56	(24)	(157)	(200)
Minority Interest	10	(9)	(26)	(36)	(50)
Preference Dividend	0	0	0	0	0
Net Profit	(1,278)	14	313	436	550
Net Profit before Except.	(406)	17	296	436	550
EBITDA	(139)	333	651	970	1,132
Growth					
Revenue Gth (%)	(57.8)	31.5	42.5	35.5	10.4
EBITDA Gth (%)	N/A	N/A	95.2	49.0	16.8
Opg Profit Gth (%)	(207.7)	(134.4)	250.3	64.8	19.3
Net Profit Gth (%)	N/A	N/A	2,086.7	39.3	26.3
Margins & Ratio					
Gross Margins (%)	46.0	54.5	55.8	59.0	59.1
Opg Profit Margin (%)	(25.7)	6.7	16.5	20.1	21.7
Net Profit Margin (%)	(83.1)	0.7	10.9	11.2	12.8
ROAE (%)	(98.9)	2.2	36.3	34.9	33.1
ROA (%)	(23.9)	0.3	6.5	8.8	10.2
ROCE (%)	(8.7)	3.2	11.6	15.4	16.9
Div Payout Ratio (%)	N/A	0.0	0.0	0.0	30.0
Net Interest Cover (x)	(3.4)	0.8	3.7	5.1	6.9

Source: Company, DBS HK

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Balance Sheet (US\$ m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	188	155	162	170	178
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	2,800	2,760	2,865	2,568	2,625
Cash & ST Invt	1,495	1,325	636	1,130	1,391
Inventory	456	348	688	820	879
Debtors	141	206	291	394	423
Other Current Assets	82	60	80	88	97
Total Assets	5,162	4,854	4,721	5,170	5,594
ST Debt	81	107	119	125	131
Creditors	413	529	779	978	1,078
Other Current Liab	238	281	316	205	213
LT Debt	3,110	2,682	1,893	1,799	1,709
Other LT Liabilities	652	528	535	544	553
Shareholder's Equity	634	690	1,032	1,467	1,852
Minority Interests	35	37	48	53	58
Total Cap. & Liab.	5,162	4,854	4,721	5,170	5,594
Non-Cash Wkg. Capital	29	(196)	(36)	119	109
Net Cash/(Debt)	(1,696)	(1,465)	(1,376)	(793)	(449)
Debtors Turn (avg days)	63.8	31.4	31.5	32.0	34.6
Creditors Turn (avg days)	345.5	238.2	217.2	226.5	239.5
Inventory Turn (avg days)	331.0	203.4	172.1	194.4	198.0
Asset Turnover (x)	0.3	0.4	0.6	0.8	0.8
Current Ratio (x)	3.0	2.1	1.4	1.9	2.0
Quick Ratio (x)	2.2	1.7	0.8	1.2	1.3
Net Debt/Equity (X)	2.5	2.0	1.3	0.5	0.2
Net Debt/Equity ex MI (X)	2.7	2.1	1.3	0.5	0.2
Capex to Debt (%)	0.6	0.7	2.6	3.5	5.3
Z-Score (X)	0.8	1.5	1.8	1.8	NA

Source: Company, DBS HK

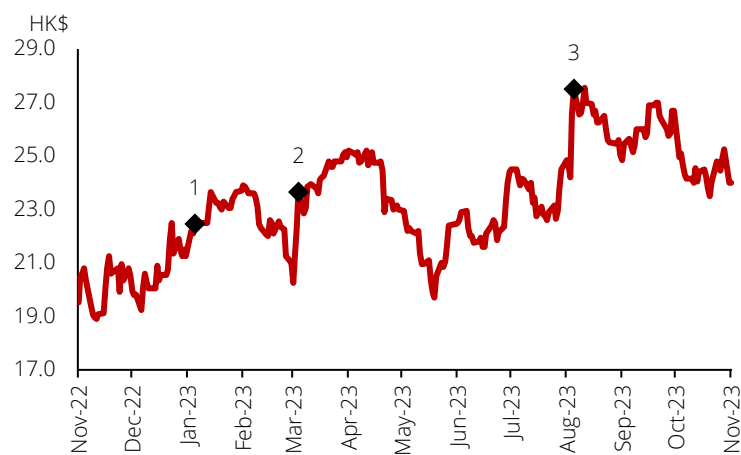
Cash Flow Statement (US\$ m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	(1,288)	24	338	629	800
Dep. & Amort.	255	198	175	186	197
Tax Paid	(28)	2	(51)	(157)	(200)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	120	199	(175)	(44)	2
Other Operating CF	827	(35)	(10)	(14)	5
Net Operating CF	(114)	387	278	600	805
Capital Exp.(net)	(21)	(21)	(52)	(67)	(97)
Other Invt.(net)	(6)	(5)	(11)	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	35	0	0	0
Net Investing CF	(26)	9	(63)	(67)	(97)
Div Paid	(4)	(5)	0	0	0
Chg in Gross Debt	1,413	(546)	(881)	(39)	(446)
Capital Issues	0	0	0	0	0
Other Financing CF	(251)	0	0	0	0
Net Financing CF	1,158	(551)	(881)	(39)	(446)
Currency Adjustments	14	(16)	(23)	0	0
Chg in Cash	1,032	(170)	(689)	494	261
Opg CFPS (US\$)	(0.16)	0.13	0.32	0.45	0.56
Free CFPS (US\$)	(0.09)	0.26	0.16	0.37	0.49

Source: Company, DBS HK

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Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	18-Jan-23	HK\$22.10	HK\$29.48	BUY
2	17-Mar-23	HK\$22.35	HK\$34.23	BUY
3	18-Aug-23	HK\$26.55	HK\$39.41	BUY

Source: DBS HK

Analyst: Mavis Hui

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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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Sources for all charts and tables are DBS HK unless otherwise specified.

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