

Prada (1913 HK)

Self-upgrade cannot offset sector de-rating

Maintain HOLD and trimmed TP to HK\$ 22.04, based on 25x FY21E P/E (rolled over from 33x FY20E P/E). We believe Prada's impressive full price sales growth in 2H19 could be a sign of turnaround, after series of reforms in the last few years. However, due to the sector de-rating induced by global virus outbreak. We think its valuation at 40x FY20E P/E is relatively rich (vs Peers' average of 21x), and investors could wait for a better entry point.

- FY19 result inline but missed in dividends.** FY19 net profit grew by 25% YoY to EUR 256mn, 1%/ 0% vs CMBI/ BBG's est.. Sales in 2H19 beat by 1%/ 3% vs CMBI/ BBG est., but offset by higher than expected G&A expenses. Dividend was a miss as payout ratio was cut to 20%, which is equal to 0.9% yield at current price.
- Previous reforms started to yield decent full price sales growth.** Prada had finally yield a 10% full price sales growth in 2H19 (first ever double digit growth in last 7 years, since 2H13). Mgmt. cited that robust growth had sustained into early Jan 2020. Noted that the improvement in 2H19 was seen across all regions (America > Europe > Asia Pacific > Japan), products (Ready to wear > Footwear > Leather goods) and brands (Prada > Miu Miu). We attributed this to its years of reforms: 1) digital marketing, 2) modernizing supply chain, 3) setting up new product series on top of classic lines, 4) launches of crossovers, like Adidas x Prada, and we expect more to come.
- However, sales growth is temporarily dragged by global virus outbreak.** Unfortunately, retail sales growth, in our view, will experience a sharp fall in 1H20E (-13%/ -16% in 1Q20E/ 2Q20E), due to virus outbreak. Most stores were closed in China in Feb but now re-opened. However, same situation is now expecting in Europe and we see no definite timeline for re-openings. We believe the Company's capex would be reduced to around EUR 120mn-150mn, from EUR 302mn in FY19, due to delay of 2021 resort fashion show (scheduled for May 2020 in Japan) and various store renovation projects.
- Maintain HOLD and adjust TP to HK\$ 22.08.** We adjusted FY20E/ 21E EPS estimates by -16.2%/+1.5%, to factor in 1) losses due to virus outbreak in EU/ US and 2) boost in sales growth thanks to greater brand popularity. We maintain HOLD but fine-tuned TP to HK\$ 22.08, based on 25x FY21E P/E (rolled over from 33x FY20E P/E, as FY20E is distorted by temporary virus drag). The valuation is not particularly attractive because of lower yield and sector de-rating, compared to industry avg. at 22x FY20E P/E.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (EUR mn)	3,142	3,226	3,103	3,445	3,584
YoY growth (%)	2.8	2.7	(3.8)	11.0	4.0
Net profit (EUR mn)	205	256	155	252	271
EPS (EUR)	0.080	0.100	0.061	0.098	0.106
Adj. NP (EUR mn)	205	179	155	252	271
YoY growth (%)	(17.5)	(13.0)	(13.4)	62.5	7.9
Consensus EPS (EUR)	n/a	n/a	0.080	0.102	0.125
P/E (x)	30.5	24.5	40.5	24.9	23.1
P/B (x)	2.2	2.1	2.0	1.9	1.9
Yield (%)	2.4	0.8	1.9	3.0	3.2
ROE (%)	7.2	8.8	5.1	8.0	8.3
Net gearing (%)	10.7	14.3	5.6	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$22.08
(Previous TP)	HK\$22.84)
Up/Downside	0.3%
Current Price	HK\$22.00

Global Luxury Goods Sector

Walter Woo

(852) 3761 6974

walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	56,294
Avg 3 mths t/o (HK\$ mn)	30.36
52w High/Low (HK\$)	33.20/20.75
Total Issued Shares (mn)	2,558.8

Source: Bloomberg

Shareholding Structure

Prada Family	79.98%
Invesco Ltd	5.38%
Free Float	14.64%

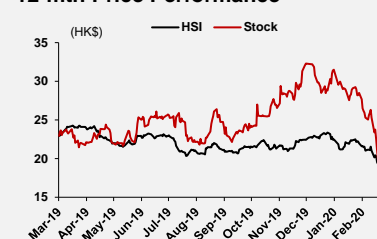
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.0%	-0.3%
3-mth	-31.7%	-12.6%
6-mth	-3.5%	9.1%
12-mth	-5.8%	15.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte & Touche

Related Reports

- Prada (1913 HK, HOLD) - The drags are probably worse than SARS - 3 Mar 2020
- Prada (1913 HK, BUY) - Retail turnaround may drive further re-rating - 26 Nov 2019
- Prada (1913 HK, HOLD) - Growth may resume but valuation is stretched - 2 Aug 2019

Results Summary

Figure 1: Results preview – Half Year

Half yearly (RMB mn)	1H18	2H18	1H19	2H19	1H18 YoY	2H18 YoY	1H19 YoY	2H19 YoY	2H19E CMBI	Actual vs CMBI
Revenue	1,535	1,607	1,570	1,655	3%	2%	2%	3%	1,615	3%
COGS	(429)	(450)	(444)	(462)					(441)	
Gross profit	1,106	1,157	1,126	1,194	3%	-1%	2%	3%	1,174	2%
GP margins	72.0%	72.0%	71.7%	72.1%					72.7%	
Other income & gains	0	0	0	0					0	
Operating expenses	(956)	(983)	(975)	(1,038)	2%	4%	2%	6%	(1,008)	3%
Opex / sales	-62.2%	-61.2%	-62.1%	-62.7%					-62.4%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	150	173	150	156	10%	-22%	0%	-10%	166	-6%
OP margins	9.8%	10.8%	9.6%	9.4%					10.3%	
Other items	0	0	(23)	(24)					(1)	
Net finance income	(11)	(11)	(8)	(17)					(1)	
Net fin. income / sales	-0.7%	-0.7%	-0.5%	-1.1%					0.0%	
Profit after financing costs	140	163	120	115					164	
Associated coms	0	0	0	0					0	
Jointly controlled coms	0	0	0	0					0	
Pre-tax profit	140	163	120	115	2%	-25%	-14%	-29%	164	-30%
Tax	(41)	(53)	34	(11)					(63)	
Tax / sales	-2.7%	-3.3%	2.2%	-0.7%					-3.9%	
Effective tax rate	-29.3%	-32.8%	28.7%	-10.0%					-38.3%	
Minority interests	(1)	3	(0)	2					2	
Net profit att.	99	106	155	101	4%	-31%	56%	-5%	99	2%
NP margins	6.5%	6.6%	9.9%	6.1%					6.1%	

Source: Company data, CMBIS estimates

Figure 2: Results preview - Full Year

Full yearly (RMB mn)	FY17	FY18	FY19	FY20E	FY18	FY19	FY20E	FY19E	Actual
					YoY	YoY	YoY	CMBI	vs CMBI
Revenue	3,056	3,142	3,226	3,103	3%	3%	-4%	3,185	1%
COGS	(811)	(880)	(906)	(850)				(885)	
Gross profit	2,246	2,263	2,320	2,252	1%	3%	-3%	2,300	1%
GP margins	73.5%	72.0%	71.9%	72.6%				72.2%	
Other income & gains	0	0	0	0				0	
Operating expenses	(1,886)	(1,939)	(2,013)	(1,965)	3%	4%	-2%	(1,961)	3%
Opex / sales	-61.7%	-61.7%	-62.4%	-63.3%				-61.6%	
Other opex	0	0	0	0				0	
Operating profit (EBIT)	360	324	307	288	-10%	-5%	-6%	338	-9%
OP margins	11.8%	10.3%	9.5%	9.3%				10.6%	
Other items	1	1	(47)	(46)				(45.8)	
Net finance income	(6)	(22)	(25)	(19)				(8)	
Net fin. income / sales	-0.2%	-0.7%	-0.8%	-0.6%				-0.3%	
Profit after financing costs	355	303	235	223				284	
Associated coms	0	0	0	0				0	
Jointly controlled coms	0	0	0	0				0	
Pre-tax profit	355	303	235	223	-15%	-22%	-5%	284	-17%
Tax	(105)	(94)	23	(67)				(28)	
Tax / sales	-3.4%	-3.0%	0.7%	-2.2%				-0.9%	
Effective tax rate	-29.7%	-31.2%	9.8%	-30.0%				-10.0%	
Minority interests	0	3	2	2				2	
Net profit att.	249	205	256	155	-17%	25%	-39%	254.0	1%
NP margins	8.1%	6.5%	7.9%	5.0%				8.0%	

Source: Company data, CMBIS estimates

Earnings revision

Figure 3: Earnings revision

(EUR mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	3,103	3,445	3,584	3,064	3,309	n/a	1.3%	4.1%	n/a
Gross profit	2,252	2,515	2,616	2,224	2,415	n/a	1.3%	4.1%	n/a
EBIT	278	412	431	265	349	n/a	5.1%	18.0%	n/a
Reported Net profit	155	252	271	185	248	n/a	-16.2%	1.5%	n/a
Diluted EPS (EUR)	0.061	0.098	0.106	0.072	0.097	n/a	-16.2%	1.5%	n/a
Gross margin	72.6%	73.0%	73.0%	72.6%	73.0%	n/a	0ppt	0ppt	n/a
EBIT margin	9.0%	11.9%	12.0%	8.6%	10.5%	n/a	0.3ppt	1.4ppt	n/a
Net profit att. margin	5.0%	7.3%	7.6%	6.0%	7.5%	n/a	-1ppt	-0.2ppt	n/a

Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

(EUR mn)	CMBI			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	3,103	3,445	3,584	3,243	3,462	3,575	-4.3%	-0.5%	0.2%
Gross profit	2,252	2,515	2,616	2,347	2,516	2,599	-4.0%	-0.1%	0.7%
EBIT	278	412	431	328	405	461	-15.1%	1.6%	-6.4%
Net profit att.	155	252	271	207	267	311	-25.0%	-5.9%	-12.7%
Diluted EPS (EUR)	0.061	0.098	0.106	0.080	0.102	0.125	-24.5%	-3.4%	-15.1%
Gross margin	72.6%	73.0%	73.0%	72.4%	72.7%	72.7%	0.2ppt	0.3ppt	0.3ppt
EBIT margin	9.0%	11.9%	12.0%	10.1%	11.7%	12.9%	-1.1ppt	0.2ppt	-0.8ppt
Net profit att. margin	5.0%	7.3%	7.6%	6.4%	7.7%	8.7%	-1.4ppt	-0.4ppt	-1.1ppt

Source: Bloomberg, CMBIS estimates

Assumption

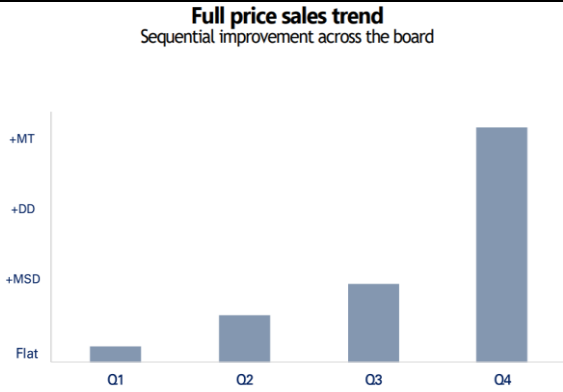
Figure 5: Major assumptions

Major assumptions	FY18A	FY19A	FY20E	FY21E	FY22E
Sales by segment (EUR mn)					
Direct sales	2,532	2,636	2,550	2,868	2,987
<i>Prada</i>	2,069	2,167	2,098	2,367	2,472
<i>Miu Miu</i>	400	404	392	439	452
<i>Other</i>	62	65	60	62	64
Franchise sales	566	547	509	532	551
Royalties	44	42	44	44	45
Total	3,142	3,226	3,103	3,445	3,584
Sales growth by segment (%)					
Direct sales	3.6%	4.1%	-3.2%	12.5%	4.2%
<i>Prada</i>	4.0%	4.7%	-3.2%	12.8%	4.4%
<i>Miu Miu</i>	3.0%	1.0%	-3.0%	12.0%	3.0%
<i>Other</i>	-3.1%	4.2%	-7.2%	2.7%	2.7%
Franchise sales	0.3%	-3.3%	-7.1%	4.7%	3.5%
Royalties	-8.5%	-4.1%	3.0%	2.0%	2.0%
Total	2.8%	2.7%	-3.8%	11.0%	4.0%
GP margins	72.0%	71.9%	72.6%	73.0%	73.0%
Opex breakdown by segment					
Design, R & D/ sales	4.0%	3.9%	3.8%	4.0%	4.0%
A & P/ sales	6.6%	7.2%	6.5%	6.4%	6.2%
D & A/ sales	7.2%	7.2%	7.6%	7.1%	7.0%
Labour costs/ sales	19.0%	19.6%	20.8%	19.6%	19.5%
Variable rental/ sales	10.5%	10.3%	10.8%	10.3%	10.6%
Fixed rental/ sales	9.0%	8.7%	9.1%	8.6%	8.5%
Others/ sales	-1.2%	-1.3%	-1.4%	-1.3%	-1.3%
G & A/ sales	6.1%	5.7%	6.1%	6.1%	6.2%
Total	61.2%	61.4%	63.3%	60.8%	60.7%
EBIT margins	10.3%	9.5%	9.3%	12.2%	12.3%
Pre-tax margins	9.6%	7.3%	7.2%	10.4%	10.6%
Effective tax rate	-31.2%	9.8%	-30.0%	-29.0%	-28.0%
Net profit att. (EUR mn)	205	256	155	252	271
Net profit att. margins	6.5%	7.9%	5.0%	7.3%	7.6%
Net profit att. Growth (%)	-17.5%	24.5%	-39.5%	62.5%	7.9%
Adjusted NP att. (EUR mn)	205	179	155	252	271
Adjusted NP att. Growth (%)	-17.5%	-13.0%	-13.4%	62.5%	7.9%
Number of stores by brand					
Prada	398	410	410	414	418
Miu Miu	166	160	160	163	166
Others	72	71	71	72	73
Franchises stores	34	25	25	25	25
Sum total	670	666	666	674	682

Source: Company data, CMBIS estimates

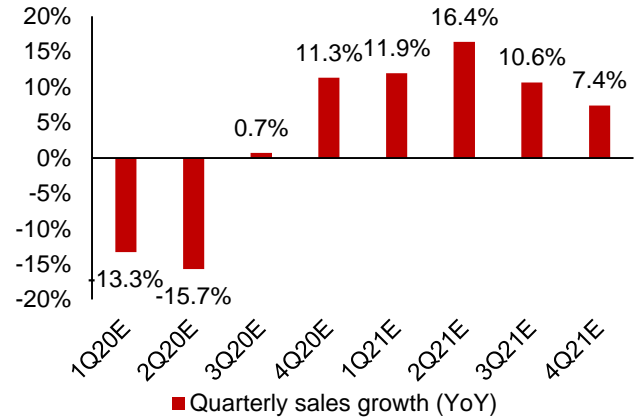
Focus Charts

Figure 6: Impressive full price sales growth in 2019



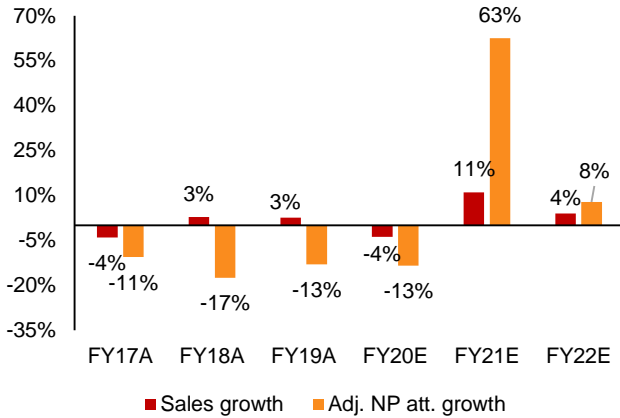
MT-mid teens; DD-double digit; MSD-mid single digit
Source: Company data, CMBIS

Figure 7: Quarterly sales growth (CMBI est.)



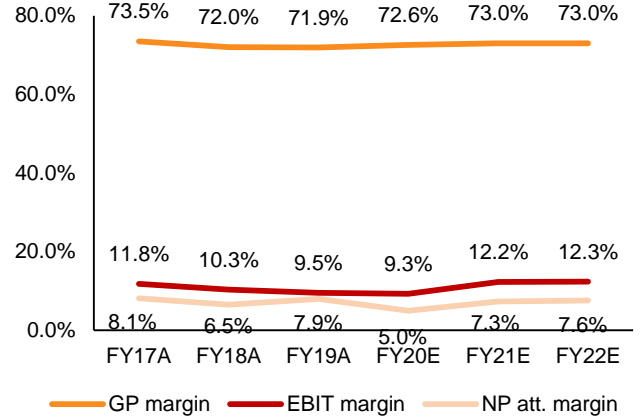
Source: CMBIS estimates

Figure 8: Sales/ net profit growth (YoY)



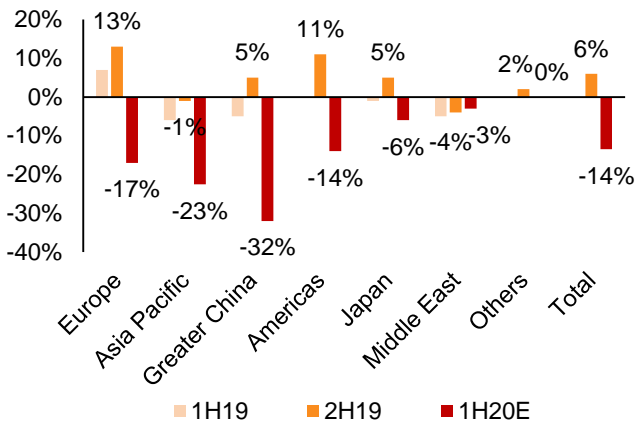
Source: Company data, CMBIS estimates

Figure 9: GP, OP, NP att. margin



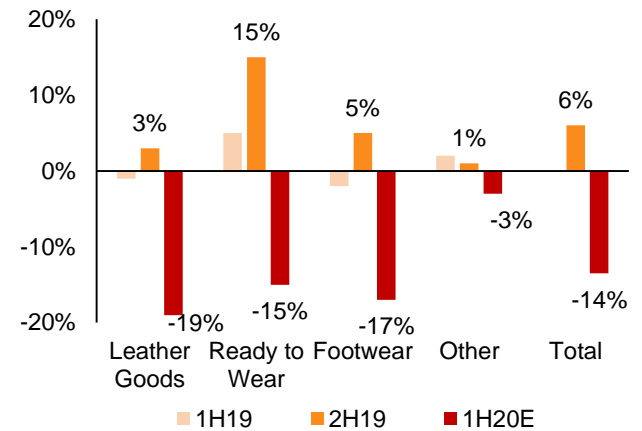
Source: Company data, CMBIS estimates

Figure 10: Sales growth by region (Same FX)



Source: Company data, CMBIS estimates, net sales growth in 1H19, retail sales growth used in 2H19 and 1H20E

Figure 11: Sales growth by segment (Same FX)



Source: Company data, CMBIS estimates, net sales growth in 1H19, retail sales growth used in 2H19 and 1H20E

Figure 12: Sales growth by channel, region, product and brand

Sales growth trend (constant FX)	2H17 Aug-Dec 17	1H18 Jan-Jun 18	FY18 Jan-Dec 18	1H19 Jan-Jun 19	2H19* Jul-Dec 19	1H20E* Jan-Jun 20	2H20E* Jul-Dec 20
By channel							
Retail	-3%	10%	7%	-3%	6%	-7%	13%
Wholesale	34%	8%	1%	14%	-21%	-20%	-2%
Total	1%	9%	6%	0%	6%	-14%	6%
Sales by region							
Europe	6%	7%	3%	7%	13%	-17%	2%
Asia Pacific	1%	14%	10%	-6%	-1%	-23%	8%
Greater China	10%	17%	8%	-5%	5%	-32%	13%
Americas	-3%	8%	4%	0%	11%	-14%	4%
Japan	-6%	9%	7%	-1%	5%	-6%	7%
Middle East	-3%	7%	5%	-5%	-4%	-3%	5%
Others	-2%	4%	-3%	0%	2%	0%	0%
Total	1%	9%	6%	0%	6%	-14%	6%
Sales by product							
Leather Goods	0%	8%	6%	-1%	3%	-19%	7%
Ready to Wear	10%	20%	10%	5%	15%	-15%	9%
Footwear	-4%	4%	2%	-2%	5%	-17%	4%
Other	-5%	2%	7%	2%	1%	-3%	2%
Total	1%	9%	6%	0%	6%	-14%	6%
Sales by brand							
Prada	4%	10%	7%	1%	6%	-17%	10%
Miu Miu	-10%	8%	2%	-8%	4%	-13%	6%
Church's	-8%	-4%	-2%	3%	-3%	-9%	2%
Other	2%	2%	4%	8%	19%	-16%	4%
Total	1%	9%	6%	0%	6%	-14%	6%

Source: Company data, CMBIS estimates, *retail sales was used for sales by region, product and brands in 2H19, 1H20E and 2H20E

Figure 13: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down side	Mkt. Cap (HK\$m)	Year End	P/E (x)		P/B (x)		ROE (%)	2yrs PEG (x)	Yield (%)	
								FY19	FY20E	FY19	FY20E	FY19	FY20	FY19	
H shares Luxury, Jewellery, Watches															
Prada	1913 HK	HOLD	22.08	22.00	0%	56,294	Dec-18	24.5	40.5	2.1	2.0	7.2	(49.4)	0.8	
Samsonite	1910 HK	NR	n/a	6.10	n/a	8,739	Dec-18	5.2	41.4	0.6	0.6	6.8	(3.8)	0.0	
Chow Tai Fook*	1929 HK	NR	n/a	5.48	n/a	54,800	Mar-19	14.5	11.7	1.8	1.7	14.3	0.5	5.2	
Luk Fook*	590 HK	NR	n/a	13.82	n/a	8,114	Mar-19	7.9	6.7	0.7	0.7	14.5	0.4	6.7	
Chow Sang Sang	116 HK	NR	n/a	7.40	n/a	5,013	Dec-18	5.2	5.5	0.5	0.4	9.9	1.2	7.4	
Emperor Watch	887 HK	NR	n/a	0.13	n/a	861	Dec-18	n/a	n/a	n/a	n/a	6.0	0.0	n/a	
Oriental Watch*	398 HK	NR	n/a	1.45	n/a	827	Mar-19	n/a	n/a	n/a	n/a	6.1	0.0	n/a	
Hengdeli	3389 HK	NR	n/a	0.31	n/a	1,445	Dec-18	n/a	n/a	n/a	n/a	1.6	0.0	n/a	
								Avg.	11.5	21.1	1.1	1.1	8.3	(6.4)	4.0
								Med.	7.9	11.7	0.7	0.7	7.0	0.0	5.2
A-shares Luxury, Jewellery, Watches															
Lao Feng Xiang	600612 CH	NR	n/a	36.76	n/a	17,167	Dec-18	13.6	12.2	2.6	2.3	20.4	0.9	2.9	
Chow Tai Seng	002867 CH	NR	n/a	18.50	n/a	14,779	Dec-18	13.6	11.6	2.8	2.3	22.0	0.6	3.2	
Leysen Jewelry	603900 CH	NR	n/a	7.65	n/a	2,847	Dec-18	16.6	15.9	1.0	1.0	8.9	1.5	0.6	
Guangdong Chj	002345 CH	NR	n/a	3.47	n/a	3,434	Dec-18	13.7	13.2	1.0	0.9	1.2	5.2	1.0	
Fiyta Holdings	000026 CH	NR	n/a	9.00	n/a	4,025	Dec-18	15.3	13.2	n/a	n/a	7.7	1.0	n/a	
Zhejiang Ming	002574 CH	NR	n/a	4.88	n/a	2,816	Dec-18	26.0	23.5	0.8	0.8	3.0	1.9	1.6	
Eastern Gold Jade	600086 CH	NR	n/a	1.93	n/a	2,848	Dec-18	n/a	n/a	n/a	n/a	(89.9)	0.0	n/a	
								Avg.	16.5	15.0	1.6	1.4	(3.8)	1.6	1.9
								Med.	14.5	13.2	1.0	1.0	7.7	1.0	1.6
International Luxury, Jewellery, Watches															
Prada	1913 HK	HOLD	22.08	22.00	0%	56,294	Dec-18	24.5	40.5	2.1	2.0	7.2	(49.4)	0.8	
Samsonite	1910 HK	NR	n/a	16.98	n/a	24,322	Dec-18	14.2	12.6	1.5	1.4	10.3	1.1	3.2	
LVMH	MC FP	NR	n/a	311.00	n/a	1,299,488	Dec-19	21.8	20.7	4.3	3.9	20.8	2.0	2.4	
Kering	KER FP	NR	n/a	419.70	n/a	438,499	Dec-19	24.1	16.4	5.2	4.3	20.9	0.6	2.9	
Hermes	RMS FP	NR	n/a	606.20	n/a	529,482	Dec-18	41.9	40.0	9.7	8.4	25.4	4.5	1.1	
Richemont*	CFR SW	NR	n/a	53.52	n/a	241,329	Mar-19	20.0	18.5	1.7	1.6	17.6	1.4	3.8	
Tiffany & Co^	TIF US	NR	n/a	125.44	n/a	117,913	Jan-20	26.4	24.1	4.6	4.5	16.8	3.8	2.0	
Moncler	MONC IM	NR	n/a	29.27	n/a	62,554	Dec-19	21.7	18.4	5.7	4.8	30.2	2.7	1.7	
Burberry*	BRBY LN	NR	n/a	1159.00	n/a	42,300	Mar-19	16.5	14.6	3.4	3.1	27.9	0.9	2.1	
Ferragamo	SFER IM	NR	n/a	12.49	n/a	17,442	Dec-19	31.2	22.8	2.8	2.7	11.5	4.4	2.0	
Essilorluxottica	EL FP	NR	n/a	110.30	n/a	399,330	Dec-19	25.1	24.2	1.4	1.4	7.0	4.0	1.5	
Swatch	UHR SW	NR	n/a	191.05	n/a	77,972	Dec-19	13.6	16.3	0.9	0.9	7.2	7.5	2.9	
Tod'S	TOD IM	NR	n/a	31.06	n/a	8,504	Dec-19	n/a	n/a	1.0	1.0	0.7	0.0	1.5	
Hugo Boss	BOSS GY	NR	n/a	21.37	n/a	12,447	Dec-19	7.2	6.8	1.5	1.4	22.2	0.8	6.2	
								Avg.	22.2	21.2	3.3	3.0	16.1	(1.1)	2.4
								Med.	21.8	18.5	2.4	2.3	17.2	1.7	2.1

Source: Bloomberg, CMBIS estimates,*Companies with yearend at Mar, FY19 and FY20E are referring to FY3/20E and FY3/21E, ^Company with yearend at Jan, FY19 and FY20E is referring to FY1/20E and FY1/21E

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (EUR mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (EUR mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	3,142	3,226	3,103	3,445	3,584	EBIT	307	293	278	412	431
Direct sales	2,532	2,636	2,550	2,868	2,987	D & A	261	322	368	374	348
Franchise sales	566	547	509	532	551	Change in working capital	(123)	(108)	37	(70)	(30)
Royalties	44	42	44	44	45	Income tax paid	(62)	(26)	(67)	(103)	(106)
						Others	(16)	329	319	351	325
Cost of goods sold	(880)	(906)	(850)	(930)	(968)	Net cash from operating	365	810	936	963	968
Gross profit	2,263	2,320	2,252	2,515	2,616	Capex & investments	(380)	(286)	(167)	(185)	(193)
Other income	(17)	(14)	(9)	(10)	(11)	Associated companies	-	-	-	-	-
						Interest received	-	-	-	-	-
Operating expenses	(1,939)	(2,013)	(1,965)	(2,093)	(2,174)	Others	0	(17)	(18)	(18)	(18)
D & A	(261)	(322)	(368)	(374)	(348)	Net cash from investing	(379)	(302)	(185)	(203)	(212)
Staff costs	(625)	(660)	(671)	(705)	(728)	Equity raised	-	-	-	-	-
S & D costs (ex-staff, D&A)	(796)	(738)	(684)	(739)	(811)	Net change in bank loans	(67)	(19)	-	-	-
Admin exp. (ex-staff, D&A)	(257)	(293)	(241)	(275)	(286)	Dividend paid	(198)	(155)	(51)	(116)	(189)
Other operating	-	-	-	-	-	Others	(25)	(519)	(448)	(448)	(448)
Operating profit	307	293	278	412	431	Net cash from financing	(289)	(692)	(499)	(564)	(636)
Finance costs, net	(4)	(10)	(8)	(7)	(5)	Net change in cash	(303)	(185)	251	196	120
JVs & associates	-	-	-	-	-	Beginning cash balance	893	600	421	672	868
Exceptional	-	(48.98)	(46.54)	(48.23)	(46.59)	Exchange difference	10	6	-	-	-
Pre-tax profit	303	235	223	357	379	Cash at the end of the year	600	421	672	868	988
Income tax	(94)	23	(67)	(103)	(106)						
Less: Minority interests	3	2	2	2	2						
Net profit	205	256	155	252	271						

Balance sheet						Key ratios					
YE 31 Dec (EUR mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	2,917	5,341	5,235	5,143	5,080	Sales mix (%)					
Fixed asset	1,577	1,642	1,542	1,453	1,390	Direct sales	80.6	81.7	82.2	83.3	83.4
Intangible assets & goodwill	920	844	835	830	826	Franchise sales	18.0	17.0	16.4	15.5	15.4
Prepaid lease payments	0	-	-	-	-	Royalties	1.4	1.3	1.4	1.3	1.3
Interest in joint ventures	100	81	81	81	81		-	-	-	-	-
Other non-current assets	320	2,773	2,776	2,779	2,782	Total	100.0	100.0	100.0	100.0	100.0
Current assets	1,762	1,698	1,892	2,187	2,350	P&L ratios (%)					
Cash and cash equivalents	600	421	672	868	988	Gross margin	72.0	71.9	72.6	73.0	73.0
Inventories	632	713	669	732	761	Operating margin	9.8	9.1	9.0	11.9	12.0
Trade and other	322	318	305	339	353	Pre-tax margin	9.6	7.3	7.2	10.4	10.6
Prepayments	13	22	21	23	24	Net margin	6.5	7.9	5.0	7.3	7.6
Other current assets	195	225	225	225	225	Effective tax rate	31.2	-9.8	30.0	29.0	28.0
Current liabilities	987	1,232	1,195	1,260	1,277	Balance sheet ratios					
Bank loans	421	241	241	241	241	Current ratio (x)	1.8	1.4	1.6	1.7	1.9
Trade payables	315	327	307	336	350	Quick ratio (x)	1.8	1.4	1.6	1.7	1.9
Accruals & other payables	-	-	-	-	-	Cash ratio (x)	0.6	0.3	0.6	0.7	0.8
Tax payables	85	84	67	103	106	Inventory turnover days	262	287	287	287	287
others	165	579	579	579	579	Trade receivables days	37	36	36	36	36
Non-current liabilities	795	2,818	2,818	2,818	2,818	Trade payables days	131	132	132	132	132
Bank loans	487	584	584	584	584	Total debt / total equity	32	29	27	26	26
Deferred income	-	-	-	-	-	Net debt / equity ratio (%)	11	14	6		
Deferred tax	30	29	29	29	29					Net cash	Net cash
Others	277	2,205	2,205	2,205	2,205	Returns (%)					
						ROE	7.1	8.6	5.0	7.8	8.2
						ROA	4.4	3.6	2.2	3.4	3.7
Minority Interest	19	21	23	25	26	Per share					
Total net assets	2,878	2,967	3,091	3,227	3,309	EPS (EUR)	0.08	0.10	0.06	0.10	0.11
Shareholders' equity	2,878	2,967	3,091	3,227	3,309	DPS (EUR)	0.06	0.02	0.05	0.07	0.08
						BVPS (EUR)	1.12	1.16	1.21	1.26	1.29

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.