

Prada SpA (1913 HK)

3Q preview: Embracing a normalised quarter

Prada delivered an exceptional 1H performance with 17.4% reported sales growth. Upon its forthcoming 3Q data release, we project revenue growth will start to normalise towards mid-single-digit, and this should not come in as a total surprise to the market, in our view, considering the well-communicated management guidance given at the beginning of the year. By region, we caveat that sales in Europe will likely face the toughest comp among all, when the return of tourist traffic to Western Europe drove the region's sales growth to 30%+ in 3Q22. Asia would likely face similar headwind owing to Shanghai's reopening in the same quarter last year. On the flip side, momentum in the US should remain lukewarm and yet the magnitude, in our view, is unlikely to deteriorate further from the underlying 6% decline recorded in 2Q23. The sequential improvement we observed in July sales could imply business performance has been well taken care of. Growth in Japan and the Middle East sustain. Down the P&L, we do not expect the quarter's GPM to deviate from what we saw in 1H, a historical high of c.80% which was fuelled by sustainable divers such as mix upgrade and scale efficiency. We update our model mainly with a 1.2pp higher gross margin and a 2.9pp higher EBIT margin. While recent share price correction has priced-in ex-ante the normalising revenue trajectory of the coming quarters, we argue that the market could have overlooked the profitability step-up that Prada is delivering. This is not to mention the merit of geographical diversification and the scarcity value as a global luxury brand that the company could offer in the HK/China stock market. We remain Buyer of Prada.

- **Recap on management targets.** Prada's new management set out EUR4.5bn revenue and a 20% adjusted EBIT margin as their medium-term financial targets at the beginning of this year. Of note, the latter has reportedly been attained in 1H while the former tracked 49% to the target.
- **Stock Connect.** We again remind investors that Prada is set to participate in the scheme and the event could further optimize the company's shareholder base, in our view. That said, the limited market free float could remain a technical drag to share price, when the controlling family holds approximately 80% of the shares.
- **Earnings revision.** We keep our 2023-25E revenue estimates largely unchanged, but raise our 2023E gross/EBIT margins by 1.2pp/2.9pp respectively to reflect the positives from mix upgrade and scale efficiency.
- **Valuation.** Our TP is DCF-based. In our model, we assume WACC of 7.7%, and risk-free rate of 3.5%. Our TP implies 19.6x end-23E EV/EBIT, which largely benchmarks to ~20.0x global peer average.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (EUR mn)	3,366	4,201	4,590	5,004	5,352
YoY growth (%)	38.9	24.8	9.3	9.0	7.0
Net profit (EUR mn)	294.3	465.2	625.4	708.0	783.4
YoY growth (%)	na	58.1	34.4	13.2	10.6
EPS (Reported) (EUR)	0.11	0.18	0.24	0.28	0.31
Consensus EPS (EUR)	na	na	0.26	0.29	0.32
P/E (x)	47.5	29.2	22.1	19.5	17.7
P/B (x)	4.5	3.9	3.6	3.3	3.1
EV/EBIT (x)	26.8	15.5	12.2	10.7	9.5
Yield (%)	1.3	2.1	2.7	3.1	3.4
ROE (%)	9.9	14.1	17.1	17.7	18.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$70.0
(Previous TP)	HK\$72.1
Up/Downside	57.5%
Current Price	HK\$44.5

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Stock Data

Mkt Cap (HK\$ mn)	113,739.7
Avg 3 mths t/o (HK\$ mn)	60.5
52w High/Low (HK\$)	60.50/35.00
Total Issued Shares (mn)	2558.8
Source: FactSet	

Shareholding Structure

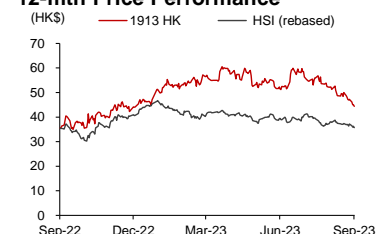
Prada Holding SpA	79.9%
Invesco	4.9%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-14.8%	-12.4%
3-mth	-13.4%	-6.5%
6-mth	-21.3%	-11.4%

Source: FactSet

12-mth Price Performance



Source: Bloomberg

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Figure 1: Our major DCF assumption

DCF Valuation Summary (€m / HKD)	
Net Present Value	8,640
+ Terminal Value	11,675
= Enterprise value	20,315
- Net debt and other adjustments	759
= Total Equity value	21,074
Number of shares (mn)	2,559
DCF value per share (HK\$)	70.0

WACC assumptions	
Debt level	12.7%
Equity level	87.3%
Tax rate	34.0%
Borrowing premium	0.0%
Post-tax cost of debt	2.3%
Risk free rate	3.5%
Risk Premium	5.0%
Beta	1.0
Cost of equity	8.5%
WACC	7.714%
Long-term growth	2.0%
EUR/ HKD =	8.5

Source: Bloomberg, CMBIGM estimates

Figure 2: DCF sensitivity analysis

Sensitivity to WACC and long-term growth						
70.0	7.5%	7.6%	7.7%	7.8%	7.9%	
1.8%	70.9	69.8	68.6	67.5	66.5	
1.9%	71.7	70.5	69.3	68.2	67.1	
2.0%	72.4	71.2	70.0	68.9	67.7	
2.1%	73.2	72.0	70.7	69.5	68.4	
2.2%	74.1	72.8	71.5	70.3	69.1	

Sensitivity to RF and long-term growth						
70.0	3.3%	3.4%	3.5%	3.6%	3.7%	
1.9%	71.6	70.4	69.3	68.2	67.2	
2.0%	71.9	70.8	69.6	68.6	67.5	
2.0%	72.3	71.1	70.0	68.9	67.8	
2.1%	72.7	71.5	70.4	69.2	68.2	
2.1%	73.1	71.9	70.7	69.6	68.5	

Source: Bloomberg, CMBIGM estimates

Figure 3: Earnings revisions

EUR mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,590	5,004	5,352	4,599	5,046	5,552	-0.2%	-0.8%	-3.6%
Gross Profit	3,681	4,028	4,324	3,634	3,991	4,397	1.3%	0.9%	-1.7%
EBIT	1,056	1,181	1,295	923	1,018	1,126	14.3%	16.0%	15.0%
Net profit	625	708	783	562	625	696	11.2%	13.3%	12.6%
Gross Margin	80.2%	80.5%	80.8%	79.0%	79.1%	79.2%	1.2ppt	1.4ppt	1.6ppt
EBIT margin	23.0%	23.6%	24.2%	20.1%	20.2%	20.3%	2.9ppt	3.4ppt	3.9ppt
Net margin	13.6%	14.1%	14.6%	12.2%	12.4%	12.5%	1.4ppt	1.8ppt	2.1ppt

Source: CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

EUR mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,590	5,004	5,352	4,705	5,116	5,534	-2.4%	-2.2%	-3.3%
Gross Profit	3,681	4,028	4,324	3,753	4,085	4,427	-1.9%	-1.4%	-2.3%
EBIT	1,056	1,181	1,295	1,023	1,141	1,267	3.2%	3.5%	2.2%
Net profit	625	708	783	648	738	818	-3.4%	-4.0%	-4.3%
Gross Margin	80.2%	80.5%	80.8%	79.8%	79.8%	80.0%	0.4ppt	0.7ppt	0.8ppt
EBIT margin	23.0%	23.6%	24.2%	21.7%	22.3%	22.9%	1.3ppt	1.3ppt	1.3ppt
Net margin	13.6%	14.1%	14.6%	13.8%	14.4%	14.8%	-0.1ppt	-0.3ppt	-0.1ppt

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (EUR mn)						
Revenue	2,423	3,366	4,201	4,590	5,004	5,352
Cost of goods sold	(679)	(818)	(889)	(909)	(976)	(1,028)
Gross profit	1,743	2,547	3,312	3,681	4,028	4,324
Operating expenses	(1,723)	(2,048)	(2,467)	(2,626)	(2,847)	(3,029)
Selling expense	(1,260)	(1,421)	(1,704)	(1,813)	(1,961)	(2,082)
Admin expense	(154)	(217)	(266)	(280)	(305)	(326)
SG&A expense	(207)	(294)	(359)	(395)	(430)	(460)
R&D expense	(102)	(115)	(137)	(138)	(150)	(161)
Operating profit	20	499	845	1,056	1,181	1,295
EBITDA	768	1,167	1,508	1,815	1,994	2,159
Depreciation	(195)	(158)	(169)	(220)	(240)	(252)
Other amortisation	(30)	(40)	(42)	(46)	(35)	(37)
EBIT	20	499	845	1,056	1,181	1,295
Interest income	2	3	7	7	7	7
Interest expense	(10)	(9)	(6)	(6)	(6)	(6)
Net Interest income/(expense)	(8)	(7)	1	1	1	1
Foreign exchange gain/loss	(2)	(4)	(18)	0	0	0
Other income/expense	(17)	(29)	(71)	(46)	(46)	(46)
Others	(45)	(39)	(46)	(57)	(57)	(57)
Pre-tax profit	(52)	422	711	954	1,079	1,193
Income tax	(3)	(127)	(242)	(324)	(367)	(406)
After tax profit	(54)	295	469	629	712	787
Minority interest	0	(1)	(4)	(4)	(4)	(4)
Discontinued operations	0	0	0	0	0	0
Net profit	(54)	294	465	625	708	783

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (EUR mn)						
Current assets	1,655	2,170	2,425	2,842	3,255	3,697
Cash & equivalents	442	982	1,092	1,316	1,613	1,958
Account receivables	290	330	332	367	400	428
Inventories	666	663	760	918	1,001	1,070
Other current assets	256	196	241	241	241	241
Non-current assets	4,873	4,789	4,953	4,921	4,881	4,831
PP&E	1,506	1,565	1,577	1,654	1,725	1,788
Intangibles	832	829	818	709	599	485
Other non-current assets	2,535	2,395	2,558	2,558	2,558	2,558
Total assets	6,528	6,959	7,378	7,763	8,136	8,528
Current liabilities	1,227	1,420	1,490	1,527	1,567	1,600
Short-term borrowings	301	249	161	161	161	161
Account payables	290	390	402	439	479	512
Tax payable	69	144	278	278	278	278
Other current liabilities	568	636	650	650	650	650
Non-current liabilities	2,449	2,411	2,387	2,387	2,387	2,387
Long-term borrowings	451	493	396	396	396	396
Deferred income	29	30	41	41	41	41
Other non-current liabilities	1,968	1,888	1,950	1,950	1,950	1,950
Total liabilities	3,676	3,830	3,877	3,914	3,953	3,987
Share capital	256	256	256	256	256	256
Retained earnings	(54)	294	465	625	708	783
Other reserves	2,630	2,564	2,761	2,945	3,192	3,471
Total shareholders equity	2,832	3,114	3,482	3,826	4,156	4,511
Minority interest	20	15	19	23	27	31
Total equity and liabilities	6,528	6,959	7,378	7,763	8,136	8,528

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (EUR mn)						
Operating						
Profit before taxation	(52)	422	711	954	1,079	1,193
Depreciation & amortization	648	624	662	701	753	801
Tax paid	(44)	(37)	(220)	(324)	(367)	(406)
Change in working capital	(82)	108	(104)	(156)	(76)	(64)
Others	123	27	74	59	61	64
Net cash from operations	592	1,144	1,124	1,233	1,449	1,587
Investing						
Capital expenditure	(107)	(219)	(241)	(235)	(235)	(239)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(43)	82	(9)	0	0	0
Net cash from investing	(150)	(137)	(250)	(235)	(235)	(239)
Financing						
Dividend paid	0	(91)	(180)	(281)	(378)	(428)
Net borrowings	(65)	(11)	(179)	(493)	(538)	(575)
Proceeds from share issues	0	0	0	0	0	0
Others	(330)	(393)	(428)	0	0	0
Net cash from financing	(395)	(495)	(787)	(775)	(916)	(1,004)
Net change in cash						
Cash at the beginning of the year	421	442	982	1,092	1,316	1,613
Exchange difference	(26)	28	24	0	0	0
Cash at the end of the year	442	982	1,092	1,316	1,613	1,958
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(24.9%)	38.9%	24.8%	9.3%	9.0%	7.0%
Gross profit	(24.8%)	46.1%	30.0%	11.1%	9.4%	7.4%
Operating profit	(93.5%)	2,389.8%	69.2%	24.9%	11.9%	9.7%
EBITDA	(23.0%)	52.0%	29.2%	20.4%	9.8%	8.3%
EBIT	(93.5%)	2,389.8%	69.2%	24.9%	11.9%	9.7%
Net profit	na	na	58.1%	34.4%	13.2%	10.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	72.0%	75.7%	78.8%	80.2%	80.5%	80.8%
Operating margin	0.8%	14.8%	20.1%	23.0%	23.6%	24.2%
EBITDA margin	31.7%	34.7%	35.9%	39.5%	39.8%	40.3%
Net profit margin	(2.2%)	8.7%	11.1%	13.6%	14.1%	14.6%
Return on equity (ROE)	(1.9%)	9.9%	14.1%	17.1%	17.7%	18.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.1	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)
Current ratio (x)	1.3	1.5	1.6	1.9	2.1	2.3
Receivable turnover days	43.7	35.7	28.8	29.2	29.2	29.2
Inventory turnover days	100.4	71.9	66.1	73.0	73.0	73.0
Payable turnover days	43.6	42.3	34.9	34.9	34.9	34.9
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	47.5	29.2	22.1	19.5	17.7
P/E (diluted)	na	47.5	29.2	22.1	19.5	17.7
P/B	3.1	4.5	3.9	3.6	3.3	3.1
P/CFPS	14.6	12.2	12.1	11.2	9.5	8.7
Div yield (%)	1.0	1.3	2.1	2.7	3.1	3.4
EV	13,958.2	13,408.9	13,113.6	12,889.7	12,592.5	12,247.7
EV/Sales	5.8	4.0	3.1	2.8	2.5	2.3
EV/EBIT	695.8	26.8	15.5	12.2	10.7	9.5
EV/EBITDA	18.2	11.5	8.7	7.1	6.3	5.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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