

Prada SpA (1913 HK)

3Q reported/cFX rev +3%/+10%; Miu Miu +48%

3Q revenue of EUR1.1bn grew 3.4%/10% on a reported/cFX basis. The print was slightly ahead of us but trend-wise it matched our expectation of a normalised quarter. Both were also comparable to its global luxury peers, such as LVMH, who reported a 9% cFX Fashion and Leader sales growth. During the call, management commented that 1) October sales remained solid with momentum extending from 3Q; 2) the strong Miu Miu brand growth (+48%) offset the normalising Prada brand growth (+5%); and 3) comparable price initiatives (ASP +4-6%) will be carried on in 2024E. In our view, Prada remains a growing brand and the new management team is capable of driving further upside to financials. BUY.

■ **Regional performance.** In 3Q, Japan showed the highest YoY growth at 26%, with contributions from both Chinese tourists and local customers. Management noted that the Chinese cluster saw substantial growth in 3Q, driven by travellers. While this segment is relatively small, so any change in the trend would not drive an impactful change. The US saw an 8% YoY decline, while the Middle East slightly decreased in 3Q and is facing uncertainty due to geopolitical tensions in 4Q.

■ **Brands' performance.** Prada's 3Q performance remained consistent with previous quarters, driven by higher ASPs and strong full-price sales growth. Miu Miu's profitability is on an upward trajectory, narrowing the gap with Prada. Both Miu Miu and Prada underwent a 4-6% price increase in 2023, and there will be another similar hike for 2024. Despite uncertainties in macro environment, Prada commented that it will continue to invest in the brands to achieve sales growth exceeding market average.

■ **New initiatives.** Royalties revenue increased through licensing and cross-brand collaborations. While this upward trajectory is likely to persist, Prada has no plans to extend licensing to other categories. Going forward, segment revenue is likely to see continuous improvement and be more consistent, given the business is still at its early stage of development. Additionally, the introduction of human-made stone jewellery represents a milestone that signifies Prada's expansion into the fine jewellery market.

■ **Earnings revision/valuation.** We leave our forecasts unchanged, given the in-line revenue print, and limited outlook discussion. Our TP is DCF-based. In our model, we assume WACC of 7.7% and risk-free rate of 3.5%. Our TP implies 19.7x end-23E EV/EBIT, which largely benchmarks to ~19.0x 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	22.8	20.2	18.2
P/B (x)	4.5	3.9	3.7	3.4	3.2
EV/EBIT (x)	26.8	15.5	12.2	10.7	9.5
Yield (%)	1.3	2.1	2.6	3.0	3.3
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\$70.2**
 (Previous TP **HK\$70.2**)
Up/Downside **49.4%**
Current Price **HK\$47.0**

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Stock Data

Mkt Cap (HK\$ mn)	118,217.7
Avg 3 mths t/o (HK\$ mn)	47.2
52w High/Low (HK\$)	60.50/35.75
Total Issued Shares (mn)	2558.8

Source: FactSet

Shareholding Structure

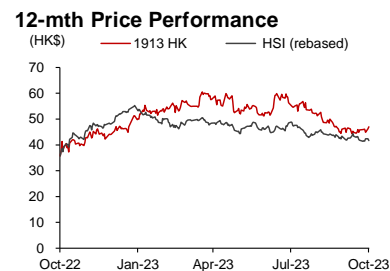
Prada Holding SpA	79.9%
Invesco	4.9%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.2%	2.5%
3-mth	-17.9%	-6.1%
6-mth	-19.8%	-8.3%

Source: Bloomberg



Source: Bloomberg

Related reports:

1. [Shanghai Jahwa \(600315 CH\) – 3Q rev/np -11%/40%: a significant miss](#) – Oct 26, 2023
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3. [CTGDF \(601888 CH\) – 3Q prelim rev/np +28%/93%: estimates unchanged](#) – Oct 10, 2023
4. [Samsonite \(1910 HK\) – 3Q Preview: rev/adj EBITDA +20%/36%](#) – Oct 4, 2023
5. [Prada SpA \(1913 HK\) – 3Q preview: Embracing a normalised quarter](#) – Sep 29, 2023

Figure 1: Our major DCF assumption

DCF Valuation Summary (€m / HKD)	
Net Present Value	8,698
+ Terminal Value	11,675
= Enterprise value	20,373
- Net debt and other adjustments	759
= Total Equity value	21,132
Number of shares (mn)	2,559
DCF value per share (HK\$)	70.2

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

70.2	7.5%	7.6%	7.7%	7.8%	7.9%
1.8%	71.1	69.9	68.8	67.7	66.7
1.9%	71.9	70.7	69.5	68.4	67.3
2.0%	72.6	71.4	70.2	69.0	67.9
2.1%	73.4	72.2	70.9	69.7	68.6
2.2%	74.3	72.9	71.7	70.5	69.3

Sensitivity to RF and long-term growth

70.2	3.3%	3.4%	3.5%	3.6%	3.7%
1.9%	71.8	70.6	69.5	68.4	67.4
2.0%	72.1	71.0	69.8	68.8	67.7
2.0%	72.5	71.3	70.2	69.1	68.0
2.1%	72.9	71.7	70.6	69.4	68.4
2.1%	73.3	72.1	70.9	69.8	68.7

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	4,590	5,004	5,352	0.0%	0.0%	0.0%
Gross Profit	3,681	4,028	4,324	3,681	4,028	4,324	0.0%	0.0%	0.0%
EBIT	1,056	1,181	1,295	1,056	1,181	1,295	0.0%	0.0%	0.0%
Net profit	625	708	783	625	708	783	0.0%	0.0%	0.0%
Gross Margin	80.2%	80.5%	80.8%	80.2%	80.5%	80.8%	0ppt	0ppt	0ppt
EBIT margin	23.0%	23.6%	24.2%	23.0%	23.6%	24.2%	0ppt	0ppt	0ppt
Net margin	13.6%	14.1%	14.6%	13.6%	14.1%	14.6%	0ppt	0ppt	0ppt

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	4,694	5,075	5,483	-2.2%	-1.4%	-2.4%
Gross Profit	3,681	4,028	4,324	3,750	4,054	4,392	-1.8%	-0.6%	-1.5%
EBIT	1,056	1,181	1,295	1,032	1,154	1,288	2.3%	2.3%	0.6%
Net profit	625	708	783	646	729	821	-3.1%	-2.9%	-4.6%
Gross Margin	80.2%	80.5%	80.8%	79.9%	79.9%	80.1%	0.3ppt	0.6ppt	0.7ppt
EBIT margin	23.0%	23.6%	24.2%	22.0%	22.7%	23.5%	1ppt	0.9ppt	0.7ppt
Net margin	13.6%	14.1%	14.6%	13.8%	14.4%	15.0%	-0.1ppt	-0.2ppt	-0.3ppt

Source: Bloomberg, 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	(173)	(161)	(170)	(220)	(240)	(252)
Other amortisation	(53)	(37)	(41)	(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
Gross dividends	90	179	281	378	428	474

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%
Adj. 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%
Adj. 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	22.8	20.2	18.2
P/E (diluted)	na	47.5	29.2	22.8	20.2	18.2
P/B	3.1	4.5	3.9	3.7	3.4	3.2
P/CFPS	14.6	12.2	12.1	11.6	9.9	9.0
Div yield (%)	1.0	1.3	2.1	2.6	3.0	3.3
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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