

# Prada (1913 HK)

## Retail turnaround may drive further re-rating

**Upgrade to BUY and raised TP to HK\$ 31.39**, based on 1.3x FY19E-21E PEG (changed from 25x FY19E P/E due to faster growth ahead). We believe Prada is set to turn around, thanks to 1) improving brand popularity and direct retail (excludes markdown) sales growth despite HK weakness and 2) drag from markdown sales to fade out. We think valuation at 1.1x FY19E-21E PEG remains attractive (vs Peers' median of 1.8x) and we think further re-rating is possible as we expect financial numbers to further improve starting from 4Q19E.

- **Even with the drag in HK, sales trend of direct retail in 2H19E will still improve.** The social unrest in HK is certainly an investor concern and we expect a ~50% YoY drop in HK business revenue in 2H19E. However, thanks to robust mainland China growth (est. double digit) and acceleration in Europe, Korea, Japan and US, we now expect FX constant direct retail sales growth in 2H19E to speed up to 4%, vs -3% in 1H19. But counting in wholesale business restructuring and fading out markdown sales, overall group sales growth may slow down to 0.5% in 2H19E, vs 2.4% in 1H19.
- **Retail turnaround in sight, as brand and product popularity increases.** Prada had dedicated more on new products in recent years and successfully gained more traction from consumers, indicated by its gradual increase in the rank in Lyst index. According to Google Trends, product launches like Hobo bag, Cloudbust shoes as well as Nylon (including Re-Nylon) series are highly popular and even outperformed others like cahier and Galleria. This, in our view, will lead to a solid direct retail growth of 7% and 5% in 2H19E and 1H20E. More importantly, a highly eye-catching collaboration between Prada and Adidas (limited edition) will be launched in Dec 2019, where its Instagram post has already received over 200K likes (vs 30-40K on average) in less than 24 hours. This, in our view, could effectively draw in consumer interest on the brand once again, and help its sales growth onwards.
- **Adoption of IFRS 16 standard may temporarily drag net profit.** Under the new accounting standard, rental expenses will be split into 1) depreciation of right of use asset, 2) rental related expenses and 3) interest expenses on lease liability. Thus, we estimate its EBIT in FY19E-21E to be boosted by EUR 20-25mn and pre-tax profit to be reduced by EUR 10-15mn.
- **Upgrade to BUY and raised TP to HK\$ 31.39.** We revised up FY19E/ 20E/ 21E EPS estimates by 0.5%/ 0.4%/ 5.6%, to factor in 1) higher GP margin as markdown sales reduce and 2) greater level of operating leverage. We upgrade Prada to BUY and raised TP to HK\$ 31.39, based on 1.3x FY19E-21E PEG, using a 28% 2 years EPS CAGR. The new TP implies a 37x FY20E P/E, while the old TP implied a 25x FY19E P/E.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (EUR mn)	3,056	3,142	3,185	3,301	3,471
YoY growth (%)	(4.0)	2.8	1.4	3.6	5.2
Net profit (EUR mn)	249	205	254	242	289
EPS (EUR)	0.097	0.080	0.099	0.094	0.113
YoY growth (%)	(10.6)	(17.5)	23.6	(4.8)	19.7
Adj. NP (EUR mn)	249	205	177	242	289
YoY growth (%)	(10.6)	(17.5)	(13.9)	36.6	19.7
P/E (x)	29.8	37.7	30.5	32.0	26.7
P/B (x)	2.6	2.7	2.6	2.6	2.5
Yield (%)	2.6	2.0	2.5	2.3	2.8
ROE (%)	8.4	7.2	8.7	8.2	9.5
Net gearing (%)	3.5	10.7	9.0	2.3	Net cash

Source: Company data, CMBIS estimates

**BUY (Up)**

Target Price	HK\$31.39
(Previous TP	HK\$22.17)
Up/Downside	15.6%
Current Price	HK\$27.15

### Global Luxury Goods Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	69,472
Avg 3 mths t/o (HK\$ mn)	18.88
52w High/Low (HK\$)	29.00/20.75
Total Issued Shares (mn)	2,558.8

Source: Bloomberg

#### Shareholding Structure

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

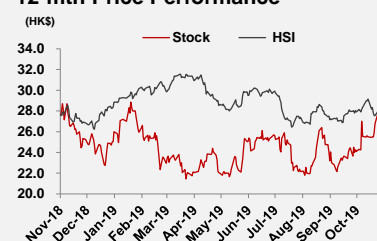
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	12.7%	11.3%
3-mth	22.6%	18.9%
6-mth	23.4%	25.1%
12-mth	-2.3%	-6.2%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

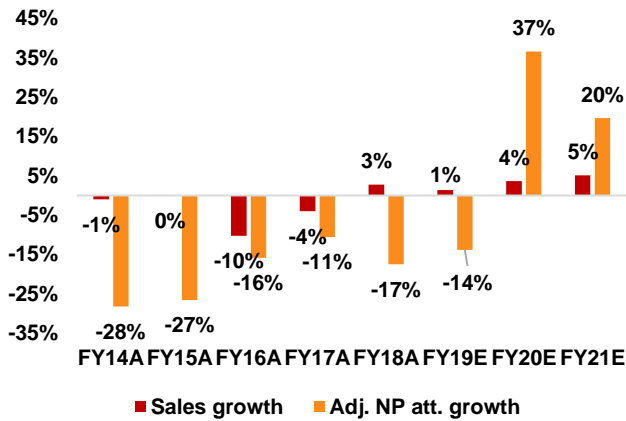
#### Auditor: Deloitte & Touche

#### Related Reports

1. Prada (1913 HK, HOLD) - Growth may resume but valuation is stretched - 2 Aug 2019
2. Prada (1913 HK, SELL) - Rich in valuation plus sluggish growth ahead - 5 Jul 2019
3. Prada (1913 HK, HOLD) - Profit dragged by FX and brand relaunch investments - 18 Mar 2019

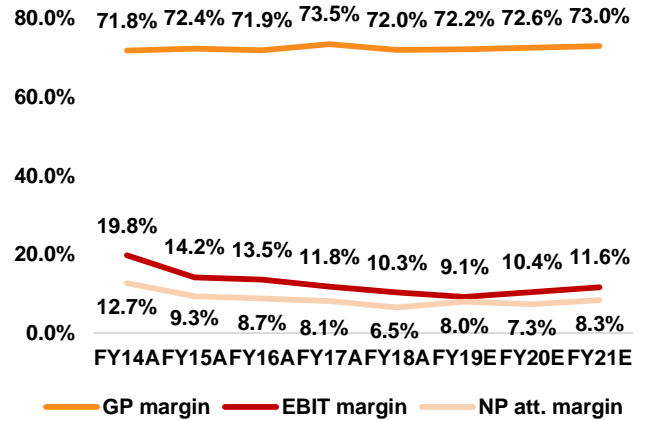
**Focus Charts**

**Figure 1: Sales/ net profit growth (reported, in EUR)**



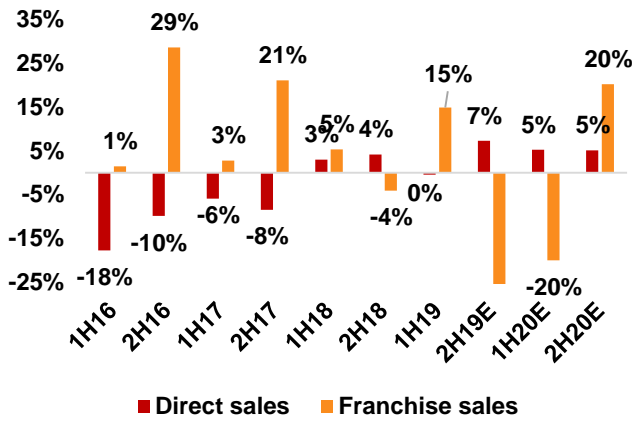
Source: Company data, CMBIS estimates

**Figure 2: GP/ OP/ NP margin**



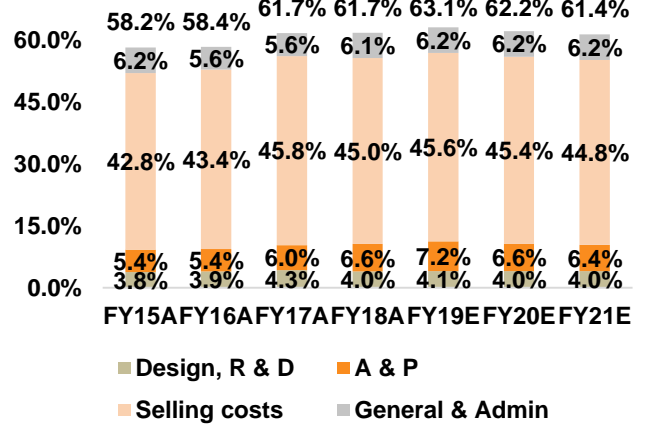
Source: Company data, CMBIS estimates

**Figure 3: Sales growth by Direct/Franchise (reported)**



Source: Company data, CMBIS estimates

**Figure 4: Opex breakdown, as % of sales (CMBI est.)**



Source: Company data, CMBIS estimates

**Figure 5: 2020 Resort advertising campaign – seven Prada flower shop-in-shops around the world**



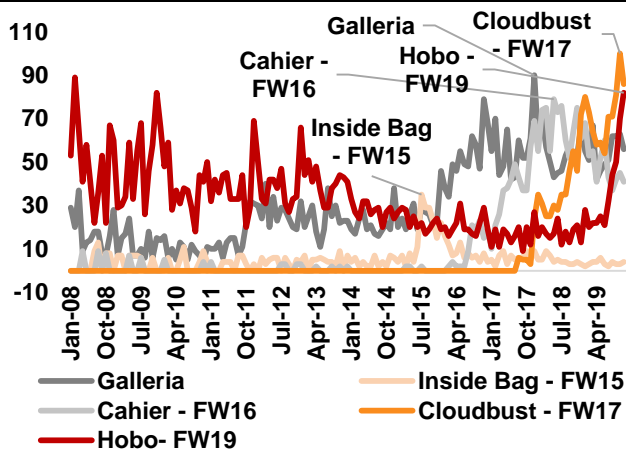
Source: Vogue, Company data, CMBIS estimates

**Figure 6: Prada & Adidas Limited Edition**



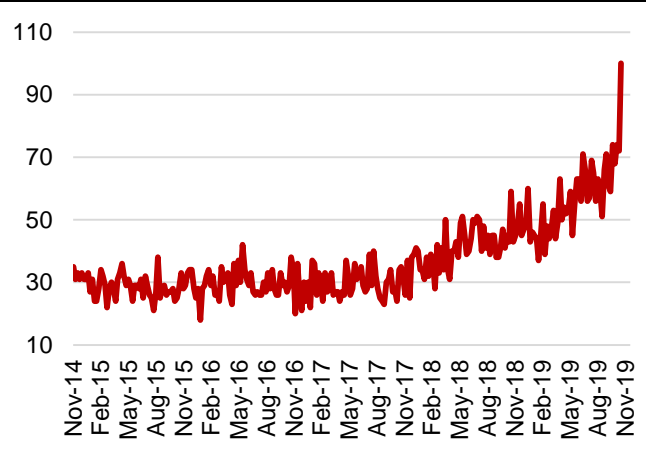
Source: Instagram, Company data, CMBIS estimates

**Figure 7: Cloudbust shoes and Hobo Bag are popular**



Source: Google Trends, CMBIS estimates

**Figure 8: Prada Nylon is also getting more popular**



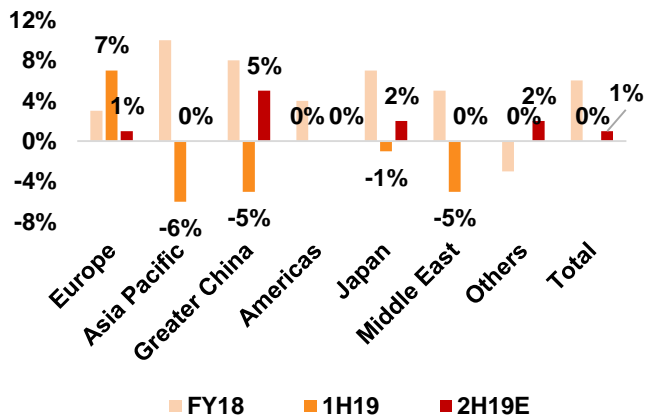
Source: Google Trends, CMBIS estimates

**Figure 9: Lyst Index since 2Q17, Prada has been getting more popular in recent quarters**

Rank	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
1	Gucci	Balenciaga	Balenciaga	Balenciaga	Gucci	Off-White	Gucci	Off-White	Gucci	Off-White
2	Yeezy	Gucci	Gucci	Gucci	Off-White	Gucci	Off-White	Gucci	Off-White	Balenciaga
3	Balenciaga	Off-White	Off-White	Vetements	Balenciaga	Balenciaga	Balenciaga	Balenciaga	Balenciaga	Gucci
4	Vetements	Vetements	Moncler	Off-White	Givenchy	Nike	Moncler	Valentino	Valentino	Versace
5	Givenchy	Givenchy	Vetements	Stone Island	Dolce & Gab	Prada	Fendi	Fendi	Prada	Prada
6	Valentino	Valentino	Stone Island	Givenchy	Vetements	Versace	Versace	Prada	Versace	Valentino
7	Y-3	Saint Lauren	Givenchy	Moncler	Versace	Yeezy	Stone Island	Stone Island	Fendi	Fendi
8	Prada	Stone Island	Dolce & Gab	Dolce & Gab	Fendi	Vetements	Vetements	Versace	Stone Island	Burberry
9	Nike	Moncler	Valentino	Yeezy	Nike	Fendi	Valentino	Vetements	Nike	Saint Lauren
10	Fendi	RAF Simons	Yeezy	Valentino	Prada	Valentino	Burberry	Saint Lauren	Saint Lauren	Vetements

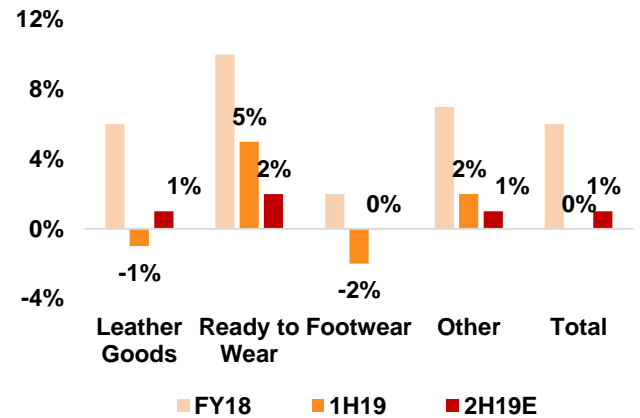
Source: www.lyst.com, CMBIS estimates

Figure 10: Sales growth by region (Constant FX)



Source: Company data, CMBIS estimates

Figure 11: Sales growth by segment (Constant FX)



Source: Company data, CMBIS estimates

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	2H19E Jul-Dec 19
<b>By channel</b>					
Retail	-3%	10%	7%	-3%	4%
Wholesale	34%	8%	1%	14%	-32%
<b>Total</b>	<b>1%</b>	<b>9%</b>	<b>6%</b>	<b>0%</b>	<b>1%</b>
<b>By region</b>					
Europe	6%	7%	3%	7%	1%
Asia Pacific	1%	14%	10%	-6%	0%
Greater China	10%	17%	8%	-5%	5%
Americas	-3%	8%	4%	0%	0%
Japan	-6%	9%	7%	-1%	2%
Middle East	-3%	7%	5%	-5%	0%
Others	-2%	4%	-3%	0%	2%
<b>Total</b>	<b>1%</b>	<b>9%</b>	<b>6%</b>	<b>0%</b>	<b>1%</b>
<b>By product</b>					
Leather Goods	0%	8%	6%	-1%	1%
Ready to Wear	10%	20%	10%	5%	2%
Footwear	-4%	4%	2%	-2%	0%
Other	-5%	2%	7%	2%	1%
<b>Total</b>	<b>1%</b>	<b>9%</b>	<b>6%</b>	<b>0%</b>	<b>1%</b>
<b>By brand</b>					
Prada	4%	10%	7%	1%	2%
Miu Miu	-10%	8%	2%	-8%	-2%
Church's	-8%	-4%	-2%	3%	1%
Other	2%	2%	4%	8%	3%
<b>Total</b>	<b>1%</b>	<b>9%</b>	<b>6%</b>	<b>0%</b>	<b>1%</b>


Source: Company data, CMBIS estimates

Figure 13: Prada's 2019 Fall Winter leather goods

Season	2019 Fall Winter						
Being held	Feb 2019						
Product name	Nylon Shoulder Bag with Flower Print	Flower Embellished Tessuto Mini Bag	Cartella/ Top Handle Leather Bag	Matinee/ Saffiano Leather Bag	Bauletto/ Cargo Bowler/ Nylon Bag	Double/ Calf Leather Bag	Faux Furry/ Mini Bag/ Nylon Pouch
Chinese name	花朵印花单肩尼龙包	花卉装饰Tessuto迷你包	文件夹/皮革 手提包	Matinee/ Saffiano皮革包	书包/ 货物/ 保龄球/ 尼龙包	雙邊/小牛皮包	人造皮革/迷你包/尼龙包
Prices (USD)	680	1550	2100 - 2490	2490	1650	2190	980
Price range (USD)	680 - 2490						
Sample photos							

Source: Internet, CMBIS estimates

Figure 14: Prada's 2020 resort leather goods

Season	2020 Resort		
Being held	May 2019		
Product name	Galleria/ Saffiano Leather Bag	Bowling Bag	Panier Bag
Chinese name	Galleria/ Saffiano皮革包	保龄球包	篮子包
Prices (USD)	2180	2000 - 2120	1800 - 1900
Price range (USD)	1800 - 2180		
Sample photos			

Source: Internet, CMBIS estimates

## Earnings revision

Figure 15: Earnings revision

(EUR mn)	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	3,185	3,301	3,471	3,185	3,327	3,470	0.0%	-0.8%	0.1%
Gross profit	2,300	2,397	2,534	2,293	2,402	2,512	0.3%	-0.2%	0.9%
EBIT	284	337	396	282	340	375	0.5%	-1.0%	5.5%
Reported Net profit	254	242	289	253	241	274	0.5%	0.4%	5.6%
Diluted EPS (EUR)	0.099	0.094	0.113	0.099	0.094	0.107	0.5%	0.4%	5.6%
Gross margin	72.2%	72.6%	73.0%	72.0%	72.2%	72.4%	0.2ppt	0.4ppt	0.6ppt
EBIT margin	8.9%	10.2%	11.4%	8.9%	10.2%	10.8%	0ppt	0ppt	0.6ppt
Net profit att. margin	8.0%	7.3%	8.3%	7.9%	7.2%	7.9%	0ppt	0.1ppt	0.4ppt

Source: Company data, CMBIS estimates

Figure 16: CMBI estimates vs consensus

(EUR mn)	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	3,185	3,301	3,471	3,215	3,352	3,530	-0.9%	-1.5%	-1.7%
Gross profit	2,300	2,397	2,534	2,319	2,432	2,571	-0.9%	-1.5%	-1.4%
EBIT	284	337	396	321	377	435	-11.7%	-10.8%	-9.1%
Net profit att.	254	242	289	256	239	286	-0.7%	1.0%	1.2%
Diluted EPS (EUR)	0.099	0.094	0.113	0.096	0.090	0.111	3.4%	5.3%	2.0%
Gross margin	72.2%	72.6%	73.0%	72.3%	72.6%	72.9%	-0.1ppt	0ppt	0.1ppt
EBIT margin	8.9%	10.2%	11.4%	10.0%	11.2%	12.3%	-1.1ppt	-1ppt	-0.9ppt
Net profit att. margin	8.0%	7.3%	8.3%	8.0%	7.6%	8.3%	0ppt	-0.2ppt	0.1ppt

Source: Bloomberg, CMBIS estimates

Figure 17: 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 (%)	
								FY1E	FY2E	FY1E	FY2E	FY1E	FY2E	FY1E	
<b>H shares Luxury, Jewellery, Watches</b>															
Prada	1913 HK	BUY	31.48	27.15	16%	69,472	Dec-18	30.5	32.0	2.6	2.6	8.4	1.5	2.5	
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	
Chow Tai Fook	1929 HK	NR	n/a	6.79	n/a	67,900	Mar-19	15.3	13.0	2.2	2.1	14.3	0.9	5.5	
Luk Fook	590 HK	NR	n/a	20.90	n/a	12,271	Mar-19	9.7	8.5	1.1	1.0	14.5	0.7	4.9	
Chow Sang Sang	116 HK	NR	n/a	9.14	n/a	6,192	Dec-18	6.2	5.9	0.6	0.5	9.6	0.8	6.2	
Emperor Watch	887 HK	NR	n/a	0.17	n/a	1,153	Dec-18	n/a	n/a	n/a	n/a	5.0	0.0	n/a	
Oriental Watch	398 HK	NR	n/a	2.07	n/a	1,181	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	
								<b>Avg.</b>	<b>15.2</b>	<b>14.6</b>	<b>1.6</b>	<b>1.5</b>	<b>8.7</b>	<b>0.6</b>	<b>4.4</b>
								<b>Med.</b>	<b>14.2</b>	<b>12.6</b>	<b>1.5</b>	<b>1.4</b>	<b>9.0</b>	<b>0.8</b>	<b>4.9</b>
<b>A-shares Luxury, Jewellery, Watches</b>															
Lao Feng Xiang	600612 CH	NR	n/a	47.58	n/a	22,073	Dec-18	17.5	15.2	3.4	3.0	21.5	1.1	2.7	
Chow Tai Seng	002867 CH	NR	n/a	17.64	n/a	14,341	Dec-18	12.9	10.8	2.6	2.2	23.0	0.6	3.3	
Leysen Jewelry	603900 CH	NR	n/a	8.89	n/a	3,367	Dec-18	19.1	19.5	1.2	1.2	5.9	4.7	0.6	
Guangdong Chj	002345 CH	NR	n/a	3.84	n/a	3,867	Dec-18	13.7	13.2	1.0	0.9	1.2	5.2	1.0	
Fiyta Holdings	000026 CH	NR	n/a	8.42	n/a	3,876	Dec-18	17.1	14.3	n/a	n/a	7.7	0.8	n/a	
Zhejiang Ming	002574 CH	NR	n/a	4.94	n/a	2,901	Dec-18	26.0	23.5	0.8	0.8	3.0	1.9	1.6	
Eastern Gold Jade	600086 CH	NR	n/a	2.75	n/a	4,129	Dec-18	n/a	n/a	n/a	n/a	(89.9)	0.0	n/a	
								<b>Avg.</b>	<b>17.7</b>	<b>16.1</b>	<b>1.8</b>	<b>1.6</b>	<b>(3.9)</b>	<b>2.0</b>	<b>1.9</b>
								<b>Med.</b>	<b>17.3</b>	<b>14.7</b>	<b>1.2</b>	<b>1.2</b>	<b>5.9</b>	<b>1.1</b>	<b>1.6</b>
<b>International Luxury, Jewellery, Watches</b>															
Prada	1913 HK	BUY	31.48	27.15	16%	69,472	Dec-18	30.5	32.0	2.6	2.6	8.4	1.5	2.5	
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	404.25	n/a	1,760,808	Dec-18	27.7	24.9	5.6	5.0	20.8	2.5	1.7	
Kering	KER FP	NR	n/a	544.00	n/a	592,013	Dec-18	22.0	19.0	6.5	5.3	20.9	1.6	2.1	
Hermes	RMS FP	NR	n/a	660.40	n/a	600,821	Dec-18	45.4	40.8	10.6	9.0	27.6	3.7	0.9	
Richemont	CFR SW	NR	n/a	76.52	n/a	345,091	Mar-19	23.4	21.0	2.2	2.1	8.4	1.8	2.8	
Tiffany & Co	TIF US	NR	n/a	133.07	n/a	125,810	Jan-19	27.4	25.7	4.7	4.4	18.0	3.5	1.7	
Moncler	MONC IM	NR	n/a	38.21	n/a	84,946	Dec-18	26.5	24.7	7.3	6.1	36.3	2.6	1.1	
Burberry	BRBY LN	NR	n/a	2088.00	n/a	86,085	Mar-19	23.6	21.3	5.7	5.1	27.9	1.8	2.1	
Ferragamo	SFER IM	NR	n/a	17.50	n/a	25,456	Dec-18	33.0	28.4	3.7	3.5	11.5	1.8	2.0	
Essilorluxottica	EL FP	NR	n/a	140.05	n/a	526,871	Dec-18	31.6	29.2	2.0	1.9	7.0	3.2	1.5	
Swatch	UHR SW	NR	n/a	284.00	n/a	114,315	Dec-18	17.6	16.1	1.3	1.2	7.2	1.6	2.9	
Tod'S	TOD IM	NR	n/a	39.48	n/a	11,260	Dec-18	337.4	89.9	1.2	1.2	0.7	0.5	1.5	
Hugo Boss	BOSS GY	NR	n/a	42.48	n/a	25,773	Dec-18	13.0	11.7	2.9	2.7	22.2	1.3	6.2	
								<b>Avg.</b>	<b>48.1</b>	<b>28.4</b>	<b>4.1</b>	<b>3.7</b>	<b>16.2</b>	<b>2.3</b>	<b>2.3</b>
								<b>Med.</b>	<b>26.9</b>	<b>24.8</b>	<b>3.3</b>	<b>3.1</b>	<b>14.7</b>	<b>1.8</b>	<b>2.0</b>

Source: Bloomberg, CMBIS estimates

## Assumption

**Figure 18: Major assumptions**

Major assumptions	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales by segment (EUR mn)</b>					
<b>Direct sales</b>	<b>2,444</b>	<b>2,532</b>	<b>2,621</b>	<b>2,757</b>	<b>2,903</b>
<i>Prada</i>	1,991	2,069	2,153	2,277	2,413
<i>Miu Miu</i>	388	400	404	414	423
<i>Other</i>	64	62	64	66	67
<b>Franchise sales</b>	<b>565</b>	<b>566</b>	<b>521</b>	<b>499</b>	<b>523</b>
<b>Royalties</b>	<b>48</b>	<b>44</b>	<b>43</b>	<b>44</b>	<b>45</b>
<b>Total</b>	<b>3,056</b>	<b>3,142</b>	<b>3,185</b>	<b>3,301</b>	<b>3,471</b>
<b>Sales growth by segment (%)</b>					
<b>Direct sales</b>	<b>-7.3%</b>	<b>3.6%</b>	<b>3.5%</b>	<b>5.2%</b>	<b>5.3%</b>
<i>Prada</i>	-6.1%	4.0%	4.0%	5.8%	6.0%
<i>Miu Miu</i>	-12.0%	3.0%	1.0%	2.5%	2.0%
<i>Other</i>	-11.7%	-3.1%	2.6%	2.6%	2.6%
<b>Franchise sales</b>	<b>11.9%</b>	<b>0.3%</b>	<b>-8.0%</b>	<b>-4.1%</b>	<b>4.7%</b>
<b>Royalties</b>	<b>7.6%</b>	<b>-8.5%</b>	<b>-2.0%</b>	<b>3.0%</b>	<b>2.0%</b>
<b>Total</b>	<b>-4.0%</b>	<b>2.8%</b>	<b>1.4%</b>	<b>3.6%</b>	<b>5.2%</b>
<b>GP margins</b>	<b>73.5%</b>	<b>72.0%</b>	<b>72.2%</b>	<b>72.6%</b>	<b>73.0%</b>
<b>Opex breakdown by segment</b>					
Design, R & D/ sales	4.3%	4.0%	4.1%	4.0%	4.0%
A & P/ sales	6.0%	6.6%	7.2%	6.6%	6.4%
D & A/ sales	6.4%	6.7%	6.7%	6.7%	6.7%
Labour costs/ sales	17.0%	19.0%	20.6%	20.3%	19.9%
Variable rental/ sales	9.7%	10.5%	10.7%	10.7%	10.7%
Fixed rental/ sales	9.1%	9.0%	9.0%	9.0%	8.8%
Others/ sales	-1.1%	-1.2%	-1.4%	-1.3%	-1.3%
G & A/ sales	5.6%	6.1%	6.2%	6.2%	6.2%
<b>Total</b>	<b>57.0%</b>	<b>60.7%</b>	<b>63.1%</b>	<b>62.2%</b>	<b>61.4%</b>
<b>EBIT margins</b>	<b>11.8%</b>	<b>10.3%</b>	<b>9.1%</b>	<b>10.4%</b>	<b>11.6%</b>
Pre-tax margins	11.6%	9.6%	8.9%	10.2%	11.5%
<b>Effective tax rate</b>	<b>-29.7%</b>	<b>-31.2%</b>	<b>-10.0%</b>	<b>-28.0%</b>	<b>-27.0%</b>
<b>Net profit att. (EUR mn)</b>	<b>249</b>	<b>205</b>	<b>254</b>	<b>242</b>	<b>289</b>
Net profit att. margins	8.1%	6.5%	8.0%	7.3%	8.3%
<b>Net profit att. Growth (%)</b>	<b>-10.6%</b>	<b>-17.5%</b>	<b>23.6%</b>	<b>-4.8%</b>	<b>19.7%</b>
<b>Adjusted NP att. (EUR mn)</b>	<b>249</b>	<b>205</b>	<b>177</b>	<b>242</b>	<b>289</b>
<b>Adjusted NP att. Growth (%)</b>	<b>-10.6%</b>	<b>-17.5%</b>	<b>-13.9%</b>	<b>36.6%</b>	<b>19.7%</b>
<b>Number of stores by brand</b>					
Prada	394	398	402	406	410
Miu Miu	167	166	164	165	168
Others	64	70	72	72	73
Franchises stores	34	34	30	30	30
<b>Sum total</b>	<b>659</b>	<b>668</b>	<b>668</b>	<b>673</b>	<b>681</b>

Source: Company data, CMBIS estimates



## Financial Summary

Income statement						Cash flow summary					
YE Dec 31 (EUR mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31 (EUR mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>3,056</b>	<b>3,142</b>	<b>3,185</b>	<b>3,301</b>	<b>3,471</b>	<b>EBIT</b>	<b>352</b>	<b>307</b>	<b>284</b>	<b>337</b>	<b>396</b>
Direct sales	2,444	2,532	2,621	2,757	2,903	D & A	221	263	307	345	351
Franchise sales	565	566	521	499	523	Change in working capital	(26)	(97)	(7)	(19)	(30)
Royalties	48	44	43	44	45	Income tax paid	(27)	(94)	(28)	(95)	(108)
						Others	(73)	(176)	(167)	(46)	(59)
<b>Cost of goods sold</b>	<b>(811)</b>	<b>(880)</b>	<b>(885)</b>	<b>(904)</b>	<b>(937)</b>	<b>Net cash from operating</b>	<b>447</b>	<b>202</b>	<b>388</b>	<b>522</b>	<b>551</b>
<b>Gross profit</b>	<b>2,246</b>	<b>2,263</b>	<b>2,300</b>	<b>2,397</b>	<b>2,534</b>	Capex & investments	(212)	(229)	(206)	(204)	(211)
<b>Other income</b>	<b>(8)</b>	<b>(17)</b>	<b>(8)</b>	<b>(8)</b>	<b>(9)</b>	Associated companies	-	-	-	-	-
						Interest received	-	-	-	-	-
<b>Operating expenses</b>	<b>(1,886)</b>	<b>(1,939)</b>	<b>(2,008)</b>	<b>(2,052)</b>	<b>(2,130)</b>	Others	0	19	18	68	27
D & A	(221)	(263)	(307)	(345)	(351)	<b>Net cash from investing</b>	<b>(212)</b>	<b>(209)</b>	<b>(188)</b>	<b>(136)</b>	<b>(184)</b>
Staff costs	(549)	(625)	(682)	(697)	(719)	Equity raised	-	-	-	-	-
S & D costs (ex-staff, D&A)	(867)	(746)	(753)	(746)	(782)	Net change in bank loans	12	(83)	-	-	-
Admin exp. (ex-staff, D&A)	(249)	(305)	(267)	(264)	(277)	Dividend paid	(308)	(192)	(154)	(190)	(181)
Other operating	-	-	-	-	-	Others	297	(11)	-	-	-
<b>Operating profit</b>	<b>352</b>	<b>307</b>	<b>284</b>	<b>337</b>	<b>396</b>	<b>Net cash from financing</b>	<b>0</b>	<b>(286)</b>	<b>(154)</b>	<b>(190)</b>	<b>(181)</b>
Finance costs, net	2	(4)	0	1	3	<b>Net change in cash</b>	<b>235</b>	<b>(293)</b>	<b>47</b>	<b>195</b>	<b>185</b>
JVs & associates	-	-	-	-	-	Beginning cash balance	722	893	600	646	841
Exceptional	-	-	-	-	-	Exchange difference	(65)	-	-	-	-
<b>Pre-tax profit</b>	<b>355</b>	<b>303</b>	<b>284</b>	<b>338</b>	<b>399</b>	<b>Cash at the end of the year</b>	<b>893</b>	<b>600</b>	<b>646</b>	<b>841</b>	<b>1,026</b>
Income tax	(105)	(94)	(28)	(95)	(108)						
Less: Minority interests	0	3	2	2	2						
<b>Net profit</b>	<b>249</b>	<b>205</b>	<b>254</b>	<b>242</b>	<b>289</b>						

Balance sheet						Key ratios					
YE Dec 31 (EUR mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>2,775</b>	<b>2,917</b>	<b>2,860</b>	<b>2,765</b>	<b>2,672</b>	<b>Sales mix (%)</b>					
Fixed asset	1,523	1,577	1,524	1,448	1,370	Direct sales	80.0	80.6	82.3	83.5	83.6
Intangible assets & goodwill	921	920	911	896	884	Franchise sales	18.5	18.0	16.3	15.1	15.1
Prepaid lease payments	2	0	0	0	0	Royalties	1.6	1.4	1.4	1.3	1.3
Interest in joint ventures	8	100	100	100	100		-	-	-	-	-
Other non-current assets	320	320	325	321	318	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Current assets</b>	<b>1,965</b>	<b>1,762</b>	<b>1,817</b>	<b>2,038</b>	<b>2,265</b>	<b>P&amp;L ratios (%)</b>					
Cash and cash equivalents	893	600	646	841	1,026	Gross margin	73.5	72.0	72.2	72.6	73.0
Inventories	570	632	636	650	673	Operating margin	11.5	9.8	8.9	10.2	11.4
Trade and other	290	322	326	338	356	Pre-tax margin	11.6	9.6	8.9	10.2	11.5
Prepayments	6	13	13	13	14	Net margin	8.1	6.5	8.0	7.3	8.3
Other current assets	206	195	195	195	195	Effective tax rate	29.7	31.2	10.0	28.0	27.0
<b>Current liabilities</b>	<b>904</b>	<b>987</b>	<b>932</b>	<b>1,005</b>	<b>1,030</b>	<b>Balance sheet ratios</b>					
Bank loans	353	421	421	421	421	Current ratio (x)	2.2	1.8	1.9	2.0	2.2
Trade payables	314	315	317	324	336	Quick ratio (x)	2.2	1.8	1.9	2.0	2.2
Accruals & other payables	-	-	-	-	-	Cash ratio (x)	1.0	0.6	0.7	0.8	1.0
Tax payables	68	85	28	95	108	Inventory turnover days	257	262	262	262	262
others	169	165	165	165	165	Trade receivables days	35	37	37	37	37
<b>Non-current liabilities</b>	<b>969</b>	<b>795</b>	<b>795</b>	<b>795</b>	<b>795</b>	Trade payables days	141	131	131	131	131
Bank loans	639	487	487	487	487	Total debt / total equity	35	32	31	30	29
Deferred income	-	-	-	-	-	Net debt / equity ratio (%)	3	11	9	2	Net
Deferred tax	32	30	30	30	30	<b>Returns (%)</b>					
Others	298	277	277	277	277	ROE	8.8	7.1	8.7	8.1	9.4
						ROA	5.3	4.4	5.4	5.0	5.9
<b>Minority Interest</b>	<b>22</b>	<b>19</b>	<b>21</b>	<b>22</b>	<b>24</b>	<b>Per share</b>					
<b>Total net assets</b>	<b>2,845</b>	<b>2,878</b>	<b>2,929</b>	<b>2,980</b>	<b>3,088</b>	EPS (EUR)	0.10	0.08	0.10	0.09	0.11
<b>Shareholders' equity</b>	<b>2,845</b>	<b>2,878</b>	<b>2,929</b>	<b>2,980</b>	<b>3,088</b>	DPS (EUR)	0.08	0.06	0.07	0.07	0.08
						BVPS (EUR)	1.11	1.12	1.14	1.16	1.21

Source: Company data, CMBIS estimates

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