28 Jul 2023

CMB International Global Markets | Equity Research | Company Update

Prada SpA (1913 HK)

A decent 1H, though not a straight beat

1H Group sales growth of 20.5% cFX slightly disappointed, considering 22.2% YoY growth in 1Q, when retail sales growth descended QoQ from 21.1% in 1Q to 14.7% in 2Q. Growth in Miu Miu remained eye-catching, with net sales in 2Q further accelerating at 57.3% YoY from 41.9% YoY in 1Q, thanks to the brand's higher exposure in China and Asia. By region, Japan was the best performing region and grew 49.2% YoY, benefitting from a refreshed retail network and elevating inbound tourist flow. Growth in APAC was 25.3% YoY and that of Europe was 24.2% YoY. Within the former, the favourable base effect from HK/Macau/China was offset by temporary headwind in Seoul, while the latter exhibited robust growth despite tough comps. Sales in US was a drag as expected (as seen in peers) and down 1% YoY. 1H23 GPM was ahead of our expectation at 80.3%, and this pushed up EBIT margins to 22%, mitigating the impact of moderating top line growth to the bottom line. Overall, the results were a decent one, though not a straight beat, and we expect consensus to remain broadly unchanged.

Key takeaway from the earnings call

- **GPM trend.** With diminishing cost savings from logistics cost, moderating ASP impact, the pace of GPM expansion has slowed down YoY when compared to that of HoH. Still, management is upbeat to maintain GPM at approximately 80% with tailwinds such as mix upgrade and scale efficiency. The priority of investing behind the brand for 2H23 does not mean management will be happy of going backward from what they achieved.
- **Prada vs Miu Miu.** Each of these brands has its own growth trajectory and design language. The difference in geographical exposure explained the underlying growth difference (in which Miu Miu grew faster with higher Asia exposure). Subsequent to the rethinking, reengineering and repositioning of the brand, Miu Miu should see a 24-month performance speed-up.
- **Technical bottlenecks.** No update on dual listings. Technical feasibility has been attained, but currently Group's focus resides with strategic changes, organizational reforms and digital evolution.
- **Valuation/Key risks.** Our TP is DCF-based. In our model, we assume WACC of 7.7%, risk-free rate of 3.5%, risk premium of 5.0% and beta of 1.0. Our TP implies c.36.5x end-23E P/E.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (EUR mn)	3,366	4,201	4,599	5,046	5,552
YoY growth (%)	38.9	24.8	9.5	9.7	10.0
Net profit (EUR mn)	294.3	465.2	562.2	624.7	695.8
YoY growth (%)	na	58.1	20.9	11.1	11.4
EPS (Reported) (EUR)	0.11	0.18	0.22	0.24	0.27
Consensus EPS (EUR)	na	na	0.25	0.29	0.32
P/E (x)	47.5	29.2	30.6	27.5	24.7
P/B (x)	4.5	3.9	4.6	4.2	3.9
Yield (%)	1.3	2.1	2.0	2.2	2.5
ROE (%)	9.9	14.1	15.5	16.0	16.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$72.1**
(Previous TP	HK$72.1)
Up/Downside	**23.3%**
Current Price	**HK$58.5**

China Consumer

Joseph WONG
(852) 3900 0838
josephwong@cmbi.com.hk

Bella LI
(852) 3757 6202
bellali@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	149,691.2
Avg 3 mths t/o (HK$ mn)	56.7
52w High/Low (HK$)	60.50/35.00
Total Issued Shares (mn)	2558.8

Source: FactSet

Shareholding Structure

Prada Holding SpA	80.0%
Invesco	4.9%

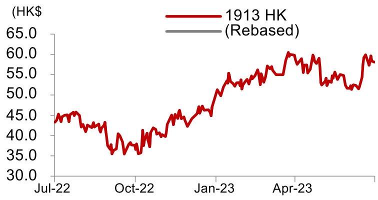
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	12.5%	NM
3-mth	-2.8%	NM
6-mth	23.6%	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Our major DCF assumption

DCF Valuation Summary (€m / HKD)	
Net Present Value	8,163
+ Terminal Value	13,334
= Enterprise value	21,497
- Net debt and other adjustments	736
= Total Equity value	22,233
Number of shares (mn)	2,559
DCF value per share (HK$)	**72.1**

WACC assumptions	
Debt level	12.9%
Equity level	87.1%
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	**7.702%**
Long-term growth	2.0%
EUR/ HKD =	8.3

Source: Bloomberg, CMBIGM estimates

Figure 2: DCF sensitivity analysis

Sensitivity to WACC and long-term growth

72.1	7.5%	7.6%	7.7%	7.8%	7.9%
1.8%	73.1	71.8	**70.5**	69.3	68.1
1.9%	73.9	72.6	**71.3**	70.0	68.8
2.0%	**74.8**	**73.4**	**72.1**	**70.8**	**69.5**
2.1%	75.7	74.2	**72.9**	71.6	70.3
2.2%	76.6	75.1	**73.7**	72.4	71.1

Sensitivity to RF and long-term growth

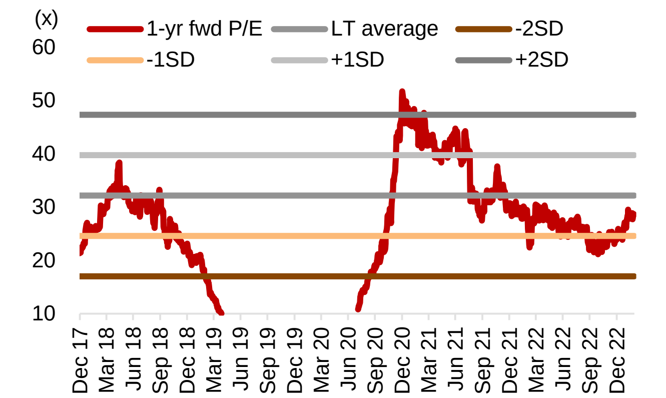
72.1	3.3%	3.4%	3.5%	3.6%	3.7%
1.9%	73.8	72.5	**71.3**	70.1	68.9
2.0%	74.2	72.9	**71.7**	70.5	69.3
2.0%	**74.6**	**73.3**	**72.1**	**70.8**	**69.6**
2.1%	75.1	73.7	**72.5**	71.2	70.0
2.1%	75.5	74.2	**72.9**	71.6	70.4

Sensitivity to RF and Equity Risk Premium (ERP)

72.1	3.3%	3.4%	3.5%	3.6%	3.7%
2.4%	128.4	124.6	**121.1**	117.7	114.6
2.5%	126.6	123.0	**119.5**	116.3	113.2
5.0%	**74.6**	**73.3**	**72.1**	**70.8**	**69.6**
2.6%	123.3	119.8	**116.6**	113.5	110.5
2.6%	121.7	118.3	**115.1**	112.1	109.2

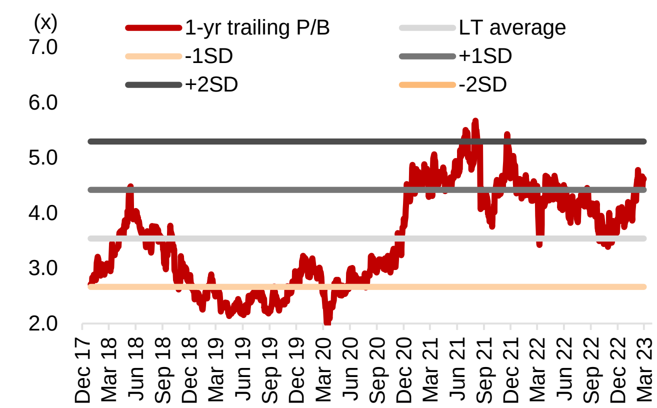
Source: Bloomberg, CMBIGM estimates

Figure 3: 12M forward P/E chart



Source: Bloomberg, CMBIGM estimates
Note: we do not show the PE when Prada was loss-making

Figure 4: Trailing P/B chart



Source: Bloomberg, CMBIGM estimates

Figure 5: Earnings revisions

	New			Old			Diff (%)		
EUR mn	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,599	5,046	5,552	4,599	5,046	5,552	0.0%	0.0%	0.0%
Gross Profit	3,634	3,991	4,397	3,634	3,991	4,397	0.0%	0.0%	0.0%
EBIT	923	1,018	1,126	923	1,018	1,126	0.0%	0.0%	0.0%
Net profit	562	625	696	562	625	696	0.0%	0.0%	0.0%
Gross Margin	79.0	79.1	79.2	79.0	79.1	79.2	0.0%	0.0%	0.0%
EBIT margin	20.1	20.2	20.3	20.1	20.2	20.3	0.0%	0.0%	0.0%
Net margin	12.2	12.4	12.5	12.2	12.4	12.5	0.0%	0.0%	0.0%

Source: CMBIGM estimates

Figure 6: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
EUR mn	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,599	5,005	5,420	4,712	5,143	5,495	-2.4%	-2.7%	-1.4%
Gross Profit	3,634	3,959	4,293	3,722	4,066	4,349	-2.4%	-2.6%	-1.3%
EBIT	923	1,010	1,099	1,005	1,137	1,267	-8.1%	-11.2%	-13.3%
Net profit	562	619	678	637	730	803	-11.7%	-15.2%	-15.6%
Gross Margin	79.0	79.1	79.2	79.0	79.1	79.1	0ppt	0ppt	0.1ppt
EBIT margin	20.1	20.2	20.3	21.3	22.1	23.1	-1.3ppt	-1.9ppt	-2.8ppt
Net margin	12.2	12.4	12.5	13.5	14.2	14.6	-1.3ppt	-1.8ppt	-2.1ppt

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**	**4,599**	**5,046**	**5,552**
Cost of goods sold	(679)	(818)	(889)	(966)	(1,055)	(1,155)
Gross profit	**1,743**	**2,547**	**3,312**	**3,634**	**3,991**	**4,397**
Operating expenses	**(1,723)**	**(2,048)**	**(2,467)**	**(2,710)**	**(2,973)**	**(3,271)**
Selling expense	(1,260)	(1,421)	(1,704)	(1,886)	(2,069)	(2,276)
Admin expense	(154)	(217)	(266)	(281)	(308)	(339)
SG&A expense	(207)	(294)	(359)	(393)	(431)	(475)
R&D expense	(102)	(115)	(137)	(151)	(165)	(182)
Operating profit	**20**	**499**	**845**	**923**	**1,018**	**1,126**
EBITDA	**768**	**1,167**	**1,508**	**1,685**	**1,838**	**2,023**
Depreciation	(183)	(158)	(169)	(221)	(242)	(261)
Other amortisation	(42)	(40)	(42)	(46)	(35)	(39)
EBIT	**20**	**499**	**845**	**923**	**1,018**	**1,126**
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)	(25)	(25)	(25)
Others	(45)	(39)	(46)	(41)	(41)	(41)
Pre-tax profit	**(52)**	**422**	**711**	**858**	**953**	**1,060**
Income tax	(3)	(127)	(242)	(292)	(324)	(361)
After tax profit	**(54)**	**295**	**469**	**566**	**629**	**700**
Minority interest	0	(1)	(4)	(4)	(4)	(4)
Discontinued operations	0	0	0	0	0	0
Net profit	**(54)**	**294**	**465**	**562**	**625**	**696**

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (EUR mn)						
Current assets	**1,655**	**2,170**	**2,425**	**2,729**	**3,050**	**3,404**
Cash & equivalents	442	982	1,092	1,292	1,497	1,719
Account receivables	290	330	332	363	399	439
Inventories	666	663	760	833	913	1,005
Other current assets	256	196	241	241	241	241
Non-current assets	**4,873**	**4,789**	**4,953**	**4,971**	**4,981**	**4,998**
PP&E	1,506	1,565	1,577	1,654	1,725	1,808
Intangibles	832	829	818	759	698	632
Other non-current assets	2,535	2,395	2,558	2,558	2,558	2,558
Total assets	**6,528**	**6,959**	**7,378**	**7,700**	**8,032**	**8,402**
Current liabilities	**1,227**	**1,420**	**1,490**	**1,528**	**1,571**	**1,619**
Short-term borrowings	301	249	161	161	161	161
Account payables	290	390	402	440	483	531
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**	**3,915**	**3,957**	**4,006**
Share capital	256	256	256	256	256	256
Retained earnings	(54)	294	465	562	625	696
Other reserves	2,630	2,564	2,761	2,945	3,167	3,414
Total shareholders equity	**2,832**	**3,114**	**3,482**	**3,763**	**4,047**	**4,365**
Minority interest	20	15	19	23	27	31
Total equity and liabilities	**6,528**	**6,959**	**7,378**	**7,700**	**8,032**	**8,402**

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (EUR mn)						
Operating						
Profit before taxation	**(52)**	**422**	**711**	**858**	**953**	**1,060**
Depreciation & amortization	648	624	662	702	759	831
Tax paid	(44)	(37)	(220)	(292)	(324)	(361)
Change in working capital	(82)	108	(104)	(66)	(73)	(83)
Others	123	27	74	59	61	66
Net cash from operations	**592**	**1,144**	**1,124**	**1,262**	**1,375**	**1,513**
Investing						
Capital expenditure	(107)	(219)	(241)	(285)	(288)	(316)
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)**	**(285)**	**(288)**	**(316)**
Financing						
Dividend paid	0	(91)	(180)	(281)	(340)	(378)
Net borrowings	(65)	(11)	(179)	(494)	(542)	(597)
Proceeds from share issues	0	0	0	0	0	0
Others	(330)	(393)	(428)	0	0	0
Net cash from financing	**(395)**	**(495)**	**(787)**	**(776)**	**(883)**	**(975)**
Net change in cash						
Cash at the beginning of the year	421	442	982	1,092	1,292	1,497
Exchange difference	(26)	28	24	0	0	0
Cash at the end of the year	**442**	**982**	**1,092**	**1,292**	**1,497**	**1,719**

GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(24.9%)	38.9%	24.8%	9.5%	9.7%	10.0%
Gross profit	(24.8%)	46.1%	30.0%	9.7%	9.8%	10.2%
Operating profit	(93.5%)	2,389.8%	69.2%	9.3%	10.3%	10.6%
EBITDA	(23.0%)	52.0%	29.2%	11.7%	9.1%	10.0%
EBIT	(93.5%)	2,389.8%	69.2%	9.3%	10.3%	10.6%
Net profit	na	na	58.1%	20.9%	11.1%	11.4%
Adj. net profit	na	na	58.1%	20.9%	11.1%	11.4%

PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	72.0%	75.7%	78.8%	79.0%	79.1%	79.2%
Operating margin	0.8%	14.8%	20.1%	20.1%	20.2%	20.3%
EBITDA margin	31.7%	34.7%	35.9%	36.6%	36.4%	36.4%
Adj. net profit margin	(2.2%)	8.7%	11.1%	12.2%	12.4%	12.5%
Return on equity (ROE)	(1.9%)	9.9%	14.1%	15.5%	16.0%	16.5%

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)	(0.2)	(0.3)
Current ratio (x)	1.3	1.5	1.6	1.8	1.9	2.1
Receivable turnover days	43.7	35.7	28.8	28.8	28.8	28.8
Inventory turnover days	100.4	71.9	66.1	66.1	66.1	66.1
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	30.6	27.5	24.7
P/E (diluted)	na	47.5	29.2	30.6	27.5	24.7
P/B	3.1	4.5	3.9	4.6	4.2	3.9
P/CFPS	14.6	12.2	12.1	13.6	12.5	11.4
Div yield (%)	1.0	1.3	2.1	2.0	2.2	2.5

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

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.

CMBIGM 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 CMBIGM
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 Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") 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. CMBIGM 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. CMBIGM 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 CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM 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 CMBIGM 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. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM 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. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM 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 CMBIGM 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 CMBIGM 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 CMBIGM.

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 CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

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.