

Samsonite (1910 HK)

Another high growth year for Asia

China's reopening is not only the last missing puzzle to global travel recovery, but also serves as another solid driver to extend Samsonite's earnings upcycle, subsequent to that in the first two months of the year. We forecast the event will provide a strong boost to Asia revenue for the year with 1) 55% YoY growth that looks to be another new high, subsequent to 20%/ 33% growth in 2020-21, and 2) a more accretive regional mix that leads an expanded GPM. Speaking of the latter, a higher TUMI contribution (currently c.25%) would also be helpful as the brand has historically been strong in the region. These drivers should aid management to attain its target for the year, and Samsonite's upcoming 1Q reporting is likely to be just one of the robust quarters along this re-rating trajectory. In the medium term, a neat operation structure, a more focused product offering and an increasing brand awareness should continue to make Samsonite relevant to the China story in which we see ample potential for the region's market share (mid-single digit) to catch up with that of Samsonite's global share (mid-teen). We initiate Samsonite at BUY, and consider the resumption of dividend payout an event-driven catalyst to our TP.

- **Management guidance.** Management targets low-to-mid teen sales growth for 2023. Compared to that of 2019, the indication should translate to 10-15% stacked growth, or cFX 30%-ish YoY growth vs 2022. Management also looks for GPM to expand and hence a 17%+ adjusted EBITDA margin. Meanwhile, our revenue estimate represents c.110% vs 2019 and our adjusted EBITDA margins is set as 17.3%, respectively. Our forecasts are relatively conservative, considering 2M23 revenue already tracking 17% above pre- COVID level. We see upside in our forecasts with more solid data point from Samsonite's 1Q release.
- **Inventory/ marketing expense.** A potentially strong 1Q matches well with a slightly high inventory level by end-22, and we think management is diligent to plan for the quarter. While an imminently higher marketing budget looks to be systematic across brands in China post-COVID, we expect Samsonite to spend 6.5% of revenue to cater a more aggressive launch schedule, as almost 40% of the existing SKUs were new since 2022.
- **Valuation.** Our TP is DCF-based. In our model, we assume WACC of 8.2%, risk-free rate of 3.5%, risk premium of 5% and beta of 1.5. Our TP implies 17.2x end-23E P/E.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	2,021	2,880	3,938	4,425	4,884
YoY growth (%)	31.5	42.5	36.8	12.3	10.4
Net profit (US\$ mn)	14.3	312.7	322.5	379.5	431.6
YoY growth (%)	na	2,086.7	3.1	17.7	13.7
EPS (Reported) (US\$)	0.01	0.22	0.22	0.26	0.30
P/E (x)	2,864.5	101.8	13.3	11.3	9.9
P/B (x)	56.4	29.5	3.0	2.3	1.9
ROE (%)	2.2	36.3	27.0	24.6	22.1
Net gearing (%)	406.4	291.3	231.4	177.3	127.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY

Target Price HK\$30.18
Up/Downside 29.0%
Current Price HK\$23.40

China Consumer

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Stock Data

Mkt Cap (HK\$ mn) 33,639.3
 Avg 3 mths t/o (HK\$ mn) 470.5
 52w High/Low (HK\$) 222.83/23.40
 Total Issued Shares (mn) 1437.6

Source: FactSet

Shareholding Structure

Schroders PLC 5.9%
 Bank of New York Mellon Cor 5.9%

Source: HKEx

Share Performance

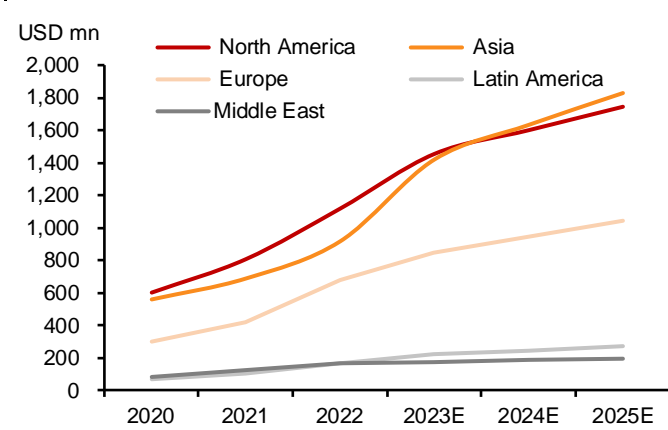
	Absolute	Relative
1-mth	-81.2%	NM
3-mth	-82.8%	NM
6-mth	-85.7%	NM

Source: FactSet

Financial analysis

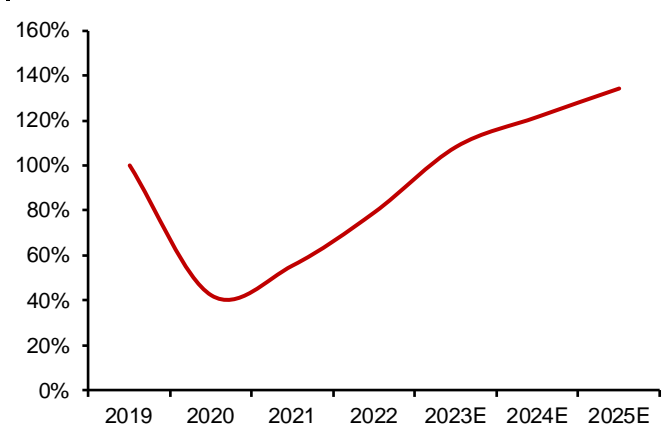
- Revenue:** We project Samsonite to grow at a 3-year revenue CAGR of 19% to US\$4.9bn between 2022-25E. 2023 will be the first full year for a global post-COVID normalization. In particular, we forecast that China's re-opening will provide a strong boost to Asia revenue for the year with 55% YoY growth that looks to be another new high, subsequent to 20%/ 33% growth in 2020-21. Management remains upbeat and looks for revenue this year to achieve 15% stacked growth to (roughly US\$ 4.2bn) compared to that of 2019. Our forecasts are conservative, considering 2M23 already tracking 17% above pre-Covid levels. We see upside in our revenue forecasts with more solid data point from Samsonite's 1Q release.

Figure 1: Asia revenue grows to a new high



Source: Company data, CMBIGM estimates

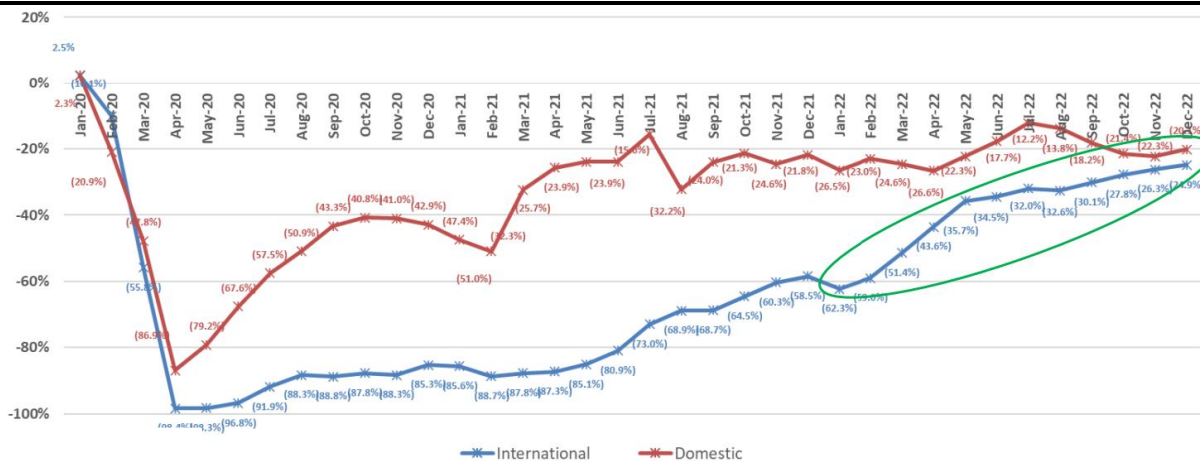
Figure 2: Revenue growth relative to 2019



Source: Company data, CMBIGM estimates

By region, the growth will be driven mainly by 26% CAGR in Asia, followed by 16% each in Latin America, Europe and North America. By consumption purpose, we continue to expect travel will dominate the buying decision with over 60% of total sales. Within non-travel, we envisage business purpose will see higher growth this year given the resumption of business travel to China (50% of non-travel). Meanwhile, we see steady growth within the casual and accessories categories.

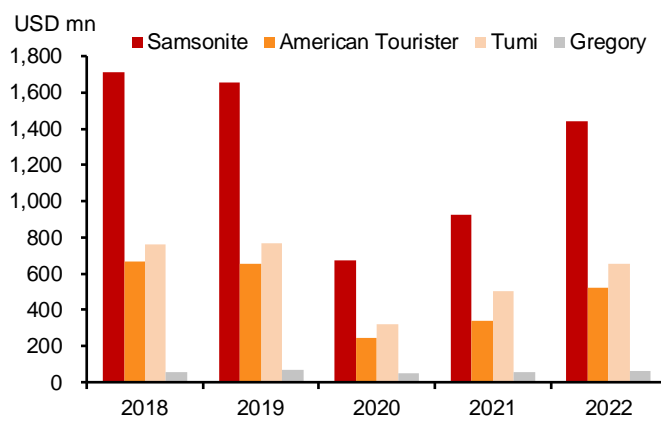
Figure 3: RPKs is improving since mid-20, with China's reopening being the next clear catalyst to the trend



Source: Company data, IATA, CMBIGM

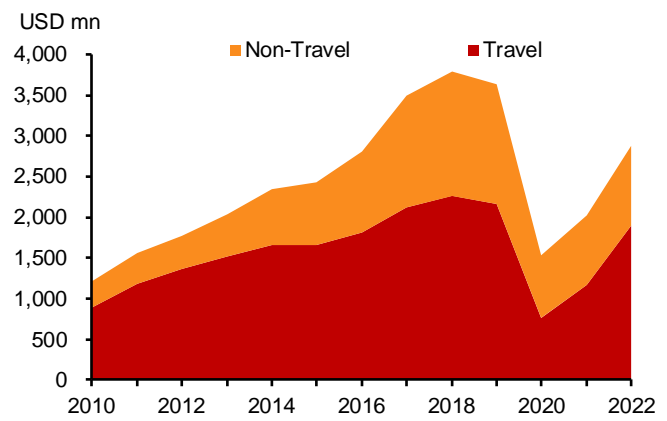
Samsonite has been a major brand and a major revenue contributor with approximately 50% of the total. It follows a premium pricing strategy, and meanwhile, American Tourister is mass market positioned. Tumi is the luxury brand among all. The recovering Asia travel momentum should prompt for a higher TUMI contribution (currently c.25%) to revenue within our forecast period, since the brand has historically been strong in the region.

Figure 4: Revenue breakdown by major brands 2018-22



Source: Company data, CMBIGM

Figure 5: Revenue by consumption purpose



Source: Company data, CMBIGM

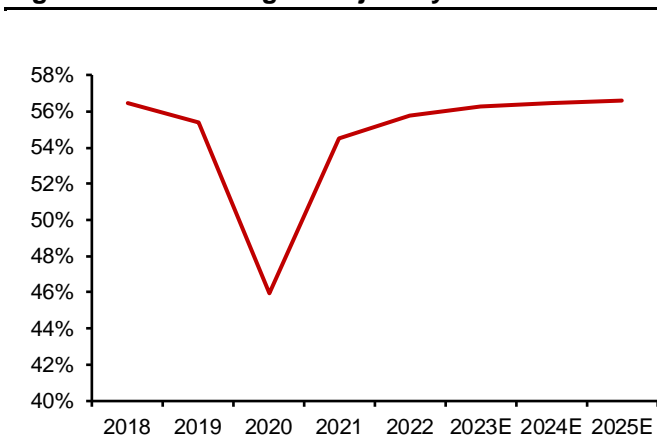
Figure 6: Major revenue assumptions 2016-25E

	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Sales - by region	2,810.5	3,490.9	3,797.0	3,638.8	1,536.7	2,020.8	2,879.6	3,938.4	4,424.5	4,883.6
North America	1,027.2	1,392.4	1,483.0	1,363.4	602.5	807.5	1,117.3	1,452.5	1,597.7	1,741.5
Asia	1,028.6	1,196.2	1,324.2	1,313.4	558.6	687.5	916.4	1,420.4	1,633.5	1,829.5
Europe	615.3	734.8	809.9	792.2	302.5	419.1	675.7	844.6	946.0	1,040.6
Latin America	130.6	158.5	176.4	166.7	71.2	104.7	168.8	219.4	245.8	270.4
Corporate	8.9	9.1	3.5	3.1	2.0	2.0	1.4	1.5	1.5	1.6
Sales growth - reported	15.5%	24.2%	8.8%	-4.2%	-57.8%	31.5%	42.5%	36.8%	12.3%	10.4%
North America	26.6%	35.6%	6.5%	-8.1%	-55.8%	34.0%	38.4%	30.0%	10.0%	9.0%
Asia	8.5%	16.3%	10.7%	-0.8%	-57.5%	23.1%	33.3%	55.0%	15.0%	12.0%
Europe	13.0%	19.4%	10.2%	-2.2%	-61.8%	38.5%	61.2%	25.0%	12.0%	10.0%
Latin America	8.4%	21.4%	11.3%	-5.5%	-57.3%	47.1%	61.2%	30.0%	12.0%	10.0%
Corporate	6.4%	2.3%	-61.5%	-11.4%	-35.5%	0.0%	-30.0%	5.0%	5.0%	5.0%
Sales breakdown - reported	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
North America	36.5%	39.9%	39.1%	37.5%	39.2%	40.0%	38.8%	36.9%	36.1%	35.7%
Asia	36.6%	34.3%	34.9%	36.1%	36.4%	34.0%	31.8%	36.1%	36.9%	37.5%
Europe	21.9%	21.0%	21.3%	21.8%	19.7%	20.7%	23.5%	21.4%	21.4%	21.3%
Latin America	4.6%	4.5%	4.6%	4.6%	4.6%	5.2%	5.9%	5.6%	5.6%	5.5%
Corporate	0.3%	0.3%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%

Source: Company data, CMBIGM estimates

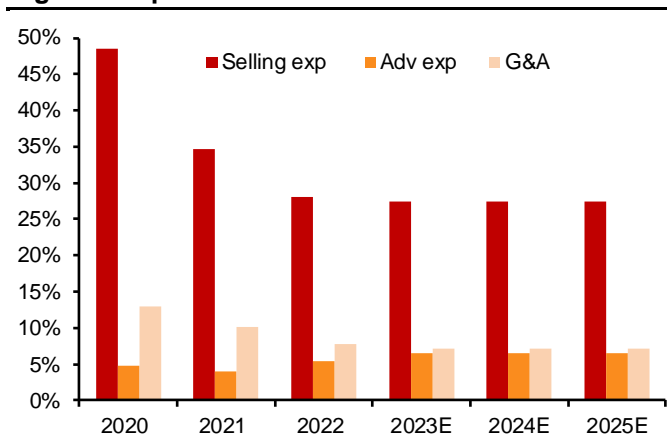
- **GPM:** On average, we assume GPM to edge up by 0.2pp within 2023-25E, with regional mix improvement (more from Asia) and a higher TUMI sales as the major drivers. With these, we envisage GPM to revert back to its historical high (last seen in 2018) by 2024E. Historically, Samsonite offered a very stable GPM except in 2020 when the outbreak of COVID put a full stop on global travel demand.

Figure 7: Gross margins trajectory 2018-25E



Source: Company data, CMBIGM estimates

Figure 8: Opex ratio breakdown 2020-25E

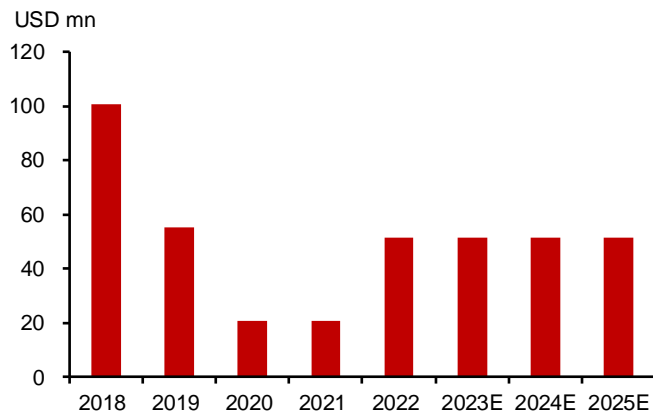


Source: Company data, CMBIGM estimates

- **EBITDA:** We forecast a climb in EBITDA margins from 16.4% in 2022 to 17.3% in 2023E by factoring in the following:
 - 1) Continuous R&D investments, even during the pandemic, that nurture the complete travel and non-travel product portfolio. The initiative is further substantiated as management intended to trim unpopular SKUs and dedicate resources to popular items;
 - 2) Retail outlets restructuring, and Samsonite has continued to invest in Asia and Tumi Europe, where most of the new outlets have been/ will be added;
 - 3) A higher advertising spending, which amounts to 6.5% of sales, to support growth across brands upon the vigorous travel recovery;
 - 4) Working closely with global suppliers on supply chain bottlenecks and cost savings.

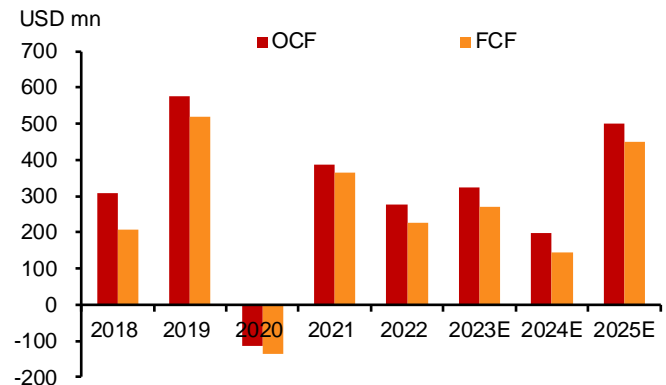
- **Cash and dividend:** Samsonite's capex cycle has peaked and in recent years, in view of the halt of global travelling, it has a very disciplined capex plan. Judging from the strong OCF it derives from the retail business, we expect the Company to upkeep a strong free cashflow within our forecast period. Hopefully, this could further be monetized into the resumption of dividend to shareholders, which has ceased paying since 2019.

Figure 9: Capex outlay 2018-25E



Source: Company data, CMBIGM estimates

Figure 10: OCF and FCF 2018-25E



Source: Company data, CMBIGM estimates

Key management outlook for 2023

- 2022 was a strong finish compared to that of 2019. As global travel continues to rebound, Samsonite is well-positioned to further grow its business with a fundamentally higher operating margin. In the medium term, Samsonite targets high single digit revenue growth that comes in slightly above industry average.
- Inflationary and recessionary concerns will continue to impact global economy, and thus sentiment to travel. However, long-term travel demand remains robust and data point from 2M23 (already 17% above 2019 level) indicates a likely strong start for 1Q23, and hence the remainder of 2023.
- Management is dedicated to maintain its GPM to its historical level through disciplined discount activities. By working closely with its suppliers and couriers, Samsonite is looking to operate at a more efficient environment and thus an ongoing higher adjusted EBITDA margins.
- The end of China's social distancing measure will provide a strong boost to Samsonite's Asia business.

Valuation

Given a stable growth outlook and hence a steady cash generation from the global retail business, our TP is DCF-based. In our model, we assume WACC of 8.2%, risk-free rate of 3.5%, risk premium of 5% and beta of 1.5. Our TP implies c.17.0x end-23E P/E.

Figure 11: DCF assumptions

Present value calculation	
Net Present Value	3,213
+ Terminal Value	3,793
= Enterprise value	7,005
- Net debt	1,450
= Total Equity value	5,555
Number of shares (mn)	1,438
DCF value per share (HK\$)	30.1
WACC assumptions	
Debt %	55.8%
Equity %	44.2%
Tax rate	25.0%
Borrowing premium	4.5%
Post-tax cost of debt	6.0%
Risk free rate	3.5%
Risk Premium	5.0%
Beta	1.5
Cost of equity	11.0%
WACC	8.208%
Long-term growth	2.0%
1 USD =	7.78

Source: CMBIGM estimates

Figure 12: Earnings revisions

US\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,938	4,425	4,884	na	na	na	na	na	na
Gross Profit	2,217	2,500	2,764	na	na	na	na	na	na
EBIT	595	677	752	na	na	na	na	na	na
Net profit	323	380	432	na	na	na	na	na	na
Gross Margin	56.3%	56.5%	56.6%	na	na	na	na	na	na
EBIT margin	15.1%	15.3%	15.4%	na	na	na	na	na	na
Net margin	8.2%	8.6%	8.8%	na	na	na	na	na	na

Source: Company data, CMBIGM estimates

Figure 13: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,938	4,425	4,884	3,739	4,110	4,442	5.3%	7.7%	9.9%
Gross Profit	2,217	2,500	2,764	2,098	2,322	2,530	5.7%	7.7%	9.3%
EBIT	595	677	752	610	685	730	-2.5%	-1.2%	3.0%
Net profit	323	380	432	327	385	420	-1.4%	-1.4%	2.8%
Gross Margin	56.3%	56.5%	56.6%	56.1%	56.5%	57.0%	0.2ppt	0ppt	-0.4ppt
EBIT margin	15.1%	15.3%	15.4%	16.3%	16.7%	16.4%	-1.2ppt	-1.4ppt	-1ppt
Net margin	8.2%	8.6%	8.8%	8.7%	9.4%	9.5%	-0.6ppt	-0.8ppt	-0.6ppt

Source: Company data, CMBIGM estimates

Key investment risks

- Forex fluctuation
- Deteriorating brand equity
- Unexpected global economy downturn
- Intensifying competition particularly that from China
- Supply-chain disruption

Company background

Founded in 1910 by Jesse Shwayder, Samsonite manufactures and distributes luggage, suitcases and bags globally under various brand names such as Samsonite, American Tourister, Tumi, Gregory, High Sierra and Lipault etc. Subsequent to a few relocations and business ownership transactions, the Company grew to be the largest luggage producer globally, sharing approximately 15%+ of the market. In June 2011, Samsonite raised US\$1.25bn and listed in the HK Stock Exchange.

Figure 14: Samsonite's brand portfolio



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	1,537	2,021	2,880	3,938	4,425	4,884
Cost of goods sold	(830)	(919)	(1,274)	(1,721)	(1,925)	(2,119)
Gross profit	706	1,102	1,605	2,217	2,500	2,764
Operating expenses	(1,018)	(988)	(1,185)	(1,623)	(1,823)	(2,012)
Selling expense	(818)	(782)	(963)	(1,339)	(1,504)	(1,660)
Admin expense	(200)	(206)	(222)	(284)	(319)	(352)
Operating profit	(1,266)	133	492	595	677	752
EBITDA	(1,011)	330	668	761	810	864
Depreciation	(66)	(46)	(35)	(36)	(40)	(42)
Goodwill amortisation	(189)	(152)	(141)	(130)	(93)	(69)
Net interest income/(expense)	(116)	(165)	(130)	(130)	(130)	(130)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	(1,382)	(33)	363	465	547	623
Income tax	94	56	(24)	(116)	(137)	(156)
After tax profit	(1,288)	24	338	349	411	467
Minority interest	10	(9)	(26)	(26)	(31)	(35)
Net profit	(1,278)	14	313	323	380	432
Core net profit	(311)	(10)	223	323	380	432
Net dividends	0	0	0	0	0	0
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	2,174	1,940	1,695	2,258	2,737	3,292
Cash & equivalents	1,495	1,325	636	608	654	1,003
Account receivables	141	206	291	863	1,212	1,338
Inventories	456	348	688	707	791	871
Other current assets	82	60	80	80	80	80
Non-current assets	2,988	2,915	3,027	2,912	2,830	2,770
PP&E	188	155	162	177	189	198
Deferred income tax	55	124	174	174	174	174
Intangibles	1,418	1,392	1,459	1,435	1,412	1,390
Goodwill	850	829	824	824	824	824
Other non-current assets	78	66	94	94	94	94
Total assets	5,162	4,854	4,721	5,170	5,568	6,063
Current liabilities	731	918	1,213	1,614	1,700	1,828
Short-term borrowings	81	107	119	119	119	119
Account payables	413	529	779	1,179	1,266	1,394
Tax payable	35	57	77	77	77	77
Other current liabilities	57	93	120	120	120	120
Non-current liabilities	3,762	3,210	2,428	2,128	2,028	1,928
Long-term borrowings	3,110	2,682	1,893	1,593	1,493	1,393
Other non-current liabilities	266	225	278	278	278	278
Total liabilities	4,493	4,128	3,642	3,742	3,729	3,757
Share capital	14	14	14	14	14	14
Retained earnings	620	675	1,017	1,340	1,719	2,151
Total shareholders equity	634	690	1,032	1,354	1,734	2,165
Minority interest	35	37	48	74	105	141
Total equity and liabilities	669	727	1,080	1,429	1,839	2,306

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	(1,382)	(33)	363	465	547	623
Depreciation & amortization	99	78	57	60	63	65
Tax paid	(28)	2	(51)	(116)	(137)	(156)
Change in working capital	120	203	(175)	(192)	(346)	(78)
Others	1,078	137	83	106	70	47
Net cash from operations	(114)	387	278	323	198	501
Investing						
Capital expenditure	(21)	(21)	(52)	(52)	(52)	(52)
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(6)	30	(11)	0	0	0
Net cash from investing	(26)	9	(63)	(52)	(52)	(52)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	1,413	(386)	(741)	(300)	(100)	(100)
Others	(39)	(8)	(9)	0	0	0
Net cash from financing	1,158	(551)	(881)	(300)	(100)	(100)
Net change in cash						
Cash at the beginning of the year	463	1,495	1,325	636	608	654
Exchange difference	14	(16)	(23)	0	0	0
Cash at the end of the year	1,495	1,325	636	608	654	1,003
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(57.8%)	31.5%	42.5%	36.8%	12.3%	10.4%
Gross profit	(65.0%)	56.0%	45.7%	38.1%	12.7%	10.6%
Operating profit	na	na	270.8%	20.9%	13.8%	11.1%
EBITDA	na	na	102.0%	14.0%	6.5%	6.6%
Net profit	na	na	2,086.7%	3.1%	17.7%	13.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	46.0%	54.5%	55.8%	56.3%	56.5%	56.6%
Operating margin	(82.4%)	6.6%	17.1%	15.1%	15.3%	15.4%
EBITDA margin	(65.8%)	16.3%	23.2%	19.3%	18.3%	17.7%
Return on equity (ROE)	(98.9%)	2.2%	36.3%	27.0%	24.6%	22.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	4.7	4.1	2.9	2.3	1.8	1.3
Current ratio (x)	3.0	2.1	1.4	1.4	1.6	1.8
Receivable turnover days	14.1	49.0	52.5	80.0	100.0	100.0
Inventory turnover days	102.6	153.1	273.0	150.0	150.0	150.0
Payable turnover days	92.9	232.5	309.1	250.0	240.0	240.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	2,864.5	101.8	13.3	11.3	9.9
P/E (diluted)	na	na	143.0	13.3	11.3	9.9
P/B	na	56.4	29.5	3.0	2.3	1.9

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

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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

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