

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 (%)	(7.7)	(15.4)	(19.6)	(23.2)	(26.6)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$72.13
(Previous TP)	HK\$72.13)
Up/Downside	23.3%
Current Price	HK\$58.50

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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%

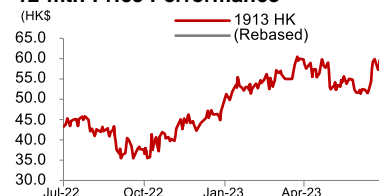
Source: HKEx

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

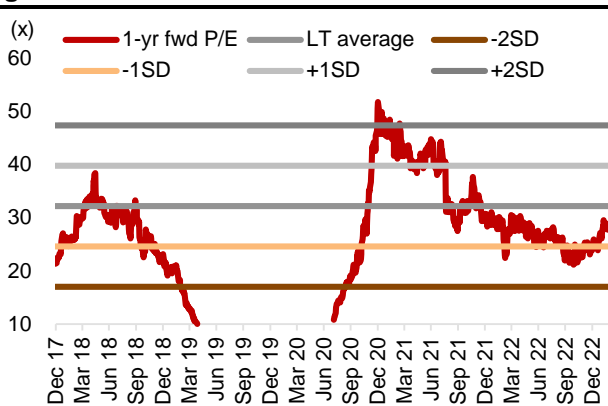
Sensitivity to WACC and long-term growth						
72.1	7.5%	7.6%	7.7%	7.8%	7.9%	
1.8%	73.1	71.8	70.5	69.3	68.1	
1.9%	73.9	72.6	71.3	70.0	68.8	
2.0%	74.8	73.4	72.1	70.8	69.5	
2.1%	75.7	74.2	72.9	71.6	70.3	
2.2%	76.6	75.1	73.7	72.4	71.1	

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

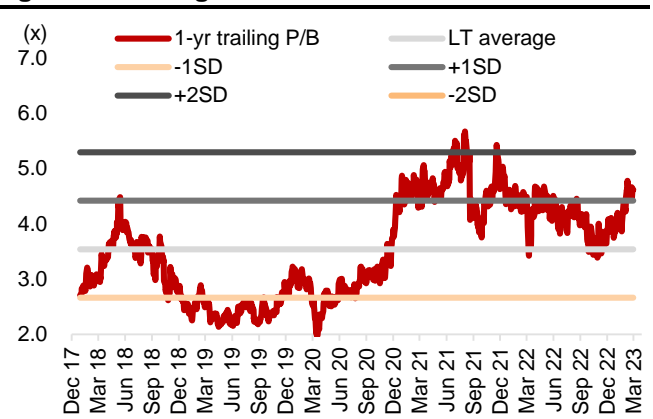
Figure 3: 12M forward P/E chart



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

EUR mn	New			Old			Diff (%)		
	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

EUR mn	CMBIGM			Consensus			Diff (%)		
	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
Adjusted net profit	(54)	294	465	562	625	696
BALANCE SHEET						
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	2,852	3,129	3,501	3,786	4,074	4,396

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.

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