

adidas Group

Price EUR87.02

First take: FY15 preliminary results above expectations, FY16 sales guidance is revised up

Fair Value EUR102 (+17%)

BUY

Bloomberg	ADS GY
Reuters	ADSG.F
12-month High / Low (EUR)	95.6 / 63.5
Market Cap (EURm)	18,206
Ev (BG Estimates) (EURm)	19,064
Avg. 6m daily volume (000)	1,181
3y EPS CAGR	19.3%

This morning, adidas Group unexpectedly reported preliminary results for 2015: sales and earnings are above CS and BG expectations whilst the group also revises up FY16 sales guidance (double-digit growth from high single-digit growth / CS and BG: +7%e). This publication should be positively welcomed by investors, as the guidance increase leaves an upside potential of 2-3% on our 2016 assumptions. Naturally, besides the two major sporting events occurring this year, which will be key catalysts for the group, investors will also closely look at the anticipated acceleration in North America (already started in Q4 15).

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.3%	-1.3%	17.5%	-3.2%
Consumer Gds	-2.8%	-10.5%	-12.2%	-9.2%
DJ Stoxx 600	-7.7%	-16.2%	-21.2%	-13.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	14,534	16,715	17,917	19,134
% change		15.0%	7.2%	6.8%
EBITDA	1,205	1,486	1,615	1,821
EBIT	961.0	1,101	1,203	1,381
% change		14.6%	9.3%	14.7%
Net income	490.0	676.8	804.2	923.8
% change		38.1%	18.8%	14.9%

	2014	2015e	2016e	2017e
Operating margin	6.6	6.6	6.7	7.2
Net margin	3.4	4.0	4.5	4.8
ROE	8.7	12.5	15.3	16.1
ROCE	9.7	11.3	12.3	13.6
Gearing	3.3	15.9	24.6	18.5

(EUR)	2014	2015e	2016e	2017e
EPS	2.72	3.44	4.01	4.62
% change	-	26.4%	16.5%	15.4%
P/E	32.0x	25.3x	21.7x	18.8x
FCF yield (%)	0.6%	1.3%	2.8%	3.4%
Dividends (EUR)	1.50	1.60	1.85	2.15
Div yield (%)	1.7%	1.8%	2.1%	2.5%
EV/Sales	1.3x	1.1x	1.1x	1.0x
EV/EBITDA	15.3x	12.8x	12.1x	10.6x
EV/EBIT	19.1x	17.3x	16.2x	14.0x

ANALYSIS

- FY sales were up 16% on a reported basis and 10% FX-n to EUR16.9bn in line with our expectations (EUR16.9bn) and slightly above CS (EUR16.8bn), mainly driven by a 12% FX-n growth at adidas brand (+6% FX-n for Reebok).
- In Q4 alone, net sales grew by 12% FX-n (CS: +9-10%). ADS did not specify any regional performances but we assume this growth was driven by Western Europe, Greater China, Latin America and MEEA, but also by an acceleration in North America.
- FY15 Net income reached EUR720m, topping CS expectations at EUR714m despite a higher-than-expected tax rate (~32.9% vs. CS at 32.2%).
- FY15 EBIT: no details provided but we anticipate the adjusted EBIT to be in the region of EUR1.1-1.2bn, representing an operating margin of 6.6-6.7%.
- It is worth noting that ADS was negatively impacted by non-operational GW impairment losses of EUR34m (vs. EUR18m in the first 9M) related to the Russia/CIS and LatAm subsidiaries.
- On the back of a successful 2015 year and in view of two major sporting events occurring in 2016 (EURO championship and Rio Summer Olympics), ADS is revising up its FY16 sales target: sales are now expected to grow at a double-digit rate vs. high single-digit previously.
- FY16 earnings guidance reiterated: the GM decline (rising labour costs, unfavourable USD hedging rates) will be offset by a positive operating leverage. FY16 Operating margin is anticipated to remain "at least stable vs. 2015".

VALUATION

- This publication should be positively welcomed by investors, as the guidance increase leaves an upside potential of 2-3% on our 2016 assumptions.
- Naturally, besides the two major sporting events occurring this year, which will be key catalysts for the group, investors will also closely look at the anticipated acceleration in North America (already started in Q4 15).

NEXT CATALYSTS

- adidas Group will report FY15 Annual Results on 3rd March 2016.

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