4th March 2016

Luxury & Consumer Goods

adidas Group

Price EUR96.88

adidas ready to muscle up growth this year

Fair Value EUR104 (+7%) **BUY**

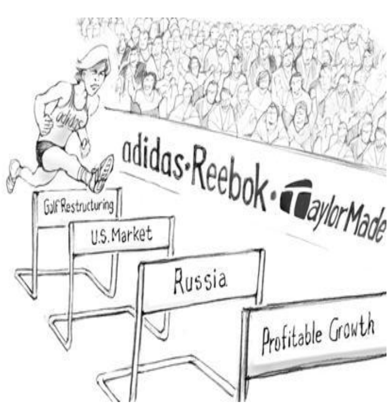
Bloomberg	ADS GY
Reuters	ADSG.F
12-month High / Low (EUR)	100.9 / 63.7
Market Cap (EURm)	20,269
Ev (BG Estimates) (EURm)	21,201
Avg. 6m daily volume (000)	1 182
3y EPS CAGR	19.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.3%	7.0%	44.0%	7.8%
Consumer Gds	0.1%	-5.9%	2.8%	-4.7%
DJ Stoxx 600	3.0%	-8.8%	-6.3%	-7.2%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	14,534	16,915	18,302	19,553
% change		*16.4%*	*8.2%*	*6.8%*
EBITDA (rep.)	1,205	1,442	1,632	1,852
EBIT (rep.)	961.0	1,059	1,211	1,402
% change		*10.2%*	*14.3%*	*15.8%*
Net income (rep.)	490.0	630.0	809.7	943.1
% change		*28.6%*	*28.5%*	*16.5%*

	2014	2015e	2016e	2017e
Operating margin	6.6	6.3	6.6	7.2
Net margin	3.4	3.7	4.4	4.8
ROE	8.7	11.7	15.5	16.4
ROCE	9.7	10.5	12.2	13.5
Gearing	3.3	17.3	26.6	19.8

(EUR)	2014	2015e	2016e	2017e
EPS	2.72	3.32	4.02	4.68
% change	-	*22.0%*	*21.0%*	*16.5%*
P/E	35.6x	29.2x	24.1x	20.7x
FCF yield (%)	0.5%	0.8%	2.4%	3.2%
Dividends (EUR)	1.50	1.60	1.85	2.15
Div yield (%)	1.5%	1.7%	1.9%	2.2%
EV/Sales	1.4x	1.3x	1.2x	1.1x
EV/EBITDA	17.0x	14.7x	13.3x	11.6x
EV/EBIT	21.3x	20.0x	17.9x	15.3x



At the conference call yesterday, management expressed optimism for 2016. The main drivers that spurred growth in 2015 should still play in 2016 and be completed by the ramp up of new engines such as North America and Running (both are expected to grow in double-digits). Robust momentum is set to remain in Western Europe, Greater China and MEAA. On top of solid profit headwinds (price/product/channel/geo mix), management is also confident about offsetting the negative impact of the "USD cliff" and rising input costs. Last but not least, the strategic review on golf is underway and should be completed by the end of Q1, as planned. Catalysts are not missing this year, stay tuned! Buy recommendation and FV of EUR104 confirmed.

ANALYSIS

- **North America: ADS brand ramps up (+12% FX-n in Q4).** We knew that Lifestyle was a significant driver there but it is worth noting that Performance was also up 10% FX-n driven by Football and the first signs of acceleration in US sports which will be at the forefront of the 2016 performance with Running (double-digit growth expected). **Retail** will be a key driver with the opening of ADS' first flagship store in NYC (~34k sq ft or ~3k sqm) and new stores in key cities like Los Angeles, Chicago or Miami. Relationships with key **US retailers** will also be strengthened: for instance Foot Locker will host up to 300 ADS shop-in-shops in 2016 vs. 200 in 2015 (and 20 in 2014). **RBK** (-5%) is still affected by the streamlining of the factory outlet store network, but a gradual recovery should occur throughout the year. **Hence management confirmed a double-digit growth in group sales in North America for 2016 (BG ests: +8%e) and profitability should improve despite incremental marketing investments this year.**

- **Golf: strategic review to be completed by end of Q1.** In the meantime, the group continued to turn around the business after restructuring the manufacturing and commercial activities. The TM brand increased its presence again with golf pros and consumers reacting positively to the latest launches (M1 / M2 ranges, KALEA ladies line) while the brand carefully monitors sell-through trends. Management already declared that adidas-Golf (footwear, apparel and accessories) would remain within the group irrespective of the conclusions of the strategic review. The TMaG division is expected to be close to break-even point before any further restructuring costs (vs. operating losses of ~EUR100m in 2015).

- **ADS is constantly improving its retail expertise.** In 2015 net sales were up 11% FX-n to EUR4.2bn, including comparable store sales growth of 3%, or approx. +7-8% excl. Russia. In this market, which now only accounts for ~4% of total sales vs. 8% a year ago, the group closed 167 stores in 2015 which helped offset the significant margin pressure from lower sales (-10% FX-n) and the negative FX impact. As such, GM was only down 260bp to 56% in 2015. Overall, the retail channel improved its profitability: GM expanded 240bp (to 61.8%) and Op margin was up 280bp to 20.3%.

- **Upbeat current trading and backlog trends.** The group is targeting 10-12% FX-n sales growth for 2016 and H1 will naturally benefit from the traction observed in H2 (+12%) and an easier comparison base (H1: +7% FX-n). However, as the group has just closed a solid backlog over Q3 16, CEO Herbert Hainer guided on a balanced performance over 2016, all the more since the retail channel is set to benefit from three major sporting events this summer: the Copa America (3rd-26th June), the Euro Championship (10th June – 10th July) and, to a lesser extent, the Rio Summer Olympics (3rd-21st August).

VALUATION

- We have left our assumptions unchanged after minor adjustments following the pre-announced publication (11th February). Some profit-taking might occur but we consider that the stock will remain more resilient in this current volatile environment.

NEXT CATALYSTS

- adidas Group is due to release Q1 results on 29th April

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