

11th April 2016

Luxury & Consumer Goods

Prada

Price HKD25.65

FY15 Results missed expectations as the group continued to face huge margin headwinds

Fair Value HKD37 (+44%)

NEUTRAL

Bloomberg	1913 HK
Reuters	1913.HK
12-month High / Low (HKD)	45.5 / 20.4
Market Cap (HKD)	65,634
Ev (BG Estimates) (HKD)	65,124
Avg. 6m daily volume (000)	1 235
3y EPS CAGR	2.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.8%	20.4%	-21.7%	6.4%
Pers & H/H Gds	-0.5%	4.1%	-1.8%	-2.2%
DJ Stoxx 600	-1.7%	-2.8%	-8.2%	-9.3%

YEnd Jan. (EURm)	01/15	01/16e	01/17e	01/18e
Sales	3,552	3,548	3,661	3,841
% change		-0.1%	3.2%	4.9%
EBITDA	954	803	908	1,018
EBIT	701.6	502.9	633.4	729.9
% change		-28.3%	26.0%	15.2%
Net income	450.7	328.6	419.7	488.1
% change		-27.1%	27.7%	16.3%

	01/15	01/16e	01/17e	01/18e
Operating margin	19.8	14.2	17.3	19.0
Net margin	12.7	9.3	11.5	12.7
ROE	15.0	11.1	13.9	15.6
ROCE	16.2	11.5	14.4	16.8
Gearing	-6.3	-1.9	-5.4	-9.9

(EUR)	01/15	01/16e	01/17e	01/18e
EPS	0.18	0.13	0.16	0.19
% change		-27.1%	27.7%	16.3%
P/E	16.5x	22.6x	17.7x	15.2x
FCF yield (%)	1.6%	2.2%	5.5%	6.4%
Dividends (EUR)	0.11	0.11	0.12	0.14
Div yield (%)	3.8%	3.8%	4.1%	4.8%
EV/Sales	2.0x	2.1x	2.0x	1.8x
EV/EBITDA	7.6x	9.2x	8.0x	7.0x
EV/EBIT	10.3x	14.6x	11.4x	9.7x

Ahead of the FY15 results presentation which is hosted today in New York (11am NY time/5pm Paris time), Prada released FY15 results on Friday. These fell short of expectations. The EBITDA margin came in at EUR803m (CS: EUR830m), representing a margin decline of 430bp to 22.6%. Low double-digit SSS decline and price adjustments towards the end of the year have significantly squeezed profitability, pending the first positive results from the cost-cutting measures. During the presentation, management should come back more in details on these initiatives and give a glimpse into current trading. Neutral recommendation confirmed.

ANALYSIS

- FY15 net revenues virtually stable at EUR3,548m (-7.7% FX-n)** were pre-announced on 17th February. In **Retail**, sales fell 5.3% FX-n, implying similar adverse trends in Q4 (-6.5%e) than in Q3 (-8%). The headwinds remained **Asia-Pacific** (38% of retail sales: -10%e in Q4, -16% in 2015) and the **Americas** (~13% of retail sales: -12%e in Q4, -9% in 2015), whilst the pace of growth in **Europe** was in line with Q3 (Q4: +2%e / 2015: +5%). **Wholesale** sales dropped by approx. 22.5%e in 2015 (Q4: -25%e) given the harmful rationalisation strategy (US and Europe).
- Prada's margins reached a six-year low.** Yet the gross margin increased by 60bp to 72.4%, driven by efficiency gains throughout the production and supply chain. The 90bp-decrease in Q4 (vs. +110bp in 9M) is explained by price adjustments in China over Q4 to reduce the price gap. The retail expansion (24 net openings to 618 DOS) combined with a low-double-digit same-store sales decline have dramatically weighed on the profitability, highlighted by the 500bp increase in selling costs to 42.8%. Consequently the **EBITDA margin** fell by 430bp to 22.6% whilst the **EBIT margin** dropped by 560bp to 14.2%, close to the profitability level achieved in 2009 (EBIT margin: 12%). Last but not least, **net income** reached EUR331m (-27%).
- Net debt of EUR115m at end January 2016 vs. NCP of EUR189m the prior year.** Following the profitability decrease and capex investments of EUR390m (o/w EUR175m dedicated to *Retail*), Prada now has a net debt of EUR115m. It is worth noting that the group decided to leave the dividend unchanged at 0.11€/share.

Prada 2015 Results:

EURm	2014	2015	% change
Net revenues	3,551.7	3,547.8	-0.1
Gross Profit	2,550.6	2,567.6	0.7
Gross Margin – %	71.8	72.4	+60bp
EBITDA	954.2	802.8	-15.9
EBITDA margin – %	26.9	22.6	-430bp
EBIT	701.6	502.9	-28.3
EBIT margin – %	19.8	14.2	-560bp
Net income	450.7	330.9	-27.1

Source: Company Data

- Outlook for 2016: very low visibility.** Management has implemented some key initiatives to relaunch the Prada brand and adjust costs, but in our view it is too early to see the first positive results in the ST, all the more since the luxury market environment remains quite tough (Asia, US, less tourist flows to Europe). Hence we doubt that management would give any precise guidance for 2016, but they will certainly go into detail on the initiatives to revitalize the top line growth and to reduce costs.

VALUATION

- Pending the FY15 results presentation today (11am NY time / 5pm Paris time), we leave our FY16 assumptions unchanged. Neutral recommendation reiterated. The stock trades at 11.4x 2016e EV/EBIT, in line with our luxury sample average excluding Hermès (11.3x).

NEXT CATALYSTS

- FY15 results presentation today // Q1 16 Results on June 12th 2016.

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