

adidas Group

Price EUR114.00

Impressive start to the year

Fair Value EUR122 vs. EUR108 (+7%)

BUY

Bloomberg	ADS GY
Reuters	ADSG.F
12-month High / Low (EUR)	108.6 / 63.7
Market Cap (EUR)	22,975
Ev (BG Estimates) (EUR)	23,964
Avg. 6m daily volume (000)	1 061
3y EPS CAGR	20.3%

Yesterday's better-than-expected Q1 preliminary results again confirmed adidas' strong comeback, supported not only by powerful and structural drivers in sporting goods markets (not new) but also by positive results from the new consumer-centric organisation and improved execution (new). Following this publication and the more optimistic FY outlook, we are revising up our FY16-17 assumptions (+7% on average) and our normative operating margin (10% vs. 9.5% previously), leading to our new FV of EUR122 vs. EUR108. Buy recommendation confirmed.

ANALYSIS

- Fast and healthy momentum within the sporting goods industry... adidas'** stellar performance over Q1 (+22% FX-n vs. CS of 12%) and recent publications (**Nike**: Q3 FY16 sales up 14% FX-n, **Under Armour**: Q1 revenue soared 32% FX-n) show that the industry is clearly benefiting from structural demographic, fashion and distribution trends: **1/** Indeed growing wealth and the emerging middle-class in fast-growing markets are key drivers, but the market growth was also driven by consumers who are becoming more health-conscious, as highlighted by the increasing sports participation across the world. **2/** The frontier between Performance and Lifestyle is getting thinner and thinner and social media play a key role in driving consumers, ADS is well-positioned to capitalise on this fashion trend thanks to Originals and NEO. While this move towards fashion implies higher volatility (consumers are more volatile, risk that part of the collections will not be well received by customers, etc.), it plays positively on volumes and price-mix if brands are successful. **3/** The direct-to-consumer channel is a significant growth driver, especially the online business which grew 42% to over EUR600m last year.
- ... and adidas Group has improved its execution.** The group has not communicated growth by region but we believe that it was broad-based across the key markets such as **Western Europe** (BG: ~+30%e), **Greater China** and **MEEA** (>+20%e) and with an acceleration in **North America** (~+15%e). In our view, these sound performances are explained by the combination of an improved execution and effective marketing campaigns which produce a strong resonance amongst consumers. The success of Originals' footwear franchises (*Stan Smith, Superstar, Yeezy Boost*, etc.) is backed by a convincing presence on [social media](#).
- FY sales outlook raised...** The group now anticipates FX-n sales growth of "around 15%" vs. +10-12% previously, representing the fastest top-line increase since 2006 (+14% FX-n excluding the acquisition of Reebok). Besides the Lifestyle Division, the Performance category is also gaining traction ahead of three major sporting events (Copa America, EURO Championship and Rio Olympics to a lesser extent), without forgetting the acceleration in Running and in US sports. Our new FY16 forecast is aligned with the revised guidance (+15% vs. 10% previously) but we have also retained a more adverse FX impact (~3pp vs. ~2pp).
- ... and FY earnings outlook as well.** ADS expects net income from continuing operations to increase by 15-18% (vs. +10-12% initially). Operating margin guidance is unchanged but the target is wide enough ("at least stable vs. the 2015 level") to allow a slight improvement over 2015. Hence we now anticipate an operating margin of 6.7% (+20bp over 2015) vs. 6.5% previously, as the negative FX impact will be offset by a more favourable product/price-mix and a more positive operating leverage (stronger top line growth).

VALUATION

- Our new FV to EUR122 is derived from our 7% upward revision to our FY16-17 assumptions, as well as our new normative operating margin (10% vs. 9.5%). This adjustment is justified by the ramp up in margin enhancers (i.e. robust organic growth, favourable product/price-mix, better execution) resulting from the group's new strategy, which bodes well for MT. Buy recommendation confirmed.

NEXT CATALYSTS

- Q1 results and conference call at 3:00pm (CET) on 4th May // AGM on 12th May.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	5.0%	16.2%	31.5%	19.7%
Consumer Gds	1.7%	2.0%	-4.3%	-3.3%
DJ Stoxx 600	3.6%	2.4%	-7.6%	-5.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	16,915	18,924	20,219	21,750
% change		11.9%	6.8%	7.6%
EBITDA	1,442	1,712	1,996	2,234
EBIT	1,059	1,276	1,511	1,712
% change		20.5%	18.4%	13.3%
Net income	630.0	842.9	1,019	1,166
% change		33.8%	20.9%	14.5%

	2015	2016e	2017e	2018e
Operating margin	6.3	6.7	7.5	7.9
Net margin	3.7	4.5	5.0	5.4
ROE	11.1	15.2	16.5	17.0
ROCE	10.0	11.9	13.9	15.1
Gearing	8.1	17.9	10.4	3.5

(EUR)	2015	2016e	2017e	2018e
EPS	3.32	4.18	5.05	5.79
% change	-	26.0%	20.9%	14.5%
P/E	32.4x	27.3x	22.6x	19.7x
FCF yield (%)	2.7%	1.8%	3.3%	3.8%
Dividends (EUR)	1.60	1.85	2.15	2.40
Div yield (%)	1.5%	1.7%	2.0%	2.2%
EV/Sales	1.4x	1.2x	1.1x	1.0x
EV/EBITDA	15.9x	14.0x	11.8x	10.4x
EV/EBIT	21.7x	18.8x	15.6x	13.6x



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