

12th May 2016

Luxury & Consumer Goods

adidas Group

Price EUR113.30

adidas Group upgrades FY16 earnings guidance thanks to a one-off gain

Fair Value EUR124 (+9%)

BUY

Bloomberg	ADS GY
Reuters	ADSG.F
12-month High / Low (EUR)	114.3 / 63.7
Market Cap (EUR)	23,704
Avg. 6m daily volume (000)	1 019

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.7%	27.2%	26.2%	26.0%
Consumer Gds	1.8%	8.5%	-6.5%	-4.3%
DJ Stoxx 600	0.6%	10.3%	-11.6%	-8.5%

	2015	2016e	2017e	2018e
P/E	34.1x	27.3x	22.6x	19.8x
Div yield (%)	1.4%	1.6%	1.9%	2.1%

ANALYSIS

- Yesterday, adidas Group announced the early termination by mutual consent of its existing partnership agreement with Chelsea Football Club (started in 2006), which will now end on 30th June 2017 instead of 30th June 2023 initially. As a result, the German group will receive a compensation payment in the mid-double-digit million euro range (BG ests: ~EUR50m), which will positively impact the group's P&L in Q2 2016.
- This one-off gain has enabled the group to make another upgrade to its two FY16 earnings targets: (i) operating margin is now expected to increase to a level of "around 7%" vs. 6-6-7% initially and (ii) net income from continuing operations should increase by ~25% to approx. EUR900m. Consequently, we have nudged up our FY16 operating profit by 4%, implying an op margin of 7.1% whilst the adj. op margin remains unchanged at 6.8%. On our new estimates, net income from continuing operations should increase by 25% to EUR898m.
- This announcement comes after rumours of negotiations between adidas and the German football federation (DFB) to extend their longstanding partnership (since 1954!) until 2022, worth EUR75m per year according to industry experts, significantly higher than the existing partnership (EUR25m per year since 2007) and topping the highest-valued national team supplier contract (France and Nike: EUR42.5m per year). As a comparison, adidas pays ~EUR100m/year to endorse Manchester United whilst Bayern Munich receives ~EUR60m/year until 2020 (EUR90m over 2020-30). Consequently some trade-offs are made in order to avoid any significant inflation in sports marketing investments, which should remain around 50% of adidas' total marketing investments.

VALUATION

- We leave our FV of EUR124 and our Buy recommendation unchanged.

NEXT CATALYSTS

- adidas Group will release H1 2016 results on 4th August.

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