

17th June 2016

Luxury & Consumer Goods

# adidas Group

Price EUR115.50

Towards new record sales for the football category (EUR2.5bn)

Fair Value EUR124 (+7%)

BUY

Bloomberg	ADS GY
Reuters	ADSG.F
12-month High / Low (EUR)	119.6 / 63.7
Market Cap (EURm)	24,164
Ev (BG Estimates) (EURm)	25,087
Avg. 6m daily volume (000)	946.8
3y EPS CAGR	19.8%

As the Copa America and the EURO 2016 Championship unfold, adidas announced yesterday that its football category should achieve record sales of EUR2.5bn in 2016, representing a ~15% increase over 2014. Thanks to solid momentum, this category reinforces its global leadership vs. Nike and remains a key growth driver for the German brand in 2016.

### ANALYSIS

- A strong start to the year (Q1: +25% FX-n) ...** Like in other categories, the momentum was fuelled by ADS' key footwear franchises (i.e. "Ace" and "X"), but apparel also posted double-digit growth thanks to federation kits (jerseys). It is worth noting that the H1 performance of the football business is helped by favourable comparison bases since: **(i)** "Ace" and "X" footwear franchises were introduced in summer 2015 and **(ii)** the Manchester United and Juventus official partnerships started in H2 15.
- ...and ADS keeps up momentum!** On the back of a probably strong performance in Q2 (more Retail-weighted, in our view), management expects adidas football to post record sales of EUR2.5bn vs. EUR2.2bn last year, implying reported growth of approx. 15%. Consequently, the **football category should account for ~16% of adidas brand sales and ~13% of group sales.** As shown in the graph below, this football business posted a ~9% CAGR during 2010-16e in a global football market that has grown 4% on average since 2006 according to NPD Group. This performance is also slightly ahead of the group's top line growth over the period (~8%).
- ADS consolidates its global leadership in football.** Having lost some market share in Western Europe in 2013-14, the German brand has completely reversed the trend last year, thanks to its new consumer-centric organisation and the repositioning of its footwear offering on key franchises. As such, adidas is the leading football brand across Western Europe's top five markets (the UK, France, Spain, Italy and Germany), which should be enough to comfort its global leadership.

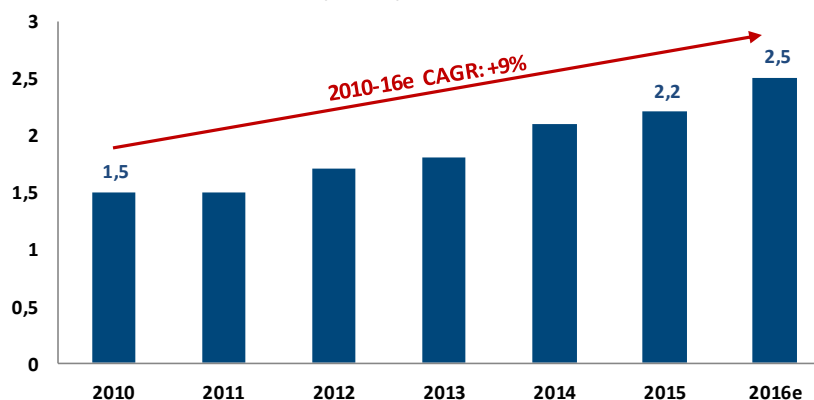
	1 M	3 M	6 M	31/12/15
Absolute perf.	5.1%	12.7%	29.5%	28.5%
Consumer Gds	-3.2%	-3.7%	-6.5%	-7.5%
DJ Stoxx 600	-4.0%	-5.8%	-10.9%	-12.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	16,915	18,877	20,169	21,697
% change		11.6%	6.8%	7.6%
EBITDA	1,442	1,766	2,000	2,239
EBIT	1,059	1,332	1,516	1,718
% change		25.8%	13.8%	13.3%
Net income	630.0	888.3	1,030	1,170
% change		41.0%	15.9%	13.7%

	2015	2016e	2017e	2018e
Operating margin	6.3	7.1	7.5	7.9
Net margin	3.7	4.7	5.1	5.4
ROE	11.1	15.8	16.5	16.8
ROCE	10.0	12.5	13.9	15.2
Gearing	8.1	16.5	8.8	2.1

(EUR)	2015	2016e	2017e	2018e
EPS	3.32	4.10	5.03	5.71
% change	-	23.6%	22.6%	13.6%
P/E	34.8x	28.2x	23.0x	20.2x
FCF yield (%)	2.5%	1.9%	3.1%	3.5%
Dividends (EUR)	1.60	1.85	2.15	2.40
Div yield (%)	1.4%	1.6%	1.9%	2.1%
EV/Sales	1.5x	1.3x	1.2x	1.1x
EV/EBITDA	17.1x	14.2x	12.4x	10.9x
EV/EBIT	23.3x	18.8x	16.3x	14.1x

adidas football sales since 2010 (EURbn):



Source: Company Data, B G ests

### VALUATION

- The stock trades at 18.8x 2016e EV/EBIT, which is supported by an adj. EPS CAGR of 19.8% over the 2015-18 period. Buy recommendation and FV of EUR124 confirmed.

### NEXT CATALYSTS

- Nike will publish Q4 FY16 results on 28 June. The market is likely to focus on the order backlog, particularly in the US where some analysts have pointed to rising competition (adidas, Under Armour) and a more challenging apparel market environment. As a reminder, adidas brand grew its sales by 31% FX-n in Q1 16.
- adidas Group will report its H1 15 Results on 4 August 2016.



**Analyst :**  
 Cédric Rossi  
 33(0) 1 70 36 57 25  
 crossi@bryangarnier.com

**Consumer Analyst Team:**  
 Nikolaas Faes  
 Loïc Morvan  
 Antoine Parison  
 Virginie Roumage

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Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
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	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
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