

Prada

Price HKD21.75

Unhelpful sales trends partly offset by cost-cutting actions

Fair Value HKD31 vs. HKD35 (+43%)

NEUTRAL

Bloomberg	1913 HK
Reuters	1913.HK
12-month High / Low (HKD)	34.3 / 20.4
Market Cap (HKD)	55,654
Ev (BG Estimates) (HKD)	55,700
Avg. 6m daily volume (000)	693.4
3y EPS CAGR	0.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.4%	-18.5%	-8.6%	-9.8%
Pers & H/H Gds	0.9%	1.0%	5.8%	3.1%
DJ Stoxx 600	0.7%	-1.5%	3.7%	-6.0%

YEnd Jan. (EURm)	01/16	01/17e	01/18e	01/19e
Sales	3,548	3,177	3,237	3,349
% change		-10.5%	1.9%	3.5%
EBITDA	803	689	722	760
EBIT	502.9	435.2	463.0	492.4
% change		-13.5%	6.4%	6.4%
Net income	330.9	291.5	312.9	334.5
% change		-11.9%	7.3%	6.9%

	01/16	01/17e	01/18e	01/19e
Operating margin	14.2	13.7	14.3	14.7
Net margin	9.3	9.2	9.7	10.0
ROE	10.7	9.5	10.2	10.9
ROCE	11.3	10.1	11.0	11.9
Gearing	3.6	0.2	-2.0	-4.2

(EUR)	01/16	01/17e	01/18e	01/19e
EPS	0.13	0.11	0.12	0.13
% change		-11.9%	7.4%	6.9%
P/E	19.2x	21.8x	20.3x	19.0x
FCF yield (%)	NM	6.3%	5.7%	6.1%
Dividends (EUR)	0.11	0.11	0.12	0.13
Div yield (%)	4.4%	4.4%	4.8%	5.1%
EV/Sales	1.8x	2.0x	1.9x	1.9x
EV/EBITDA	8.1x	9.2x	8.7x	8.2x
EV/EBIT	12.9x	14.6x	13.6x	12.7x

Last Friday Prada reported H1 2016 results. Revenues were significantly below expectations (EUR1.55bn vs. CS of EUR1.65bn), down 13% FX-n due to very poor retail trends (SSSG and FX-n: -16%) but margins topped the CS forecasts thanks to industrial efficiencies and cost-cutting measures. Although management witnessed some signs of improvement in Greater China over July and August, visibility on the tipping point remains quite low. We revise down our FY estimate by 6% to reflect the H1 sales performance, hence our new FV of HKD31 vs. HKD35. Neutral recommendation reiterated.

ANALYSIS

- H1 2016 net revenues dropped by 15% to EUR1.55bn (CS: EUR1.65bn).** The sales miss was attributed to a very poor performance in the **retail channel**, with sales down 16% FX-n and comparable growth fell by the same order of magnitude (CS: -11%). The decline was particularly significant in: **1/ Europe** (-18% FX-n including Italy), where lower tourist flows seemed to be more harmful for Prada than its peers and **2/ in Asia-Pacific** (-18% FX-n o/w -21% in Greater China) with a double-digit decline in HK-Macau while there were some very first signs of improvement in Mainland China. Sales in **Americas** decreased by 15% FX-n (LatAm was positive) and the **Middle-East** was the only region not to be in negative territory (+0.2%). **Wholesale** sales were up 3% FX-n thanks to new partnerships with online retailers (Net-A-Porter and mytheresa.com).
- First positive impacts from cost-cutting measures.** Gross margin narrowed by 50bp to 72.2% (CS: 72.6%) as the negative channel- and geographic-mix were only partly offset by industrial efficiencies. However, the group's actions to reduce costs (labour costs reduction, rent renegotiations, etc.) led to a 12%-decrease in opex expenses, also helped by a positive phasing effect on marketing expenses (catch-up expected in H2). As a consequence, **EBITDA** reached EUR330m (CS: EUR328m), representing **EBITDA margin** of 21.2% (-290bp) vs. CS of 19.9%. Below, it is worth noting that Prada benefited from a new method of depreciation (+EUR26.1m at the opex level). **Net income** came in at EUR188.6m vs. CS of EUR126m.
- Sharp reduction in capex investments (-39% to EUR108m).** First of all, there were only four net openings to 622 DOS (+16 vs. H1 15) since the group now focuses on improving the shopping experience through renovation and relocations (19 in H1).

Prada H1 16 Results:

EURm	H1 2015	H1 2016	% change
Net revenues	1,824.4	1,554.2	-14.8
Gross Profit	1,325.9	1,121.9	-25.0
Gross Margin (%)	72.7	72.2	-50bp
EBITDA	440.0	330.0	-27.1
EBITDA margin (%)	24.1	21.2	-290bp
Net income	188.6	141.9	-24.7

Source: Company Data

- Outlook: visibility is still limited.** At the **top line level**, we remain cautious given the challenging market conditions in Europe, US and Asia-Pacific although Prada, like most of its peers, witnessed improving trends in Mainland China and signs of stabilisation in HK-Macau over July and August. Prada is accelerating the implementation of its e-commerce strategy, internally (launch of its own e-commerce platform in China, H-K and Singapore) as well as externally (partnerships with N-A-P and mytheresa.com). As for **profitability**, cost-cutting actions should continue to bear fruit over H2 even if marketing expenses should be higher than in H1 (stable over FY16 as a % of sales). Management specified that an EBITDA margin of approx. 22% was "reachable".

VALUATION

- We have lowered our FY16 estimates by 6% following the weak top line performance in H1. In our view, visibility on Prada's turnaround remains low, especially since the group is more affected by challenging market conditions than most of its peers. FV adjusted to HKD31 vs. HKD35 and Neutral recommendation reiterated. [Click here to download document](#)



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