

Inditex

Price EUR32.24

Solid Q3 results and current trading above expectations

Fair Value EUR38 (+18%)

BUY

Bloomberg	ITX.SM
Reuters	ITX.MC
12-month High / Low (EUR)	33.4 / 26.8
Market Cap (EURm)	100,465
Ev (BG Estimates) (EURm)	94,122
Avg. 6m daily volume (000)	2,406
3y EPS CAGR	12.3%

This morning Inditex has reported 9M 2016 results: Q3 sales came in at EUR5,938m in line with CS expectations (EUR5,931m) up 12% FX-n (CS: ~13%) and reported. This performance implies LFL growth of approx. 6% vs. +11% in H1 due to a demanding comparison base. Below the top line, the EBIT margin improved sequentially (+10bp vs. -50bp in H1) despite the 140bp-decline in the GM. Current trading remains supportive with sales up 16% FX-n from 1st November to 12th December vs. ~12-13% expected by the CS. Conference call today at 9.00am CET.

ANALYSIS

- **9M sales (EUR16,403m) up 14.5% FX-n and 11% reported.** In Q3 alone, net sales increased ~12% FX-n and reported to EUR5,938m, bang in line with CS expectations (EUR5,931m). This was therefore a touch below the 13% FX-n increase to mid-September (1st August -> 18th September: 13% FX-n) on top of more challenging comps through Q3, since sales were up 17% FX-n in Q3 15 after +15% from 1st August '15 to 10th September '15. This tougher base effect explains the slowdown in LFL growth over Q3 to approx. 6% vs. +11% in H1 but the Spanish Group continues to clearly outperform its peers.
- **9M EBIT of EUR2,822m (+9%), representing a margin contraction of 30bp to 17.2%.** In Q3 alone, GM only declined by 40bp to 59.7% (CS: 59.8%) after -130bp in H1 thanks to the easing in the FX headwind. Whilst we were expecting a slight acceleration of opex growth due to the retail expansion and space growth, the total opex costs remained flat at 34.5% (H1: -60bp). As a consequence, the EBIT margin rebounded 10bp to 20.6% vs. forecasts of a stable margin at 20.5%.

Q3 and 9M results:

EURm	Q3 16	% change	9M 16	% change
Sales	5,938	11.6	16,403	11.3
Gross profit	3,547	10.9	9,492	9.5
% of sales	59.7	-40bp	57.9	-90bp
EBIT	1,220	11.6	2,822	9.2
% of sales	20.6	+10bp	17.2	-30bp
EPS – in EUR per share	0.302	10.2	0.708	9.2

Source: Company Data

- **Start of Q4 16 tops expectations: +16% FX-n from 1st November to 12th December.** This better-than-expected increase (CS: ~12-13% FX-n) marks an acceleration vs Q3 trends, partly helped by comps that are a bit less demanding in Q4 (Q4 15: +15% FX-n vs 17% in Q3), with again a strong contribution from LFL growth. At this stage, we believe that weather conditions are more favourable than the prior year.

VALUATION

- This reassuring publication and the solid start of the quarter confirm our positive view on Inditex. Indeed, as highlighted in our recent [initiation report](#), Inditex is, in our view, the best equipped to thrive in this environment: its 'pull' strategy (= collection design based on customer purchasing decisions) and ability to launch a new collection within just two weeks (vs. 6 months for the industry) thanks to centralised, vertical integration, enable Inditex to enjoy mark-down and unsold inventory rates amongst the lowest in the industry.
- Furthermore, its new strategy combining flagship stores (= fewer DOS openings) and online offer (c.5.5% of 2016e sales) minimise the risks to earnings growth (EBIT CAGR 2016-19e: +12%).

NEXT CATALYSTS

- Conference call today at 9.00am (CET) // FY 2016 results to be released on 15th March 2017.

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