

Sector View

Consumer durables

	1 M	3 M	6 M	31/12/15
Consumer Gds	5.7%	0.6%	5.6%	-2.0%
DJ Stoxx 600	6.0%	5.4%	10.4%	-1.7%

*Stoxx Sector Indices

Companies covered

ADIDAS GROUP	NEUTRAL	EUR136
Last Price	EUR145	Market Cap. EUR30,336m
H & M	NEUTRAL	SEK295
Last Price	SEK258,9	Market Cap. SEK428,498m
INDITEX	BUY	EUR38
Last Price	EUR32,07	Market Cap. EUR99,951m
YOOX NET-A-PORTER	BUY	EUR33
Last Price	EUR26,82	Market Cap. EUR3,641m
ZALANDO	NEUTRAL	EUR39
Last Price	EUR35,885	Market Cap. EUR8,873m



NIKE: Q2 earnings above expectations, but disappointing future orders (+2% FX-n)

Yesterday Nike released Q2 revenues (to end November) up 6% reported and 8% FX-n to EUR8.2bn, topping CS expectations of EUR8bn. The Q2 EPS came in at US\$0.50 (+11%) vs. CS of US\$0.43 mainly thanks to a positive SG&A leverage. Nike's management reiterated the FY17 outlook (high single-digit FX-n growth), but we believe that investors will be disappointed by the weaker-than-expected backlog, only up 2% FX-n vs. CS of ~5%, particularly in North America (-4% vs. +1%e).

ANALYSIS

- In Q2 ending 30th November, revenues for the **NIKE brand** (~94% of total sales) increased 6% reported and 8% FX-n. The end of the positive contribution from two major sport events (EURO Championship and Rio OG) explains the slight deceleration vs. Q1 (+10% FX-n).

By region, **North America** revenue was up 3% (Q1: +6%), mostly driven by DTC (double-digit traffic increases and higher conversion). The activity in **Western Europe** grew by 12% FX-n (Q1: +10%), driven by Sportswear and Running categories, particularly in Apparel (+23%). In **Greater China**, revenue soared 17% FX-n (Q1: +21%), marking the Group's 10th consecutive quarter of double-digit. During the call, management specified that online sales during the Singles Day nearly tripled vs. last year. The **Central & Eastern Europe** region have slowed down to +1% FX-n vs. +16% in Q1, but trends remained strong in **Emerging Markets** (+13% FX vs. +11% in Q1), fuelled by Korea and Mexico among others.

- Q2 EPS of 50¢ beating expectations of 43¢.** The **GM** declined 140bp to 44.2% (CS: 44.3%) due to higher input costs, a negative FX impact and a higher mix of off-price sales vs. last year. However this decrease was offset by a **strong operating leverage** as demand creation was down 1% (substantial investments ahead of the EURO and OG events) whilst **SG&A** expenses contracted 3%. Consequently, the Group's EBIT reached USD1.13bn (+16%), or 18% above CS forecasts, representing an 110bp-increase in the EBIT margin to 13.8%.
- FY17 outlook confirmed...** Management continued to expect revenue FX-n growth to be within the high-single-digit/low-double-digit range whilst the stronger USD should have a more adverse impact on the reported performance (Q3: mid-single-digit growth). As for the profitability, Nike guided on a sequential improvement with regard to the GM (Q3:-100 to -125bp vs. -140bp in Q2) thanks to a more favourable price-mix. The operating leverage should be less significant in H2 given the ramp up of the Group's "Edit to Amplify" initiative (reduce styles, shorter lead times and more agile supply chain).
- ... but modest future orders (+2% FX-n vs. CS of +5%).** Even if management reiterated that there was a disparity between this backlog and the Group's future performance, we believe that investors should be disappointed by these future orders for the period from December 2016 through April 2017. Nike's future orders in **North America** are down 4% vs. expectations of +1%, whilst **Western Europe** (+2% vs. +5.7%e) and **Greater China** (+12% vs. +16.6%e) are also shy of the CS expectations.

READ-ACROSS TO ADIDAS GROUP

- Nike's Q2 publication shows that it faces increasing competitive pressure in North America, particularly from adidas Group which achieved strong sales growth of 20% in Q3, o/w +24% for adidas brand. Following the opening of ADS's largest flagship store in New York (~4,200sqm) at the beginning of this month, CEO Kasper Rorsted confirmed that reinforcing US operations were among the Group's priorities for 2017 and beyond.

NEXT CATALYSTS

- adidas Group: FY17 results on 8th March 2017 // CMD on 14th March.
- Nike should report Q3 FY17 earnings (to end February) by the end of March 2017.

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BUY ratings 72%

NEUTRAL ratings 0%

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