



Consumer, Brands & Retail

11th September 2019

INDITEX

- Consumer, Brands & Retail
- E-Commerce

BUY

Fair Value	EUR31(+8%)
Share price	EUR28.79
EPS 3Y Cagr	7.3%

Robust top-line trends in Q2 and over the first half of Q3

Q2 FX-n growth (c.9%) and LFL both beat expectations

This morning ITX unveiled H1 sales of EUR12.8bn (+c.7% reported and FX-n) pretty much in line with expectations. In Q2 alone, the top line increased by 8% reported but **FX-n growth of c.9% topped estimates (c.8%e)**, implying only a slight sequential deceleration over the second half of the quarter (BG: +8%e) after the 9.5% FX-n reported between 1st May and 7th June. **In H1, LFL amounted to 5% and also beat expectations (CS: c.3%e), calling for a c.7-8%e performance in Q2** after c.2%e in Q1 (note that ITX does not report LFL on a quarterly basis). We assume that new space contribution may have been lower than we anticipated (c.2% vs. 3% expected).

Margin miss due to FX

In Q2, the **GM** contracted by 30bp to 54.5% (CS: 54.8%e) after +70bp in Q1, largely due to FX that dragged down profitability this quarter after having been a margin enhancer in Q1. We do not assume a negative impact from promotional activity during the quarter, echoing management's sayings during the Q1 results confcall. Further to the opex decline of 13% post-IFRS 16 (+6% pre-IFRS16), **EBIT** came in at EUR1.061bn (+14%), representing an 80bp-margin expansion to 15.4% (CS: 15.8%e).

Very healthy inventory levels (-1.1pp to 9.9%)

ITX maintained healthy inventory levels which decreased by 1.1pp to 9.9% of sales rolling 12M, confirming ITX's robust top-line trends, combined with the group's flexible supply chain strategy that relies on: enhanced demand-prediction abilities, fast turnover in stores and limited volumes per collection to mitigate the risk of unsold items/markdowns.

No slowdown in current trading: +8% FX-n over 1st Aug to 8th Sep

ITX seems to be relatively spared from volatile apparel markets across Europe over recent weeks, since the Spanish fashion group reported 8% FX-n growth between 1st August and 8th September.

Consequently, ITX reiterates its FY19 LFL guidance range of +4-6% (H1: +5%) whilst the CS remains in the lower end of that corridor prior to today's publication.

Market Data

Bloomberg / Reuters	ITX SM/ITX.MC
Market Cap.	EUR89,728m
E.V.	EUR83.024m
Free Float	40,8%
Avg. Daily volume (6m)	2 725
12m high / low	EUR28.8 / EUR22.1
Ytd Perf.	28.8%

EURM	01/19	01/20e	01/21e	01/22e
Sales	26,145	27,920	30,017	32,124
% Change		6.8%	7.5%	7.0%
EBITDA	5,457	5,858	6,313	6,787
% Change		7.4%	7.8%	7.5%
EBIT	4,357	4,644	4,977	5,357
% Change		6.6%	7.2%	7.6%
Net Income	3,444	3,671	3,942	4,250
% Change		6.6%	7.4%	7.8%
ROE	0.24	0.24	0.24	0.25

	01/19	01/20e	01/21e	01/22e
EV/Sales	3.2x	2.9x	2.7x	2.5x
EV/EBITDA	15.2x	14.0x	12.9x	12.0x
EV/EBIT	19.1x	17.7x	16.4x	15.2x
EPS	1.11	1.18	1.27	1.36
% change		6.6%	7.4%	7.8%
P/E	26.0x	24.4x	22.7x	21.1x
Div Yield	3.1%	3.6%	4.0%	3.6%

Next Catalyst: conference call today at 9am CET

Last FV Change:

[2019-6-13, Volatile top line trends but increased confidence about FY margin outlook](#)

Last Reports:

[2019-6-13, Volatile top line trends but increased confidence about FY margin outlook](#)

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Distribution of stock ratings

BUY ratings 50%

NEUTRAL ratings 42,4%

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