

# Prada SpA (1913 HK)

## 3Q reported/cFX rev +3%/+10%; Miu Miu +48%

3Q revenue of EUR1.1bn grew 3.4%/10% on a reported/cFX basis, slightly ahead of us but in line our expectation of a normalised quarter. The trend was also comparable to its global luxury peers, such as LVMH, who reported a 9% cFX Fashion and Leader sales growth. During the call, management commented that 1) October sales remained solid with momentum extending from 3Q; 2) the strong Miu Miu brand growth (+48%) offset the normalising Prada brand growth (+5%); and 3) comparable price initiatives (ASP +4-6%) will be carried on in 2024E. In our view, Prada remains a growing brand and the new management team is capable of driving further upside to financials. BUY.

■ **Regional performance.** In 3Q, Japan showed the highest YoY growth at 26%, with contributions from both Chinese tourists and local customers. Management noted that the Chinese cluster saw substantial growth in 3Q, driven by travellers. While this segment is relatively small, so any change in the trend would not drive an impactful change. The US saw an 8% YoY decline, while the Middle East slightly decreased in 3Q and is facing uncertainty due to geopolitical tensions in 4Q.

■ **Brands' performance.** Prada's 3Q performance remained consistent with previous quarters, driven by higher ASPs and strong full-price sales growth. Miu Miu's profitability is on an upward trajectory, narrowing the gap with Prada. Both Miu Miu and Prada underwent a 4-6% price increase in 2023, and there will be another similar hike for 2024. Despite uncertainties in macro environment, Prada commented that it will continue to invest in the brands to achieve sales growth exceeding market average.

■ **New initiatives.** Royalties revenue increased through licensing and cross-brand collaborations. While this upward trajectory is likely to persist, Prada has no plans to extend licensing to other categories. Going forward, segment revenue is likely to see continuous improvement and be more consistent, given the business is still at its early stage of development. Additionally, the introduction of human-made stone jewellery represents a milestone that signifies Prada's expansion into the fine jewellery market.

■ **Earnings revision/valuation.** We leave our forecasts unchanged, given the in-line revenue print, and limited outlook discussion. Our TP is DCF-based. In our model, we assume WACC of 7.7% and risk-free rate of 3.5%. Our TP implies 19.7x end-23E EV/EBIT, which largely benchmarks to ~19.0x global peer average.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (EUR mn)	3,366	4,201	4,590	5,004	5,352
YoY growth (%)	38.9	24.8	9.3	9.0	7.0
Net profit (EUR mn)	294.3	465.2	625.4	708.0	783.4
YoY growth (%)	na	58.1	34.4	13.2	10.6
EPS (Reported) (EUR)	0.11	0.18	0.24	0.28	0.31
Consensus EPS (EUR)	na	na	0.26	0.29	0.32
P/E (x)	47.5	29.2	22.8	20.2	18.2
P/B (x)	4.5	3.9	3.7	3.4	3.2
EV/EBIT (x)	26.8	15.5	12.2	10.7	9.5
Yield (%)	1.3	2.1	2.6	3.0	3.3
ROE (%)	9.9	14.1	17.1	17.7	18.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$70.2
(Previous TP)	HK\$70.2)
Up/Downside	49.4%
Current Price	HK\$47.0

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### Stock Data

Mkt Cap (HK\$ mn)	118,217.7
Avg 3 mths t/o (HK\$ mn)	47.2
52w High/Low (HK\$)	60.50/35.75
Total Issued Shares (mn)	2558.8

Source: FactSet

### Shareholding Structure

Prada Holding SpA	79.9%
Invesco	4.9%

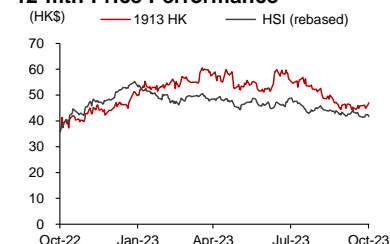
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	0.2%	2.5%
3-mth	-17.9%	-6.1%
6-mth	-19.8%	-8.3%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Related reports:

- [Shanghai Jahwa \(600315 CH\) – 3Q rev/np -11%/40%: a significant miss – Oct 26, 2023](#)
- [珀莱雅 \(603605 CH\) – 3 季度收入/净利润增长 21%/24%；期待双十一发力 – Oct 24, 2023](#)
- [CTGDF \(601888 CH\) – 3Q prelim rev/np +28%/93%: estimates unchanged – Oct 10, 2023](#)
- [Samsonite \(1910 HK\) – 3Q Preview: rev/adj EBITDA +20%/36% - Oct 4, 2023](#)
- [Prada SpA \(1913 HK\) – 3Q preview: Embracing a normalised quarter – Sep 29, 2023](#)

**Figure 1: Our major DCF assumption**

DCF Valuation Summary (€m / HKD)	
Net Present Value	8,698
+ Terminal Value	11,675
<b>= Enterprise value</b>	<b>20,373</b>
- Net debt and other adjustments	759
<b>= Total Equity value</b>	<b>21,132</b>
Number of shares (mn)	2,559
<b>DCF value per share (HK\$)</b>	<b>70.2</b>

**WACC assumptions**

Debt level	12.7%
Equity level	87.3%
Tax rate	34.0%
Borrowing premium	0.0%
<b>Post-tax cost of debt</b>	<b>2.3%</b>
Risk free rate	3.5%
Risk Premium	5.0%
Beta	1.0
<b>Cost of equity</b>	<b>8.5%</b>
<b>WACC</b>	<b>7.714%</b>
Long-term growth	2.0%
EUR/ HKD =	8.5

Source: Bloomberg, CMBIGM estimates

**Figure 2: DCF sensitivity analysis**

Sensitivity to WACC and long-term growth						
<b>70.2</b>	7.5%	7.6%	<b>7.7%</b>	7.8%	7.9%	
1.8%	71.1	69.9	<b>68.8</b>	67.7	66.7	
1.9%	71.9	70.7	<b>69.5</b>	68.4	67.3	
<b>2.0%</b>	<b>72.6</b>	<b>71.4</b>	<b>70.2</b>	<b>69.0</b>	<b>67.9</b>	
2.1%	73.4	72.2	<b>70.9</b>	69.7	68.6	
2.2%	74.3	72.9	<b>71.7</b>	70.5	69.3	

**Sensitivity to RF and long-term growth**

<b>70.2</b>	3.3%	3.4%	<b>3.5%</b>	3.6%	3.7%
1.9%	71.8	70.6	<b>69.5</b>	68.4	67.4
2.0%	72.1	71.0	<b>69.8</b>	68.8	67.7
<b>2.0%</b>	<b>72.5</b>	<b>71.3</b>	<b>70.2</b>	<b>69.1</b>	<b>68.0</b>
2.1%	72.9	71.7	<b>70.6</b>	69.4	68.4
2.1%	73.3	72.1	<b>70.9</b>	69.8	68.7

**Sensitivity to RF and Equity Risk Premium (ERP)**

<b>70.2</b>	3.3%	3.4%	<b>3.5%</b>	3.6%	3.7%
2.4%	120.9	117.5	<b>114.3</b>	111.3	108.5
2.5%	119.3	116.0	<b>112.9</b>	110.0	107.2
<b>5.0%</b>	<b>72.5</b>	<b>71.3</b>	<b>70.2</b>	<b>69.1</b>	<b>68.0</b>
2.6%	116.3	113.2	<b>110.3</b>	107.5	104.8
2.6%	114.9	111.8	<b>109.0</b>	106.2	103.7

Source: Bloomberg, CMBIGM estimates

**Figure 3: Earnings revisions**

EUR mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,590	5,004	5,352	4,590	5,004	5,352	0.0%	0.0%	0.0%
Gross Profit	3,681	4,028	4,324	3,681	4,028	4,324	0.0%	0.0%	0.0%
EBIT	1,056	1,181	1,295	1,056	1,181	1,295	0.0%	0.0%	0.0%
Net profit	625	708	783	625	708	783	0.0%	0.0%	0.0%
Gross Margin	80.2%	80.5%	80.8%	80.2%	80.5%	80.8%	0ppt	0ppt	0ppt
EBIT margin	23.0%	23.6%	24.2%	23.0%	23.6%	24.2%	0ppt	0ppt	0ppt
Net margin	13.6%	14.1%	14.6%	13.6%	14.1%	14.6%	0ppt	0ppt	0ppt

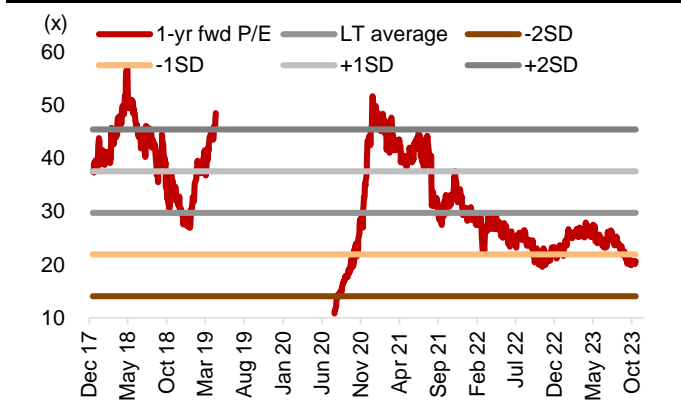
Source: CMBIGM estimates

**Figure 4: CMBIGM estimates vs consensus**

EUR mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,590	5,004	5,352	4,694	5,075	5,483	-2.2%	-1.4%	-2.4%
Gross Profit	3,681	4,028	4,324	3,750	4,054	4,392	-1.8%	-0.6%	-1.5%
EBIT	1,056	1,181	1,295	1,032	1,154	1,288	2.3%	2.3%	0.6%
Net profit	625	708	783	646	729	821	-3.1%	-2.9%	-4.6%
Gross Margin	80.2%	80.5%	80.8%	79.9%	79.9%	80.1%	0.3ppt	0.6ppt	0.7ppt
EBIT margin	23.0%	23.6%	24.2%	22.0%	22.7%	23.5%	1ppt	0.9ppt	0.7ppt
Net margin	13.6%	14.1%	14.6%	13.8%	14.4%	15.0%	-0.1ppt	-0.2ppt	-0.3ppt

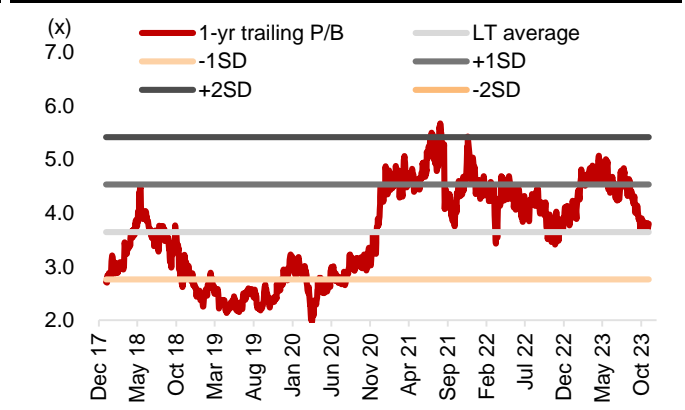
Source: Bloomberg, CMBIGM estimates

**Figure 5: 12M forward P/E chart**



Source: Bloomberg, CMBIGM estimates

**Figure 6: 12M Trailing P/B chart**



Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (EUR mn)						
<b>Revenue</b>	<b>2,423</b>	<b>3,366</b>	<b>4,201</b>	<b>4,590</b>	<b>5,004</b>	<b>5,352</b>
Cost of goods sold	(679)	(818)	(889)	(909)	(976)	(1,028)
<b>Gross profit</b>	<b>1,743</b>	<b>2,547</b>	<b>3,312</b>	<b>3,681</b>	<b>4,028</b>	<b>4,324</b>
<b>Operating expenses</b>	<b>(1,723)</b>	<b>(2,048)</b>	<b>(2,467)</b>	<b>(2,626)</b>	<b>(2,847)</b>	<b>(3,029)</b>
Selling expense	(1,260)	(1,421)	(1,704)	(1,813)	(1,961)	(2,082)
Admin expense	(154)	(217)	(266)	(280)	(305)	(326)
SG&A expense	(207)	(294)	(359)	(395)	(430)	(460)
R&D expense	(102)	(115)	(137)	(138)	(150)	(161)
<b>Operating profit</b>	<b>20</b>	<b>499</b>	<b>845</b>	<b>1,056</b>	<b>1,181</b>	<b>1,295</b>
<b>EBITDA</b>	<b>768</b>	<b>1,167</b>	<b>1,508</b>	<b>1,815</b>	<b>1,994</b>	<b>2,159</b>
Depreciation	(173)	(161)	(170)	(220)	(240)	(252)
Other amortisation	(53)	(37)	(41)	(46)	(35)	(37)
<b>EBIT</b>	<b>20</b>	<b>499</b>	<b>845</b>	<b>1,056</b>	<b>1,181</b>	<b>1,295</b>
Interest income	2	3	7	7	7	7
Interest expense	(10)	(9)	(6)	(6)	(6)	(6)
<b>Net Interest income/(expense)</b>	<b>(8)</b>	<b>(7)</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Foreign exchange gain/loss	(2)	(4)	(18)	0	0	0
Other income/expense	(17)	(29)	(71)	(46)	(46)	(46)
Others	(45)	(39)	(46)	(57)	(57)	(57)
<b>Pre-tax profit</b>	<b>(52)</b>	<b>422</b>	<b>711</b>	<b>954</b>	<b>1,079</b>	<b>1,193</b>
Income tax	(3)	(127)	(242)	(324)	(367)	(406)
<b>After tax profit</b>	<b>(54)</b>	<b>295</b>	<b>469</b>	<b>629</b>	<b>712</b>	<b>787</b>
Minority interest	0	(1)	(4)	(4)	(4)	(4)
Discontinued operations	0	0	0	0	0	0
<b>Net profit</b>	<b>(54)</b>	<b>294</b>	<b>465</b>	<b>625</b>	<b>708</b>	<b>783</b>
Gross dividends	90	179	281	378	428	474

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (EUR mn)						
<b>Current assets</b>	<b>1,655</b>	<b>2,170</b>	<b>2,425</b>	<b>2,842</b>	<b>3,255</b>	<b>3,697</b>
Cash & equivalents	442	982	1,092	1,316	1,613	1,958
Account receivables	290	330	332	367	400	428
Inventories	666	663	760	918	1,001	1,070
Other current assets	256	196	241	241	241	241
<b>Non-current assets</b>	<b>4,873</b>	<b>4,789</b>	<b>4,953</b>	<b>4,921</b>	<b>4,881</b>	<b>4,831</b>
PP&E	1,506	1,565	1,577	1,654	1,725	1,788
Intangibles	832	829	818	709	599	485
Other non-current assets	2,535	2,395	2,558	2,558	2,558	2,558
<b>Total assets</b>	<b>6,528</b>	<b>6,959</b>	<b>7,378</b>	<b>7,763</b>	<b>8,136</b>	<b>8,528</b>
<b>Current liabilities</b>	<b>1,227</b>	<b>1,420</b>	<b>1,490</b>	<b>1,527</b>	<b>1,567</b>	<b>1,600</b>
Short-term borrowings	301	249	161	161	161	161
Account payables	290	390	402	439	479	512
Tax payable	69	144	278	278	278	278
Other current liabilities	568	636	650	650	650	650
<b>Non-current liabilities</b>	<b>2,449</b>	<b>2,411</b>	<b>2,387</b>	<b>2,387</b>	<b>2,387</b>	<b>2,387</b>
Long-term borrowings	451	493	396	396	396	396
Deferred income	29	30	41	41	41	41
Other non-current liabilities	1,968	1,888	1,950	1,950	1,950	1,950
<b>Total liabilities</b>	<b>3,676</b>	<b>3,830</b>	<b>3,877</b>	<b>3,914</b>	<b>3,953</b>	<b>3,987</b>
Share capital	256	256	256	256	256	256
Retained earnings	(54)	294	465	625	708	783
Other reserves	2,630	2,564	2,761	2,945	3,192	3,471
<b>Total shareholders equity</b>	<b>2,832</b>	<b>3,114</b>	<b>3,482</b>	<b>3,826</b>	<b>4,156</b>	<b>4,511</b>
Minority interest	20	15	19	23	27	31
<b>Total equity and liabilities</b>	<b>6,528</b>	<b>6,959</b>	<b>7,378</b>	<b>7,763</b>	<b>8,136</b>	<b>8,528</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (EUR mn)</b>						
<b>Operating</b>						
Profit before taxation	(52)	422	711	954	1,079	1,193
Depreciation & amortization	648	624	662	701	753	801
Tax paid	(44)	(37)	(220)	(324)	(367)	(406)
Change in working capital	(82)	108	(104)	(156)	(76)	(64)
Others	123	27	74	59	61	64
<b>Net cash from operations</b>	<b>592</b>	<b>1,144</b>	<b>1,124</b>	<b>1,233</b>	<b>1,449</b>	<b>1,587</b>
<b>Investing</b>						
Capital expenditure	(107)	(219)	(241)	(235)	(235)	(239)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(43)	82	(9)	0	0	0
<b>Net cash from investing</b>	<b>(150)</b>	<b>(137)</b>	<b>(250)</b>	<b>(235)</b>	<b>(235)</b>	<b>(239)</b>
<b>Financing</b>						
Dividend paid	0	(91)	(180)	(281)	(378)	(428)
Net borrowings	(65)	(11)	(179)	(493)	(538)	(575)
Proceeds from share issues	0	0	0	0	0	0
Others	(330)	(393)	(428)	0	0	0
<b>Net cash from financing</b>	<b>(395)</b>	<b>(495)</b>	<b>(787)</b>	<b>(775)</b>	<b>(916)</b>	<b>(1,004)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	421	442	982	1,092	1,316	1,613
Exchange difference	(26)	28	24	0	0	0
<b>Cash at the end of the year</b>	<b>442</b>	<b>982</b>	<b>1,092</b>	<b>1,316</b>	<b>1,613</b>	<b>1,958</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	(24.9%)	38.9%	24.8%	9.3%	9.0%	7.0%
Gross profit	(24.8%)	46.1%	30.0%	11.1%	9.4%	7.4%
Operating profit	(93.5%)	2,389.8%	69.2%	24.9%	11.9%	9.7%
EBITDA	(23.0%)	52.0%	29.2%	20.4%	9.8%	8.3%
EBIT	(93.5%)	2,389.8%	69.2%	24.9%	11.9%	9.7%
Net profit	na	na	58.1%	34.4%	13.2%	10.6%
Adj. net profit	na	na	58.1%	34.4%	13.2%	10.6%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	72.0%	75.7%	78.8%	80.2%	80.5%	80.8%
Operating margin	0.8%	14.8%	20.1%	23.0%	23.6%	24.2%
EBITDA margin	31.7%	34.7%	35.9%	39.5%	39.8%	40.3%
Adj. net profit margin	(2.2%)	8.7%	11.1%	13.6%	14.1%	14.6%
Return on equity (ROE)	(1.9%)	9.9%	14.1%	17.1%	17.7%	18.1%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.1	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)
Current ratio (x)	1.3	1.5	1.6	1.9	2.1	2.3
Receivable turnover days	43.7	35.7	28.8	29.2	29.2	29.2
Inventory turnover days	100.4	71.9	66.1	73.0	73.0	73.0
Payable turnover days	43.6	42.3	34.9	34.9	34.9	34.9
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	na	47.5	29.2	22.8	20.2	18.2
P/E (diluted)	na	47.5	29.2	22.8	20.2	18.2
P/B	3.1	4.5	3.9	3.7	3.4	3.2
P/CFPS	14.6	12.2	12.1	11.6	9.9	9.0
Div yield (%)	1.0	1.3	2.1	2.6	3.0	3.3
EV	13,958.2	13,408.9	13,113.6	12,889.7	12,592.5	12,247.7
EV/Sales	5.8	4.0	3.1	2.8	2.5	2.3
EV/EBIT	695.8	26.8	15.5	12.2	10.7	9.5
EV/EBITDA	18.2	11.5	8.7	7.1	6.3	5.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# Disclosures & Disclaimers

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Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

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