

Prada SpA (1913 HK)

4Q preview: cFX/reported sales +12.1%/6.4%

We envisage that Prada will deliver another solid quarter with 12% cFX Group sales growth to EUR1.3bn, thanks to comparable growth in the retail segment, which, in our view, will regain its momentum by lapping on a sequentially easier comp of the quarter. By region, Asia again is a major driver with cFX 20%+ growth supported by China's recovering outbound tourism. The same should also benefit Japan, which simultaneously enjoys tailwind from a favourable currency and sets to deliver cFX 35% sales growth. Encouragingly, momentum in the US trend well quarter-to-quarter, from -6%/-2% in 2Q/3Q to almost flattish in 4Q. This is despite a volatile Europe, when we expect growth in 4Q to decelerate from that in 3Q. We continue to see steady domestic demand to support growth of the region, but warfare in the Middle East has led to a languishing inbound tourist flow that partially offsets the strength. Down the P&L, we look for a robust GPM at approximately 80%, along with a steadily declining opex ratio albeit a stagnant 8.6% A&P spend, considering Prada is committed to reinvest into branding. All these explain our 16% 2H net profit growth estimate. We are Buyer of Prada for its neat turnaround in which we see ample market share gain potential on its revamped Prada brand design and traction-gaining playful line MiuMiu.

- **2024 outlook.** We look for 8% cFX group sales growth which consists of an average 5% ASP uptake from selective SKUs, 2% volume growth and 1% space expansion. The unweathered recovery in China outbound tourist along with an acceleration in MiuMiu growth will be integral catalysts.
- **MiuMiu.** Undoubtedly the hottest brand in 2023 thanks to the success on hero products such as [ballet flats](#) and the [Arcadie bag](#). Miumiu is correctly repositioned as a stand-alone brand with proprietary designer's approach to the 20-something who have the desire to be avant-garde and twisted. We see every reason for MiuMiu to outperform in 2024 with ~40% growth when the brand remains hugely subscale within the luxury space.
- **Earnings revision.** We moderately adjust our 2023E revenue for a slightly higher 4Q estimate. Our 2024-25E estimates are largely unchanged.
- **Valuation.** Our revised TP is DCF-based. Along with roll-forward valuation, we update our model with 9.7% WACC (from 7.7%) which is based on 2.4% post-tax cost of debt (unchanged) and 10.8% cost of equity (from 8.5%). For the latter, we align our risk premium to 8.5% (from 5.0%), and beta to 0.9 (from 0.8) by referring to Bloomberg estimates. Our terminal growth is unchanged at 2%. Our TP implies 15.7x end-24E EV/EBIT, which is still slightly below the benchmark of ~16.7x global peer average.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (EUR mn)	3,366	4,201	4,646	5,008	5,368
YoY growth (%)	38.9	24.8	10.6	7.8	7.2
Net profit (EUR mn)	294.3	465.2	628.4	731.7	808.2
EPS (Reported) (EUR)	0.11	0.18	0.25	0.29	0.32
YoY growth (%)	na	58.1	35.1	16.4	10.4
Consensus EPS (EUR)	na	na	0.26	0.29	0.32
P/E (x)	47.5	29.2	19.8	17.0	15.4
P/B (x)	4.5	3.9	3.3	3.0	2.7
Yield (%)	1.3	2.1	3.1	3.6	3.9
ROE (%)	9.9	14.1	17.2	18.3	18.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$64.5
(Previous TP)	HK\$70.0)
Up/Downside	52.0%
Current Price	HK\$41.6

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Stock Data

Mkt Cap (HK\$ mn)	106,575.0
Avg 3 mths t/o (HK\$ mn)	41.8
52w High/Low (HK\$)	60.50/41.00
Total Issued Shares (mn)	2558.8

Source: FactSet

Shareholding Structure

Prada Holding SpA	79.9%
Invesco	4.9%

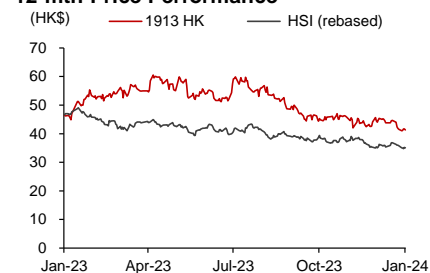
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.8%	-9.3%
3-mth	-6.1%	3.1%
6-mth	-27.6%	-17.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

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Figure 1: Major DCF assumption

DCF Valuation Summary (€m / HKD)	
Net Present Value	9,013
+ Terminal Value	9,322
= Enterprise value	18,335
- Net debt and other adjustments	1,080
= Total Equity value	19,415
Number of shares (mn)	2,559
DCF value per share (HK\$)	64.5

WACC assumptions	
Debt level	12.7%
Equity level	87.3%
Tax rate	32.0%
Borrowing premium	0.0%
Post-tax cost of debt	2.4%
Risk free rate	3.5%
Risk Premium	8.5%
Beta	0.9
Cost of equity	10.8%
WACC	9.740%
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					
64.5	9.5%	9.6%	9.7%	9.8%	9.9%
1.8%	65.3	64.5	63.7	62.9	62.1
1.9%	65.8	64.9	64.1	63.3	62.5
2.0%	66.2	65.3	64.5	63.7	62.9
2.1%	66.7	65.8	64.9	64.1	63.3
2.2%	67.2	66.3	65.4	64.5	63.7

Sensitivity to RF and long-term growth					
64.5	3.3%	3.4%	3.5%	3.6%	3.7%
1.8%	65.2	64.4	63.7	62.9	62.1
1.9%	65.7	64.9	64.1	63.3	62.5
2.0%	66.1	65.3	64.5	63.7	62.9
2.1%	66.6	65.8	64.9	64.1	63.3
2.2%	67.1	66.2	65.4	64.6	63.8

Sensitivity to RF and Equity Risk Premium (ERP)					
64.5	3.3%	3.4%	3.5%	3.6%	3.7%
6.5%	82.6	81.3	80.1	78.9	77.7
7.5%	73.5	72.4	71.4	70.5	69.5
8.5%	66.1	65.3	64.5	63.7	62.9
9.5%	60.1	59.4	58.8	58.1	57.5
10.5%	55.1	54.6	54.0	53.4	52.9

Source: Bloomberg, CMBIGM estimates

Figure 3: Earnings revisions

EUR mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,646	5,008	5,368	4,590	5,004	5,352	1.2%	0.1%	0.3%
Gross profit	3,726	4,031	4,337	3,681	4,028	4,324	1.2%	0.1%	0.3%
EBIT	1,032	1,192	1,304	1,056	1,181	1,295	-2.3%	0.9%	0.7%
Net profit	628	732	808	625	708	783	0.5%	3.4%	3.2%
Gross margin	80.2%	80.5%	80.8%	80.2%	80.5%	80.8%	0ppt	0ppt	0ppt
EBIT margin	22.2%	23.8%	24.3%	23.0%	23.6%	24.2%	-0.8ppt	0.2ppt	0.1ppt
Net margin	13.5%	14.6%	15.1%	13.6%	14.1%	14.6%	-0.1ppt	0.5ppt	0.4ppt

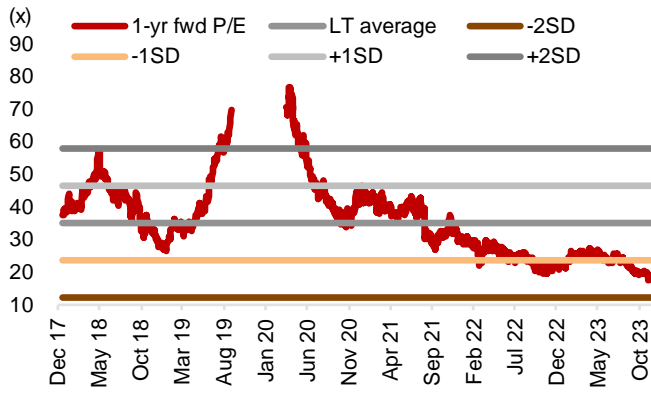
Source: CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

EUR mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,646	5,008	5,368	4,678	5,041	5,468	-0.7%	-0.7%	-1.8%
Gross profit	3,726	4,031	4,337	3,739	4,035	4,384	-0.3%	-0.1%	-1.1%
EBIT	1,032	1,192	1,304	1,032	1,121	1,247	0.0%	6.3%	4.6%
Net profit	628	732	808	655	726	812	-4.2%	0.7%	-0.4%
Gross margin	80.2%	80.5%	80.8%	79.9%	80.0%	80.2%	0.3ppt	0.5ppt	0.6ppt
EBIT margin	22.2%	23.8%	24.3%	22.1%	22.2%	22.8%	0.1ppt	1.6ppt	1.5ppt
Net margin	13.5%	14.6%	15.1%	14.1%	14.4%	14.8%	-0.6ppt	0.2ppt	0.2ppt

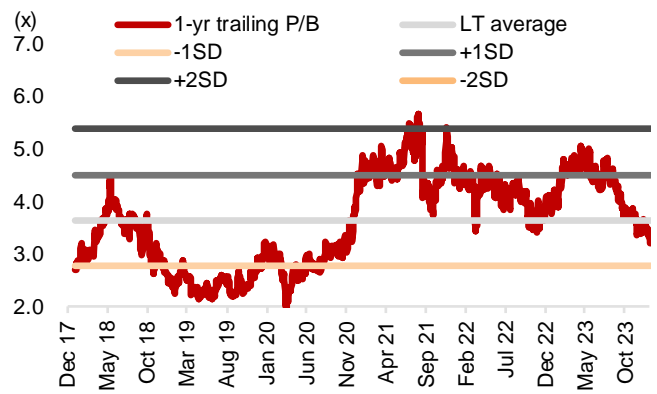
Source: Bloomberg, CMBIGM estimates

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)						
Revenue	2,423	3,366	4,201	4,646	5,008	5,368
Cost of goods sold	(679)	(818)	(889)	(920)	(977)	(1,031)
Gross profit	1,743	2,547	3,312	3,726	4,031	4,337
Operating expenses	(1,723)	(2,048)	(2,467)	(2,635)	(2,840)	(3,033)
Selling expense	(1,260)	(1,421)	(1,704)	(1,812)	(1,943)	(2,072)
Admin expense	(154)	(217)	(266)	(283)	(305)	(327)
SG&A expense	(207)	(294)	(359)	(400)	(441)	(472)
R&D expense	(102)	(115)	(137)	(139)	(150)	(161)
Operating profit	20	499	845	1,092	1,192	1,304
EBITDA	768	1,167	1,508	1,861	2,006	2,171
Depreciation	(173)	(161)	(170)	(223)	(240)	(252)
Other amortisation	(53)	(37)	(41)	(46)	(35)	(38)
EBIT	20	499	845	1,092	1,192	1,304
Interest income	2	3	7	7	7	7
Interest expense	(10)	(9)	(6)	(6)	(6)	(6)
Net Interest income/(expense)	(8)	(7)	1	1	1	1
Foreign exchange gain/loss	(2)	(4)	(18)	0	0	0
Other income/expense	(17)	(29)	(71)	(106)	(46)	(46)
Others	(45)	(39)	(46)	(57)	(65)	(65)
Pre-tax profit	(52)	422	711	930	1,082	1,194
Income tax	(3)	(127)	(242)	(298)	(346)	(382)
After tax profit	(54)	295	469	632	736	812
Minority interest	0	(1)	(4)	(4)	(4)	(4)
Discontinued operations	0	0	0	0	0	0
Net profit	(54)	294	465	628	732	808
Adjusted net profit	(54)	294	465	628	732	808
Gross dividends	90	179	281	380	443	489
BALANCE SHEET						
	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (EUR mn)						
Current assets	1,655	2,170	2,425	2,850	3,280	3,734
Cash & equivalents	442	982	1,092	1,308	1,637	1,990
Account receivables	290	330	332	372	401	429
Inventories	666	663	760	929	1,002	1,074
Other current assets	256	196	241	241	241	241
Non-current assets	4,873	4,789	4,953	4,921	4,881	4,831
PP&E	1,506	1,565	1,577	1,655	1,726	1,789
Intangibles	832	829	818	709	598	484
Other non-current assets	2,535	2,395	2,558	2,558	2,558	2,558
Total assets	6,528	6,959	7,378	7,771	8,161	8,565
Current liabilities	1,227	1,420	1,490	1,533	1,567	1,601
Short-term borrowings	301	249	161	161	161	161
Account payables	290	390	402	444	479	513
Tax payable	69	144	278	278	278	278
Other current liabilities	568	636	650	650	650	650
Non-current liabilities	2,449	2,411	2,387	2,387	2,387	2,387
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
Total liabilities	3,676	3,830	3,877	3,919	3,954	3,988
Share capital	256	256	256	256	256	256
Retained earnings	(54)	294	465	628	732	808
Other reserves	2,630	2,564	2,761	2,945	3,193	3,482
Total shareholders equity	2,832	3,114	3,482	3,829	4,181	4,546
Minority interest	20	15	19	23	27	31
Total equity and liabilities	6,528	6,959	7,378	7,771	8,161	8,565

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (EUR mn)						
Operating						
Profit before taxation	(52)	422	711	930	1,082	1,194
Depreciation & amortization	648	624	662	710	753	803
Tax paid	(44)	(37)	(220)	(298)	(346)	(382)
Change in working capital	(82)	108	(104)	(166)	(67)	(66)
Others	123	27	74	59	61	64
Net cash from operations	592	1,144	1,124	1,235	1,483	1,613
Investing						
Capital expenditure	(107)	(219)	(241)	(238)	(235)	(240)
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
Net cash from investing	(150)	(137)	(250)	(238)	(235)	(240)
Financing						
Dividend paid	0	(91)	(180)	(281)	(380)	(443)
Net borrowings	(65)	(11)	(179)	(499)	(538)	(577)
Proceeds from share issues	0	0	0	0	0	0
Others	(330)	(393)	(428)	0	0	0
Net cash from financing	(395)	(495)	(787)	(781)	(919)	(1,020)
Net change in cash						
Cash at the beginning of the year	421	442	982	1,092	1,308	1,637
Exchange difference	(26)	28	24	0	0	0
Cash at the end of the year	442	982	1,092	1,308	1,637	1,990
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(24.9%)	38.9%	24.8%	10.6%	7.8%	7.2%
Gross profit	(24.8%)	46.1%	30.0%	12.5%	8.2%	7.6%
Operating profit	(93.5%)	2,389.8%	69.2%	29.2%	9.2%	9.4%
EBITDA	(23.0%)	52.0%	29.2%	23.4%	7.8%	8.3%
EBIT	(93.5%)	2,389.8%	69.2%	29.2%	9.2%	9.4%
Net profit	na	na	58.1%	35.1%	16.4%	10.4%
Adj. net profit	na	na	58.1%	35.1%	16.4%	10.4%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	72.0%	75.7%	78.8%	80.2%	80.5%	80.8%
Operating margin	0.8%	14.8%	20.1%	23.5%	23.8%	24.3%
EBITDA margin	31.7%	34.7%	35.9%	40.0%	40.0%	40.4%
Adj. net profit margin	(2.2%)	8.7%	11.1%	13.5%	14.6%	15.1%
Return on equity (ROE)	(1.9%)	9.9%	14.1%	17.2%	18.3%	18.5%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	47.5	29.2	19.8	17.0	15.4
P/E (diluted)	na	47.5	29.2	19.8	17.0	15.4
P/B	3.1	4.5	3.9	3.3	3.0	2.7
P/CFPS	14.6	12.2	12.1	10.1	8.4	7.7
Div yield (%)	1.0	1.3	2.1	3.1	3.6	3.9
EV	13,958.2	13,408.9	13,113.6	12,897.4	12,568.5	12,215.4
EV/Sales	5.8	4.0	3.1	2.8	2.5	2.3
EV/EBIT	695.8	26.8	15.5	11.8	10.5	9.4
EV/EBITDA	18.2	11.5	8.7	6.9	6.3	5.6

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

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