

Prada SpA (1913 HK)

4Q23 cFX revenue +18%; Miu Miu overshoot

4Q results were a beat to us and consensus, with the quarter's net revenue expanding by cFX +18.1%. The strength was mainly driven by 82% growth in Miu Miu (vs CMBle 50%+). All regions marked robust growth, especially Japan (cFX +38%) and APAC (cFX +32%), when the US continued to record sequential improvement as we had expected. Another positive read from the results was a sequentially higher 2H23 GPM that reached 80.5%. This helped deliver a 0.9pp hoh increase in EBIT margins. During the analyst call, management confirmed positive sales momentum year-to-date that has extended from 4Q23. This is despite the challenging comparison base and normalized consumption demand in major developed markets. We have a BUY on Prada.

■ **2024 outlook:** Prada commented that sales in the first two months of the year maintained a consistent trajectory from 4Q23 (cFX +18.1%). This could suggest sales over the CNY were encouraging, when Miu Miu and Prada could continue to gain market share. Other than that, routine price hikes of 4-8% in the year will be implemented, with a particular focus on clothing and leather goods categories. We expect that Prada will outperform its peers in 2024 and achieve long-term margin expansion, supported by the sustained A&P investment at around 40% or higher.

■ **Other key takeaways.** In 2023, strong sales across regions and brands were the main driver of profit expansion, and this will be a trend to continue in 2024. By region, Japan remains a key market due to local and tourist demand, while the China cluster is likely to perform well with recovering outbound tourism to Europe (back to 70%+ vs 2019). For the US, the region will turn into another engine for growth going forward. Meanwhile, Prada is committed to long-term success by re-investing in its brands, albeit with lower EBIT margin than peers, and this strategic choice proved successful in 2023. Separately, the closure of outlet stores, which was initiated years ago, is progressing and now the segment only contributes c10% to Prada's overall sales. The segment will be entirely phased out in the next 2-3 years.

■ **Earnings revision/Valuation.** We refresh our 2024-25E estimates with the actual 4Q numbers and other house-keeping changes. We introduce our 2026E forecasts. Our TP is DCF-based. In our model, we assume 9.9% WACC which is based on 2.4% post-tax cost of debt and 10.8% cost of equity. For the latter, we align our risk premium to 8.5%, and beta to 0.9 by referring to Bloomberg estimates. Our terminal growth is set at 2%. Our TP implies 15.0x end-25E P/E, which remains lower than the ~18.0x global peer average.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (EUR mn)	4,201	4,726	5,091	5,454	5,845
YoY growth (%)	24.8	12.5	7.7	7.1	7.2
Net profit (EUR mn)	465.2	671.0	739.1	808.1	883.2
EPS (Reported) (EUR)	0.18	0.26	0.29	0.32	0.35
YoY growth (%)	58.1	44.2	10.1	9.3	9.3
Consensus EPS (EUR)	na	na	0.28	0.31	0.35
P/E (x)	29.2	23.1	22.5	20.6	18.9
P/B (x)	3.9	4.0	3.9	3.6	3.3
Yield (%)	2.1	2.3	2.3	2.5	2.8
ROE (%)	14.1	18.3	18.3	18.1	18.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$65.2
(Previous TP)	HK\$64.5)
Up/Downside	17.1%
Current Price	HK\$55.7

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Stock Data

Mkt Cap (HK\$ mn)	142,398.6
Avg 3 mths t/o (HK\$ mn)	56.3
52w High/Low (HK\$)	60.50/41.00
Total Issued Shares (mn)	2558.8

Source: FactSet

Shareholding Structure

Prada Holding SpA	80.0%
Invesco	5.0%

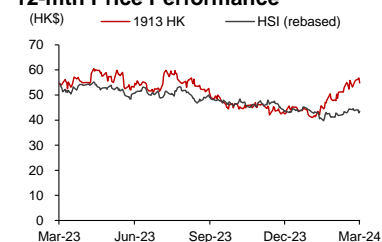
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.5%	13.4%
3-mth	30.5%	34.7%
6-mth	14.3%	27.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

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Figure 1: Major DCF assumption

DCF Valuation Summary (€m / HKD)	
Net Present Value	9,135
+ Terminal Value	10,041
= Enterprise value	19,176
- Net debt and other adjustments	456
= Total Equity value	19,632
Number of shares (mn)	2,559
DCF value per share (HK\$)	65.2

WACC assumptions	
Debt level	11.2%
Equity level	88.8%
Tax rate	30.7%
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	9.870%
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						
65.2	9.7%	9.8%	9.9%	10.0%	10.1%	
1.8%	66.1	65.2	64.3	63.5	62.7	
1.9%	66.5	65.6	64.8	63.9	63.1	
2.0%	67.0	66.1	65.2	64.3	63.5	
2.1%	67.5	66.6	65.7	64.8	63.9	
2.2%	68.0	67.1	66.1	65.2	64.4	

Sensitivity to RF and long-term growth						
65.2	3.3%	3.4%	3.5%	3.6%	3.7%	
1.8%	66.0	65.2	64.3	63.5	62.7	
1.9%	66.5	65.6	64.8	63.9	63.1	
2.0%	67.0	66.1	65.2	64.4	63.5	
2.1%	67.5	66.6	65.7	64.8	64.0	
2.2%	68.0	67.0	66.2	65.3	64.4	

Sensitivity to RF and Equity Risk Premium (ERP)						
65.2	3.3%	3.4%	3.5%	3.6%	3.7%	
6.5%	84.8	83.4	82.0	80.7	79.5	
7.5%	74.9	73.8	72.7	71.7	70.7	
8.5%	67.0	66.1	65.2	64.4	63.5	
9.5%	60.5	59.8	59.1	58.4	57.7	
10.5%	55.1	54.5	53.9	53.3	52.7	

Source: Bloomberg, CMBIGM estimates

Figure 3: Earnings revisions

EUR mn	New			Old			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	5,091	5,454	5,845	5,008	5,368	na	1.7%	1.6%	na
Gross Profit	4,113	4,423	4,757	4,031	4,337	na	2.0%	2.0%	na
EBIT	1,167	1,266	1,375	1,192	1,304	na	-2.1%	-2.9%	na
Net profit	739	808	883	732	808	na	1.0%	0.0%	na
Gross Margin	80.8%	81.1%	81.4%	80.5%	80.8%	na	0.3ppt	0.3ppt	na
EBIT margin	22.9%	23.2%	23.5%	23.8%	24.3%	na	-0.9ppt	-1.1ppt	na
Net margin	14.5%	14.8%	15.1%	14.6%	15.1%	na	-0.1ppt	-0.2ppt	na

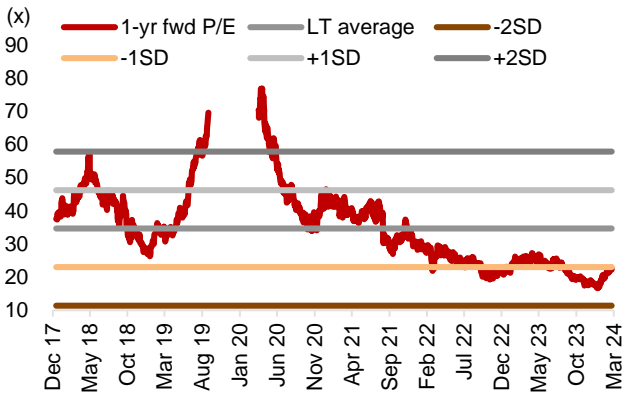
Source: CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

EUR mn	CMBIGM			Consensus			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	5,091	5,454	5,845	5,024	5,435	5,820	1.3%	0.3%	0.4%
Gross Profit	4,113	4,423	4,757	4,025	4,363	4,668	2.2%	1.4%	1.9%
EBIT	1,167	1,266	1,375	1,127	1,257	1,386	3.5%	0.7%	-0.8%
Net profit	739	808	883	718	808	893	2.9%	0.0%	-1.1%
Gross Margin	80.8%	81.1%	81.4%	80.1%	80.3%	80.2%	0.7ppt	0.8ppt	1.2ppt
EBIT margin	22.9%	23.2%	23.5%	22.4%	23.1%	23.8%	0.5ppt	0.1ppt	-0.3ppt
Net margin	14.5%	14.8%	15.1%	14.3%	14.9%	15.3%	0.2ppt	0ppt	-0.2ppt

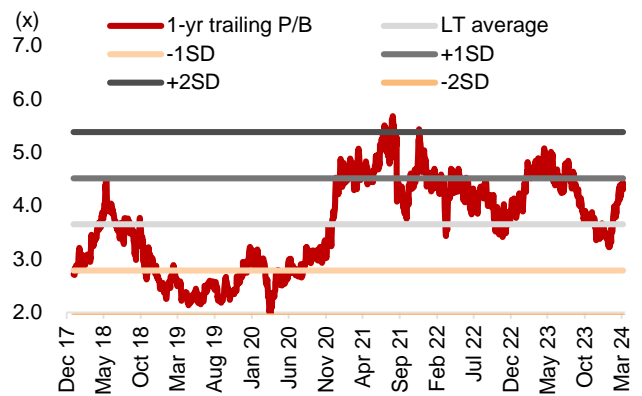
Source: Bloomberg, CMBIGM estimates

Figure 5: 12M forward P/E chart



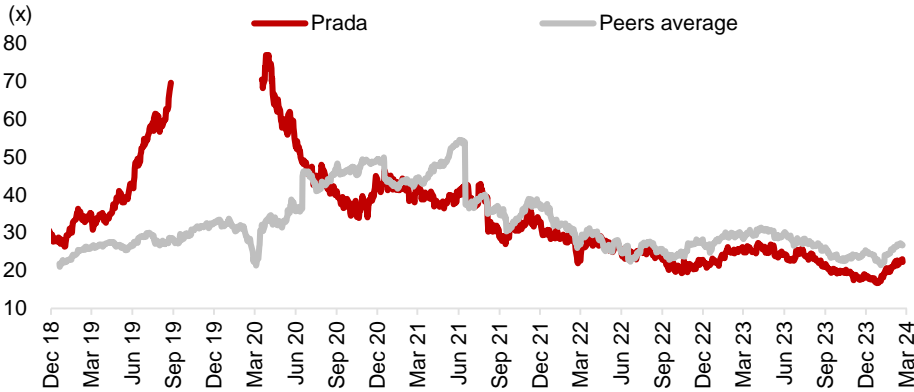
Source: Bloomberg, CMBIGM estimates

Figure 6: 12M Trailing P/B chart



Source: Bloomberg, CMBIGM estimates

Figure 7: P/E trends of Prada and global luxury names



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (EUR mn)						
Revenue	3,366	4,201	4,726	5,091	5,454	5,845
Cost of goods sold	(818)	(889)	(925)	(977)	(1,031)	(1,087)
Gross profit	2,547	3,312	3,802	4,113	4,423	4,757
Operating expenses	(2,048)	(2,467)	(2,740)	(2,947)	(3,157)	(3,383)
Selling expense	(1,421)	(1,704)	(1,873)	(2,017)	(2,161)	(2,316)
Admin expense	(217)	(266)	(297)	(319)	(342)	(367)
SG&A expense	(294)	(359)	(420)	(448)	(480)	(514)
R&D expense	(115)	(137)	(151)	(162)	(174)	(186)
Operating profit	499	845	1,062	1,167	1,266	1,375
EBITDA	1,167	1,508	1,738	2,007	2,161	2,333
Depreciation	(161)	(170)	(170)	(244)	(256)	(275)
Other amortisation	(37)	(41)	(41)	(36)	(38)	(41)
EBIT	499	845	1,062	1,167	1,266	1,375
Interest income	3	7	0	0	0	0
Interest expense	(9)	(6)	0	0	0	0
Net Interest income/(expense)	(7)	1	0	0	0	0
Foreign exchange gain/loss	(4)	(18)	0	0	0	0
Other income/expense	(29)	(71)	(32)	(32)	(32)	(32)
Others	(39)	(46)	(58)	(65)	(65)	(65)
Pre-tax profit	422	711	971	1,070	1,169	1,278
Income tax	(127)	(242)	(298)	(328)	(359)	(392)
After tax profit	295	469	673	741	810	886
Minority interest	(1)	(4)	(2)	(2)	(2)	(2)
Discontinued operations	0	0	0	0	0	0
Net profit	294	465	671	739	808	883
Gross dividends	179	281	351	386	422	461

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (EUR mn)						
Current assets	2,170	2,425	2,163	2,507	2,895	3,325
Cash & equivalents	982	1,092	690	942	1,239	1,570
Account receivables	330	332	405	436	467	501
Inventories	663	760	783	843	903	968
Other current assets	196	241	285	285	285	285
Non-current assets	4,789	4,953	5,452	5,534	5,605	5,676
PP&E	1,565	1,577	2,033	2,064	2,086	2,110
Intangibles	829	818	846	896	946	993
Other non-current assets	2,395	2,558	2,573	2,573	2,573	2,573
Total assets	6,959	7,378	7,615	8,041	8,500	9,001
Current liabilities	1,420	1,490	1,450	1,485	1,520	1,558
Short-term borrowings	249	161	148	148	148	148
Account payables	390	402	453	488	523	561
Tax payable	144	278	122	122	122	122
Other current liabilities	636	650	727	727	727	727
Non-current liabilities	2,411	2,387	2,288	2,288	2,288	2,288
Long-term borrowings	493	396	338	338	338	338
Deferred income	30	41	36	36	36	36
Other non-current liabilities	1,888	1,950	1,914	1,914	1,914	1,914
Total liabilities	3,830	3,877	3,738	3,773	3,808	3,845
Share capital	256	256	256	256	256	256
Retained earnings	294	465	671	739	808	883
Other reserves	2,564	2,761	2,927	3,247	3,600	3,986
Total shareholders equity	3,114	3,482	3,854	4,242	4,664	5,125
Minority interest	15	19	23	25	28	30
Total equity and liabilities	6,959	7,378	7,615	8,041	8,500	9,001

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (EUR mn)						
Operating						
Profit before taxation	422	711	971	1,070	1,169	1,278
Depreciation & amortization	624	662	676	819	872	935
Tax paid	(37)	(220)	(487)	(328)	(359)	(392)
Change in working capital	108	(104)	100	(57)	(56)	(61)
Others	27	74	(106)	21	22	24
Net cash from operations	1,144	1,124	1,155	1,525	1,648	1,783
Investing						
Capital expenditure	(219)	(241)	(760)	(361)	(366)	(387)
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	82	(9)	0	0	0	0
Net cash from investing	(137)	(250)	(759)	(361)	(366)	(387)
Financing						
Dividend paid	(91)	(180)	(281)	(351)	(386)	(422)
Net borrowings	(11)	(179)	(62)	(560)	(600)	(643)
Proceeds from share issues	0	0	0	0	0	0
Others	(393)	(428)	(432)	0	0	0
Net cash from financing	(495)	(787)	(776)	(911)	(986)	(1,065)
Net change in cash						
Cash at the beginning of the year	442	982	1,092	690	942	1,239
Exchange difference	28	24	(22)	0	0	0
Cash at the end of the year	982	1,092	690	942	1,239	1,570
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	38.9%	24.8%	12.5%	7.7%	7.1%	7.2%
Gross profit	46.1%	30.0%	14.8%	8.2%	7.5%	7.6%
Operating profit	2,389.8%	69.2%	25.6%	9.9%	8.5%	8.6%
EBITDA	52.0%	29.2%	15.3%	15.5%	7.7%	8.0%
EBIT	2,389.8%	69.2%	25.6%	9.9%	8.5%	8.6%
Net profit	na	58.1%	44.2%	10.1%	9.3%	9.3%
Adj. net profit	na	58.1%	44.2%	10.1%	9.3%	9.3%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	75.7%	78.8%	80.4%	80.8%	81.1%	81.4%
Operating margin	14.8%	20.1%	22.5%	22.9%	23.2%	23.5%
EBITDA margin	34.7%	35.9%	36.8%	39.4%	39.6%	39.9%
Adj. net profit margin	8.7%	11.1%	14.2%	14.5%	14.8%	15.1%
Return on equity (ROE)	9.9%	14.1%	18.3%	18.3%	18.1%	18.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.2)	(0.1)	(0.1)	(0.2)	(0.2)
Current ratio (x)	1.5	1.6	1.5	1.7	1.9	2.1
Receivable turnover days	35.7	28.8	31.3	31.3	31.3	31.3
Inventory turnover days	71.9	66.1	60.5	60.5	60.5	60.5
Payable turnover days	42.3	34.9	35.0	35.0	35.0	35.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	47.5	29.2	23.1	22.5	20.6	18.9
P/E (diluted)	47.5	29.2	23.1	22.5	20.6	18.9
P/B	4.5	3.9	4.0	3.9	3.6	3.3
P/CFPS	12.2	12.1	13.4	10.9	10.1	9.3
Div yield (%)	1.3	2.1	2.3	2.3	2.5	2.8
EV	19,565.4	19,270.2	19,602.5	19,349.7	19,053.0	18,721.7
EV/Sales	5.8	4.6	4.1	3.8	3.5	3.2
EV/EBIT	39.2	22.8	18.5	16.6	15.0	13.6
EV/EBITDA	16.8	12.8	11.3	9.6	8.8	8.0

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

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