



## Company Report: Prada (01913 HK)

公司报告: 普拉达 (01913 HK)

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# No Short Term Turnaround, Maintain “Neutral”

短期内没有扭转, 维持“中性”

Rating:

**Neutral**

Maintained

评级:

中性 (维持)

6-18m TP 目标价:

**HK\$37.62**

Revised from 原目标价

HK\$45.32

Share price 股价:

HK\$38.150

### Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(13.2)	(26.1)	(32.1)
Rel. % to HS index 相对恒指变动 %	(9.9)	(37.2)	(48.8)
Avg. share price(HK\$) 平均股价 (港元)	40.1	43.4	47.7

Source: Bloomberg, Guotai Junan International.

- **Net profit shrank by 44.2% in 1QFY16.** Prada posted a frustrating 1QFY16 result that gross margin declined by 1.5ppt YoY and operating expense as percentage of sales increased by 7.6ppt YoY. Top line recorded a single digit growth driven by a weak Euro. However, at constant exchange rate, it has dropped by 5.4% YoY. Increasing rental costs and staff costs together with a weak Euro explained the increased operating cost.
- **Cut FY16/17 EPS forecasts by 21.6% and 22.5% respectively to factor in weak sales momentum and increasing operating cost.** We trim FY16/17 revenue forecasts by 4.1% and 7.6% respectively as Chinese purchase remains sluggish. The operating margin estimates for FY16/17 were revised down by 3.6ppt and 3.2ppt respectively mainly to reflect increasing amortization and depreciation, staff and rental expenses.
- **Maintain “Neutral” but cut TP to HK\$37.62.** We see no short term turnaround for the Company. We maintain the Company’s rating as “Neutral” but cut our TP to HK\$37.62, representing 25.0x and 22.5x FY16 and FY17 PER respectively.
- **2016 财年 1 季度净利润收缩 44.2%。** 普拉达公布令人沮丧的 2016 财年 1 季度业绩, 毛利率同比下跌 1.5 个百分点和经营开支占销售比例同比增加 7.6 个百分点。由弱欧元驱动, 营收录得单位数增长。然而, 在固定汇率下, 营收同比下跌 5.4%。租金和员工成本的增加, 加上疲弱的欧元, 解释了经营成本的上升。
- **分别削 2016 和 2017 财年每股盈利预测 21.6% 和 22.5%, 以反映疲弱的销售动能和仍在增加的经营成本。** 由于中国人的购买仍没有起色, 我们分别下调 2016 和 2017 财年销售预测 4.1% 和 7.6%。2016 和 2017 财年的经营利润率分别下调 3.6 和 3.2 个百分点, 主要是反映摊销和折旧、员工和租金开支的增加。
- **维持“中性”评级但下调目标价至 37.62 港元。** 我们看不到公司在短期内有扭转。我们维持对公司的评级为“中性”, 但调低目标价至 37.62 港元, 分别相当于 25.0 倍和 22.5 倍 2016 财年和 2017 财年市盈率。

Year End 年结	Turnover 收入	Net Profit 股东净利	EPS 每股净利	EPS 每股净利变动	PER 市盈率	BPS 每股净资产	PBR 市净率	DPS 每股股息	Yield 股息率	ROE 净资产收益率
1/31	(EUR m)	(EUR m)	(EUR)	(Δ%)	(x)	(EUR)	(x)	(EUR)	(%)	(%)
FY14A	3,587	628	0.245	0.3	14.9	1.050	3.5	0.110	3.0	25.1
FY15A	3,552	451	0.176	(28.2)	21.9	1.173	3.3	0.110	2.9	15.8
FY16F	3,801	437	0.171	(3.1)	25.4	1.198	3.6	0.068	1.6	14.4
FY17F	3,996	485	0.189	11.0	23.3	1.337	3.3	0.076	1.7	14.9
FY18F	4,127	537	0.210	10.8	21.4	1.462	3.1	0.084	1.9	15.0

Shares in issue (m) 总股数 (m)	2,558.8	Major shareholder 大股东	Prada Holding B.V. 80.0%
Market cap. (HK\$ m) 市值 (HK\$ m)	97,619.1	Free float (%) 自由流通比率 (%)	20.0
3 month average vol. 3 个月平均成交股数 ('000)	1,864.7	FY16 Net gearing (%) 16 年净负债/股东资金 (%)	Net Cash
52 Weeks high/low (HK\$) 52 周高/低	57.600 / 36.000	FY16 Est. NAV (HK\$) FY16 每股估值 (港元)	38.2

Source: the Company, Guotai Junan International.

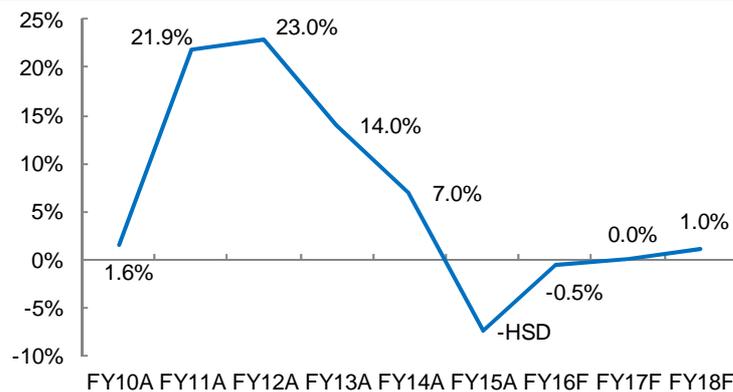
**Net profit shrank by 44.2% in 1QFY16, disappointed the market.** Prada (“the Company”) posted a frustrating 1QFY16 result that gross margin declined by 1.5ppt YoY and operating expense as percentage of sales increased by 7.6ppt YoY. Top line recorded a single digit growth driven by a weak Euro. At constant exchange rate, in fact, it has dropped by 5.4% YoY. Increasing rental costs and staff costs together with weak Euro against major currencies explained the increased operating cost both in absolute terms and in percentage terms. Geographically, all regions recorded sales growth driven by weak Euro, while Asia Pacific, which accounted for more than one third of the Company’s sales, recorded the slowest growth globally i.e. 0.6% YoY. General economic slowdown and the “anti-extravagance campaign” in China continued to put pressure on the Company’s sales.

**Table-1: Prada’s 1QFY16 results**

EUR mn	1QFY15	1QFY16	YoY
Turnover	778	828	6.5%
Cost of goods sold	(202)	(228)	12.7%
Gross profit	575	600	4.3%
Operating expenses	(419)	(510)	21.6%
Profit from operations	156	91	-42.0%
Interest and other finance expense	(6)	(2)	-68.0%
Income tax before taxes	151	90	-40.1%
Taxation	(41)	(30)	-27.4%
Net income for the period	109	60	-44.9%
Shareholders’ profit	105	59	-44.2%
			PPT
Gross margin	74.0%	72.5%	-1.5
Operating expenses as % of turnover	53.9%	61.5%	7.6
Operating margin	20.1%	11.0%	-9.1
Effective tax rate	27.4%	33.2%	5.8
Net margin	13.5%	7.1%	-6.5

Source: the Company.

**Figure-1: Prada’s SSSG**



Source: the Company, Guotai Junan International.

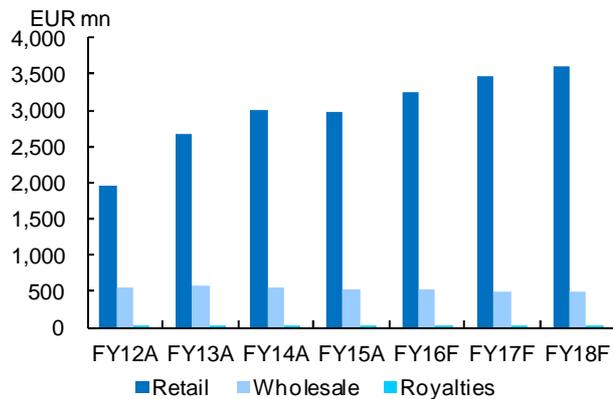
**We cut FY16/17 EPS forecasts by 21.6% and 22.5% respectively to factor in weaker than expected sales performance and the increase of operating cost.** We cut FY16/17 revenue forecasts by 4.1% and 7.6% respectively to factor in sluggish sales in Greater China. The operating margin estimates for FY16/17 were revised down by 3.6ppt and 3.2ppt respectively mainly to reflect, firstly, increasing level of amortization and depreciation costs; and secondly, increasing rental and staff expenses.

**Table-2: Changes in major forecasts**

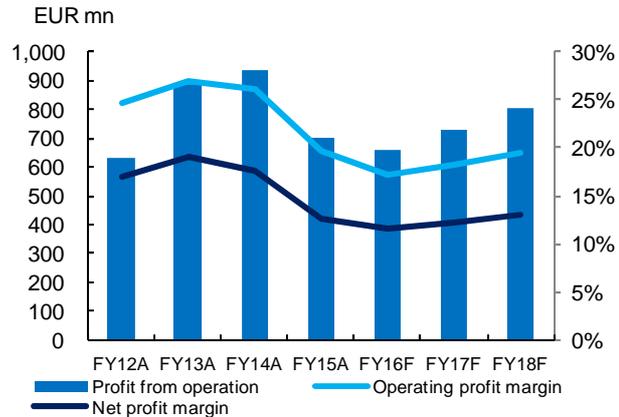
EUR mn	New			Old		Change	
	FY16F	FY17F	FY18F	FY16F	FY17F	FY16F	FY17F
Total revenue	3,801	3,996	4,127	3,963	4,322	-4.1%	-7.6%
Retail	3,249	3,461	3,597	3,409	3,779	-4.7%	-8.4%
Wholesale	514	496	491	514	503	0.1%	-1.5%
Royalties	39	39	39	40	40	-3.2%	-3.2%
Gross profit	2,596	2,759	2,866	2,871	3,139	-9.6%	-12.1%
Operating profit	657	729	802	826	927	-20.5%	-21.3%
Net profit	437	485	537	557	625	-21.6%	-22.5%
Basic EPS (EUR)	0.171	0.189	0.210	0.218	0.244	-21.6%	-22.5%
						PPT	
Gross profit margin	68.3%	69.0%	69.4%	72.5%	72.6%	-4.2	-3.6
Operating expense of total turnover	51.0%	50.8%	50.0%	51.6%	51.2%	-0.6	-0.4
Operating profit margin	17.3%	18.2%	19.4%	20.9%	21.4%	-3.6	-3.2
Effective tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	0.0	0.0
Net profit margin	11.5%	12.1%	13.0%	14.1%	14.5%	-2.6	-2.3

Source: the Company, Guotai Junan International.

**Maintain “Neutral” but cut TP to HK\$37.62.** Global luxury products purchases still appear to be sluggish, triggered by the purchases slowdown of Chinese. We remain cautious before seeing any sign of recovery in the industry and see no short term turnaround for the Company. We maintain the Company’s rating as “Neutral” but cut our TP to HK\$37.62, representing 25.0x and 22.5x FY16 and FY17 PER respectively.

**Figure-2: Prada’s revenue**


Source: the Company, Guotai Junan International.

**Figure-3: Prada’s profitability**


Source: the Company, Guotai Junan International.

**Table-3: Peer Comparison**

Company	Stock Code	Currency	Last price	Market Cap HK\$ mn	PE(x)				PB(x)				ROE(%)	D/Y(%)	EV/ EBITDA(x)	Gross Margin(%)	Operating Margin(%)
					14A	15F	16F	17F	14A	15F	16F	17F					
PRADA*	1913 HK	HKD	38.15	97,619	15.1	24.3	21.8	19.7	3.5	3.4	3.2	2.9	15.8	2.1	13.8	71.8	19.8
LVMH	MC FP	EUR	165.60	738,759	14.7	20.9	18.8	17.2	3.9	3.3	3.0	2.7	16.2	2.2	10.6	65.2	18.9
CHRISTIAN DIOR	CDI FP	EUR	186.50	295,670	23.4	17.1	17.3	14.9	2.8	2.5	2.5	2.0	11.9	1.9	7.4	65.4	17.7
KERING	KER FP	EUR	158.70	175,995	17.7	15.9	14.0	12.5	1.9	1.8	1.6	1.5	11.2	2.7	11.5	62.5	16.3
MICHAEL KORS	KORS US	USD	46.60	71,854	21.8	18.9	16.1	13.9	5.3	4.2	3.3	2.7	43.5	0.0	8.9	60.6	28.8
BURBERRY	BRBY LN	GBP	1,666.00	91,048	22.6	21.8	20.6	18.6	6.3	5.3	4.6	4.1	26.2	2.0	12.4	70.0	17.5
COACH	COH US	USD	35.91	76,909	11.9	19.5	17.8	13.9	4.1	3.9	3.6	3.3	20.3	3.8	9.7	69.8	18.8
HUGO BOSS	BOSS GY	EUR	103.30	63,871	21.4	19.1	17.2	15.5	8.4	7.5	6.6	5.8	39.5	3.8	11.6	66.6	17.5
SALVATORE FERRAGAMO	SFER IM	EUR	27.33	40,515	29.4	25.4	22.1	19.6	9.9	8.0	6.5	5.4	33.4	1.8	14.0	64.8	18.9
TOD'S	TOD IM	EUR	87.85	23,617	27.7	25.2	22.7	20.3	3.3	3.1	3.0	2.8	12.6	2.4	12.6	64.6	15.6
Simple Average					20.6	20.8	18.8	16.6	4.9	4.3	3.8	3.3	23.1	2.3	11.3	66.1	19.0
Weighted Average					18.0	19.9	18.2	16.3	4.0	3.5	3.1	2.8	18.0	2.2	10.5	65.7	18.7

Source: Bloomberg, Guotai Junan International. All forecasts are based on Bloomberg consensus.

 \* Note: The financial year end dates of these companies are not 31<sup>st</sup> December. For easier comparison with peers, “14A” means “FY15A” and “15F” means FY16F and so on.

**Financial Statements and Ratios**

Income Statement					
Year end Jan (EUR mn)	FY14A	FY15A	FY16F	FY17F	FY18F
Turnover	3,587	3,552	3,801	3,996	4,127
Cost of sales	(939)	(1,001)	(1,205)	(1,237)	(1,261)
Gross profit	2,649	2,551	2,596	2,759	2,866
Operating expenses	(1,709)	(1,849)	(1,940)	(2,030)	(2,064)
Profit from operation	939	702	657	729	802
Interest and other financial income/(expenses)	(17)	(34)	(21)	(24)	(21)
Dividend from investments	1	0	0	0	0
Profit before taxes	923	668	636	705	782
Taxation	(285)	(208)	(191)	(212)	(235)
Minority interest	(10)	(8)	(8)	(9)	(10)
Net profit	628	451	437	485	537
EPS (EUR)	0.245	0.176	0.171	0.189	0.210
YoY	0.3%	-28.2%	-3.1%	11.0%	10.8%
DPS (EUR)	0.11	0.11	0.07	0.08	0.08

Cash Flow Statement					
Year end Jan (EUR mn)	FY14A	FY15A	FY16F	FY17F	FY18F
Total income before taxation	923	668	636	705	782
Depreciation and amortization	199	249	261	268	266
Non-monetary financial (income) expenses	22	34	21	24	21
Change in working capital	(89)	(117)	(65)	(26)	(18)
Others	(3)	(55)	(82)	(38)	(48)
Taxes paid	(282)	(295)	(191)	(212)	(235)
Operating cash flow	769	484	581	722	769
Purchases of property, plant and equipment and intangible assets	(549)	(362)	(354)	(312)	(261)
Other investing activities	1	(7)	5	(2)	1
Investing cash flow	(548)	(369)	(349)	(315)	(259)
Dividends paid	(230)	(281)	(281)	(175)	(194)
Other financing activities	10	224	(49)	(71)	(61)
Financing cash flow	(220)	(57)	(331)	(245)	(255)
Cash at beginning of year	572	568	709	519	727
Change in cash and cash equivalent	1	58	(99)	162	254
Foreign exchange difference	(5)	83	(90)	45	(23)
Cash balance at year end	568	709	519	727	958

Source: the Company, Guotai Junan International.

Balance Sheet					
As at Jan 31 (EUR mn)	FY14A	FY15A	FY16F	FY17F	FY18F
Cash and cash equivalents	568	709	519	727	958
Trade receivables	308	346	371	390	402
Inventories	450	655	784	801	813
Others	135	190	200	210	221
Total current assets	1,462	1,900	1,874	2,128	2,394
Property, plant and equipment	1,230	1,474	1,580	1,635	1,640
Intangible assets	901	943	931	919	909
Deferred tax assets	201	281	295	310	325
Others	94	140	147	161	173
Total non-current assets	2,427	2,839	2,952	3,025	3,047
Bank overdrafts and short-term loans	62	263	237	190	152
Trade payables	349	437	526	537	543
Current tax liabilities and others	296	414	359	352	334
Total current liabilities	706	1,115	1,123	1,079	1,029
Long-term financial payables	208	255	242	230	219
Post-employment benefits	116	149	160	170	180
Provision for contingencies and commitments	53	64	67	70	74
Others	104	137	151	167	185
Total non-current liabilities	480	606	621	638	657
Minority interest	14	17	17	16	15
Shareholders' equity	2,688	3,001	3,066	3,421	3,742
BPS (EUR)	1.050	1.173	1.198	1.337	1.462

Financial Ratio					
	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue growth (%)	8.8	(1.0)	7.0	5.1	3.3
Operating profit growth (%)	5.6	(25.3)	(6.4)	11.0	10.1
Net profit growth (%)	0.3	(28.2)	(3.1)	11.0	10.8
Gross margin (%)	73.8	71.8	68.3	69.0	69.4
Operating margin (%)	26.2	19.8	17.3	18.2	19.4
Net profit margin (%)	17.5	12.7	11.5	12.1	13.0
ROA (%)	17.3	10.4	9.1	9.7	10.1
ROE (%)	25.1	15.8	14.4	14.9	15.0
Inventory turnover days	154.3	201.3	217.9	233.9	233.7
Account receivable days	31.2	33.6	34.4	34.7	35.0
Account payable days	132.0	143.3	146.0	156.9	156.3
Cash conversion cycle	53.5	91.7	106.3	111.8	112.4
Current ratio (x)	2.1	1.7	1.7	2.0	2.3
Payout ratio (%)	44.8	62.4	40.0	40.0	40.0
Net gearing (%)	Net cash				

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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