



Company Report: Samsonite (01910 HK)

公司报告: 新秀丽 (01910 HK)

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22 March 2019

Weaker 2019 Outlook, Downgrade to "Accumulate"

较弱的2019年展望，下调至“收集”

- **2018 top line in line and bottom line beat expectations.** Revenue grew by 8.8% YoY to US\$3.80 billion. However, quarterly revenue growth declined from 21.1% in 1Q18 to 1.4% in 4Q18. Revenue from Tumi grew by 12.4% YoY and contributed 20.1% of total revenue. Overall GPM was up 0.3 ppt YoY to 56.5%. Net profit dropped by 29.2% YoY to US\$237 million. Excluding non-recurring items, adjusted net profit grew by 13.0% YoY. Final dividend was US\$8.7 cents per share, representing a dividend payout ratio of 52.8%.
- **Cut 2019 and 2020 EPS forecasts by 10.0% and 13.2% to US\$0.198 and US\$0.222, respectively.** The Company expects 2019 revenue to grow YoY by mid-single digit percentage, which is lower than our previous forecasts. Therefore we revise down 2019 and 2020 revenue forecasts by 4.1% and 5.7%, respectively. We revise down 2019 and 2020 GPM forecasts by 1.0 ppt and 1.0 ppt to 56.9% and 57.5%, respectively, mainly due to expected weaker improvement in Tumi's GPM.
- **Cut TP to HK\$28.00 and downgrade to "Accumulate".** Although we remain confident in the Company's long-term growth driven by its multi-brand, multi-category and multi-channel strategy, our outlook in its business development in 2019 is more pessimistic than our previous forecasts. Therefore we cut TP from HK\$31.00 to HK\$28.00, which represents 18.0x, 16.1x and 14.3x 2019, 2020 and 2021 PER, respectively, as well as upside potential of 13.6%. Therefore we downgrade rating to "Accumulate".
- **2018 年收入符合预期而净利润超预期。**收入同比增长 8.8%至 38.0 亿美元。然而，季度收入增速从 2018 年 1 季度的 21.1% 下降至 2018 年 4 季度的 1.4%。Tumi 品牌收入同比增长 12.4% 并贡献了总收入的 20.1%。整体毛利率同比上升 0.3 个百分点至 56.5%。净利润同比下滑 29.2% 至 2.37 亿美元。剔除掉一次性项目后，经调整后净利润同比增长 13.0%。末期股息为每股 0.087 美元，派息比率达到 52.8%。
- **分别下调 2019 年和 2020 年每股盈利预测 10.0% 和 13.2% 至 0.198 美元和 0.222 美元。**公司预期 2019 年收入将录得中单位数百分比同比增长，低于我们此前的预测。我们分别下调 2019 年和 2020 年收入预测 4.1% 和 5.7%。由于预期 Tumi 的毛利率增长较弱，我们分别下调 2019 年和 2020 年毛利率预测 1.0 个百分点和 1.0 个百分点至 56.9% 和 57.5%。
- **下调目标价至 28.00 港元并下调评级至“收集”。**尽管我们对公司的长期增长保持信心，主要由于其“多品牌、多产品类别、多分销渠道”的战略所驱动，然而我们对公司 2019 年业务发展的展望比我们此前的预期更加悲观。因此我们将目标价从 31.00 港元下调至 28.00 港元，分别相当于 18.0 倍，16.1 倍和 14.3 倍 2019 年、2020 年和 2021 年市盈率，以及 13.6% 的上升空间。因此我们下调评级至“收集”。

Rating:

Accumulate

Downgraded

评级:

收集 (下调)

6-18m TP 目标价:

HK\$28.00

Revised from 原目标价:

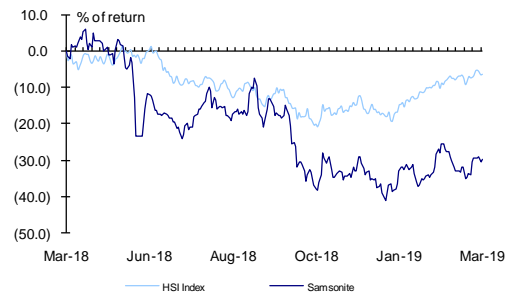
HK\$31.00

Share price 股价:

HK\$24.650

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(3.0)	14.7	(28.6)
Rel. % to HS Index 相对恒指变动 %	(4.0)	1.6	(22.3)
Avg. Share price(HK\$) 平均股价 (港元)	24.0	23.6	27.6

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2017A	3,491	334	0.236	30.1	13.4	1.260	2.5	0.077	2.5	20.5
2018A	3,797	237	0.166	(29.7)	19.0	1.361	2.3	0.087	2.8	12.7
2019F	4,051	283	0.198	19.4	15.9	1.472	2.1	0.081	2.6	14.0
2020F	4,309	317	0.222	12.1	14.2	1.612	1.9	0.091	2.9	14.4
2021F	4,569	356	0.249	12.1	12.6	1.770	1.8	0.102	3.2	14.7
Shares in issue (m) 总股数 (m)			1,431.0		Major shareholder 大股东				The Capital Group 13.0%	
Market cap. (HK\$ m) 市值 (HK\$ m)			35,274.2		Free float (%) 自由流通比率 (%)				60.6	
3 month average vol. 3 个月平均成交股数 ('000)			4,572.7		FY19 Net gearing (%) FY19 净负债/股东资金 (%)				64.9	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)			37.833 / 20.300		FY19 Est. NAV (HK\$) FY19 每股估值 (港元)				33.4	

Source: the Company, Guotai Junan International.

2018 top line in line and bottom line beat expectations. Samsonite's (the "Company") 2018 revenue increased by 8.8% YoY to US\$3.80 billion, which was basically in line with market and our expectations. Excluding the contribution from eBags, which was acquired in May 2017, revenue increased by 7.9% YoY. However, a declining trend in Samsonite's quarterly revenue growth could be observed throughout 2018. Revenue YoY growth declined from 21.1% in 1Q18 to 1.4% in 4Q18. Tumi recorded strong growth of 12.4% YoY driven by network expansion in Asia and Europe, and contributed 20.1% of total revenue, up from 19.4% in 2017. Revenue from American Tourister grew by 16.5% YoY, mainly attributable to introduction of new products and a global advertising campaign. Revenue from the Samsonite brand increased by 3.5% YoY, which comprised 45.1% of total revenue in 2018 compared to 47.4% in 2017 due to continued diversification of brand portfolio. Revenue from the Asia market increased by 10.2% YoY on a constant currency basis, driven by strong growth of the Tumi, American Tourister, Samsonite and Kamiliant brands. Revenue from direct-to-consumer (DTC) channels recorded strong growth of 16.6% YoY and contributed 35.9% of total revenue in 2018, up from 33.4% in 2017. Revenue from e-commerce business increased by 18.5% YoY on a constant currency basis and accounted for 15.3% of total revenue in 2018, up from 14.0% in 2017. Overall GPM improved by 0.3 ppt YoY to 56.5%, which was mainly driven by improvement in GPM of Tumi and a higher proportion of revenue coming from the DTC channels, but was partially offset by strong growth of American Tourister, which had relatively lower GPM.

Net profit dropped by 29.2% YoY to US\$237 million in 2018, but it still beat Bloomberg consensus and our forecast by 7.7% and 4.3%, respectively. Distribution expenses increased by 13.0% YoY and accounted for 31.9% of total revenue in 2018, up by 1.2 ppt YoY, mainly due to an increase in sales volume and higher fixed costs associated with the expansion of DTC physical retail stores. Marketing expenses ratio and general and administrative expenses ratio decreased YoY by 0.1 ppt and 0.8 ppt to 5.8% and 6.1%, respectively. Overall, operating expenses were well managed during 2018, resulting in 0.2 ppt YoY improvement in operating margin to 12.3%. The Company recorded net tax expenses amounting to US\$86.7 million in 2018, compared to net tax benefit amounting to US\$24.2 million in 2017 due to the US tax reform. As a result, 2018 net profit margin dropped by 3.4 ppt YoY to 6.2%. Excluding non-recurring items, adjusted net profit grew by 13.0% YoY. The Company proposed a final dividend of US\$125 million or US\$8.7 cents per share, representing a dividend payout ratio of 52.8%, up from 32.9% in 2017.

Table-1: Samsonite's 2018 Results Analysis

US\$ mn	2017	2018	YoY
Turnover	3,491	3,797	8.8%
Cost of sales	(1,531)	(1,652)	7.9%
Gross profit	1,960	2,145	9.4%
Distribution expenses	(1,073)	(1,212)	13.0%
Marketing expenses	(206)	(221)	7.4%
Administrative expenses	(240)	(233)	(2.9%)
Other expenses	(18)	(11)	(36.3%)
Profit from operations	424	467	10.3%
Finance income (costs)	(93)	(124)	33.3%
Profit before taxation	331	344	3.8%
Income tax	24	(87)	(458.4%)
Non-controlling interests	21	21	(3.2%)
Net profit	334	237	(29.2%)
Adjusted net profit	261	295	13.0%
EBITDA	542	589	8.7%
Basic EPS (US\$)	0.236	0.166	(29.7%)
Final DPS (US\$ cents)	7.7	8.7	12.9%
Gross margin	56.1%	56.5%	0.3 ppt
Operating margin	12.1%	12.3%	0.2 ppt
Net margin	9.6%	6.2%	(3.4) ppt
EBITDA margin	15.5%	15.5%	(0.0) ppt
Effective tax rate	(7.3%)	25.2%	32.5 ppt

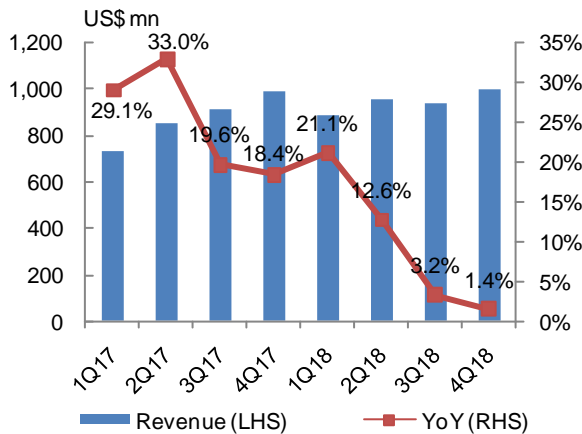
Source: the Company, Guotai Junan International.

Table-2: Samsonite's 2018 Revenue Analysis

US\$ mn	2017	2018	YoY	Constant-currency YoY
Asia	1,196	1,324	10.7%	10.2%
North America	1,392	1,483	6.5%	6.5%
Europe	735	810	10.2%	8.6%
Latin America	158	176	11.3%	15.5%
Corporate	9	4	(61.5%)	(61.6%)
Total revenue	3,491	3,797	8.8%	8.4%

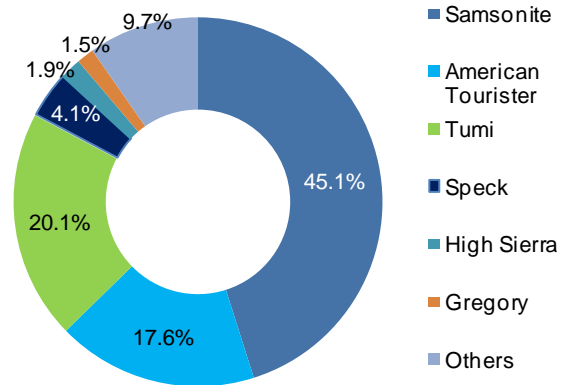
Source: the Company, Guotai Junan International.

Figure-1: Samsonite's Quarterly Revenue Growth YoY



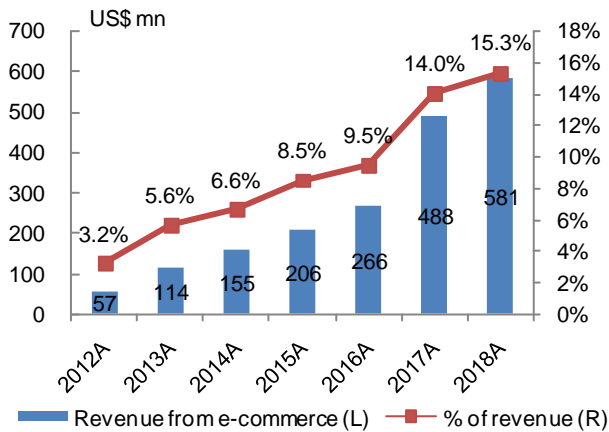
Source: the Company, Guotai Junan International.

Figure-2: Samsonite's Revenue by Brand in 2018



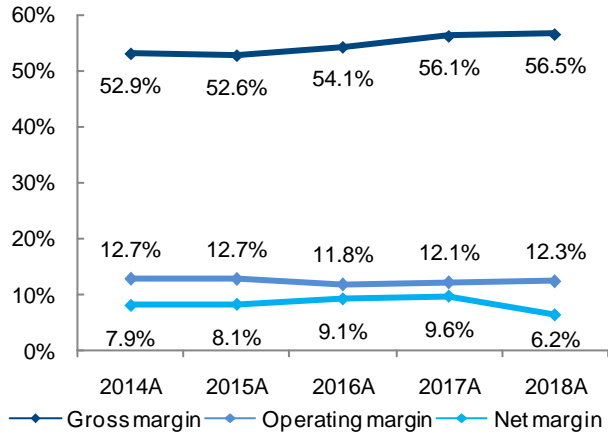
Source: the Company, Guotai Junan International.

Figure-3: Samsonite's E-commerce Business



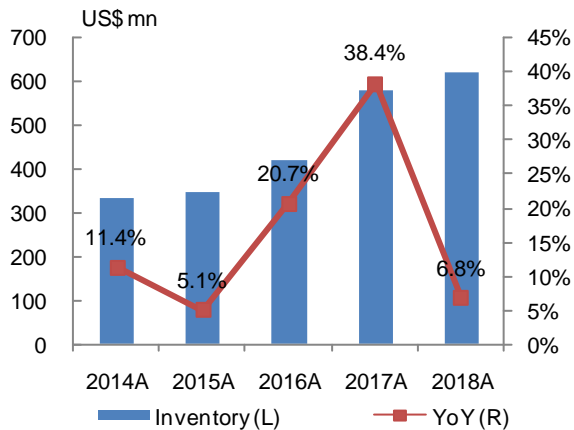
Source: the Company, Guotai Junan International.

Figure-4: Samsonite's Profitability

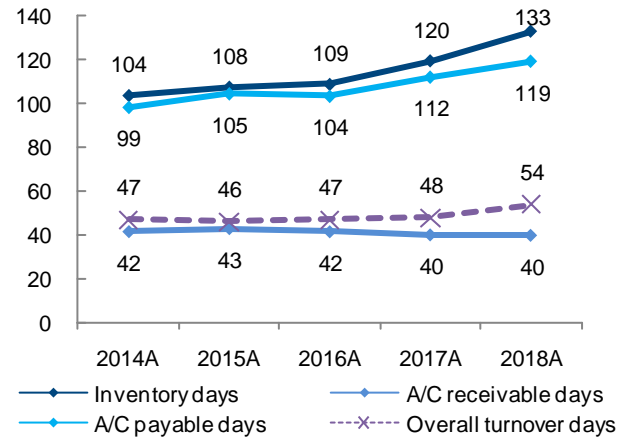


Source: the Company, Guotai Junan International.

Working capital management slightly worsened in 2018. Inventory increased by 6.8% YoY to US\$623 million as at 31 December 2018 in order to support increased customer demand, new product introductions, retail store expansion and the global expansion of Tumi brand. As a result, average inventory turnover days increased by 13 days YoY to 133 days in 2018. Trade receivables turnover days remained flat at 40 days in 2018. Good control on trade receivables was mainly attributable to a higher proportion of sales through DTC channels. Trade payables turnover days was up 7 days YoY to 119 days. As a result, the Company's overall turnover cycle increased by 6 days YoY from 54 days in 2018, which was still healthy. The Company aims to improve overall working capital efficiency by bringing inventory turnover days back in line with prior years.

Figure-5: Samsonite's Inventory & YoY Growth


Source: the Company, Guotai Junan International.

Figure-6: Samsonite's Working Capital Management


Source: the Company, Guotai Junan International.

Revise down 2019 and 2020 EPS forecasts by 10.0% and 13.2% to US\$0.198 and US\$0.222, respectively, on lower revenue and GPM forecasts. We have observed sequential declines in Samsonite's quarterly revenue growth in 2018, and the trend continued in 1Q19. The management of Samsonite indicated that during the first two months of 2019, revenue might be roughly flat or even slightly decline compared to the same period of 2018. Nevertheless, the Company expects its business to gradually improve in the rest of 2019 driven by the launch of new products and marketing campaigns. The Company targets to have mid-single digit percentage YoY growth in revenue for the full year of 2019, and Tumi may continue to record double-digit growth in 2019. The new guidance on revenue is weaker than our previous forecasts, and therefore we revise down 2019 and 2020 revenue forecasts by 4.1% and 5.7%, respectively. The Company expects Tumi's GPM to remain stable at around 70% during 2019, which will result in a weaker improvement in 2019 overall GPM. We forecast overall GPM to maintain an increasing trend during 2019-2021, while growth may be weaker than our previous forecasts. Thus we revise down 2019 and 2020 GPM forecasts by 1.0 ppt and 1.0 ppt to 56.9% and 57.5%, respectively. Although we expect better expenses control in 2019 and 2020, we still revise down 2019 and 2020 operating margin forecasts by 0.4 ppt and 0.6 ppt to 12.3% and 12.6%, respectively, on lower GPM forecasts. Effective tax rate is expected to be 25%-26% during 2019, and the Company aims to bring it lower in the future by evaluating its tax structure. As a result, we revise down 2019 and 2020 net margin forecasts by 0.5 ppt and 0.6 ppt to 7.0% and 7.4%, respectively.

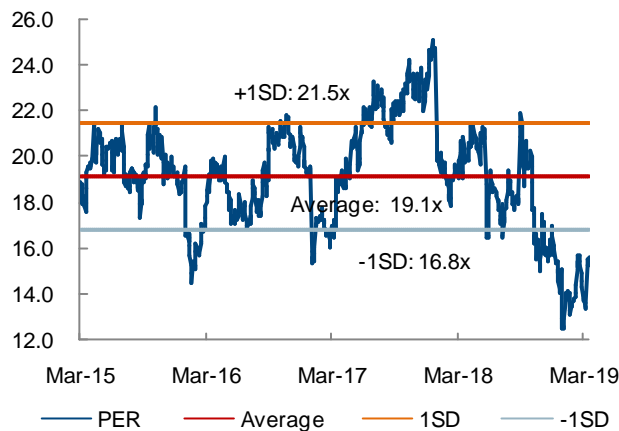
Table-3: Key Assumptions and Adjustments

US\$ mn	OLD			NEW			CHANGE		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	4,225	4,571	n.a.	4,051	4,309	4,569	(4.1%)	(5.7%)	n.a.
Gross profit	2,444	2,672	n.a.	2,304	2,477	2,653	(5.7%)	(7.3%)	n.a.
Operating profit	538	604	n.a.	499	542	592	(7.3%)	(10.1%)	n.a.
Net profit	315	366	n.a.	283	317	356	(10.0%)	(13.2%)	n.a.
EBITDA	657	734	n.a.	617	673	734	(6.0%)	(8.4%)	n.a.
Basic EPS (US\$)	0.220	0.256	n.a.	0.198	0.222	0.249	(10.0%)	(13.2%)	n.a.
Gross margin	57.8%	58.4%	n.a.	56.9%	57.5%	58.1%	(1.0) ppt	(1.0) ppt	n.a.
% SG&A of turnover	44.8%	44.9%	n.a.	44.2%	44.5%	44.7%	(0.6) ppt	(0.4) ppt	n.a.
Operating margin	12.7%	13.2%	n.a.	12.3%	12.6%	12.9%	(0.4) ppt	(0.6) ppt	n.a.
Effective tax rate	26.5%	26.5%	n.a.	26.0%	26.0%	26.0%	(0.5) ppt	(0.5) ppt	n.a.
Net margin	7.4%	8.0%	n.a.	7.0%	7.4%	7.8%	(0.5) ppt	(0.6) ppt	n.a.
EBITDA margin	15.5%	16.1%	n.a.	15.2%	15.6%	16.1%	(0.3) ppt	(0.4) ppt	n.a.

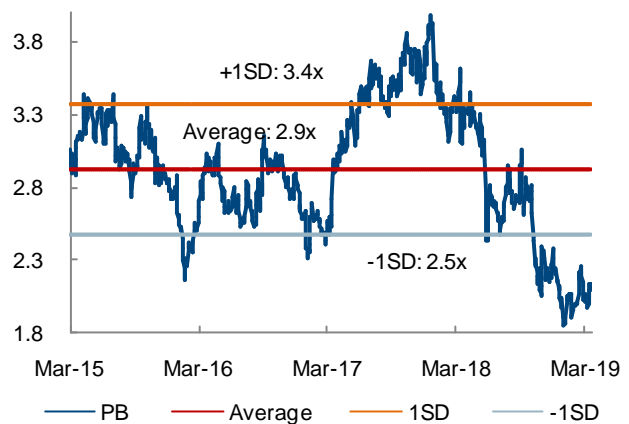
Source: the Company, Guotai Junan International.

Cut TP to HK\$28.00 and downgrade to "Accumulate". The relatively weak global economic environment, weak consumer sentiment in several markets, the US-Sino trade dispute and terrorist attacks in some regions in the world may continue to cast pressure on Samsonite in 2019. Although we remain confident in the Company's long-term growth driven by its multi-brand, multi-category and multi-channel strategy, our outlook on its business development in 2019 is more pessimistic than our previous forecasts. The management of Samsonite indicated that they will continue to look out for opportunities in acquiring new brands, especially brands in the non-travel category, which will become new growth drivers for the Company. We cut the Company's TP from HK\$31.00 to HK\$28.00 to reflect adjustments in our earnings forecasts. The new TP represents 18.0x, 16.1x and 14.3x 2019, 2020 and 2021 PER, respectively. The TP reflects upside potential of 13.6%, and therefore we downgrade our investment rating from "Buy" to "Accumulate".

Risks: 1) unexpected appreciation of the US dollar against other currencies, 2) liquidity and solvency risks triggered by heavy debt obligations related to the Tumi acquisition, 3) a decline in the global tourism industry, and 4) potential impact from Sino-US trade friction.

Figure-7: Samsonite's PE Ratio (Next four Quarters)


Source: Bloomberg, Guotai Junan International.

Figure-8: Samsonite's PB Ratio (Current Annual)


Source: Bloomberg, Guotai Junan International.

Table-4: Peers Valuation Comparison Table

Company	Stock Code	Currency	Last price	Market Cap HKD mn	PE(x)				PB(x)				ROE(%) 19F	D/Y(%) 19F	EV/ EBITDA(x) 19F	Gross Margin(%) 19F	Operating Margin(%) 19F
					18A	19F	20F	21F	18A	19F	20F	21F					
Luggage & Luxury																	
SAMSONITE	1910 HK	HKD	24.65	35,273	19.0	15.9	14.2	12.6	2.3	2.1	1.9	1.8	14.0	2.6	9.6	56.9	12.3
PRADA	1913 HK	HKD	23.45	60,004	31.7	22.9	21.5	19.7	2.3	2.3	2.2	2.2	9.9	3.2	11.4	72.6	11.1
LVMH	MC FP	EUR	320.55	1,444,419	25.4	22.7	21.0	19.3	5.0	4.4	4.0	3.7	20.4	2.1	12.7	66.3	21.4
CHRISTIAN DIOR	CDI FP	EUR	414.00	666,669	29.0	24.7	22.6	n.a.	5.2	4.7	4.2	n.a.	19.9	1.8	7.2	67.0	n.a.
KERING	KER FP	EUR	507.60	571,883	17.2	19.5	17.2	16.0	6.5	5.5	4.8	4.1	29.7	2.3	12.6	74.5	29.1
CAPRI HOLDINGS*	CPRI US	USD	45.36	53,642	11.7	9.2	9.1	8.2	3.4	3.0	2.3	1.9	33.9	0.0	8.0	61.1	17.4
BURBERRY	BRBY LN	GBP	1,900.50	80,580	27.6	23.3	22.4	20.3	5.6	5.5	5.0	4.5	22.9	2.3	12.4	68.5	16.2
TAPESTRY*	TPR US	USD	31.95	72,699	23.0	12.3	11.1	10.1	2.8	2.6	2.3	2.1	21.5	4.3	7.7	67.9	16.5
HUGO BOSS	BOSS GY	EUR	61.94	38,901	18.1	16.2	14.5	13.3	4.4	4.1	3.8	3.5	25.6	4.7	8.3	65.7	12.9
SALVATORE	SFER IM	EUR	18.87	28,407	36.0	29.4	25.8	22.7	4.2	4.0	3.8	3.5	14.4	2.1	13.4	64.5	11.9
FERRAGAMO	TOD IM	EUR	42.18	12,453	29.7	27.5	24.1	21.3	1.3	1.2	1.2	1.2	5.5	3.0	11.4	76.7	8.0
Simple Average					24.3	20.2	18.4	16.3	3.9	3.6	3.2	2.8	19.8	2.6	10.4	67.4	15.7
Weighted Average					24.3	21.9	20.0	17.7	5.1	4.5	4.0	3.6	22.0	2.1	11.1	68.0	22.1

Source: Bloomberg, Guotai Junan International.

* Note: The financial year end date of these companies is not 31st December. For easier comparison with peers, "18A" means "FY19A" and "19F" means FY20F and so on.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	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	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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