

Industria de Diseno Textil, S.A.

CORE HOLDING*

Recommended since 20.04.15

03.08.2022



Country	ES	Market capitalization (bn)	EUR	73.7	Perf. since reco. (%)	
Sector	Retail	Free float	35.4%	Industria de Diseno Textil, S.A.	-19.5	
Factset	ITX-ES	Closing price	EUR	23.64	Sector	-16.0
ISIN	ES0148396007	ESG Risk score*	12.5	Low risk		

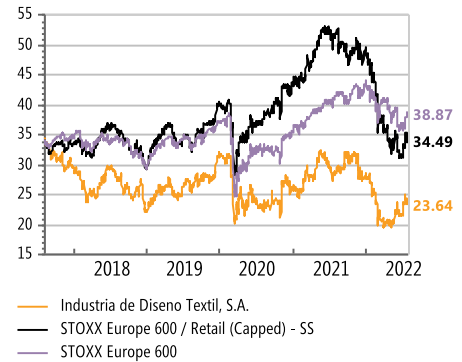
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

From a first Zara shop in 1975 to the inception of Inditex Group in 1985, Armancio Ortega has created the world leader in textile manufacturing ahead of H&M. Distributing its clothing (more than 300 fashion designers) under the Zara, Massimo Dutti and Pull Bear brands, the Group based in Galicia (Spain) manages 90% of its shops with a strong business footprint in greater Europe (65% of turnover) and Asia.

Market - competition - positions - barriers to entry

In a global clothing market worth over € 1,000 billion, Inditex has a market share of just 1.5% (rivals: H&M, Primark, Asos, Zalando, Esprit, Benetton, Next...). This low penetration rate in many countries gives it significant growth potential for the future, boosted by high profitability, which enables it to self-finance its expansion in emerging markets and strong development in e-commerce.



Source: Factset

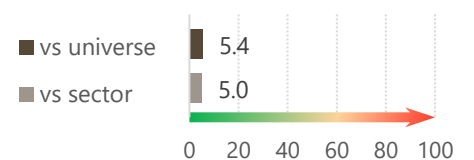
Investment case

- Over the last decade, Inditex has benefited from a favorable economy for Retail in Europe and international expansion (new stores = +5%/year). Between 2014 and 2017, its sales grew by +10%/year. Only the weakness of the \$ and emerging currencies dampened its growth in 2018 before these winds turn in its favor in 2019. The last few years have seen fewer store openings and a development in e-commerce that has taken over (14% of 2019 sales). Faced with the pandemic in 2020, Inditex was resilient (sales -28%) despite the closure of its stores thanks to the explosion of its online sales to €6.6bn (32% of sales), its net cash remaining stable at €7.6bn. 2021 saw a rebound in sales (+38% to €27.7bn), EBIT (€4.28bn vs. €1.5bn) and EPS (€1.04 vs. €0.36) even though Q4 suffered a drop in footfall (impact of Omicron + restrictions) which cost €400m on margin. Despite this, the better commercial and operational performance coupled with strict capex management allowed net cash to reach a record level of €9.4bn.
- 2022 is off to a strong start: Q1 sales jumped +36% to €6.74bn despite the closure of operations in Russia since March. Inditex benefited from higher prices for its summer collection, good weather and a strong return of consumers to stores. Gross margin increased to 60.1% and EBIT jumped by 82% to €1,034 billion. Sales for the first 5 weeks of Q2 2022 increased by +17%, underlining a substantial rebound in store traffic ("back to normal"). Price increases in some markets should contribute +5% to sales growth from Q2 onwards without impacting volumes (pricing power).
- Inditex has emerged stronger from the pandemic with a resumption of current activity and a reassuring outlook. The Inditex model benefits from a competitive advantage: 2/3 of its sourcing (supply/production) is local and Europe represents more than 50% of its sales. The group benefits from a better protection against inflation of incoming costs, more favorable currencies, as well as a high structural margin and a solid cash flow, which give it a defensive profile. Its e-commerce sales (26% of sales) together with a successful optimization of the store network associated with its online activities should generate long-term annual sales growth of +4/6% on a like-for-like basis. The recovery of traditional consumption is leading the market to position itself on omni-channel retailers (stores + online) and Inditex is one of them while offering a valuation that has become attractive again (PE Fwd of 18.6x vs. 10-year average of 25x) and a dividend yield close to 5%.

ESG - risks and key points

- Inditex has a negligible risk of suffering financial impacts related to ESG factors, due to its low exposure and its strong management (policies and programs) of these subjects.
- Dependence on suppliers poses supply chain risks in Asian markets associated with poor working conditions.
- The fast fashion model generates quantities of waste (discarded clothing) which pose risks and opportunities for reusing/recycling clothing fibres.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in EUR

Current price	Value Bordier Scenario
23.6	26.5

Our scenario includes 10-year rates in Europe at 2%, sales which after a sharp fall (-28%) in 2020 rebounded strongly (+35.8%) in 2021 to target a +4.5% increase in 2025, and 200 basis points in EBIT margin improvement over this horizon, to be normalised at 17.5% in the long term.

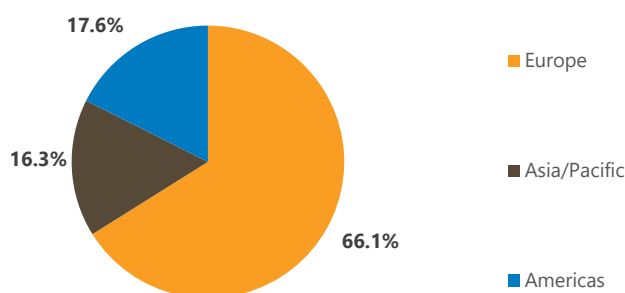
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of EUR	2020	2021	2022e	2023e	2024e
Sales revenue	20'402	27'716	30'000	31'950	33'600
Sales growth %	-27.9%	35.8%	8.2%	6.5%	5.2%
o/w organic	-22.5%	38.8%	7.2%	5.5%	4.5%
o/w perimeter	0.5%	-1.5%	0.5%	1.0%	0.7%
o/w forex	-2.9%	-1.5%	0.5%	0.0%	0.0%
EBITDA	4'552	7'183	7'880	8'350	8'780
% of sales	22.3%	25.9%	26.3%	26.1%	26.1%
EBIT	1'507	4'282	4'960	5'390	5'770
% of sales	7.4%	15.5%	16.5%	16.9%	17.2%
Adjusted EPS	0.36	1.04	1.22	1.32	1.42
Adjusted EPS growth	-69.6%	193.3%	16.7%	9.0%	7.3%
Free cash-flow	2'591	5'241	5'444	5'763	6'085
FCF/Sales	12.7%	18.9%	18.1%	18.0%	18.1%
Dividend yield	3.0%	3.9%	4.8%	5.1%	5.3%
ROCE - WACC	-2.1%	12.5%	16.9%	20.7%	24.3%
ROE (%)	7.6%	20.6%	22.8%	23.9%	24.7%
Net debt/Ebitda	-166.1%	-130.3%	-135.2%	-139.6%	-145.4%

Source: Factset, Bordier estimates

Sales breakdown - 01/2022



Ratios

Industria de Diseno Textil, S.A.		Stoxx Europe 600	
		Sector	Market
PE (x)***		Retail	Stoxx 600
2021	22.7	20.2	15.4
2022e	19.5	16.5	12.8
2023e	17.9	15.3	12.3
P/B (x)***			
2021	4.7	3.8	2.0
2022e	4.4	3.1	1.8
2023e	4.3	3.0	1.7
Beta (2Y, daily) vs market:			1.16

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2005 Chairman Pablo Isla / CEO Carlos Crespo Gonzalez.

Key shareholders (if any):

Founder Armancio Ortega Gauna 59.3%, Ortega Mera Sandra 5.1%.

Agenda

Q2 2022 results on 09/14/2022.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

None

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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