



Industria de Diseño Textil, S.A. (IDEXY)

Updated June 30th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	\$13	5 Year CAGR Estimate:	5.7%	Market Cap:	\$80.5B
Fair Value Price:	\$11	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	10/31/2020
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.7%	Dividend Payment Date:	11/19/2020
Dividend Yield:	1.8%	5 Year Price Target	\$16	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	F	Last Dividend Increase:	N/A

Overview & Current Events

Industria de Diseño Textil, S.A. is one of the world's largest clothing and home accessories manufacturers and retailers. The company owns some of the most well-known brands in the sector, such as Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home, and Uterqüe. Its portfolio of products can be found globally, as IDEXY is prevalent in the affordable fashion space. The company generates ~\$29 billion in annual revenues and is based on Spain. On June 10th, 2020, the company announced its Q1 2020 earnings for the period ending April 31st, 2020. For the quarter, revenues were \$3.6 billion, a 45% decrease from last year. EPS was (\$0.14), which makes for the first-ever money-losing quarter for IDEXY over the past decade. The horrific results were attributed to COVID-19, which forced the majority of the company's stores to close down. From around 7,000 open locations during March, only around 1,000 had not closed during April. In June, around 5,000 were back in business. However, the pandemic damaged the company's cash position by around 14%, closing the quarter with around \$6.4B in the bank. In an effort to diversify and modernize its revenue stream, IDEXY has been trying to grow its online sales, which increased by 50% in Q1. In the midst of the crisis around April, online sales grew by 95%, highlighting the demand for the company's products, as well as swift execution. Management aims for online sales to reach above 25% of total sales by 2022, by investing around \$1.1 billion in digital capex. Financial guidance was not provided.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.30	\$0.43	\$0.49	\$0.51	\$0.52	\$0.51	\$0.56	\$0.62	\$0.65	\$0.65	\$0.45	\$0.66
DPS	\$0.11	\$0.32	\$0.24	\$0.23	\$0.29	\$0.32	\$0.28	\$0.32	\$0.42	\$0.43	\$0.24	\$0.31
Shares¹	3,115	3,115	3,116	3,116	3,115	3,113	3,113	3,113	3,113	3,113	3,114	3,114

EPS CAGR over the past decade has been around 9%. The company has managed to deliver consistent growth by improving its margins through massive production volumes, as well as opening new stores in major cities. However, recent events have damaged the bottom line. The effects of a potential second wave of shutting down stores would drastically alter the picture; we assume stores will remain open. While online sales should help, the massive digital CAPEX will most likely delay online profitability. We expect the company to close FY2020 with EPS at \$0.45. In terms of dividends, distributions have been consistent and growing. The company announced a reduced dividend for 2020 in order to maintain a payout ratio near 60%. However, the remaining sum will be returned to shareholders by 2022, to preserve liquidity. We expect mid-term EPS and DPS CAGR of 8% and 5%, respectively.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	27.8	21.1	29.3	32.0	26.2	36.6	30.9	29.0	21.6	23.6	30.2	25.0
Avg. Yld.	1.3%	3.4%	1.8%	1.7%	2.0%	1.9%	1.8%	1.8%	2.7%	2.8%	1.8%	1.9%

¹ Share count is in millions.

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Despite European stocks attracting lower valuations, Industria de Diseno has primarily been trading at a premium multiple, around 27X earnings. That is, it poses as one of the most stable and reliable investments in Europe, with consistent growth. We are projecting contracted P/E ratio in the medium term, at around 25, as the company is currently operating in a very volatile and speculative sector. Its online segment needs to be proven further, as management's target of jumping from 14% to 25% of total sales within the next two years may be a bit overambitious. The stock is currently yielding just below 2%, which makes for an attractive option in the context of European negative yields.

Safety, Quality, Competitive Advantage, & Recession Resiliency

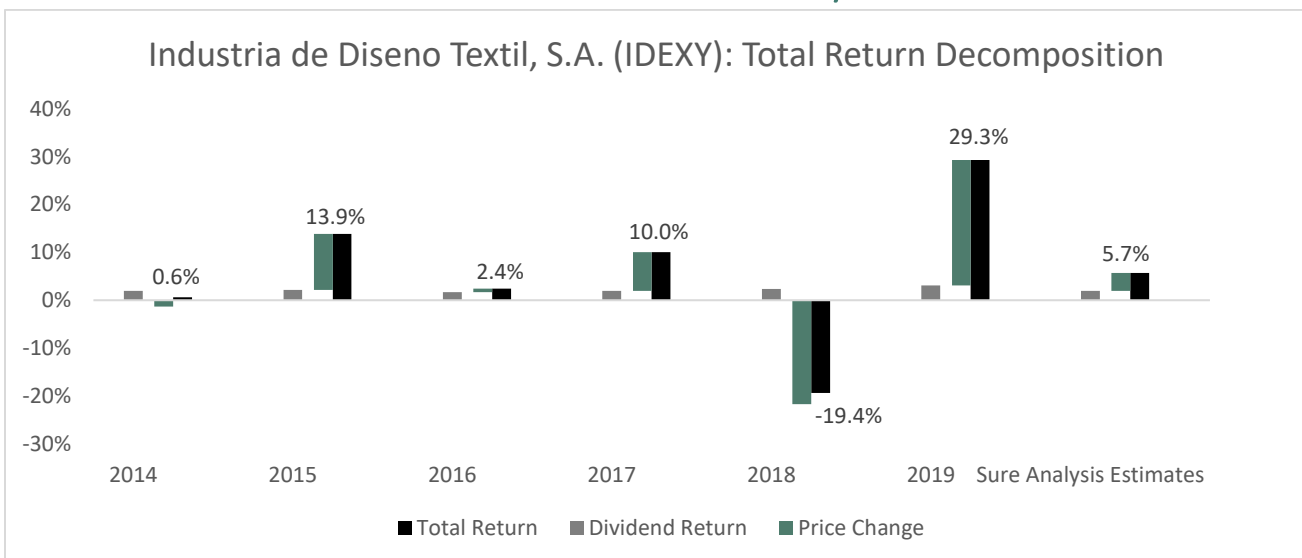
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	36%	74%	49%	46%	56%	63%	51%	51%	65%	66%	54%	47%

IDEXY is a quality company with a powerful portfolio of well-known brands. Its moat in terms of cost management through massive production volumes gives it a great pricing advantage. However, the road ahead may still be bumpy. Online sales are still only 14% of total revenues. Should another COVID-19 wave hit, IDEXY's sales are set to plummet again, similar to Q1. Management's temporary dividend cut should maintain liquidity, but it will take a while before sales return to normal. Moreover, a potential recession, especially in Europe, where most of the company's presence is, could adversely affect IDEXY's top and bottom line, which heavily relies on retail consumer spending.

Final Thoughts & Recommendation

Industria de Diseno Textil has a solid track record of achieving positive shareholder returns. The recent events have made the company's journey a bit more complicated, but in the absence of another massive shut down, we expect an eventual recovery. Online sales have lots of room for improvement, and retail sales are subject to macro risks. U.S. investors should also be aware of the Eurodollar's fluctuations that could add an extra layer of uncertainty in reported earnings. The company's portfolio of brands, though, should remain robust. Overall, we expect investors to enjoy a medium-term CAGR return of around 5.7%, though the short-term progression of COVID-19 could easily change this outlook.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	---	19178	20554	22263	23784	23052	25750	29060	30703	31591
Gross Profit	---	11374	12283	13209	13875	13334	14668	16356	17399	17653
Gross Margin	---	59.3%	59.8%	59.3%	58.3%	57.8%	57.0%	56.3%	56.7%	55.9%
SG&A Exp.	---	1945	1972	2205	2428	2302	2453	2016	2332	2440
D&A Exp.	---	963	1026	1138	1188	1127	1174	1105	1292	3156
Operating Profit	---	3507	4017	4088	4199	4056	4441	4950	5116	5328
Operating Margin	---	18.3%	19.5%	18.4%	17.7%	17.6%	17.2%	17.0%	16.7%	16.9%
Net Profit	---	2687	3043	3164	3283	3170	3487	3863	4044	4064
Net Margin	---	14.0%	14.8%	14.2%	13.8%	13.8%	13.5%	13.3%	13.2%	12.9%
Free Cash Flow	---	1675	2325	2099	1905	3288	2980	2511	2827	6421
Income Tax	---	853	985	893	964	950	1013	1123	1151	1155

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	14399	17490	18648	17428	18978	21010	25104	24902	31312
Cash & Equivalents	---	4555	5214	5215	4305	4620	4407	6119	5587	5272
Accounts Receivable	---	284	403	418	407	430	498	537	526	549
Inventories	---	1678	2146	2273	2108	2400	2729	3332	3119	2502
Goodwill & Int. Ass.	---	1093	1112	1146	1000	971	975	1140	1167	682
Total Liabilities	---	4603	5981	6070	5563	6458	7355	8324	8040	14825
Accounts Payable	---	2415	3039	3214	2815	3275	3717	4439	4300	4395
Long-Term Debt	---	2	8	5	9	11	65	16	102	42
Shareholder's Equity	---	9742	11459	12534	11822	12476	13614	16749	16828	16448
D/E Ratio	---	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	19.4%	19.1%	17.5%	18.2%	17.4%	17.4%	16.8%	16.2%	14.5%
Return on Equity	---	29.2%	28.7%	26.4%	27.0%	26.1%	26.7%	25.4%	24.1%	24.4%
ROIC	---	29.0%	28.6%	26.3%	26.8%	26.0%	26.6%	25.3%	24.0%	24.3%
Shares Out.	---	6232	6233	6231	6228	6226	6227	6226	6227	6229
Revenue/Share	---	\$3.08	\$3.30	\$3.57	\$3.82	\$3.70	\$4.14	\$4.67	\$4.93	\$5.07

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise. The company's fiscal year ends on January 31st, 2020.

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