



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

Updated September 17th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	\$15	5 Year CAGR Estimate:	8.0%	Market Cap:	\$94.5B
Fair Value Price:	\$16	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	10/29/2020
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	11/02/2020
Dividend Yield:	1.4%	5 Year Price Target	\$20	Years Of Dividend Growth:	N/A
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 manufacturer and retailer. 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 dominates the affordable fashion space. The company annualizes around \$29 billion in revenues and is based in Spain. On September 17th, 2020, the company announced its Q2 2020 earnings, for the period ending July 31st, 2020. For the quarter, revenues were \$5.56 billion, a 32% decrease from Q2 of last year. For the first half of the year, EPS was (\$0.07), which means that the company essentially broke even. Similarly to the first quarter, the weak results were attributed to COVID-19, which forced the majority of the company's stores to close down. The company had around 7000 open locations during March. That figure slumped around 1000 during April, in the midst of the pandemic. By the end of July, 7,026 stores (96% of total) were open. So while the past few months lagged the company's retail revenues, with almost all of its stores back online, the case of a quick recovery seems quite promising. Despite not generating any profits, the company ended the quarter with around \$6.5B in the bank, which indicates strong liquidity. Further, IDEXY's online sales acceleration efforts have been paying off, posting a 74% growth in H1-2020, vs. the prior year. The company's online presence is set to continue expanding, as Inditex launched its online stores in Argentina, Peru, Uruguay, Paraguay, Bosnia-Herzegovina, Albania, and Algeria. Management believes that its online sales will exceed 25% of its total sales over the next two years, by planning to invest around \$1.1 billion in digital-focused CAPEX over the next three years. 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	\$0.25	\$0.79
DPS	\$0.11	\$0.32	\$0.24	\$0.23	\$0.29	\$0.32	\$0.28	\$0.32	\$0.42	\$0.43	\$0.21	\$0.51
Shares¹	3,115	3,115	3,116	3,116	3,115	3,113	3,113	3,113	3,113	3,113	3,114²	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 every major city. However, recent events have damaged the bottom line. Since the company broke even during the first half the year, we expect the company's profitability to be powered only by H2's bottom line, which we expect to be around \$0.25, assuming partial recovery. With online sales assisting profitability to recover faster, though, we expect a quick resumption of its FY2019 levels, at around \$0.62 during 2021-2022, followed by medium-term growth amid higher margins. In terms of dividends, distributions have been consistent and growing. The company skipped its interim dividend in order to be prudent with capital management. However, the company declared a final dividend of €0.35 (around \$0.21 per ADR), payable November 2nd for holders of October 29th. We retain our mid-term EPS and DPS CAGR expectations of 8% and 5%, respectively, powered by Inditex's online segment's momentum and sooner than expected store re-openings.

¹ Share count is in millions.

² One actual share equals 2 ADR shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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

Updated September 17th, 2020 by Nikolaos Sismanis

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	64.1	25.0
Avg. Yld.	1.3%	3.4%	1.8%	1.7%	2.0%	1.9%	1.8%	1.8%	2.7%	2.8%	1.4%	2.6%

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. Its current P/E ratio of around 64.1 is rather non-meaningful, as it only reflects a temporary situation. Over the medium term, we expect shares to return to more reasonable levels. Note that the multiple on our earnings power estimate is much more reasonable at 24.2.

In terms of the stock's yield, considering that the board resumes its interim dividend as EPS resumes to its previous levels, at a potential \$0.40/share in distributions, the stock is trading at a forward (FY2021) yield of around 2.9%, which makes for an attractive option in the context of European negative yields.

Safety, Quality, Competitive Advantage, & Recession Resiliency

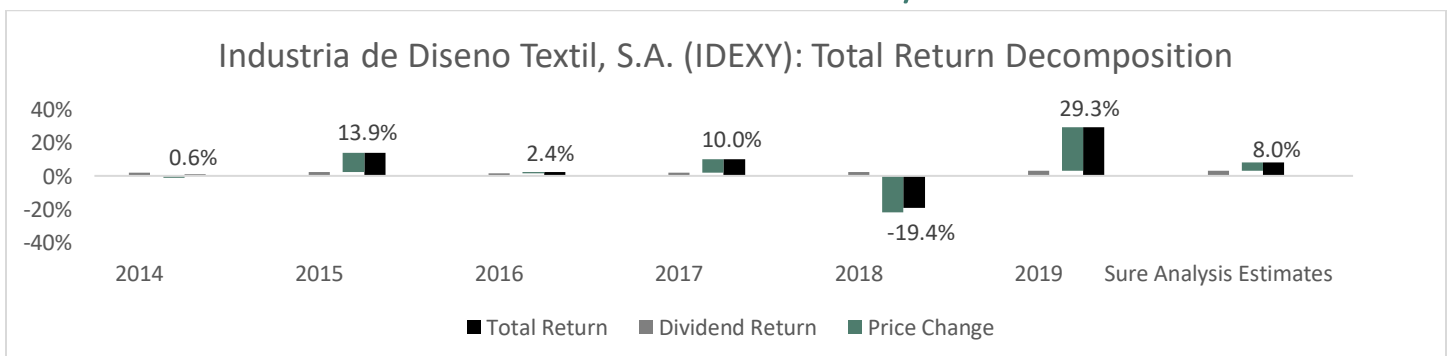
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	36%	74%	49%	46%	56%	63%	51%	51%	65%	66%	84%	65%

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 still only represent less than 15% of total revenues. Should another COVID-19 wave hit, IDEXY's profitability could remain down for a while. Further' management's one-off interim dividend suspension should help maintain liquidity. However, the macroeconomic challenges that might have been created by COVID-19 remain unknown. Events such as a potential recession, especially in Europe, where most of the company's presence is, could adversely affect IDEXY's top and bottom line, as it is heavily relying 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 we expect a quick recovery in the absence of another massive shutdown. Online sales have lots of room to advance towards being a higher percentage of total revenues, strengthening the company, though retail sales are subject to macro risks, which remain to be seen. U.S. investors should also be aware of the Eurodollar 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 8%, though the actual progression of COVID-19 during H2 could easily change this outlook.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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

Updated September 17th, 2020 by Nikolaos Sismanis

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.