



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

Updated September 17th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$18.50	5 Year CAGR Estimate:	5.5%	Market Cap:	\$115.1B
Fair Value Price:	\$13.50	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	10/29/2021
% Fair Value:	137%	5 Year Valuation Multiple Estimate:	-6.1%	Dividend Payment Date:	11/02/2021
Dividend Yield:	2.3%	5 Year Price Target	\$21.74	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	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 generates around \$25 billion in revenues and is based in Spain. On September 15th, 2021, the company announced its H1-2021 earnings for the period ending July 31st, 2021. For the first half of the year, revenues were \$14.02 billion, a 49.1% increase YoY in constant currency. EPS also returned to positive levels, coming in at \$0.47 compared to losses of (\$0.07) in the comparable period last year. The considerably improved performance compared to H1-2020 was due to COVID-19, which had forced the majority of the company's stores to close in the first half of 2020. At the close of the period, 99% of stores were open. The company has now almost turned its operations back to their pre-COVID levels.

The company ended the quarter with around \$8.95 billion in cash and equivalents, which makes for a strong liquidity position. Further, IDEXY's online sales acceleration efforts have continued to pay off, with the company posting 36% growth during the first six months. Online sales growth was powered by Industria's expanded presence with online stores in Argentina, Peru, Uruguay, Paraguay, Bosnia-Herzegovina, Albania, and Algeria. The company mentioned that its customers have received the Autumn/Winter collections very well. Additionally, store and online sales in constant currency between August 1st and September 9th grew 22% year-over-year, suggesting robust performance moving into Q3. We retain our FY2021 EPS estimate at \$0.54. With substantially higher store openings and growing online sales, EPS is likely to come out stronger for the full year. Still, we remain prudent, as FX fluctuations can also affect the company's financials.

Management reminded that it intends to pay out €0.70 per share (\$0.42 per ADR) in FY2021. The first interim payment was made on May 3rd, 2021, and the final dividend payment will be made on November 2nd, 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.43	\$0.49	\$0.51	\$0.52	\$0.51	\$0.56	\$0.62	\$0.65	\$0.65	\$0.21	\$0.54	\$0.87
DPS	\$0.32	\$0.24	\$0.23	\$0.29	\$0.32	\$0.28	\$0.32	\$0.42	\$0.43	\$0.17	\$0.42	\$0.54
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

Inditex has managed to deliver consistent growth by improving its margins through massive production volumes and opening new stores in major cities. However, recent events have damaged the bottom line. Due to its bold dividend announcement, we expect a much-improved FY2021 profitability, as already suggested by the half-year results. Online sales should assist profitability to recover faster amid higher margins. In terms of dividends, payouts have been relatively consistent and growing. The company skipped its interim dividend last year in order to be prudent with capital

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.



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management. We retain our EPS estimates to 10%, as profitability is likely to recover faster due to the company benefiting from swifter online sales growth than earlier anticipated. We retain our DPS CAGR expectations to 5%.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	27.8	21.1	29.3	32.0	26.2	36.6	30.9	29.0	21.7	61.0	34.3	25.0
Avg. Yld.	1.3%	3.4%	1.8%	1.7%	2.0%	1.9%	1.8%	1.8%	2.7%	1.2%	2.3%	2.5%

Despite European stocks attracting lower valuations, Industria de Diseno has primarily been trading at a premium multiple. The reason is, it poses as one of the most stable and reliable investments in Europe, with consistent growth. The stock is trading with a P/E ratio of 34.3 based on its FY2021 expected net income at its current price. While we can see the premium lasting due to the ultra-low rate environment in Europe persisting, we believe that the stock's P/E would be fairer at around 25. The stock's yield is currently 2.3%, which makes for an attractive option in the context of European negative yields.

Safety, Quality, Competitive Advantage, & Recession Resiliency

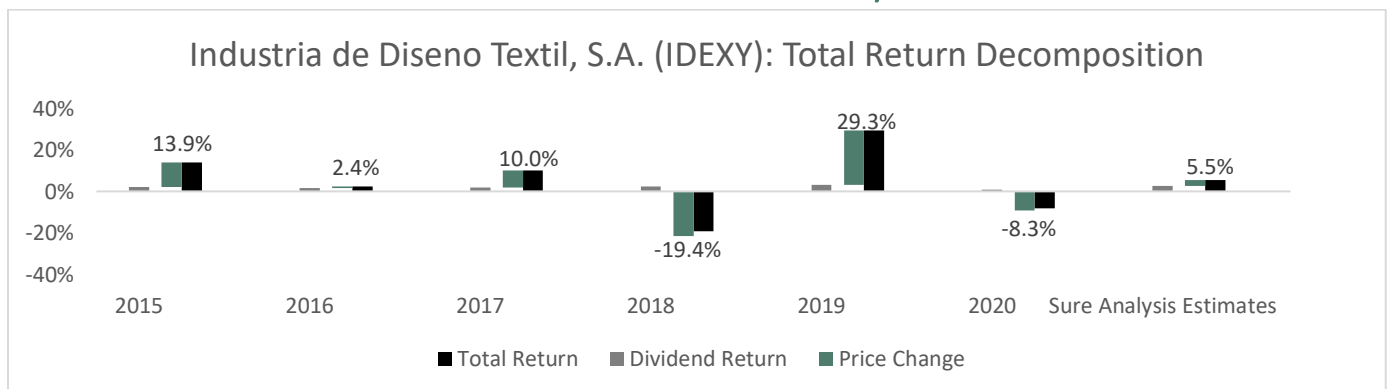
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	74%	49%	46%	56%	63%	51%	51%	65%	66%	80%	78%	62%

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. The company expects its online sales to represent around 25% of total revenues by the end of the year, which should unlock further efficiencies in the medium term. Management's robust resumption of dividends points towards a promising short-medium term performance too. Still, the macroeconomic challenges that might have been created by COVID-19 remain unknown. Events such as a potential recession or hyperinflation, 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 pandemic made the company's journey a bit more complicated, but we expect a quick recovery in the absence of another massive shutdown. Despite its return to profitability and strong dividend resumption, we expect annualized total returns of around 5.5%. Total returns are to be powered by Industria's EPS growth and increasing dividend, offset by the possibility for a strong valuation compression. U.S.-based investors should also be wary of the potential fluctuations of EUR/USD, which adds to the uncertainty of the company's future results. Shares earn a hold rating.

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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