



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

Updated March 18<sup>th</sup>, 2022 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$11.45	<b>5 Year CAGR Estimate:</b>	11.4%	<b>Market Cap:</b>	\$73.0 B
<b>Fair Value Price:</b>	\$14.50	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	04/28/22
<b>% Fair Value:</b>	79%	<b>5 Year Valuation Multiple Estimate:</b>	4.8%	<b>Dividend Payment Date:</b>	05/02/22
<b>Dividend Yield:</b>	4.5%	<b>5 Year Price Target</b>	\$16.81	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	33%

## 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 \$30 billion in revenues and is based in Spain. On March 16<sup>th</sup>, 2022, the company announced results for the full fiscal year of 2021, ending January 31<sup>st</sup>, 2022. During the year, the company achieved revenues of \$30.6 billion, a 37% increase compared to last year in constant currency. EPS came in at \$0.58 versus \$0.21 in FY2020. The considerably improved performance compared to last year was due to COVID-19 forcing the majority of the company's stores to close in the first half of 2020. At the end of the most recent period, 100% of stores were open. The company has now virtually resumed its operations back to their pre-COVID levels.

The company ended the quarter with \$7.73 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 14% growth during the year and the channel now representing 25.5% of total sales. Online sales growth was powered by Industria's expanded presence with online stores in Argentina, Peru, Uruguay, Paraguay, Bosnia-Herzegovina, Albania, and Algeria, which featured no e-commerce presence in 2020. The company mentioned that its customers received the Spring/Summer collections very well. However, 515 and 85 of the company's stores are located in Russia & Ukraine, respectively, representing around 9.2% of total stores. Hence, we expect the ongoing war to offset any profitability growth driven by gains in online sales. Accordingly, we expect stable EPS for this year.

The company announced that the Board of Directors will propose to the AGM a dividend of €0.93 per share (+33%), composed of an ordinary dividend of €0.63 and a bonus dividend of €0.30 per share. The dividend will be made up of two equal payments: On May 2<sup>nd</sup>, 2022, a payment of €0.465 per share (ordinary), and on November 2<sup>nd</sup>, 2022, a payment of €0.465 per share (€0.165 ordinary + €0.30 bonus). This implies a DPS of \$0.52 for FY2021 per ADR.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$0.49	\$0.51	\$0.52	\$0.51	\$0.56	\$0.62	\$0.65	\$0.65	\$0.21	\$0.58	<b>\$0.58</b>	<b>\$0.67</b>
<b>DPS</b>	\$0.24	\$0.23	\$0.29	\$0.32	\$0.28	\$0.32	\$0.42	\$0.43	\$0.17	\$0.52	<b>\$0.52</b>	<b>\$0.60</b>
<b>Shares<sup>1</sup></b>	3,116	3,116	3,115	3,113	3,113	3,113	3,113	3,113	3,114	3,113	<b>3,113<sup>2</sup></b>	<b>3,112</b>

Inditex has managed to deliver consistent growth by improving its margins through massive production volumes and opening new stores in major cities. While the pandemic adversely impacted its results, the company has now fully recovered and resumed its growth trajectory. Online sales growth should positively contribute to EPS growth amid a higher margins mix. In terms of dividends, payouts have been relatively consistent and growing. The company skipped its interim dividend in 2020 in order to be prudent with capital management. We lower our EPS estimates from 7% to

<sup>1</sup> Share count is in millions.

<sup>2</sup> One share equals two ADR shares

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3%, due to the ongoing war affecting a number of the company's stores and growth prospects. Accordingly, we lower our DPS CAGR expectations from 5% to 3%.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	21.1	29.3	32.0	26.2	36.6	30.9	29.0	21.7	61.0	25.8	19.7	25.0
Avg. Yld.	3.4%	1.8%	1.7%	2.0%	1.9%	1.8%	1.8%	2.7%	1.2%	3.4%	4.5%	3.6%

Despite European stocks attracting lower valuations, Industria de Diseno has historically traded at premium multiples. The reason for this is because it poses as one of the most stable and reliable investments in Europe, with consistent growth. Following the recent market correction and the ongoing war, the stock's valuation has been compressed. We believe that the stock is undervalued at its current levels. We estimate a fair P/E of 25, which is still below the stock's historical average. The stock's yield is currently 4.5%, which makes for a substantial tangible return in the context of European yields.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

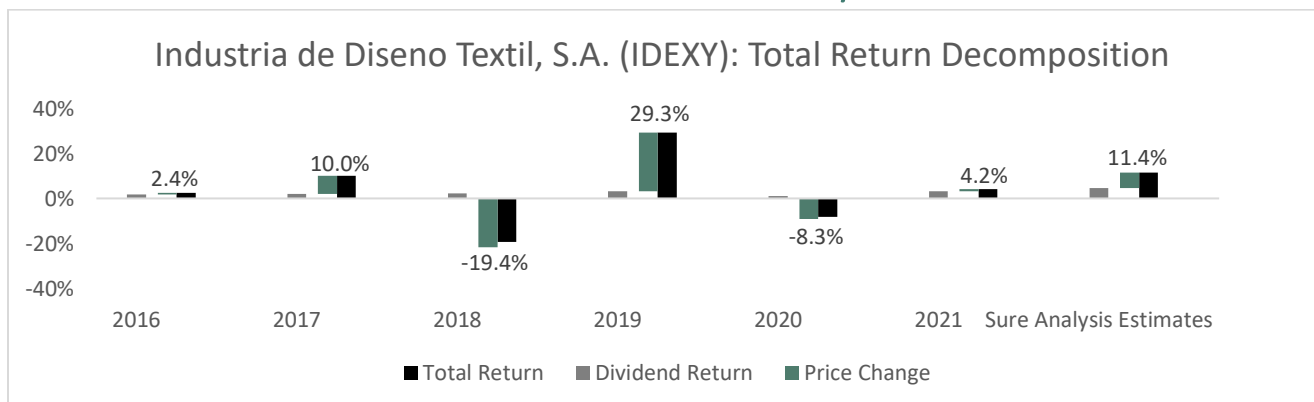
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	49%	46%	56%	63%	51%	51%	65%	66%	80%	90%	90%	90%

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 30% of total revenues by 2024, 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 higher inflation levels (which is already the case), especially in Europe, where most of the company's presence is, could 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 a recovery quickly surfaced. While the ongoing war could impact the company's growth, we believe that shares are undervalued at their current levels. We expect annualized total returns of 11.4%. Total returns are to be powered by Industria's EPS growth and increasing dividend, and the potential for a valuation expansion. U.S.-based investors, however, should be wary of the potential fluctuations of EUR/USD, which could affect future results. Shares earn a cautious buy rating, as risks related to the war could potentially escalate.

## 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 31<sup>st</sup>, 2020.

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