



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

Updated June 10th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$12.58	5 Year CAGR Estimate:	9.3%	Market Cap:	\$78.3 B
Fair Value Price:	\$14.30	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	10/31/22
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Dividend Payment Date:	11/02/22
Dividend Yield:	4.4%	5 Year Price Target	\$16.58	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

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 June 8th, 2022, the company announced its Q1 results for the three-month period ending April 30th, 2022. During the quarter, the company achieved revenues of \$7.09 billion, a 36% increase compared to Q1 2021 in constant currency. EPS came in at \$0.13 versus \$0.08 in the prior year period. The considerably improved performance compared to last year continued to reflect the company's strong momentum coming out of the pandemic, including a significant rebound in foot traffic to its stores. Further, Industria's online sales acceleration efforts have continued to pay off. While online sales declined 6% year-over-year, this was only due to a strong comparable base (+67% growth in 1Q 2021). The company mentioned that its customers received the Spring/Summer collections very well, entering Q2 with strong momentum. In fact, store and online sales between May 1st and June 5th, 2022, rose 17% in constant currency versus the same record period in 2021. Amid the ongoing war, the company's operations in Russia and Ukraine (just over 9% of stores) remain suspended. In China, 67 stores were subject to lockdowns during the quarter, but the majority of them have now reopened. Despite the headwinds in total sales due to the ongoing war in Ukraine, the company's sales and net income growth momentum remain very strong. We forecast fiscal 2022 EPS to land close to \$0.65 for the time being. The company ended the quarter with \$9.73 billion in cash and equivalents, which makes for a strong liquidity position. Following the payment of €0.465 per share (ordinary dividend) on May 2nd, the company is to pay an additional €0.465 per share (€0.165 ordinary + €0.30 bonus) corresponding to fiscal 2021 on November 2nd. The BoD has now proposed a bonus dividend of €0.40 per share to be paid in relation to fiscal 2022 results, in addition to any ordinary/final dividends to be proposed for the year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.49	\$0.51	\$0.52	\$0.51	\$0.56	\$0.62	\$0.65	\$0.65	\$0.21	\$0.58	\$0.65	\$0.75
DPS	\$0.24	\$0.23	\$0.29	\$0.32	\$0.28	\$0.32	\$0.42	\$0.43	\$0.17	\$0.52	\$0.55¹	\$0.64
Shares²	3,116	3,116	3,115	3,113	3,113	3,113	3,113	3,113	3,114	3,113	3,113³	3,112

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 retain our EPS CAGR estimates of 3%

¹ Our estimate based on the proposed dividend bonus and underlying earnings potential.

² Share count is in millions.

³ One share equals two 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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due to the ongoing war affecting a number of the company's stores and its growth prospects, as well as due a stronger dollar. Accordingly, we retain our DPS CAGR expectations at 3%. Note these estimates may be conservative considering the current retail sales growth and online sales growth momentum. However, we remain prudent.

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	19.4	22.0
Avg. Yld.	3.4%	1.8%	1.7%	2.0%	1.9%	1.8%	1.8%	2.7%	1.2%	3.4%	4.4%	3.8%

Despite European stocks attracting lower valuations, Industria de Diseño has historically traded at a premium multiple. 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 22, which is still below the stock's historical average. The stock's yield is over 4% based on our conservative dividend estimate for fiscal 2022, which makes for a substantial tangible return in the context of European yields. Spain's non-treaty dividend withholding tax is 19%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

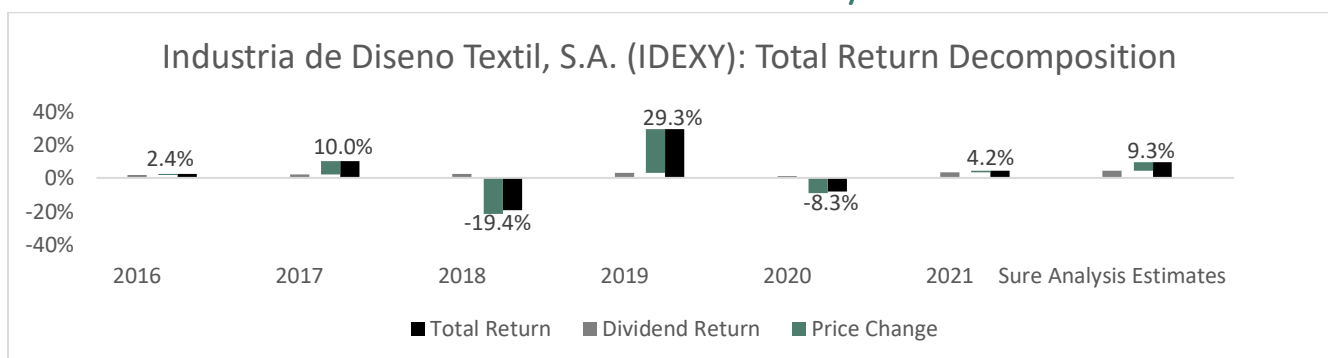
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	49%	46%	56%	63%	51%	51%	65%	66%	80%	90%	80%	80%

Industria de Diseño Textil 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 confident 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 Industria's top and bottom line, as it is heavily relying on retail consumer spending.

Final Thoughts & Recommendation

Industria de Diseño 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. Despite the store closures related to the ongoing war, growth appears robust, while shares should be undervalued at their current levels. We expect annualized total returns of 9.3% through 2027, to be powered by Industria's EPS & DPS growth, and the potential for a valuation expansion. U.S.-based investors, however, should be wary of the (currently wild) fluctuations of EUR/USD, which could affect future results. We downgrade shares to hold following the recent rally from our previous buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	19178	20554	22263	23784	23052	25750	29060	30703	31591	32600
Gross Profit	11374	12283	13209	13875	13334	14668	16356	17399	17653	18600
Gross Margin	59.3%	59.8%	59.3%	58.3%	57.8%	57.0%	56.3%	56.7%	55.9%	57.1%
SG&A Exp.	1945	1972	2205	2428	2302	2453	2016	2332	2440	3564
D&A Exp.	963	1026	1138	1188	1127	1174	1105	1292	3156	3412
Operating Profit	3507	4017	4088	4199	4056	4441	4950	5116	5328	5036
Operating Margin	18.3%	19.5%	18.4%	17.7%	17.6%	17.2%	17.0%	16.7%	16.9%	15.4%
Net Profit	2687	3043	3164	3283	3170	3487	3863	4044	4064	3814
Net Margin	14.0%	14.8%	14.2%	13.8%	13.8%	13.5%	13.3%	13.2%	12.9%	11.7%
Free Cash Flow	1675	2325	2099	1905	3288	2980	2511	2827	6421	6619
Income Tax	853	985	893	964	950	1013	1123	1151	1155	1116

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	14399	17490	18648	17428	18978	21010	25104	24902	31312	32280
Cash & Equivalents	4555	5214	5215	4305	4620	4407	6119	5587	5272	7830
Accounts Receivable	284	403	418	407	430	498	537	526	549	568
Inventories	1678	2146	2273	2108	2400	2729	3332	3119	2502	3392
Goodwill & Int. Ass.	1093	1112	1146	1000	971	975	1140	1167	682	882
Total Liabilities	4603	5981	6070	5563	6458	7355	8324	8040	14825	14700
Accounts Payable	2415	3039	3214	2815	3275	3717	4439	4300	4395	5170
Long-Term Debt	2	8	5	9	11	65	16	102	42	40
Shareholder's Equity	9742	11459	12534	11822	12476	13614	16749	16828	16448	17540
LTD/E Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	19.4%	19.1%	17.5%	18.2%	17.4%	17.4%	16.8%	16.2%	14.5%	11.9%
Return on Equity	29.2%	28.7%	26.4%	27.0%	26.1%	26.7%	25.4%	24.1%	24.4%	21.7%
ROIC	29.0%	28.6%	26.3%	26.8%	26.0%	26.6%	25.3%	24.0%	24.3%	21.6%
Shares Out.	6232	6233	6231	6228	6226	6227	6226	6227	6229	6227
Revenue/Share	\$3.08	\$3.30	\$3.57	\$3.82	\$3.70	\$4.14	\$4.67	\$4.93	\$5.07	\$5.24

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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