



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

Updated December 18th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	6.6%	Market Cap:	\$99.3B
Fair Value Price:	\$16	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	04/29/2021 ¹
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.1%	Dividend Payment Date:	05/17/2021
Dividend Yield:	2.9%	5 Year Price Target	\$20	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 \$26 billion in revenues and is based in Spain. On December 17th, 2020, the company announced its Q3-2020 earnings, for the period ending October 31st, 2020. For the quarter, revenues were \$7.35 billion, a 14.3% decrease from Q3 of last year. For the first nine months of the year, EPS was \$0.26, a 75% decline YoY. Similarly to the first half of the year, the weak results were attributed to COVID-19, which forced the majority of the company's stores to close down during some of previous months. 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 October, 7,197 stores (98% 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 generating weaker profits, the company ended the quarter with around \$10.7B in the bank, which indicates strong liquidity. Further, IDEXY's online sales acceleration efforts have been paying off, posting a 76% growth in Q3-2020, 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 \$1.0 billion in digital CAPEX over the next three years. While financial guidance was not provided the company expects its online sales to continue growing. Management also announced that it intends to pay out a €0.78 per share (\$0.48 per ADR) in FY2021 and FY2022, encouraging investors in terms of the company's future dividend policy.

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	\$0.40	\$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	\$0.61
Shares²	3,115	3,115	3,116	3,116	3,115	3,113	3,113	3,113	3,113	3,113	3,114³	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. Since the company has delivered weaker profitability due to the ongoing pandemic, we expect FY2020 EPS to be around \$0.40, assuming a solid Q4. 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

¹ Estimated dates based on past dividend dates.

² Share count is in millions.

³ One actual share equals 2 ADR shares

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declared a final dividend of €0.35 (around \$0.21 per ADR). We retain both our mid-term EPS and DPS CAGR expectations to 5%, powered by Inditex's online segment's momentum and sooner than expected store re-openings.

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	26.4	25.0
Avg. Yld.	1.3%	3.4%	1.8%	1.7%	2.0%	1.9%	1.8%	1.8%	2.7%	2.8%	1.3%	3.1%

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. At its current price, the stock is trading with a P/E ratio of 26.4 on its normalized net income, which we expect to be the case from next year based on the company's dividend guidance. In terms of the stock's yield, considering that the board intends to approve a \$0.48/share in dividends over the next couple of years, 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

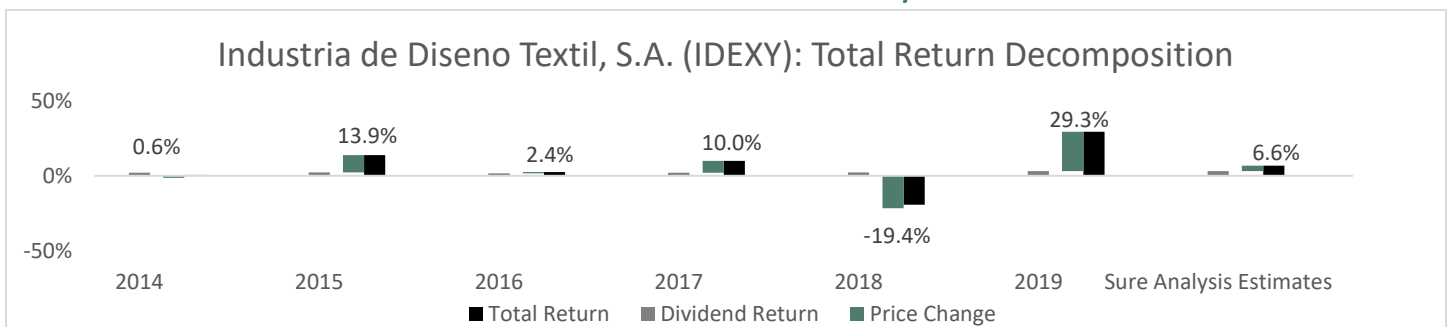
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	36%	74%	49%	46%	56%	63%	51%	51%	65%	66%	77%	77%

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 represent less than 20% of total revenues. If a successful roll out of a COVID-19 vaccine is delayed, net income could remain down for a while. However, management's promising dividend guidance indicates that this is not going to be the case. Still, 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 6.6%, though the recovery rate of the company remains still a bit speculative; it is a hold.

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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