



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

Updated March 19th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$16.7	5 Year CAGR Estimate:	5.9%	Market Cap:	\$105B
Fair Value Price:	\$15.5	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	04/29/2021 ¹
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date:	05/03/2021
Dividend Yield:	2.5%	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 generates around \$26 billion in revenues and is based in Spain. On March 10th, 2021, the company announced its full-year earnings for the period ending January 31st, 2021. For the year, revenues were \$24.26 billion, a 27.8% decrease compared to FY2019. EPS also declined by 67.6% to \$0.21 during this period. 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 amid the global lockdowns. The company had around 7000 open locations last March. That figure slumped to around 1000 during April, in the midst of the pandemic, but climbed back up to 7000 during autumn. By March 10th of this year, around 6000 were open amid the second wave of the pandemic reclosing some locations. Despite generating weaker profits, the company ended the quarter with around \$8.68B in cash and equivalents, which indicates strong liquidity. Further, IDEXY's online sales acceleration efforts have been paying off, posting 77% growth during the 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 during the second half. While financial guidance was not provided, the company expects online sales to continue growing. Management also announced that it intends to pay out €0.70 per share (\$0.41.5 per ADR) in FY2021. Considering the company's policy to pay out 60% of its net income in dividends, FY2021's EPS should land at around \$0.69. We have assumed \$0.62 to remain prudent and price in the potential FX fluctuations in EUR/USD, which could reduce the actual net income in dollar amounts.

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	\$0.62	\$0.79
DPS	\$0.32	\$0.24	\$0.23	\$0.29	\$0.32	\$0.28	\$0.32	\$0.42	\$0.43	\$0.17	\$0.42	\$0.53
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

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 quick recovery in FY2021's profitability. 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 management. However, the company declared a final dividend of €0.35 (around \$0.17 per ADR).

¹ Payment date announced at 05/03/2021, but ex-dividend date is TBA.

² Share count is in millions.

³ One actual share equals 2 ADR shares

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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	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	26.9	25.0
Avg. Yld.	1.3%	3.4%	1.8%	1.7%	2.0%	1.9%	1.8%	1.8%	2.7%	1.2%	2.5%	2.7%

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. At its current price, the stock is trading with a P/E ratio of 26.9 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 \$0.42/share in dividends next year, the stock is trading at a forward (FY2021) yield of around 2.5%, which makes for an attractive option in the context of European negative yields.

Safety, Quality, Competitive Advantage, & Recession Resiliency

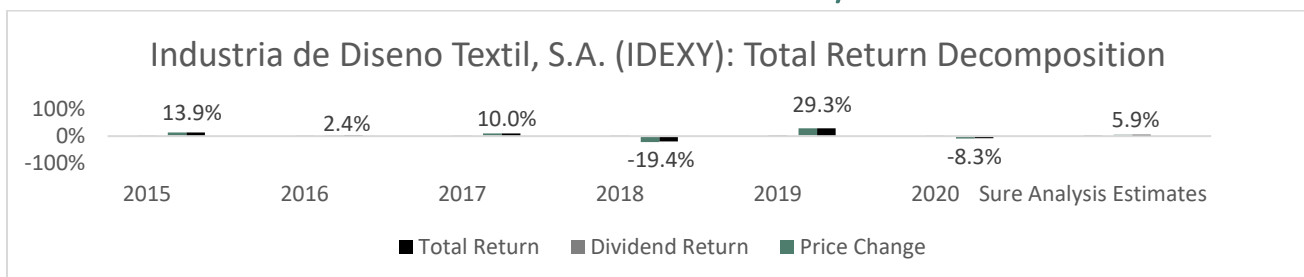
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	74%	49%	46%	56%	63%	51%	51%	65%	66%	80%	67%	67%

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 strong. Overall, we expect investors to enjoy a medium-term CAGR return of around 5.9%, though the recovery rate of the company remains still a bit speculative. We rate the stock as a hold due to projected returns.

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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