bordier 1844

Industria de Diseno Textil, S.A.

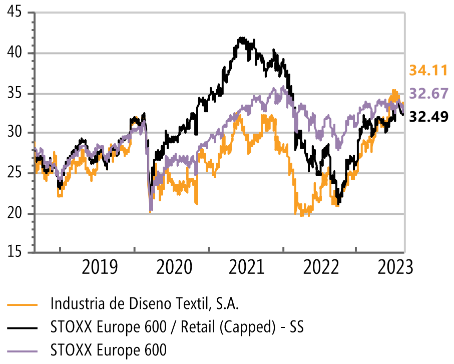
CORE HOLDING* — Recommended since 20.04.15 — 21.08.2023

Country	ES	Market capitalization (bn)	EUR	105,9	Perf. since reco. (%)	
Sector	Retail	Free float	35,4%		Industria de Diseno Textil, S.A.	15,8
Factset	ITX-ES	Closing price	EUR	33,99	Sector	0,1
ISIN	ES0148396007	ESG Risk score*	12,4	Low risk		

**From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.*

Profile

From a first Zara shop in 1975 to the inception of Inditex Group in 1985, Armancio Ortega has created the world leader in textile manufacturing ahead of H&M. Distributing its clothing (more than 300 fashion designers) under the Zara, Massimo Dutti and Pull Bear brands, the Group based in Galicia (Spain) manages 90% of its shops with a strong business footprint in greater Europe (66% of turnover), in Asia (16%) and in Americas (18%).



Source: Factset

Market - competition - positions - barriers to entry

In a global clothing market worth over € 1,000 billion, Inditex has a market share of just 1.5% (rivals: H&M, Primark, Asos, Zalando, Esprit, Benetton, Next...). This low penetration rate in many countries gives it significant growth potential for the future, boosted by high profitability, which enables it to self-finance its expansion in emerging markets and strong development in e-commerce.

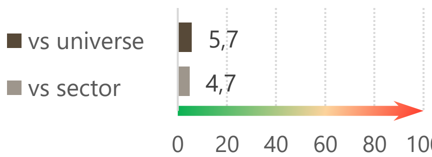
Investment case

- Over the last decade, Inditex has benefited from a favorable economy for Retail in Europe and international expansion (new stores = +5% per year). Between 2014 and 2019, its sales grew by +10% per year, but recent years have seen fewer store openings and a development in e-commerce that has taken over (14% of 2019 sales). Faced with the pandemic in 2020, Inditex proved resilient (sales -28%) despite the closure of its stores thanks to booming online sales (32% of total sales), its net cash position remaining stable at €7.6bn. 2021 saw a rebound in sales (+38%), EBIT (€4.28bn vs. €1.5bn) and EPS (€1.04 vs. €0.36) even though Q4 was impacted by Omicron. This performance coupled with tight capex management boosted net cash to a record €9.4bn.
- Despite the closure of operations in Russia, 2022 saw the group benefit from higher prices for its summer/winter collections and the return of consumers to stores. Sales growth was sustained (Q1 +36.4%, Q2 +15.9%, Q3 +11.1%) despite more challenging comparables and Inditex was able to pass on some of the inflation in incoming costs (textile, MP, transport). The operating leverage linked to good growth in volumes, higher prices, less penalizing currencies and controlled operating expenses enabled EBIT to appreciate. It should be noted that the commercial momentum is not waning (sales in the first 6 weeks of Q4 rose +12%) and will benefit from a favorable base effect (negative effect of Omicron on consumption in Q4 last year). The strong performance in Q3 and this trend for Q4 distinguish Inditex from its peers. Confirming its 2022 targets, including a gross margin of +/-50bp, management is confident about the future (in particular on the perception of the Zara "brand"), which is reassuring.
- Emerging stronger from the pandemic, Inditex's model offers a competitive advantage: 2/3 of its sourcing (supply/production) is local, while Europe represents 60% of sales. It benefits from a better protection against cost inflation, a favorable currency effect, a structurally high margin and a solid cash position. Its e-commerce sales (26% of total) and the successful optimization of the store network associated with its online activities should enable it to generate long-term annual sales growth of +4/6%. The recovery of traditional consumption even if overshadowed by the upcoming impact of rising interest rates/energy costs leads the market to favor an omni-channel retailer (stores + online) such as Inditex which offers an attractive valuation (PE Fwd of 21x vs. 10-year average of 24.7x) and a dividend yield ~4%.

ESG - risks and key points

- Inditex has a negligible risk of suffering financial impacts related to ESG factors, due to its low exposure and its strong management (policies and programs) of these subjects.
- Dependence on suppliers poses supply chain risks in Asian markets associated with poor working conditions.
- The fast fashion model generates quantities of waste (discarded clothing) which pose risks and opportunities for reusing/recycling clothing fibres.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in EUR

Current price	Value Bordier Scenario
34,0	35,2

Our scenario includes 10-year rates in Europe at 2%, sales which after a sharp fall in 2020 rebounded strongly in 2021 and 2022 to target a +7% increase in 2026, and 200 basis points in EBIT margin improvement over this horizon, to be normalised at 17.5% in the long term.

***) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.*

Research Department - **Mendon Qestaj**

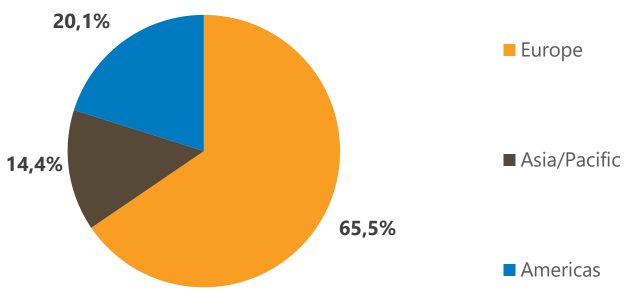
Industria de Diseno Textil, S.A. - CORE HOLDING* 21.08.2023

"Bordier Core Holding" indicators

In millions of EUR	2021	2022	2023e	2024e	2025e
Sales revenue	**27 716**	**32 569**	**33 280**	**34 950**	**37 040**
Sales growth %	**35,8%**	**17,5%**	**7,5%**	**5,0%**	**5,5%**
o/w organic	*38,8%*	*12,0%*	*7,5%*	*4,0%*	*4,5%*
o/w perimeter	*-1,5%*	*0,5%*	*0,0%*	*1,0%*	*1,0%*
o/w forex	*-1,5%*	*0,5%*	*0,0%*	*0,0%*	*0,0%*
EBITDA	**7 183**	**8 649**	**8 650**	**9 080**	**9 640**
% of sales	**25,9%**	**26,6%**	**26,0%**	**26,0%**	**26,0%**
EBIT	**4 282**	**5 519**	**5 369**	**5 729**	**6 159**
% of sales	**15,5%**	**16,9%**	**16,1%**	**16,4%**	**16,6%**
Adjusted EPS	**1,04**	**1,33**	**1,32**	**1,42**	**1,53**
Adjusted EPS growth	**193,3%**	**27,4%**	**-0,6%**	**7,3%**	**7,8%**
Free cash-flow	**5 627**	**5 259**	**5 706**	**6 087**	**6 471**
FCF/Sales	**20,3%**	**16,1%**	**17,1%**	**17,4%**	**17,5%**
Dividend yield	**2,7%**	**3,5%**	**3,6%**	**3,8%**	**4,1%**
ROCE - WACC	**15,0%**	**25,0%**	**29,6%**	**40,2%**	**56,7%**
ROE (%)	**20,6%**	**24,3%**	**23,6%**	**24,5%**	**25,4%**
Net debt/Ebitda	**-16,7%**	**-1,4%**	**18,8%**	**33,7%**	**45,3%**

Source: Factset, Bordier estimates

Sales breakdown - 01/2023



Ratios

	Industria de Diseno Textil, S.A.	Stoxx Europe 600 Sector	Stoxx Europe 600 Market
PE (x)***)		Retail	Stoxx 600
2022	18,7	19,6	13,1
2023e	25,9	18,5	12,8
2024e	24,1	16,3	12,0
P/B (x)***)			
2022	4,6	3,8	2,0
2023e	6,1	3,9	1,8
2024e	5,9	3,6	1,7
		Beta (2Y, daily) vs market:	1,16

****) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.*

Governance and ownership structure

Since 2022 Chairman Marta Ortega / CEO Oscar Garcia Maceiras

Agenda

Q2 2023 results on 13/09/2023

Key shareholders (if any):

Founder Armancio Ortega Gauna 59.3%, Ortega Mera Sandra 5.1%.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

None

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.