

Industria de Diseno Textil, S.A.

CORE HOLDING*

Recommended since 20.04.15

07.11.2024



Country	ES	Market capitalization (bn)	EUR	160,9	Perf. since reco. (%)	
Sector	Retail	Free float		40,6%	Industria de Diseno Textil, S.A.	75,9
Factset	ITX-ES	Closing price	EUR	51,64	Sector	21,1
ISIN	ES0148396007	ESG Risk score*		11,6	Low risk	

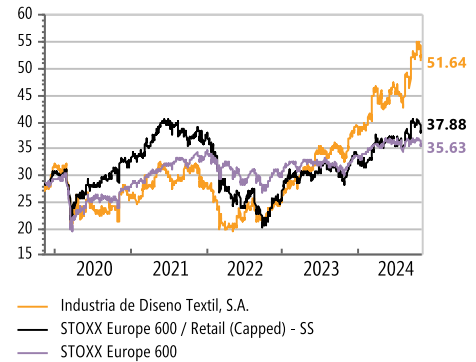
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely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

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.



Source: Factset

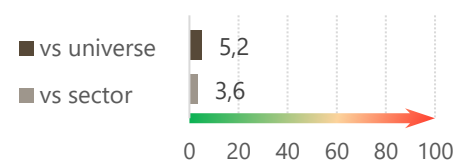
Investment case

- Over the past decade, Inditex has adeptly adapted to the rapid changes in the fashion sector, strengthening its flexible and omnichannel business model. Thanks to its online expansion and presence in over 200 markets, the group is well-positioned to address current economic and geopolitical challenges. It leverages growing demand for its flagship brands, especially Zara, while maintaining a technological and operational edge with an increasing share of online sales and continuous optimization of its store network.
- In 2024, Inditex continues to demonstrate strong resilience despite an economic environment marked by inflationary pressures and geopolitical uncertainties. Following a solid 2023, with a 10.4% increase in sales, Inditex is sustaining robust growth, supported by an investment strategy focused on logistics and digital capabilities. To date, e-commerce accounts for 25% of total revenue, and the group projects annual growth of +6/7% through the optimization of its physical network and the acceleration of online sales.
- Inditex recorded strong sales in H1 2024, with a +7.2% y/y increase. Its balance sheet remains one of its key strengths, with net cash of €10.9 billion at the end of Q2 2024, despite planned annual logistics investments of €2.7 to €2.8 billion for 2024 and 2025. These investments aim to enhance distribution capabilities to meet the demands of an increasingly digitalized market, especially in the U.S., where ongoing expansion projects are beginning to bear fruit.
- Inditex benefits from proximity sourcing, with 60% of its procurement based in Europe. This limits its exposure to cost increases and shortens its time-to-market compared to competitors. This operational flexibility allows the group to swiftly adjust its offerings based on consumer trends while maintaining a stable gross margin, expected at +/- 50 bps for 2024.
- The stock trades at a forward P/E ratio of 25x, aligned with its 10-year average and justified by the company's intrinsic quality. Inditex's strategy of reinvesting in logistics while offering an attractive dividend (~3.6% yield) reinforces its appeal for investors seeking a balanced exposure to a well-positioned omnichannel retailer poised to capture consumer recovery.

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
51,6	47,6

Our scenario includes 10-year rates in Europe at 2.5%, sales growing at +8% in 2024-2026, and EBIT margin to be normalised at 20% in the long term.

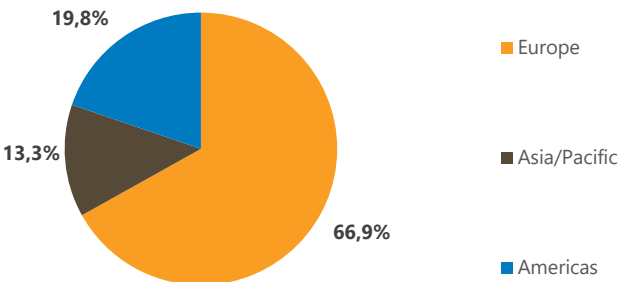
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of EUR	2022	2023	2024e	2025e	2026e
Sales revenue	32 569	35 826	38 764	41 942	45 298
Sales growth %	17,5%	10,0%	8,2%	8,2%	8,0%
o/w organic	12,0%	10,0%	8,2%	8,2%	8,0%
o/w perimeter	0,5%	0,0%	0,0%	0,0%	0,0%
o/w forex	0,5%	0,0%	0,0%	0,0%	0,0%
EBITDA	8 649	9 874	10 693	11 300	12 200
% of sales	26,6%	27,5%	27,6%	26,9%	26,9%
EBIT	5 519	6 722	7 549	8 026	8 927
% of sales	16,9%	18,7%	19,5%	19,1%	19,7%
Adjusted EPS	1,33	1,71	1,87	1,99	2,21
Adjusted EPS growth	27,4%	28,7%	9,3%	6,5%	11,3%
Free cash-flow	5 259	6 795	7 290	7 711	8 409
FCF/Sales	16,1%	18,9%	18,8%	18,4%	18,6%
Dividend yield	3,0%	3,4%	3,7%	4,1%	4,4%
ROCE - WACC	25,0%	26,9%	30,0%	36,8%	47,7%
ROE (%)	24,3%	28,5%	28,1%	29,6%	32,6%
Net debt/Ebitda	-1,4%	-14,7%	-32,1%	-31,8%	-30,9%

Source: Factset, Bordier estimates

Sales breakdown - 01/2024



Ratios

Industria de Diseno Textil, S.A.		Stoxx Europe 600	
		Sector	Market
PE (x)***		Retail	Stoxx 600
2023	23,1	19,9	14,4
2024e	27,7	21,6	14,5
2025e	26,0	19,5	13,3
P/B (x)***			
2023	6,6	4,2	2,0
2024e	7,8	4,9	1,9
2025e	7,7	4,6	1,8
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

Key shareholders (if any):

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

Agenda

Q3 2023 results on 11/12/2024

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.

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