

EQUITY - SPAIN

Textiles, Apparel & Luxury Goods

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3m Results 2021

Closing price: EUR 4.34 (27 Jul 2021)

3m Results 2021

Opinion ⁽¹⁾: In line

Impact ⁽¹⁾: We will have to lower our estimates

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Results reasonably in line, although we will have to downgrade (slightly) our numbers

Any reference to the results of the period to 3M refers to the period between 1 March and 31 May.

EXPECTED REBOUND IN SALES (EUR 14.6Mn, +117.8% y/y), favoured by weak comps due to the eruption of COVID-19 in 2020. Even so, these are -28.7% vs. 1Q19, an estimated c.-15% y/y LFL. ADZ had 343 points of sale in 1Q21 (-11.4% vs. 1Q19, pre-Covid), with 49% located in the domestic market. Europe contributed c. EUR 10.4Mn (c. 71% of the total), the bulk being generated in the local market (92% of the points of sale and the online roll-out).

DRIVEN BY THE ONLINE CHANNEL, THE MAINSTAY OF COMPANY STRATEGY: +5.5% y/y (+62.5% vs. 1Q19), contributing c. 18% of sales (1Q21e), supported by the launch of new collections. ADZ has also announced the incorporation of new independent board members specialised in this channel.

WITH AN IMPROVED GROSS MARGIN (66.2% OF SALES, +9.3p.p. y/y), that is -0.6p.p. vs. 1Q19 in a “full price” quarter (vs. our estimate of -0.1p.p. vs. 2019 for the whole of 2021e). As also happened in 2020, the early start to the sales season by the bulk of the local sector (end of June vs 1 July traditionally), will increase pressure on margins (2Q21).

BUT INSUFFICIENT TO BEAR THE COST OF THE STRUCTURE, (EUR -2.3Mn IN REC. EBITDA 1Q21e; +50.6% y/y). The improvement in the gross margin explains c. 59% of the improvement in Rec. EBITDA. Besides this, the impact of the restructuring carried out in May (c. -25% of the headcount) will be reflected in the P/L from 2Q21.

TEMPORARILY CAUSING A SHARP DECREASE IN EBIT (EUR -8.4Mn, -13.0% y/y) AND NP (EUR -8.6Mn, -6% y/y), due to the impact of the restructuring in May (non-recurrent cost of c. EUR -4.1Mn). The financial contribution is nil (vs. EUR -0.8Mn), with the forex impact not being disclosed. This time, balance sheet data have not been provided either.

WE WILL DOWNGRADE SLIGHTLY OUR NUMBERS FOR 2021, c. 10% in Rec. EBITDA due to higher pressure on margins. Although demand should recover (2021), this will continue to be a long way from pre-Covid levels. In June the local industry was pointing to levels c. -20% to -30% vs. 2019 (a cumulative c. -27.8% LFL in March-May vs. 2019). Our current estimates envisage -19% in sales vs. 2019, based on the calendar difference.

Besides this, although the improvement in consumer confidence (that recorded highs in June vs. -2y: 97.5 points, +8.5 m/m; easing of restrictions and increased mobility), together with the early start to the sales season (smaller margin) boosted the local sector's sales in June (-0.3% LFL y/y), the fifth Covid-19 wave could have a negative impact on sales. ADZ is trading (pre-adjustments) at 0.7x 2021e EV/Revenue and 7.2x EV/EBITDA (vs. an average of c. 2x and 10x respectively for the sector).

Besides this, ADZ intends to approve a multi-year Long Term Variable Remuneration plan (2021-2023) with payment in company shares being extended to include executive board members (including the CEO).

Business description

Adolfo Domínguez (ADZ) is a small designer fashion textile group, based in Ourense (Spain), specialising (c. 40 years) in the design and sale (both retail and wholesale) of fashion items. With international presence (c.35% o/revenues), it is managed by the founding family (31% of the capital), which prevails in the Board.

Market Data

Market Cap (Mn EUR and USD)	40.3	47.6
EV (Mn EUR and USD) ⁽²⁾	64.0	75.6
Shares Outstanding (Mn)	9.3	
-12m (Max/Med/Min EUR)	5.00 / 4.24 / 3.41	
Daily Avg volume (-12m Mn EUR)	0.02	
Rotation ⁽³⁾	9.9	
Refinitiv / Bloomberg	ADZ-ES / ADZ SM	
Close fiscal year	28-Feb	

Shareholders Structure (%) ⁽⁵⁾

Adolfo Domínguez	31.5
Puig, S.A.	14.8
Libertas 7	10.3
Indumenta Pueri	9.0
Free Float	23.0

Relative performance (Base 100)



Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	1.2	-4.4	1.2	21.9
vs Ibex 35	5.8	-3.8	-16.6	21.4
vs Ibex Small Cap Index	5.6	-2.2	-26.8	-34.4
vs Eurostoxx 50	2.6	-5.6	-17.8	-10.0
vs Sector benchmark ⁽⁴⁾	6.4	-8.3	-29.6	-18.1

(1) The opinion regarding the results is on reported EBITDA with respect to our estimate for the year (12m). The impact reflects whether, due to the results, we envisage a significant revision (>5% - 10%, depending on the sector) of our EBITDA estimate (for any of the estimated years).

(2) Please refer to Appendix 2.

(3) Rotation is the % of the capitalisation traded - 12m.

(4) vs TR Europe Apparel & Accessories Retailers.

(5) Others: La Previsión Mallorquina de Seguros 7.6%, Ibercapital Magnum, SICAV S.A 3.2%, Treasury shares 0.6%

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Factset and Lighthouse.

Appendix 1. Results table

<i>(EUR Mn)</i>	1Q21	1Q20	1Q21 vs 1Q20	1Q19	1Q21 vs 1Q19
Sales	14.6	6.7	117.8%	20.5	-28.7%
Gross Margin	9.7	3.8	153.6%	13.7	-29.3%
<i>Gross Margin (% o/Sales)</i>	<i>66.2%</i>	<i>56.8%</i>	<i>9.3 p.p.</i>	<i>66.7%</i>	<i>-0.6 p.p.</i>
Recurrent EBITDA	(2.3)	(4.6)	50.6%	1.1	-311.5%
<i>Rec. EBITDA/Sales</i>	<i>-15.4%</i>	<i>-68.0%</i>	<i>52.6 p.p.</i>	<i>5.2%</i>	<i>-20.6 p.p.</i>
EBITDA	(6.3)	(4.6)	-38.3%	1.1	n.a.
<i>EBITDA/Sales</i>	<i>-43.2%</i>	<i>-68.0%</i>	<i>24.8 p.p.</i>	<i>5.2%</i>	<i>-48.4 p.p.</i>
EBIT	(8.4)	(7.5)	-13.0%	(1.0)	n.a.
PBT	(8.4)	(8.3)	-1.8%	(1.3)	n.a.
NP	(8.6)	(8.1)	-6.0%	(1.4)	n.a.
Ordinary NP	(4.5)	(8.1)	44.1%	(1.4)	-235.6%
Points of sale	343	381	(38)	387	(44)

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	40.3	
+ Minority Interests	1.0	12m Results 2020
+ Provisions & Other L/T Liabilities	28.2	12m Results 2020
+ Net financial debt	(0.8)	12m Results 2020
- Financial Investments	4.7	12m Results 2020
+/- Others		
Enterprise Value (EV)	64.0	

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
28-Jul-2021	n.a.	4.34	n.a.	n.a.	3m Results 2021	Ana Isabel González García, CIA
14-Jun-2021	n.a.	4.28	n.a.	n.a.	Estimates upgrade	Ana Isabel González García, CIA
29-Apr-2021	n.a.	4.50	n.a.	n.a.	12m Results 2020	Ana Isabel González García, CIA
29-Mar-2021	n.a.	4.20	n.a.	n.a.	Important news	Ana Isabel González García, CIA
18-Jan-2021	n.a.	4.78	n.a.	n.a.	9m Results 2020 - Estimates downgrade	Ana Isabel González García, CIA
02-Dec-2020	n.a.	4.60	n.a.	n.a.	6m Results 2020 - Estimates downgrade	Ana Isabel González García, CIA
17-Sep-2020	n.a.	3.90	n.a.	n.a.	3m Results 2020	Ana Isabel González García, CIA
25-Jun-2020	n.a.	5.10	n.a.	n.a.	Estimates downgrade	Ana Isabel González García, CIA
13-Jan-2020	n.a.	6.90	n.a.	n.a.	9m Results 2019	Ana Isabel González García, CIA
03-Dec-2019	n.a.	7.36	n.a.	n.a.	Initiation of Coverage	Ana Isabel González García, CIA

