

EQUITY - SPAIN

Sector: Textiles, Apparel & Luxury Goods

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12m Results 2020

Closing price: EUR 4.50 (28 Apr 2021)

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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.

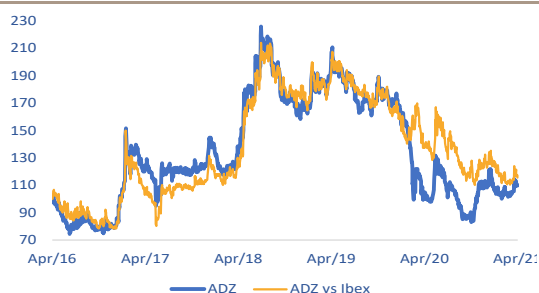
Market Data

Market Cap (Mn EUR and USD)	41.7	50.6
EV (Mn EUR and USD) ⁽²⁾	38.9	47.2
Shares Outstanding (Mn)	9.3	
-12m (Max/Med/Mín EUR)	5.40 / 4.30 / 3.41	
Daily Avg volume (-12m Mn EUR)	0.02	
Rotation ⁽³⁾	12.9	
Refinitiv / Bloomberg	ADZ.MC / 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	7.1	3.7	8.4	9.8
vs Ibex 35	3.5	-6.5	-15.8	15.6
vs Ibex Small Cap Index	7.1	-6.1	-29.3	-41.4
vs Eurostoxx 50	3.2	-8.1	-20.8	-14.6
vs Sector benchmark ⁽⁴⁾	-1.0	-8.5	-25.5	-25.8

(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, Refinitiv and Lighthouse

Mixed results (better LFL; worse margin)

ADZ closes its financial statements on 28-Feb, so any reference to the results of a certain year refers to the period between 28-Feb and 28-Feb (of the following year)

SLOWDOWN IN THE DECLINE IN REVENUE (4Q), UNDERPINNED BY THE ONLINE CHANNEL (+25.1% Y/Y 2020). EUR 67.5Mn in revenues in 2020 (-42.8% y/y; vs. -46.8% 9M20), in a year in which c. 60% of the points of sale were again impacted by the restrictions (capacity limits/opening hours) of the third wave of the Covid-19 pandemic (vs. c. 90% at the beginning of the pandemic; impacting ADZ's 1Q head on). Consolidated LFL 2020 -39.2% (vs. -45% 9M20), with a c. -2 p.p. Forex impact. The online channel contributed 20.7% of the consolidated sales for the year.

BETTER LFL PERFORMANCE (GROUP). Europe (EUR 47.9Mn in revenues in 2020; 71.0% of the Group total, the bulk being obtained in Spain) continued to improve (-38.2% LFL 2020, vs. -45.5% LFL 9M20). ADZ recorded c. -35% LFL in Spain, maintaining a spread of c. +5p.p. vs. the sector. Japan and other countries recorded the best LFL performance (-34.6% and -19.1% respectively, vs. >-40% for both in 9M20). On the other hand, Mexico has continued to be affected by the worsening of the Covid crisis (-48.8% LFL 2020, vs. -49.6% 9M20), that is now subsiding. At the 2020 close, ADZ had reduced its points of sale by 12.3% (the bulk in Mexico after the ending of the alliance with Gin Group).

WORSENING OF MARGINS DUE TO THE CALENDAR EFFECT OF COVID. The irruption of Covid-19 (March 2020) hit 1Q20 head on and so impacted the Group's "full-price" sales. This proved impossible to make up over the rest of the year. As a result, ADZ recorded a gross margin/revenues of 47.7% (-9.1p.p. y/y; vs. 50.4% 9M20), due to the commercial effort made to recover sales.

SHRINKING EBIT (EUR -17.6Mn 2020; VS. EUR 1Mn-1Y) AND NP (EUR -19.3Mn 2020, C.-2.3X Y/Y) despite control of costs (-38.0% y/y in personnel costs, that include a EUR 1.3Mn reduction corresponding to the government's furlough scheme). In addition, ADZ recorded an operating impact of EUR +2.0Mn from the renegotiation of leases. The increase in financial expenses (EUR -1.7Mn 2020, c. +80% y/y) due to forex (c. 50% of the total) impacted NP.

BUT RETURNING TO A NET CASH POSITION (EUR 0.6Mn 2020) VS. EUR 1.6Mn ND 9M20 (and EUR +10Mn net cash -1y), thanks to the optimisation of working capital (c. EUR +9Mn in CF, to which the reduction of inventories contributed c.60%; the implementation of RFID; the increase in the average supplier payment period to 65 days vs. 45 -1y) and the containment of Capex (EUR 2.0Mn 2020, -20.9% y/y).

IN CONCLUSION, MIXED RESULTS, WITH THE IMPACT THAT RESTRUCTURING IS GOING TO HAVE BEING CRITICAL. The redundancy programme announced at the end of March (affecting c. 30% of the headcount) will be concluded in the coming days. This restructuring will generate c. EUR -5Mn in non-recurrent costs and savings (in 12 months) of c. EUR 8Mn (300 employees, average length of service of 10y), resulting in Rec. EBITDA of c. EUR 7Mn in 2021e (+4x vs. our current estimate, EUR 1.8Mn), exceeding pre-Covid-19 levels in 2022 (EUR 11.3Mn Rec. EBITDA 2019). We will adjust our numbers to include this impact.

ADZ continues to reinforce its online business and multi-channel presence in core markets (+23 points of sale in Mexico; franchises) while progressing with its DNA project and facing less demanding comps (2020). Aside from this, ADZ will try to request financing from EU funds (sustainability, digitalisation...) with which to continue to weather the storm (l/t).

Appendix 1. Results table

	(EUR Mn)	2020 Real	2019	2020 Real vs 2019	2020e	2020 vs 2020e	4Q20	4Q20 vs 4Q19
Total Revenues		67.5	117.3	-42.5%	64.5	4.6%	25.9	-33.8%
Sales		66.0	114.9	-42.6%	63.2	4.5%	25.5	-33.4%
Europe		47.9	83.9	-42.9%	55.0	-12.9%	19.8	-30.3%
Mexico		10.5	18.5	-43.2%	4.3	142.4%	2.9	-52.5%
Japan		5.1	7.8	-34.6%	2.7	85.6%	1.7	-26.1%
ROW		2.5	4.7	-46.8%	1.1	125.3%	1.1	-21.4%
Other income		1.5	2.4	-39.1%	1.3	11.9%	0.5	-50.4%
Gross Margin		32.2	66.7	-51.7%	31.3	2.7%	11.2	-44.7%
Gross Margin (% s/Revenues)		47.7%	56.9%	-9.1 p.p.	48.6%	-0.9 p.p.	43.4%	-8.5 p.p.
Recurrent EBITDA		(8.8)	11.3	-177.7%	(6.5)	-35.4%	(3.2)	-154.8%
Rec. EBITDA/Revenues		-13.1%	9.7%	-22.7 p.p.	-10.1%	-3.0 p.p.	-12.4%	-27.4 p.p.
EBITDA		(6.8)	11.3	-160.1%	(6.5)	-4.7%	(1.2)	-120.8%
EBITDA/Revenues		-10.1%	9.7%	-19.8 p.p.	-10.1%	0.0 p.p.	-4.7%	-19.7 p.p.
EBIT		(17.6)	1.0	n.a.	(15.9)	-10.8%	(4.0)	-308%
EBIT/Revenues		n.a.	0.8%	n.a.	n.a.	n.a.	n.a.	n.a.
PBT		(19.3)	0.0	n.a.	(17.5)	-10.4%	(4.2)	-364.6%
NP		(19.3)	(8.3)	-132.5%	(17.5)	-10.3%	(4.4)	29.1%
Ordinary NP		(19.3)	(8.3)	-132.5%	(17.5)	-10.3%	(4.4)	29.1%
Total LFL Var.		-39.2%	5.9%	-45.1p.p.	-45.0%	5.8p.p.		
Points of sale		342	390	(48)	355	(13)		
Rec. FCF		(10.7)	(1.3)	-694%	(11.4)	6.5%		
Net Debt		(0.6)	(10.0)	94%	1.4	-142%		
ND / Equity		0.0 x	-0.2 x	0.2 x	-1.0 x	1.0 x		

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	41.7	
+ Minority Interests	1.0	12m Results 2020
+ Provisions & Other L/T Liabilities	1.4	12m Results 2020
+ Net financial debt	(0.6)	12m Results 2020
- Financial Investments	4.7	12m Results 2020
+/- Others		
Enterprise Value (EV)	38.9	

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Notes and Reports History

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

