

Inditex - BUY

ITX.MC (€24.62)



Group Profile

Inditex Group is engaged in clothing and textile design, manufacturing and distribution. The Company roots are in Spain and Inditex's activities are primarily based around eight sales formats: Zara, Pull and Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Kiddy's Class. These retail outlets predominantly sell women's fashion clothing, but also offer lingerie, cosmetics, footwear, children's clothing and menswear. As of January 31, 2004 (fiscal year-end 2003), Inditex's subsidiaries operated through 2,035 stores across 50 countries in Europe, the Americas, Asia and Africa. In 2003, Zara Home was established, which is a specialty home furnishings chain. Its focus is on textiles such as bed, table and bathroom linens, complemented by tableware, cutlery, glassware and decorative items.

Recent H1 05 Results:

Spanish fashion retailer Inditex (ITX.MC) reported a 29% jump in first-half net profit on wider gross margins and improved like-for-like sales, and gave an improved outlook for the rest of the year. The owner of the Zara clothing chain said net profit for the Feb 1 to July 31 period was €246.2 million (ahead of expectations of €225m), up from €190.1 million in the corresponding period last year. Like-for-like sales were up 4.5% (compared to estimates of c2.5%), while the company's gross margin rose by 200bps. To highlight the strength of this performance, Swedish retailer H&M recently said its like-for-like sales in the second quarter were up between 4% and 5%, with the company noting that such a performance supports a possible full-year rise of 2% to 3% in H&M's like-for-like sales. Markets are expecting Inditex like-for-like sales to rise between 4% and 5% this year.

Mgt comments/outlook: CEO Pablo Isla said he sees a similar trading trend in the second half year to January as in the first half in all of its clothing formats. He declined to provide a specific like-for-like sales target for the second half, however, noting that 'it's too difficult to extrapolate the first seven weeks for the full season.' The group is also one of the strongest growth stories in the sector with management saying it now expects to open between 400 and 450 new stores this year, up from its previous target of between 335 and 395. It raised its annual gross margin estimate by 50-100 basis points to between 55.9% and 56.4%. Management had previously guided towards a flat FY gross margin. These comments are likely to result in upward revisions to forecasts.

Valuation: In June shares in Inditex slumped (9%) after reporting Q1 results. While the numbers met expectations it was comments on flat LFL sales for the beginning of Q2 that disappointed the market. The recent results should go some way to allaying these fears for LFL sales growth and therefore give investors an opportunity to take advantage of the recent weakness in its share price. At current levels Inditex looks relatively cheap compared to its closest rival, H&M. (Inditex is currently at a 10% discount to the Swedish retailer). Divident Yield is currently c2%

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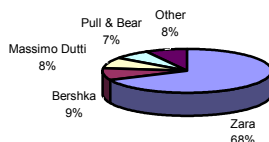
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Events Calender

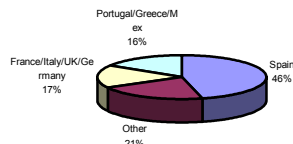
October
04Oct - Ryanair Investor Day
- BP Trading Stat.
11Oct - C&C (H1)
12Oct - GUS (H1)
28Oct - Elan (Q3)

November
01Nov - Viridian (Interims)
03Nov - DCC (Interims)
07Nov - Ryanair Trading Stat
10Nov - Waterford WW (Q3)
18Nov - Greencore (FY05)
23Nov - Anglo Irish Bk (FY)
- Trintech (Q3)
- United Drug (FY)
24Nov - Bank of Ireland (Ints)

Sales by Division



Sales by Region



Dolmen Securities Limited
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4 Earlsfort Terrace
Dublin 2