

EQUITY - SPAIN

Sector: Textiles, Apparel & Luxury Goods

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3m Results 2022

Closing price: EUR 3.92 (14 Jul 2022)

3m Results 2022

Opinion ⁽¹⁾: In line

Impact ⁽¹⁾: We will maintain our estimates

Alfredo Echevarría Otegui – alfredo.echevarria@lighthouse-ieaf.com

+34 915 904 226

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)	36.4	36.3
EV (Mn EUR and USD) ⁽²⁾	61.6	61.6
Shares Outstanding (Mn)	9.3	
-12m (Max/Med/Min EUR)	4.50 / 3.93 / 3.35	
Daily Avg volume (-12m Mn EUR)	0.01	
Rotation ⁽³⁾	7.0	
Factset / 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	9.1
Free Float	22.3

Relative performance (Base 100)



Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-3.9	4.3	-8.0	-20.0
vs Ibex 35	-0.7	16.2	2.1	9.2
vs Ibex Small Cap Index	4.8	16.9	2.9	-37.4
vs Eurostoxx 50	-1.7	18.1	11.1	-17.0
vs Sector benchmark ⁽⁴⁾	-7.5	20.6	34.1	-49.3

(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 1.

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

(4) vs Europe Apparel & Footwear.

(5) Others: La Previsión Mallorquina de Seguros 6.9%, Ibercapital Magnum, SICAV S.A 4.5%, Treasury shares 0.6%

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

The macro means the year will go from more to less. But compatible with recovering 2019 numbers

1Q 2022 RESULTS: STRONG REVENUE GROWTH THAT WILL DECELERATE OVER THE YEAR. +31.2% vs 1Q 2021 (affected by COVID 19). LFL sales have grown +25.7%. More growth in Europe (+32.7%) than in International (+28.9%). The restructured store network is established at 350 points of sale (+2%) and the domestic network continues to see its weighting of the mix decline (46% vs 49% -12m). Although all this in a quarter that is less significant in terms of revenue (negative seasonality in 1Q) due to its being a period without sales. Both the performance in 2021 (from less to more) and the macro situation (deceleration + high inflation) point to a deceleration of sales in coming quarters.

THE MARGIN RECOVERY CONTINUES. Reflecting the two-fold effect of the restructuring (2021) and the business' operating leverage (in a context of strong revenue growth). This explains the c.+50% improvement in EBITDA/Sales. The gross margin increased 3 p.p. vs 1Q 2021 (during a quarter in which the absolute level is not significant due to the lack of discounts). However, the comparison vs 1Q 2019 (+1.6 p.p.) is more interesting and reaffirms what we saw in 12m 2021 that roughly implies consolidating a return to 2019 levels.

WE MAINTAIN OUR ESTIMATES FOR BOTH REVENUE AND MARGINS UNCHANGED. The reference point is not 2021 but rather 2019. The three key variables of 1Q results (growth in revenue, gross margin and EBITDA/Sales) would lead the company to easily exceed 2019. But the macro is a headwind, both due to the stagnation of inflation at c.8% and the inevitable scenario of rising rates and falling GDP. Our estimates are unchanged with revenue still below 2019 and margins equalling those of 2019 (Sales c.EUR 110 Mn; EBITDA margin c.9%).

IN CONCLUSION: THE CENTRAL SCENARIO REMAINS A RETURN TO 2019 LEVELS IN 2022. Our estimates are unchanged. This implies 2022 will go from more to less. Despite the sharp improvement in the gross margin in 1Q, this does not seem sustainable in the current macro situation although at least repeating 2019 levels (c.56%) does. The equity story remains the gradual recovery of margins (focus on profitability; growth in on line sales; operating leverage): but the macro backdrop will delay this, at least, until 2023. EV/Sales 0.6x and a spectacular performance YTD vs the sector (c.+50%), with explicit recognition of a company with greater ability (an already restructured business, niche) to weather the crisis.

	EUR Mn	3m22 Real	3m21	3m22 Real vs 3m21
Total Revenues		19.2	14.6	31.2%
COGS		-5.9	-4.9	20.4%
Gross Margin		13.3	9.7	37.1%
<i>Gross Margin/Revenues</i>		69.1%	66.2%	+2,9 p.p.
Operating expenses		-12.4	-16.0	-22.5%
EBITDA		0.9	-6.3	n.a.
<i>EBITDA/Revenues</i>		4.6%	n.a.	n.a.
EBIT		-1.6	-8.4	n.a.
Financial Result		-0.5	0.0	n.a.
Profit Before Tax		-2.1	-8.4	n.a.
Tax Expense		-0.1	-0.2	n.a.
NP		-2.2	-8.6	n.a.
Points of sale (Total)		350	343	2.0%
Points of sale (International)		51%	54%	+3 p.p.

Appendix 1. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	36.4	
+ Minority Interests	-	12m Results 2021
+ Provisions & Other L/T Liabilities	29.8	12m Results 2021
+ Net financial debt	1.7	12m Results 2021
- Financial Investments	6.3	12m Results 2021
+/- Others		
Enterprise Value (EV)	61.6	

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
15-Jul-2022	n.a.	3.92	n.a.	n.a.	3m Results 2022	Alfredo Echevarría Otegui
28-Apr-2022	n.a.	3.80	n.a.	n.a.	12m Results 2021	Alfredo Echevarría Otegui
24-Jan-2022	n.a.	3.62	n.a.	n.a.	9m Results 2021	Alfredo Echevarría Otegui
02-Dec-2021	n.a.	3.77	n.a.	n.a.	6m Results 2021	Alfredo Echevarría Otegui
01-Sep-2021	n.a.	4.49	n.a.	n.a.	Estimates downgrade	Ana Isabel González García, CIAA
28-Jul-2021	n.a.	4.34	n.a.	n.a.	3m Results 2021	Ana Isabel González García, CIAA
14-Jun-2021	n.a.	4.28	n.a.	n.a.	Estimates upgrade	Ana Isabel González García, CIAA
29-Apr-2021	n.a.	4.50	n.a.	n.a.	12m Results 2020	Ana Isabel González García, CIAA
29-Mar-2021	n.a.	4.20	n.a.	n.a.	Important news	Ana Isabel González García, CIAA
18-Jan-2021	n.a.	4.78	n.a.	n.a.	9m Results 2020 - Estimates downgrade	Ana Isabel González García, CIAA
02-Dec-2020	n.a.	4.60	n.a.	n.a.	6m Results 2020 - Estimates downgrade	Ana Isabel González García, CIAA
17-Sep-2020	n.a.	3.90	n.a.	n.a.	3m Results 2020	Ana Isabel González García, CIAA
25-Jun-2020	n.a.	5.10	n.a.	n.a.	Estimates downgrade	Ana Isabel González García, CIAA
13-Jan-2020	n.a.	6.90	n.a.	n.a.	9m Results 2019	Ana Isabel González García, CIAA
03-Dec-2019	n.a.	7.36	n.a.	n.a.	Initiation of Coverage	Ana Isabel González García, CIAA

