

14 March 2013 | 23 pages

Apparel Retail (GICS) | Retailing - Broadlines (Citi)
Europe | Spain

Inditex (ITX.MC)

Bigger Better Deal

- **January 2014E PBT remains €3,565m (EPS €4.28, +13% yoy)** — Post these FY13 results, we retain our €3,565m FY14 PBT forecast, +14% yoy. This assumes LFL sales +4%, space +8%, and ccy -1%, alongside a flat GM% delta.
- **What does it all mean?** — The combination of more moderate space growth (+8% from +10% p.a.), but larger, higher density stores (+2-3% larger p.a.) should still drive c.+10% trading area growth p.a. A focus on the higher-growth Asian and Emerging markets, and the roll-out of the group's online capability should also continue to deliver 'GDP-plus' Inditex LFL sales growth, together driving c.+10-15% compound EPS growth from here. In combination with a c.2.5% dividend yield, this should drive a c.+15% ETR over time. Long-held Buy rating retained.
- **Buy rating, Target price €120** — Our new target price (up from €115) is based on 17x January 2015E target EV/EBIT (recent average), equating to 25x P/E and a 4% free cash flow yield, and underpinned by our €125 DCF (see below).

Results Summary

- **€930m 4Q PBT (Citi €949m)** — In 4Q total sales rose +12% (Citi +12%) with LFL +3% and space +7% (Citi +5.5%, +6.5%). The gross margin declined -80bp (Citi -25bp). Cost inflation was +11.8% (Citi +11.8%), implying LFL costs +1% (Citi +2.6%).
- **Current trading implies LFL c.+5%** — Total sales were +12% in the 6 weeks since year end, assuming space of +7%, this implies LFL c.+5%. We have 1Q FY14 LFL +4%.
- **FY14 average space c.+7.5%** — 2014 store openings guided between 440-480 (Citi 585). This still implies an average space contribution of c.+8% (Citi +8%), given the +2-3% annual rise in average store size from here.
- **Inditex remains a Buy on the Citi EMEA Focus List**

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (13 Mar 13)	€105.65
Target price	€120.00
	from €115.00
Expected share price return	13.6%
Expected dividend yield	2.4%
Expected total return	16.0%
Market Cap	€65,855M
	US\$85,835M

Price Performance (RIC: ITX.MC, BB: ITX SM)

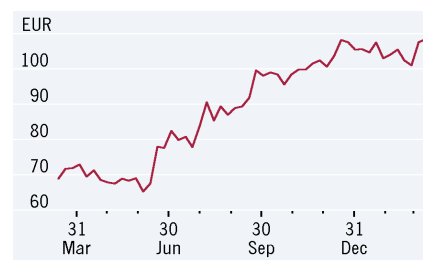


Figure 1. Inditex – Statistical Abstract

Yr to Jan	EBIT (Euro m)	PBT (Euro m)	Tax Rate	EPS (Euro)	EPS (Old) (Euro)	P/E	Net Div (Euro)	Div Yld (%)	EV/ Sales	EV/ EBIT	EV/ EBITDA
2011A	2,291	2,322	25.0%	2.78	2.78	37.8	1.60	1.5	4.95	27.1	21.3
2012A	2,522	2,559	24.7%	3.10	3.10	33.8	1.80	1.7	4.49	24.6	19.4
2013A	3,117	3,131	24.4%	3.79	3.81	27.7	2.20	2.1	3.85	19.7	15.7
2014E	3,541	3,565	25.0%	4.28	4.28	24.5	2.54	2.4	3.41	17.1	13.7
2015E	3,976	4,010	25.0%	4.82	4.81	21.8	2.91	2.8	2.99	14.9	12.1
2016E	4,456	4,500	25.0%	5.41	5.40	19.4	3.30	3.1	2.63	13.1	10.6
							YTD	1M	3M	12M	
Gearing =	-48.3%	Shares =	623.3				Abs %	2.8	2.7	4.4	59.5
MV =	65,446.5	FV =	61,350				Rel %	(7.2)	(0.2)	(5.3)	42.3

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

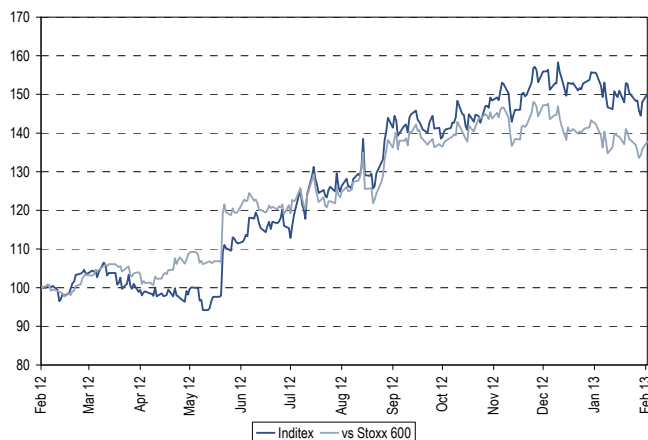
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ITX.MC: Fiscal year end 31-Jan						Price: €105.65; TP: €120.00; Market Cap: €65,855m; Recomm: Buy					
Profit & Loss (€m)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	13,793	15,946	17,713	19,834	22,099	PE (x)	34.1	27.9	24.7	21.9	19.5
Cost of sales	-5,613	-6,417	-7,128	-7,981	-8,893	PB (x)	8.9	7.8	6.8	5.9	5.2
Gross profit	8,180	9,529	10,585	11,852	13,206	EV/EBITDA (x)	19.3	15.7	13.9	12.2	10.7
Gross Margin (%)	59.3	59.8	59.8	59.8	59.8	FCF yield (%)	2.3	2.9	3.5	4.0	4.5
EBITDA (Adj)	3,202	3,913	4,401	4,924	5,500	Dividend yield (%)	1.7	2.1	2.4	2.8	3.1
EBITDA Margin (Adj) (%)	23.2	24.5	24.8	24.8	24.9	Payout ratio (%)	58	58	59	60	61
Depreciation	-680	-796	-860	-948	-1,044	ROE (%)	28.0	29.8	29.3	28.7	28.2
Amortisation	0	0	0	0	0	Cashflow (€m)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	2,522	3,117	3,541	3,976	4,456	EBITDA	3,202	3,913	4,401	4,924	5,500
EBIT Margin (Adj) (%)	18.3	19.5	20.0	20.0	20.2	Working capital	-204	-137	0	20	40
Net interest	37	14	24	34	44	Other	-589	-657	-852	-954	-1,066
Associates	0	0	0	0	0	Operating cashflow	2,409	3,119	3,549	3,990	4,474
Non-op/Except	0	0	0	0	0	Capex	-864	-1,193	-1,250	-1,375	-1,513
Pre-tax profit	2,559	3,131	3,565	4,010	4,500	Net acq/disposals	-254	-24	0	0	0
Tax	-613	-764	-891	-1,003	-1,125	Other	-231	-122	0	0	0
Extraord./Min.Int./Pref.div.	-13	-6	-6	-6	-6	Investing cashflow	-1,349	-1,339	-1,250	-1,375	-1,513
Reported net profit	1,933	2,361	2,668	3,002	3,369	Dividends paid	-1,004	-1,130	-1,371	-1,583	-1,812
Net Margin (%)	14.0	14.8	15.1	15.1	15.2	Financing cashflow	-1,030	-1,147	-1,371	-1,583	-1,812
Core NPAT	1,933	2,361	2,668	3,002	3,369	Net change in cash	30	633	927	1,032	1,149
Per share data	2012	2013	2014E	2015E	2016E	Free cashflow to s/holders	1,545	1,926	2,299	2,615	2,961
Reported EPS (€)	3.10	3.79	4.28	4.82	5.41						
Core EPS (€)	3.10	3.79	4.28	4.82	5.41						
DPS (€)	1.80	2.20	2.54	2.91	3.30						
CFPS (€)	3.87	5.00	5.69	6.40	7.18						
FCFPS (€)	2.48	3.09	3.69	4.20	4.75						
BVPS (€)	11.90	13.55	15.63	17.91	20.40						
Wtd avg ord shares (m)	623	623	623	623	623						
Wtd avg diluted shares (m)	623	623	623	623	623						
Growth rates	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	10.1	15.6	11.1	12.0	11.4						
EBIT (Adj) (%)	10.1	23.6	13.6	12.3	12.1						
Core NPAT (%)	11.5	22.1	13.0	12.5	12.2						
Core EPS (%)	11.5	22.1	13.0	12.5	12.2						
Balance Sheet (€m)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	3,467	3,843	4,770	5,802	6,951						
Accounts receivables	531	848	848	848	848						
Inventory	1,277	1,581	1,756	1,966	2,191						
Net fixed & other tangibles	4,083	4,745	5,135	5,563	6,031						
Goodwill & intangibles	832	820	820	820	820						
Financial & other assets	769	1,053	1,053	1,053	1,053						
Total assets	10,959	12,890	14,383	16,052	17,894						
Accounts payable	2,679	3,409	3,605	3,856	4,142						
Short-term debt	1	2	2	2	2						
Long-term debt	2	4	4	4	4						
Provisions & other liab	821	993	993	993	993						
Total liabilities	3,503	4,408	4,604	4,855	5,141						
Shareholders' equity	7,415	8,446	9,742	11,161	12,717						
Minority interests	41	36	36	36	36						
Total equity	7,456	8,482	9,778	11,197	12,753						
Net debt	-3,464	-3,837	-4,764	-5,796	-6,945						
Net debt to equity (%)	-46.5	-45.2	-48.7	-51.8	-54.5						

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com
For definitions of the items in this table, please click [here](#).

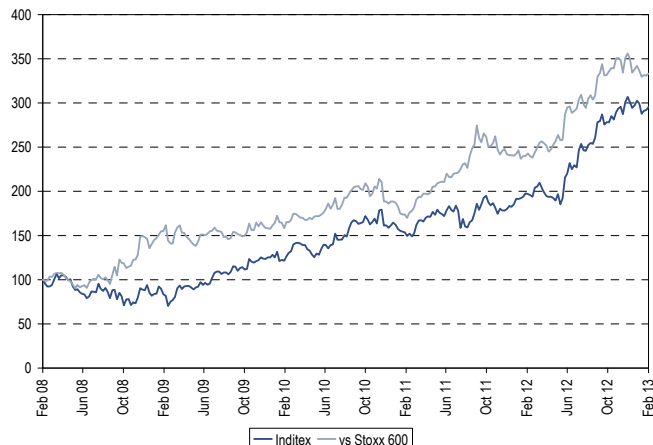
Share Price Performance

Figure 2. Inditex – 1 Yr Share Price Performance, 2012-2013



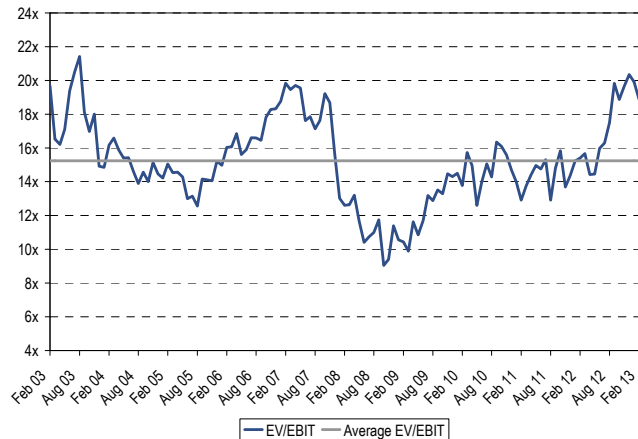
Source: DataStream

Figure 3. Inditex – 5 Yr Share Price Performance, 2008-2013



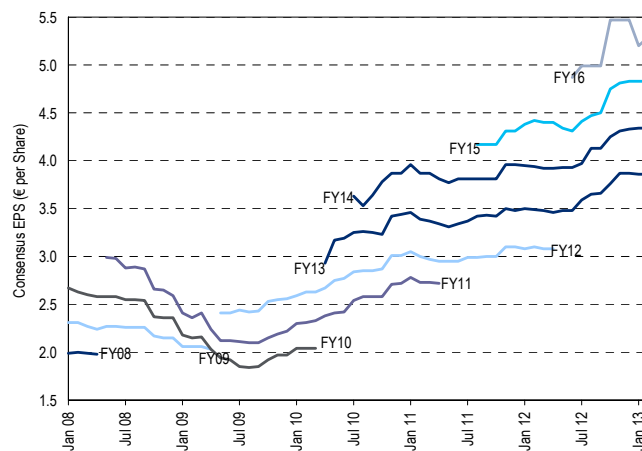
Source: DataStream

Figure 4. Inditex – Long Run EV/EBIT Valuation



Source: DataStream

Figure 5. Inditex – Consensus EPS



Source: DataStream

Recent changes: Jan 2014 PBT remains €3565m (EPS €4.28, +13% yoy)

Next results: 1Q IMS on 12 June 2013

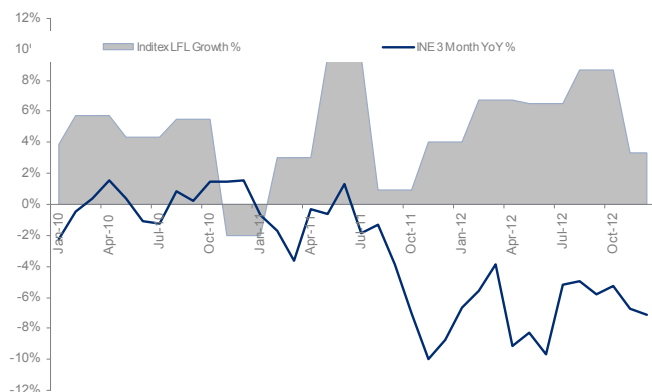
The market view? 18 Buys, 15 Holds, 8 Sells (Source: Reuters)

Results Analysis

Inditex Jan 2013 PBT +22%, following sales +15.6% (LFL +6%), gross margin +45bp and operating costs +14%

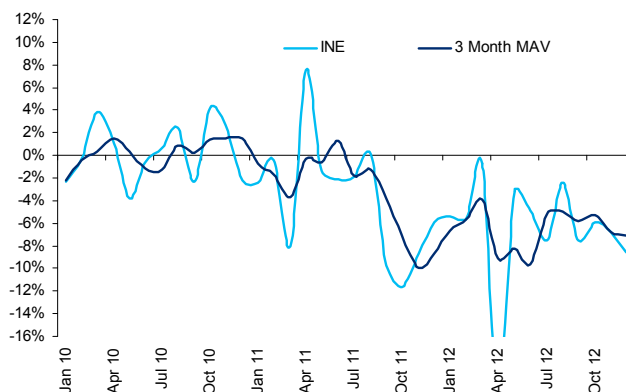
Full Year PBT of €3,131m, +22% year on year, was in line with our forecast (Citi €3,150m) despite a weaker than expected 4Q gross margin delta (-80bp v Citi -25bp). Full year total sales rose +15.6% (Citi +15.5%), with LFL sales +6%, space +7.5% and currency +2%, all as forecast.

Figure 6. Inditex – LFL Sales vs. Spanish Clothing Sales Growth (%)



Source: INE and Citi Research

Figure 7. INE – Spanish Clothing Markets Sales Growth (%)



Source: INE and Citi Research

Half yearly LFL sales patterns were similar; 1H +7%, 2H +6%, driven by a c.+10% LFL trend from Zara

By format, the +6% full year LFL sales performance was broadly similar across 1H and 2H (+7% and +6% respectively), albeit we derive a c.+3.5% 4Q exit LFL sales pattern, which stemmed from the more demanding 4Q comparative from last year (LFL comparatives; 3Q +1%, 4Q +4%). As illustrated below, Zara, Massimo Dutti and Uterque look to have delivered the stand-out LFL sales performances over the past year (+10%, +4% and +5%, respectively), in part offset by the weaker sales patterns at Bershka, Zara Home and Oysho (LFL flat, flat and -10%).

Figure 8. Inditex – LFL Trends

Jan 2013	1H	2H	Full year
Zara	+11%	+9%	+10%
Pull and Bear	Flat	+1.5%	+1%
Massimo Dutti	Flat	+7%	+4%
Bershka	-3%	+3%	Flat
Stradivarius	+1%	-6%	-2%
Oysho	-10%	-11%	-10%
Zara Home	+3%	-2%	Flat
Uterque	+1%	+7%	+5%
Group	+7%	+6%	+6%

Source: Citi Research

At the gross margin level, the 59.8% full year gross margin was up +45bp year on year (Citi +60bp), held back by the -80bp gross margin fade in 4Q. Operating costs increased +14% (Citi +14%), implying LFL costs rose +3.5% across the financial year to January 2013, broadly as forecast. Taken together, these P&L dynamics drove a +120bp EBIT margin increase to 19.5% which, net of a €14million financial items credit (Citi €26m), drove the €3,131million PBT. Post a 24.4% tax rate (Citi 24.3%), Inditex delivered €3.78 full year EPS, +22.1% yoy (Citi €3.81).

**4Q LFL sales c.+3.5%, gross margin
-80bp and LFL costs +1%**

Breaking out the fourth quarter, we derive €930m 4Q PBT (Citi €949m) driving 4Q EPS of €1.12 +10.1% yoy. Here, total sales rose +12.2% (Citi +12%) following c.+3.5% LFL (Citi +5.5%), +7% space (Citi +6.5%), and currency +2% (Citi flat). The 4Q gross margins declined -80bp (Citi -25p). Finally, 4Q opex rose +12.1% (Citi +11.8%), implying LFL opex +1%, driving 4Q EBIT +10.6% to €932million. Given a €2m finance charge, the 4Q PBT was €930m, +8.4% year on year.

Figure 9. Inditex – Quarterly P&L, 2012-2013

Jan year end	1Q 12A	2Q 12A	3Q 12A	4Q 12A	FY 12A	1Q 13A	2Q 13A	3Q 13A	4Q 13A	FY 13A
Group turnover	2,960.0	3,249.0	3,500.0	4,084.0	13,793.0	3,416.0	3,823.0	4,123.0	4,584.0	15,946.0
- growth	11.1%	13.6%	4.8%	11.6%	10.1%	15.4%	17.7%	17.8%	12.2%	15.6%
- Lfl (Euros)	3.0%	7.5%	-2.1%	3.8%	2.9%	7.7%	9.5%	10.7%	5.3%	8.1%
- currency	0.0%	-1.9%	-3.0%	-0.2%	-1.3%	1.0%	3.0%	2.0%	2.0%	2.0%
- Lfl (local currency)	3.0%	9.5%	0.9%	4.0%	4.2%	6.7%	6.5%	8.7%	3.3%	6.1%
Gross profit	1,741.0	1,884.0	2,159.0	2,396.0	8,180.0	2,058.0	2,255.0	2,562.0	2,654.0	9,529.0
Gross margin %	58.8%	58.0%	61.7%	58.7%	59.3%	60.2%	59.0%	62.1%	57.9%	59.8%
Gross margin delta (bp)	-114.4	-79.0	98.5	87.0	4.9	142.8	99.8	45.4	-77.1	45.2
Costs	(1,140.0)	(1,224.0)	(1,203.0)	(1,355.0)	(4,922.0)	(1,294.0)	(1,398.0)	(1,405.0)	(1,519.0)	(5,616.0)
- growth	9.9%	12.8%	7.1%	11.9%	10.5%	13.5%	14.2%	16.8%	12.1%	14.1%
- LFL cost growth	-0.2%	4.0%	-1.2%	2.0%	1.2%	3.4%	3.4%	6.9%	1.1%	3.6%
Costs/sales %	38.5%	37.7%	34.4%	33.2%	35.7%	37.9%	36.6%	34.1%	33.1%	35.2%
Depreciation	(170.0)	(177.0)	(191.0)	(198.0)	(736.0)	(187.0)	(196.0)	(210.0)	(203.0)	(796.0)
- growth	9.0%	3.5%	13.0%	10.0%	8.9%	10.0%	10.7%	9.9%	2.5%	8.2%
Depn/sales %	5.7%	5.4%	5.5%	4.8%	5.3%	5.5%	5.1%	5.1%	4.4%	5.0%
PBIT	431.0	483.0	765.0	843.0	2,522.0	577.0	661.0	947.0	932.0	3,117.0
PBIT/sales %	14.6%	14.9%	21.9%	20.6%	18.3%	16.9%	17.3%	23.0%	20.3%	19.5%
- growth	6.4%	13.6%	3.9%	16.3%	10.1%	33.9%	36.9%	23.8%	10.6%	23.6%
Associate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	7.0	12.0	3.0	15.0	37.0	1.0	27.0	(12.0)	(2.0)	14.0
PBT (Adj)	438.0	495.0	768.0	858.0	2,559.0	578.0	688.0	935.0	930.0	3,131.0
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT (Reported)	438.0	495.0	768.0	858.0	2,559.0	578.0	688.0	935.0	930.0	3,131.0
Tax rate %	24.0%	21.6%	23.3%	25.9%	24.0%	25.3%	25.3%	24.0%	24.8%	24.4%
Tax charge	105.0	107.0	179.0	222.0	613.0	146.0	174.0	224.0	231.1	764.0
Minority	(1.0)	(4.0)	(3.0)	(5.0)	(13.0)	0.0	(2.0)	0.0	(4.0)	(6.0)
PAT (Reported)	332.0	384.0	586.0	631.0	1,933.0	432.0	512.0	711.0	694.9	2,361.0
PAT (Adjusted)	332.0	384.0	586.0	631.0	1,933.0	432.0	512.0	711.0	694.9	2,361.0
# shares	623.1	623.1	623.1	623.1	623.1	623.3	623.3	623.3	623.3	623.3
EPS (reported)	0.533	0.616	0.940	1.013	3.102	0.693	0.821	1.141	1.115	3.788
- growth	10.7%	17.1%	6.4%	13.9%	11.5%	30.1%	33.3%	21.3%	10.1%	22.1%
EPS (adjusted)	0.533	0.616	0.940	1.013	3.102	0.693	0.821	1.141	1.115	3.788
- growth	10.7%	17.1%	6.4%	13.9%	11.5%	30.1%	33.3%	21.3%	10.1%	22.1%
DPS	0.00	0.00	0.00	0.00	1.80	0.00	0.00	0.00	0.00	2.20

Source: Company Reports and Citi Research Estimates

**Inditex delivered a €4.1billion year end
net cash position, €300million below our
forecast, primarily due to year end
working capital calendar effects**

Moving on to the balance sheet, year end inventory levels rose +24%, in part reflecting the +5% year on year inventory position at the end of last year. Notably this equates to 81 average stock days, in line with the 5 year average. Together with a +27% rise in payables (due to year end calendar effects that reverse in future years) and +60% receivables increase, this drove a more negative full year working capital position, down €109 million year on year to €980m. Taken together with a €147million higher than forecast €1,339 million full year capex figure (primarily due to acquisitions), Inditex achieved a €4.1billion year end net debt position, €300million below our forecast. Assuming no exceptional capex items in FY14, we expect c.€900m net cashflow p.a. to resume in FY14.

Figure 10. Inditex – Operating Working Capital (€m)

	31-Jan-13	31-Jan-12
Inventories	1,581	1,277
Receivables	848	531
Payables	(3,409)	(2,679)
Operating working capital	(980)	(871)
Source: Company Reports		

Inditex Group average store size rose +2.4% in FY13, and is forecast to continue to grow at c.+2-3% p.a. 2013-2016E, underpinning c.+10% p.a. group trading area growth

Rising store size and sales density

In addition, within the FY13 results we note that following the modest fade (-5%) in the Inditex Group average new store size in the financial year to Jan 2012, last year saw the average size of new stores increase sharply (+29%) to 669 sqm, driven by a c.1947 sqm average new store size at Zara (+52% yoy). This drove the Inditex Group average store size +2.4%, again driven by Zara +4.7%, and is forecast to continue to deliver a group average store size increase at this rate 2013-2016E. In the context of a moderation in the rate of new store openings from here (c.+7-8%), this combination should still drive c.+10% Inditex group trading area growth p.a. 2013-2016E. This represents the upper end of the +7-10% annual trading growth 2009-2013E

Group sales densities rose sharply in FY13, driven by Zara (+8%), illustrating why ITX management are pursuing a larger store strategy through the enlargement of flagship stores, larger average store openings, and the rollout of the new store image

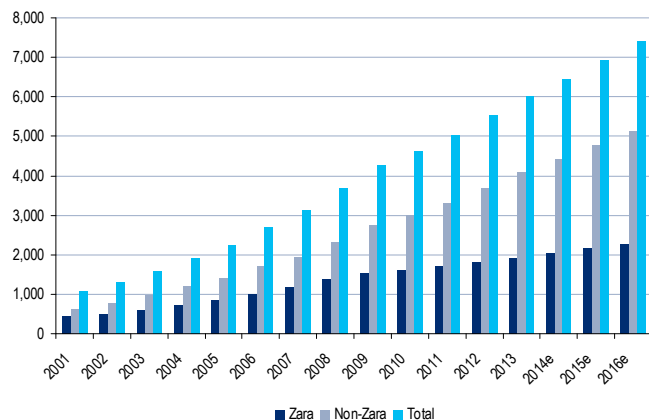
Secondly, alongside the larger stores, Inditex delivered sharply higher (+4.6%) sales densities in FY13, vs eg flat sales densities in FY12, again primarily driven by the Zara format where sales densities rose +8%. This healthy combination of larger and higher sales density Zara stores (representing 66% of group sales) should underpin the group's c.20% EBIT margin (as the larger stores typically have lower opex per sqm). In addition, while the strength of FY13 collections, and online launches have clearly benefitted the Inditex sales densities, we argue that this analysis also illustrates why the Inditex management are pursuing a larger store strategy through the enlargement of flagship stores, larger average store openings, and the rollout of the new store image.

Figure 11. Inditex – Store Portfolio Analysis, 2007-2016E

STORE PORTFOLIO DATA:	2007 Year end	2008 Year end	2009 Year end	2010 Year end	2011 Year end	2012 Year end	2013 Year end	2014E Year end	2015E Year end	2016E Year end
Average new store size (sq m)										
Zara	749.9	815.8	989.2	1,067.9	1,275.3	1,278.5	1,947.0	1,947.0	1,947.0	1,947.0
Pull & Bear	406.3	429.3	393.4	387.1	370.5	421.0	445.3	445.0	445.0	445.0
Massimo Dutti	326.3	280.4	214.6	273.4	152.2	223.0	341.8	340.0	340.0	340.0
Bershka	335.9	370.5	377.6	348.1	430.3	421.3	514.9	500.0	500.0	500.0
Stradivarius	250.8	269.8	246.5	275.0	271.7	263.5	295.3	295.0	295.0	295.0
Oysho	135.0	136.8	145.3	166.9	138.6	152.7	156.3	150.0	150.0	150.0
ZaraHome	251.3	270.7	258.4	277.5	303.8	240.5	301.4	300.0	300.0	300.0
Uterque			134.8	138.1	134.8	134.6	90.7	100.0	100.0	100.0
Total	468.2	459.3	464.9	489.3	546.8	520.4	669.0	750.9	755.0	750.7
Average store size (sq m)										
Zara	969	948	952	959	980	997	1,044	1,094	1,142	1,184
Pull & Bear	239	258	273	280	288	299	312	318	325	332
Massimo Dutti	285	284	278	278	270	266	273	278	282	286
Bershka	352	355	358	357	364	370	382	392	400	407
Stradivarius	255	258	256	258	260	261	265	268	271	273
Oysho	137	137	139	140	140	141	142	143	143	144
ZaraHome	240	248	250	252	256	255	261	264	267	270
Uterque			135	136	136	136	134	133	131	129
Total	529	519	511	510	513	514	526	542	556	569
Change in Avg Store size										
Zara	-3.8%	-2.2%	0.5%	0.7%	2.2%	1.8%	4.7%	4.8%	4.3%	3.7%
Pull & Bear	7.0%	8.0%	5.8%	2.9%	2.6%	4.0%	4.1%	2.1%	2.2%	1.9%
Massimo Dutti	1.2%	-0.1%	-2.3%	-0.1%	-2.8%	-1.3%	2.6%	1.7%	1.5%	1.4%
Bershka	-0.8%	0.8%	0.9%	-0.3%	2.0%	1.8%	3.3%	2.5%	2.1%	1.8%
Stradivarius	-0.3%	1.2%	-0.7%	0.8%	0.7%	0.2%	1.6%	1.2%	1.0%	0.8%
Oysho	-0.5%	0.0%	1.4%	0.9%	-0.1%	1.0%	0.8%	0.3%	0.3%	0.3%
ZaraHome	1.8%	3.2%	0.6%	0.9%	1.7%	-0.5%	2.4%	1.3%	1.1%	0.9%
Uterque				1.1%	-0.3%	-0.1%	-1.1%	-1.3%	-1.2%	-1.1%
Total	-1.8%	-2.0%	-1.4%	-0.3%	0.6%	0.1%	2.4%	3.0%	2.7%	2.3%
Sales per avg sq m										
Zara	5,156	5,160	4,987	4,736	5,010	5,089	5,499	5,520	5,593	5,674
Pull & Bear	5,024	5,009	4,920	4,610	4,609	4,557	4,543	4,574	4,661	4,749
Massimo Dutti	5,648	5,929	5,735	5,882	6,384	6,853	6,985	6,925	7,037	7,152
Bershka	5,643	5,553	5,231	5,305	5,045	4,680	4,649	4,629	4,687	4,755
Stradivarius	5,908	5,923	5,883	5,618	5,430	5,239	4,995	4,936	4,979	5,034
Oysho	6,771	6,334	5,281	5,241	5,268	4,863	4,394	4,393	4,485	4,584
ZaraHome	4,447	4,613	4,027	3,875	4,245	4,178	4,066	4,029	4,082	4,144
Uterque			8,134	7,364	6,330	5,925	6,057	6,186	6,353	6,527
Total	5,272	5,283	5,082	4,894	5,075	5,083	5,315	5,319	5,391	5,473
Change in sales per avg sq m										
Zara	3.4%	0.1%	-3.4%	-5.0%	5.8%	1.6%	8.0%	0.4%	1.3%	1.5%
Pull & Bear	-4.6%	-0.3%	-1.8%	-6.3%	0.0%	-1.1%	-0.3%	0.7%	1.9%	1.9%
Massimo Dutti	-2.8%	5.0%	-3.3%	2.6%	8.5%	7.3%	1.9%	-0.9%	1.6%	1.6%
Bershka	3.9%	-1.6%	-5.8%	1.4%	-4.9%	-7.2%	-0.7%	-0.4%	1.3%	1.4%
Stradivarius	7.9%	0.2%	-0.7%	-4.5%	-3.4%	-3.5%	-4.7%	-1.2%	0.9%	1.1%
Oysho	11.2%	-6.5%	-16.6%	-0.8%	0.5%	-7.7%	-9.6%	0.0%	2.1%	2.2%
ZaraHome	14.6%	3.7%	-12.7%	-3.8%	9.6%	-1.6%	-2.7%	-0.9%	1.3%	1.5%
Uterque				-9.5%	-14.0%	-6.4%	2.2%	2.1%	2.7%	2.7%
Total	2.9%	0.2%	-3.8%	-3.7%	3.7%	0.2%	4.6%	0.1%	1.4%	1.5%
Sales growth										
Zara	20.4%	13.2%	8.9%	3.7%	14.3%	10.5%	17.9%	11.0%	12.2%	11.6%
Pull & Bear	16.6%	18.3%	17.3%	7.1%	11.2%	11.7%	13.5%	11.2%	9.9%	9.9%
Massimo Dutti	15.0%	13.4%	3.7%	9.4%	13.5%	12.9%	11.9%	10.0%	10.9%	10.9%
Bershka	24.8%	15.9%	10.9%	14.7%	5.9%	5.5%	12.8%	11.5%	12.4%	11.7%
Stradivarius	25.5%	21.7%	21.5%	10.9%	11.1%	11.7%	10.3%	13.3%	14.0%	13.1%
Oysho	54.2%	29.1%	13.6%	15.7%	8.6%	3.0%	0.3%	8.1%	9.0%	8.7%
ZaraHome	78.0%	44.6%	10.4%	9.5%	21.0%	7.8%	10.4%	13.3%	12.1%	11.3%
Uterque				158.8%	34.1%	15.3%	8.8%	5.4%	6.8%	6.7%
Total	21.6%	15.1%	10.3%	6.5%	13.0%	10.1%	15.6%	11.1%	12.0%	11.4%

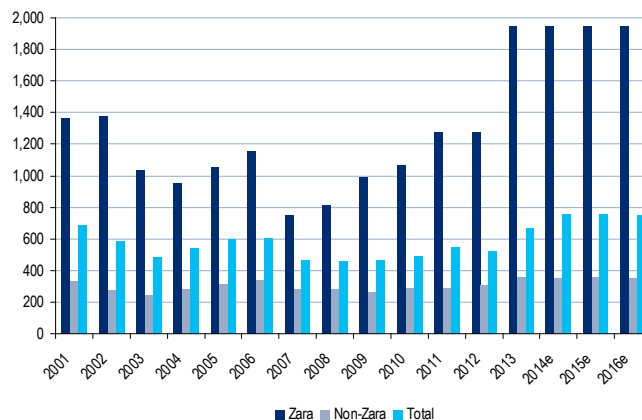
Source: Company Reports and Citi Research Estimates

Figure 12. Inditex – Store Numbers



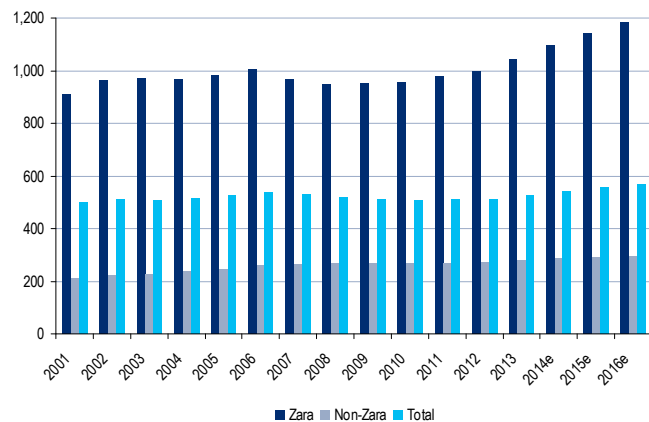
Source: Company Reports and Citi Research Estimates

Figure 13. Inditex – Average New Store Size (sq m)



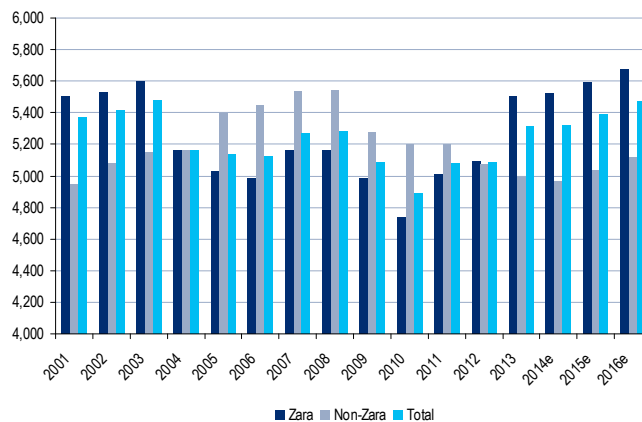
Source: Company Reports and Citi Research Estimates

Figure 14. Inditex – Average Store Size (sq m)



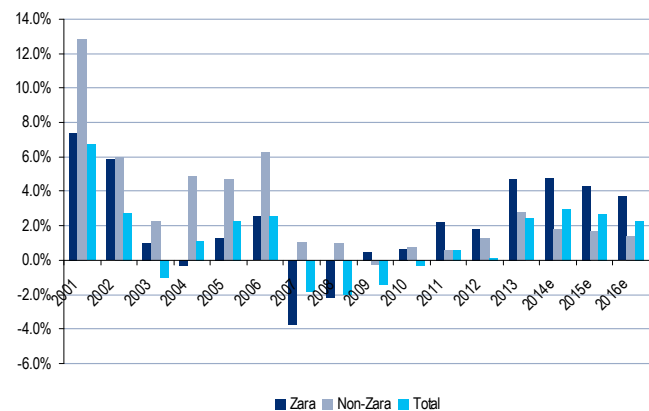
Source: Company Reports and Citi Research Estimates

Figure 15. Inditex – Sales per avg sqm



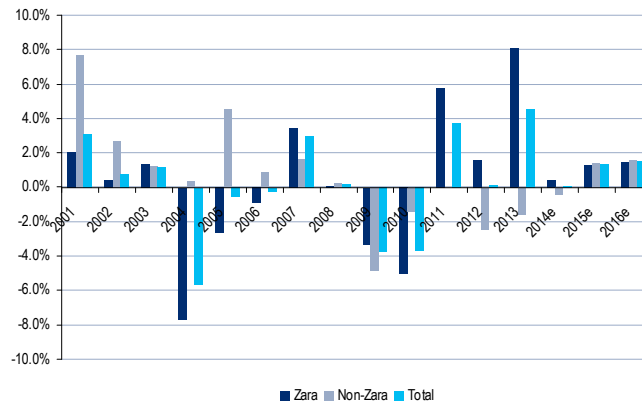
Source: Company Reports and Citi Research Estimates

Figure 16. Change in Average Store Size



Source: Company Reports and Citi Research Estimates

Figure 17. Change in Sales per Avg sqm



Source: Company Reports and Citi Research Estimates

Currency a modest headwind for FY14 revenues

Currency: a -0.6% translation headwind in FY14

We have updated our FY14 global currency forecasts (this assumes current spot rates persist) and their impact on the Inditex sales line. As illustrated below, we now expect a c.-1% currency translation impact on the FY14 Inditex revenue line, largely reversing the c.+2% currency translation impact on FY13 group sales.

Figure 18. Inditex – Currency Translation Sales Impact Analysis, 2013-14E

Country	2013 Q1	2013 Q2	2013 H1	2013 Q3	2013 9M	2013 Q4	2013 H2	2013 FY	2014E Q1	2014E Q2	2014E H1	2014E Q3	2014E 9M	2014E Q4	2014E H2	2014E FY
Spain	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rest of Europe																
Eurozone	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Russia	0.2%	0.0%	0.1%	0.3%	0.1%	0.1%	0.2%	0.1%	-0.2%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Poland	-0.2%	-0.2%	-0.2%	0.1%	-0.1%	0.3%	0.2%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Turkey	-0.2%	0.0%	-0.1%	0.2%	0.0%	0.1%	0.2%	0.1%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%
UK	0.1%	0.2%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
								0.3%								-0.2%
America																
Mexico	-0.1%	-0.1%	-0.1%	0.6%	0.1%	0.5%	0.5%	0.2%	0.2%	0.4%	0.3%	0.2%	0.3%	0.3%	0.2%	0.3%
United States	0.1%	0.2%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brazil	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	-0.1%	0.0%	0.0%	0.1%	0.0%	0.0%
Colombia	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Canada	0.0%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Venezuela	0.0%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Others	0.1%	0.3%	0.2%	0.2%	0.2%	0.0%	0.1%	0.2%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
								0.6%								0.0%
Asia & RoW																
China	0.8%	1.2%	1.0%	0.8%	0.9%	0.2%	0.5%	0.8%	0.1%	-0.1%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
Saudi Arabia	0.2%	0.4%	0.3%	0.2%	0.2%	0.0%	0.1%	0.2%	0.0%	-0.1%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%
Japan	0.1%	0.3%	0.2%	0.1%	0.2%	-0.1%	0.0%	0.1%	-0.2%	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%	-0.3%	-0.3%
UAE	0.1%	0.2%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Israel	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
South Korea	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Lebanon	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Others	0.3%	0.7%	0.5%	0.4%	0.5%	0.0%	0.2%	0.3%	0.0%	-0.2%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	-0.1%
								1.7%								-0.4%
	1.8%	3.4%	2.6%	3.8%	3.0%	1.3%	2.5%	2.6%	-0.3%	-0.9%	-0.6%	-1.0%	-0.8%	-0.1%	-0.5%	-0.6%

Source: Company Reports and Citi Research Estimates

Neutral FY14 gross margin still credible

Theoretical -55bp headwind should be offset

Updating our COGS analysis for the latest freight, cotton and currency movements, we derive a theoretical -55bp FY14 gross margin headwind. In the context of the +275bp, +295bp and +65bp underlying gross margin improvements that we believe the group has achieved over the last years, we argue that Inditex should be capable of offsetting this -55bp FY14 theoretical gross margin headwind through pricing, and geographic and product mix.

Figure 19. Inditex – Gross margin Analysis, 2011-2014E (Fiscal)

		1H 11	2H 11	Cal 11	1H 12	2H 12	Cal 12	1H 13	2H 13	Cal 13e
Freight	8	16.6%	1.0%	8.8%	-3.6%	16.0%	6.2%	15.0%	1.4%	8.2%
Labour	20	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Cotton	8	46.8%	56.0%	51.4%	7.6%	-49.3%	-20.9%	-28.9%	3.8%	-12.5%
Other materials	34	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Overheads	10	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Manufacturer margin	5	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Design / buying / merchandising	15	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	100	5.8%	5.3%	5.6%	1.1%	-1.9%	-0.4%	-0.4%	1.2%	0.4%
Currency										
- dollar / euro		5.2%	-2.2%	1.5%	-1.4%	2.0%	0.3%	2.5%	-0.2%	1.2%
- euro / gbp		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Inflation		11.0%	3.1%	7.1%	-0.4%	0.1%	-0.2%	2.2%	1.0%	1.6%
Implied gross margin delta (bps)		-460	-130	-295	50	-60	-5	-70	-40	-55
Achieved / Forecast gm% delta (bps)		-100	90	0	120	10	60	0	0	0
Implied out/(under)-performance		360	220	295	70	70	65	70	40	55

Source: Company Reports and Citi Research Estimates

FY14 PBT forecast remains €3,565 million

**FY14 forecast assumptions; LFL +4%,
space +8%, currency -1%, gross margin
flat and opex +10%**

Applying the above themes to our FY14 earnings forecast agenda, we derive an unchanged €3,565m January 2014 Inditex PBT forecast (EPS €4.28, +13% year on year). This reflects FY4 sales +11% (LFL +4%, space +8% and ccy -1%), a stable gross margin, and +10% opex increase.

Our detailed financial forecast assumptions are set out below.

Financials

Figure 20. Inditex – P&L history and forecast, 2007-2016E (€m)

Jan year end	2007A	2008A	2009A	2010A	2011A	2012A	2013A	2014E	2015E	2016E
Zara Turnover	5,533.0	6,265.0	6,825.0	7,077.0	8,089.0	8,938.0	10,542.0	11,700.4	13,123.2	14,641.0
- growth	20.4%	13.2%	8.9%	3.7%	14.3%	10.5%	17.9%	11.0%	12.2%	11.6%
- Lfi	5.0%	3.1%	(1.6%)	(3.6%)	8.3%	4.0%	11.6%	3.1%	3.6%	3.6%
- space	15.4%	10.1%	10.6%	7.3%	6.0%	6.5%	6.3%	7.9%	8.6%	8.0%
Pull and Bear Turnover	519.0	614.0	720.0	771.0	857.0	957.0	1,086.0	1,207.5	1,326.7	1,457.5
- growth	16.6%	18.3%	17.3%	7.1%	11.2%	11.7%	13.5%	11.2%	9.9%	9.9%
- Lfi	4.9%	2.5%	2.0%	(6.0%)	1.0%	2.8%	2.9%	3.1%	3.6%	3.6%
- space	11.7%	15.8%	15.2%	13.1%	10.1%	8.8%	10.6%	8.1%	6.3%	6.3%
Massimo Dutti Turnover	614.0	696.0	722.0	790.0	897.0	1,013.0	1,134.0	1,247.1	1,383.4	1,533.7
- growth	15.0%	13.4%	3.7%	9.4%	13.5%	12.9%	11.9%	10.0%	10.9%	10.9%
- Lfi	4.9%	6.9%	(3.4%)	3.3%	9.5%	9.8%	5.9%	3.1%	3.6%	3.6%
- space	10.1%	6.5%	7.1%	6.1%	4.0%	3.1%	6.1%	6.9%	7.3%	7.3%
Bershka Turnover	798.0	925.0	1,026.0	1,177.0	1,247.0	1,316.0	1,485.0	1,655.6	1,860.6	2,077.5
- growth	24.8%	15.9%	10.9%	14.7%	5.9%	5.5%	12.8%	11.5%	12.4%	11.7%
- Lfi	4.9%	2.9%	(3.3%)	4.0%	(2.3%)	(4.5%)	2.2%	3.1%	3.6%	3.6%
- space	19.9%	13.0%	14.2%	10.7%	8.2%	10.1%	10.6%	8.4%	8.8%	8.1%
Stradivarius Turnover	428.0	521.0	633.0	702.0	780.0	871.0	961.0	1,088.8	1,241.5	1,403.7
- growth	25.5%	21.7%	21.5%	10.9%	11.1%	11.7%	10.3%	13.3%	14.0%	13.1%
- Lfi	4.9%	3.0%	3.5%	(2.3%)	(2.4%)	0.1%	(0.4%)	3.1%	3.6%	3.6%
- space	20.6%	18.8%	18.0%	13.2%	13.5%	11.6%	10.8%	10.2%	10.4%	9.5%
Oysho Turnover	165.0	213.0	242.0	280.0	304.0	313.0	314.0	339.6	370.2	402.4
- growth	54.2%	29.1%	13.6%	15.7%	8.6%	3.0%	0.3%	8.1%	9.0%	8.7%
- Lfi	4.9%	-2.0%	-16.3%	1.3%	1.6%	-4.9%	-8.8%	3.1%	3.6%	3.6%
- space	49.3%	31.1%	29.9%	14.4%	7.0%	7.8%	9.2%	5.1%	5.4%	5.1%
Zara Home	139.0	201.0	222.0	243.0	294.0	317.0	350.0	396.5	444.6	494.9
- growth	78.0%	44.6%	10.4%	9.5%	21.0%	7.8%	10.4%	13.3%	12.1%	11.3%
- Lfi	4.9%	11.4%	-12.5%	-0.6%	13.4%	-0.7%	1.8%	3.1%	3.6%	3.6%
- space	73.1%	33.2%	23.0%	10.1%	7.6%	8.5%	8.6%	10.2%	8.5%	7.7%
Uterque	0.0	0.0	17.0	44.0	59.0	68.0	74.0	78.0	83.3	88.8
- growth	0.0%	0.0%	na	158.8%	34.1%	15.3%	8.8%	5.4%	6.8%	6.7%
Group turnover	8,196.0	9,435.0	10,407.0	11,084.0	12,527.0	13,793.0	15,946.0	17,713.5	19,833.5	22,099.5
- growth	21.6%	15.1%	10.3%	6.5%	13.0%	10.1%	15.6%	11.1%	12.0%	11.4%
- Lfi	5.5%	4.7%	0.3%	0.2%	3.0%	4.2%	6.1%	4.0%	3.5%	3.5%
- Space contribution	16.7%	12.0%	12.0%	8.8%	7.0%	7.2%	7.5%	8.1%	8.5%	7.9%
Gross profit	4,607.0	5,349.0	5,914.0	6,328.0	7,423.0	8,180.0	9,529.0	10,585.2	11,852.1	13,206.2
Gross margin %	56.2%	56.7%	56.8%	57.1%	59.3%	59.3%	59.8%	59.8%	59.8%	59.8%
- GM ch (%)	6.1%	1.3%	0.6%	0.3%	2.2%	0.0%	0.5%	0.0%	0.0%	0.0%
Costs	(2,818.0)	(3,199.0)	(3,727.0)	(3,954.0)	(4,456.0)	(4,922.0)	(5,616.0)	(6,169.2)	(6,913.6)	(7,691.4)
Costs/sales %	34.4%	33.9%	35.8%	35.7%	35.6%	35.7%	35.2%	34.8%	34.9%	34.8%
Depreciation	(433.0)	(497.0)	(578.0)	(646.0)	(676.0)	(736.0)	(796.0)	(875.0)	(962.5)	(1,058.8)
Depreciation/sales %	-5.3%	-5.3%	-5.6%	-5.8%	-5.4%	-5.3%	-5.0%	-4.9%	-4.9%	-4.8%
PBIT	1,356.0	1,653.0	1,609.0	1,728.0	2,291.0	2,522.0	3,117.0	3,541.0	3,976.0	4,456.0
PBIT/sales %	16.5%	17.5%	15.5%	15.6%	18.3%	18.3%	19.5%	20.0%	20.0%	20.2%
- growth	24.0%	21.9%	-2.7%	7.4%	32.6%	10.1%	23.6%	13.6%	12.3%	12.1%
Associate	(3.0)	(8.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	(14.0)	1.0	(22.0)	4.0	31.0	37.0	14.0	24.0	34.0	44.0
PBT (Adj)	1,339.0	1,646.0	1,587.0	1,732.0	2,322.0	2,559.0	3,131.0	3,565.0	4,010.0	4,500.0
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT (Reported)	1,339.0	1,646.0	1,587.0	1,732.0	2,322.0	2,559.0	3,131.0	3,565.0	4,010.0	4,500.0
Tax rate %	24.6%	22.0%	18.6%	23.9%	25.0%	24.7%	24.4%	25.0%	25.0%	25.0%
Tax charge	330.0	388.0	325.0	411.0	580.0	613.0	764.0	891.2	1,002.5	1,125.0
Minority	(7.5)	(7.0)	(8.0)	(8.0)	(9.0)	(13.0)	(6.0)	(6.0)	(6.0)	(6.0)
PAT (Reported)	1,001.5	1,251.0	1,254.0	1,313.0	1,733.0	1,933.0	2,361.0	2,667.8	3,001.5	3,369.0
PAT (Adjusted)	1,001.5	1,251.0	1,254.0	1,313.0	1,733.0	1,933.0	2,361.0	2,667.8	3,001.5	3,369.0
# shares	620.9	620.9	620.9	623.1	623.1	623.1	623.3	623.3	623.3	623.3
EPS (reported)	1.61	2.01	2.02	2.11	2.78	3.10	3.79	4.28	4.82	5.41
- growth	24.7%	24.9%	0.2%	4.3%	32.0%	11.5%	22.1%	13.0%	12.5%	12.2%
EPS (adjusted)	1.61	2.01	2.02	2.11	2.78	3.10	3.79	4.28	4.82	5.41
- growth	24.7%	24.9%	0.2%	4.3%	32.0%	11.5%	22.1%	13.0%	12.5%	12.2%
DPS	0.84	1.05	1.05	1.20	1.60	1.80	2.20	2.54	2.91	3.30
- growth	25.4%	25.0%	0.0%	14.3%	33.3%	12.5%	22.2%	15.5%	14.5%	13.6%

Source: Company Reports and Citi Research Estimates

Figure 21. Inditex – Cashflow, 2007-2016E (€m)

	2007A	2008A	2009A	2010A	2011A	2012A	2013A	2014E	2015E	2016E
PBIT	1,356.0	1,653.0	1,609.0	1,728.0	2,291.0	2,522.0	3,117.0	3,541.0	3,976.0	4,456.0
Depreciation	420.1	484.1	565.1	612.1	623.1	680.1	796.0	860.0	947.5	1,043.8
Change in Working Capital	(94.0)	61.0	(75.0)	261.0	16.0	(204.0)	(137.0)	0.0	20.0	40.0
Goodwill amortisation	12.9	12.9	12.9	12.9	12.9	12.9	15.0	15.0	15.0	15.0
Provision	61.0	(7.0)	0.0	94.0	90.0	54.0	132.0	0.0	0.0	0.0
Net Cashflow from Operations	1,756.0	2,204.0	2,112.0	2,708.0	3,033.0	3,065.0	3,923.0	4,416.0	4,958.5	5,554.8
Net Interest Paid	(14.0)	1.0	(22.0)	4.0	31.0	37.0	14.0	24.0	34.0	44.0
Tax Paid	(343.0)	(388.0)	(325.0)	(391.0)	(508.0)	(693.0)	(818.0)	(891.2)	(1,002.5)	(1,125.0)
Gross Cashflow	1,399.0	1,817.0	1,765.0	2,321.0	2,556.0	2,409.0	3,119.0	3,548.8	3,990.0	4,473.8
Ordinary Dividend	(418.0)	(521.6)	(662.0)	(662.0)	(751.0)	(1,004.0)	(1,130.0)	(1,371.3)	(1,583.2)	(1,812.4)
Capital Expenditure	(887.0)	(942.0)	(937.0)	(510.0)	(691.0)	(864.0)	(1,193.0)	(1,250.0)	(1,375.0)	(1,512.5)
Acquisitions	0.0	0.0	0.0	0.0	(37.0)	(150.6)	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	(231.4)	(122.0)	0.0	0.0	0.0
Movement in Net debt	94.0	353.4	166.0	1,149.0	1,077.0	159.0	674.0	927.5	1,031.8	1,148.9
Closing Net (Debt) Cash	714.0	1,052.0	1,219.0	2,380.0	3,433.0	3,467.0	4,097.0	5,024.5	6,056.3	7,205.1
Shareholders Funds	3,471.0	4,217.0	4,749.0	5,371.0	6,423.0	7,456.0	8,482.0	9,778.5	11,196.8	12,753.4
Gearing	-20.6%	-24.9%	-25.7%	-44.3%	-53.4%	-46.5%	-48.3%	-51.4%	-54.1%	-56.5%

Source: Company Reports and Citi Research Estimates

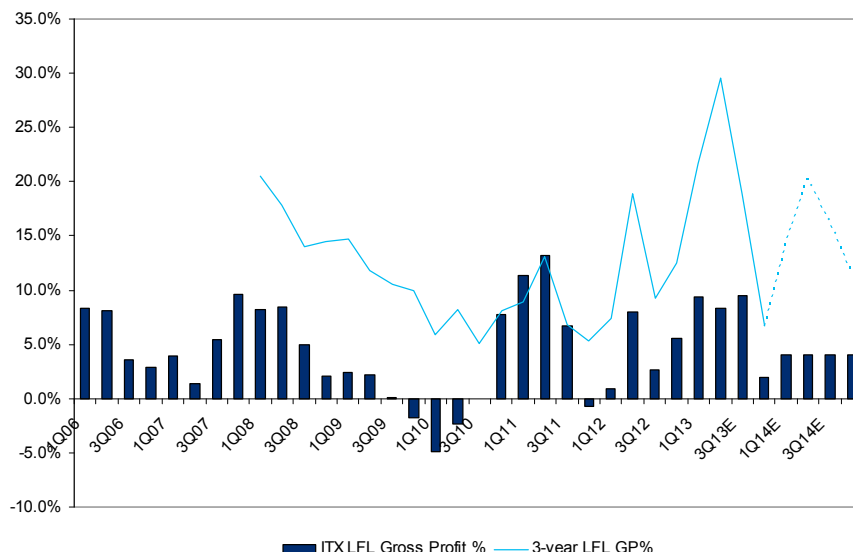
Figure 22. inditex - Balance Sheet, 2007-2016E (€m)

	2007A	2008A	2009A	2010A	2011A	2012A	2013A	2014E	2015E	2016E
Cash and marketable securities	906.0	1,466.0	1,466.0	2,420.0	3,433.0	3,467.0	3,843.0	4,770.5	5,802.3	6,951.1
Accounts receivable	364.0	464.0	585.0	422.0	482.0	531.0	848.0	848.0	848.0	848.0
Inventory	824.0	1,007.0	1,055.0	993.0	1,215.0	1,277.0	1,581.0	1,756.2	1,966.4	2,191.1
Total other current assets	55.0	45.0	158.0	109.0	73.0	162.0	420.0	420.0	420.0	420.0
Current assets	2,149.0	2,982.0	3,264.0	3,944.0	5,203.0	5,437.0	6,692.0	7,794.7	9,036.7	10,410.2
Net tangible fixed assets	2,801.0	3,192.0	3,451.0	3,307.0	3,414.0	4,083.0	4,745.0	5,135.0	5,562.5	6,031.3
Investments	38.0	36.0	14.0	15.0	9.0	10.0	4.0	4.0	4.0	4.0
Other financial assets	187.0	252.0	368.0	404.0	513.0	597.0	629.0	629.0	629.0	629.0
Total financial assets	3,026.0	3,480.0	3,833.0	3,726.0	3,936.0	4,690.0	5,378.0	5,768.0	6,195.5	6,664.3
Other Intangible	568.0	644.0	680.0	665.0	687.0	832.0	820.0	820.0	820.0	820.0
Total assets	5,743.0	7,106.0	7,777.0	8,335.0	9,826.0	10,959.0	12,890.0	14,382.7	16,052.2	17,894.5
Accounts payable	1,740.0	2,087.0	2,157.0	2,269.0	2,672.0	2,679.0	3,409.0	3,605.2	3,856.4	4,142.1
Short-term debt	145.0	371.0	234.0	35.0	3.0	1.0	2.0	2.0	2.0	2.0
Total other current liabilities	0.0	0.0	0.0	0.0	0.0	23.0	74.0	74.0	74.0	74.0
Current liabilities	1,885.0	2,458.0	2,391.0	2,304.0	2,675.0	2,703.0	3,485.0	3,681.2	3,932.4	4,218.1
Long-term debt	47.0	42.0	13.0	5.0	4.0	2.0	4.0	4.0	4.0	4.0
Net deferred tax liability	104.0	111.0	214.0	173.0	173.0	183.0	192.0	192.0	192.0	192.0
Other non-current liabilities	235.0	277.0	410.0	482.0	551.0	615.0	727.0	727.0	727.0	727.0
Total other non-current liabilities	386.0	430.0	637.0	660.0	728.0	800.0	923.0	923.0	923.0	923.0
Total provisions	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	2,272.0	2,889.0	3,028.0	2,964.0	3,403.0	3,503.0	4,408.0	4,604.2	4,855.4	5,141.1
Minority interest - accumulated	22.0	24.0	27.0	41.0	37.0	41.0	36.0	36.0	36.0	36.0
Common equity	3,449.0	4,193.0	4,722.0	5,330.0	6,386.0	7,415.0	8,446.0	9,742.5	11,160.8	12,717.4
Shareholders' equity	3,449.0	4,193.0	4,722.0	5,330.0	6,386.0	7,415.0	8,446.0	9,742.5	11,160.8	12,717.4
Shareholders' funds	3,471.0	4,217.0	4,749.0	5,371.0	6,423.0	7,456.0	8,482.0	9,778.5	11,196.8	12,753.4
Liabilities and shareholders' funds	5,743.0	7,106.0	7,777.0	8,335.0	9,826.0	10,959.0	12,890.0	14,382.7	16,052.2	17,894.5
Sales	8,196.0	9,435.0	10,407.0	11,084.0	12,527.0	13,793.0	15,946.0	17,713.5	19,833.5	22,099.5
EBITDAR	2,485.5	3,005.0	3,215.0	3,508.0	4,180.4	4,592.7	5,381.2	6,031.0	6,715.0	7,468.9
Depreciation	433.0	497.0	578.0	646.0	676.0	736.0	796.0	875.0	962.5	1,058.8
Rent	696.5	855.0	1,028.0	1,134.0	1,213.4	1,334.7	1,468.2	1,615.0	1,776.5	1,954.2
EBIT	1,356.0	1,653.0	1,609.0	1,728.0	2,291.0	2,522.0	3,117.0	3,541.0	3,976.0	4,456.0
Adjustments:										
Capitalised lease	4,666.8	5,728.5	6,887.6	7,597.8	8,129.6	8,942.6	9,836.9	10,820.6	11,902.6	13,092.9
Additional depreciation	466.7	572.9	688.8	759.8	813.0	894.3	983.7	1,082.1	1,190.3	1,309.3
Adj EBIT	1,585.9	1,935.2	1,948.2	2,102.2	2,691.4	2,962.5	3,601.5	4,074.0	4,562.2	5,100.9
Capital Employed	2,613.0	2,794.0	3,296.0	2,956.0	2,994.0	3,991.0	4,643.0	5,012.0	5,398.5	5,806.3
Adj Cap Emp	6,813.1	7,949.7	9,494.8	9,794.0	10,310.7	12,039.4	13,496.2	14,750.5	16,110.9	17,589.8
Avg Cap Emp	2,436.4	2,703.5	3,045.0	3,126.0	2,975.0	3,492.5	4,317.0	4,827.5	5,205.3	5,602.4
Avg Adj Cap Emp	6,263.6	7,381.4	8,722.2	9,644.4	10,052.4	11,175.0	12,767.8	14,123.3	15,430.7	16,850.3
ROCE	55.7%	61.1%	52.8%	55.3%	77.0%	72.2%	72.2%	73.4%	76.4%	79.5%
Adj ROCE	25.3%	26.2%	22.3%	21.8%	26.8%	26.5%	28.2%	28.8%	29.6%	30.3%

Source: Company Reports and Citi Research Estimates

LFL Gross Profit Analysis

Figure 23. Inditex – LFL Gross Profit % (2006-2014E)



Source: Company Reports and Citi Research

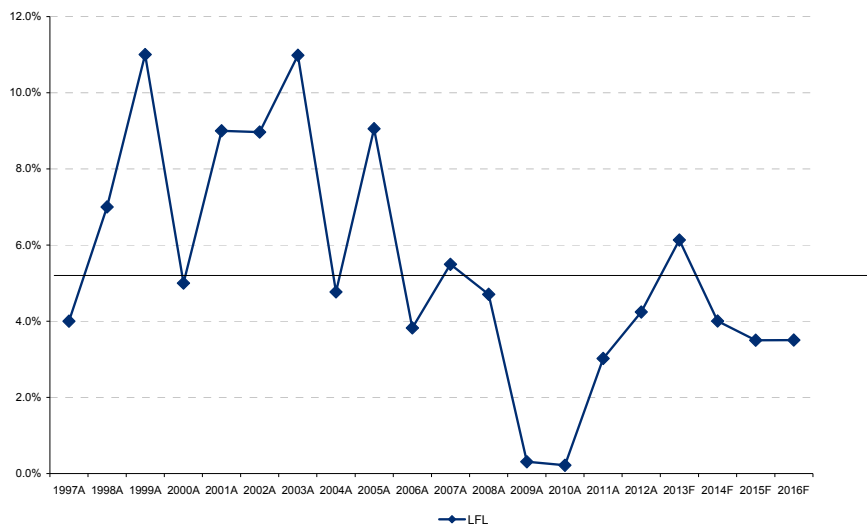
Figure 24. ITX – Quarterly divisional performance: 2007-2013 (Jan year end)

2012-2013	1Q	2Q	1H	3Q	4Q	2H	FY
LFL %	6.7%	6.5%	6.6%	8.7%	3.3%	5.8%	6.1%
GP bp	143	100	120	45	-77	-15	45
LFL GP %	9.4%	8.3%	8.9%	9.5%	1.9%	5.5%	7.0%
2011-12	1Q	2Q	1H	3Q	4Q	2H	FY
LFL %	3.0%	9.5%	6.3%	0.9%	4.0%	2.5%	4.2%
GP bp	-114	-79	-97	99	87	88	5
LFL GP %	0.9%	7.9%	4.5%	2.6%	5.5%	4.1%	4.3%
2010-11	1Q	2Q	1H	3Q	4Q	2H	FY
LFL %	5.7%	4.3%	5.0%	5.5%	-2.0%	1.5%	3.0%
GP bp	306	488	401	66	72	72	216
LFL GP %	11.3%	13.2%	12.3%	6.7%	-0.7%	2.8%	6.9%
2009-10	1Q	2Q	1H	3Q	4Q	2H	FY
LFL %	-3.3%	-0.1%	-1.7%	-1.0%	3.9%	1.6%	0.2%
GP bp	-90	-125	-110	55	211	133	26
LFL GP %	-4.9%	-2.3%	-3.6%	0.0%	7.8%	3.9%	0.7%
2008-09	1Q	2Q	1H	3Q	4Q	2H	FY
LFL %	0.0%	2.0%	1.0%	0.0%	-0.5%	-0.3%	0.3%
GP bp	140	8	71	7	-70	-31	13
LFL GP %	2.5%	2.1%	2.3%	0.1%	-1.7%	-0.8%	0.5%
2007-08	1Q	2Q	1H	3Q	4Q	2H	FY
LFL %	7.0%	6.8%	6.9%	3.5%	2.4%	2.9%	4.7%
GP bp	67	87	77	80	-17	31	48
LFL GP %	8.3%	8.4%	8.3%	5.0%	2.0%	3.5%	5.6%
2006-07	1Q	2Q	1H	3Q	4Q	2H	FY
LFL %	4.0%	5.9%	4.9%	4.9%	6.7%	5.9%	5.5%
GP bp	-1	-246	-125	31	153	95	2
LFL GP %	4.0%	1.3%	2.6%	5.5%	9.6%	7.6%	5.5%

Source: Company Reports and Citi Research

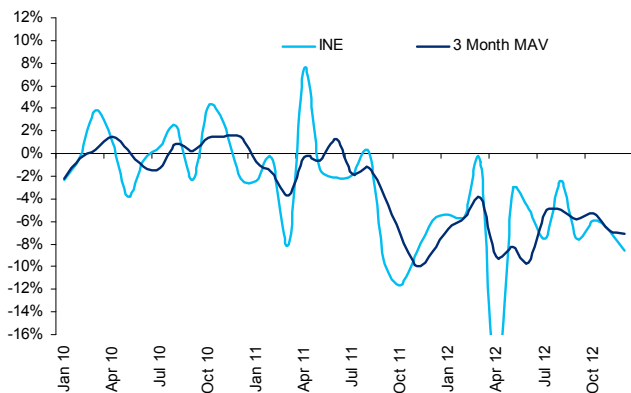
Inditex LFL in Context

Figure 25. Inditex – LFL. 1997-2016F



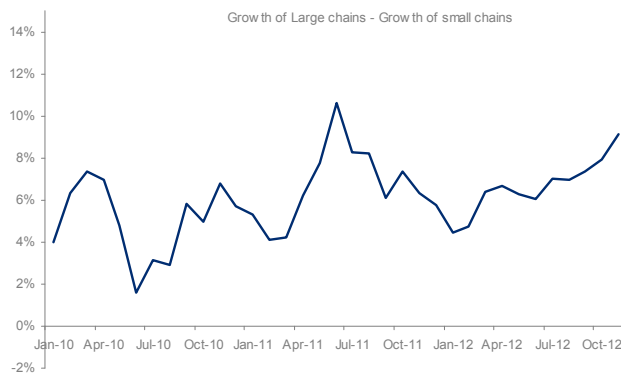
Source: Company Reports and Citi Research

Figure 26. INE – Spanish Clothing Markets Sales Growth (%)



Source: Company Reports and Citi Research Estimates

Figure 27. INE – Spanish Retail Sales Growth, Large Chains less Small Chains (%)



Source: Company Reports and Citi Research Estimates

DCF Analysis

Figure 28. Inditex – Discounted Cashflow Valuation, 2013-2023E (€m)

Year to January	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
PBIT	3,117	3,541	3,976	4,456	4,953	5,505	6,119	6,774	7,498	8,301	8,591
Tax	(818)	(885)	(994)	(1,114)	(1,238)	(1,376)	(1,530)	(1,693)	(1,875)	(2,075)	(2,148)
Depreciation & provisions	796	860	948	1,044	1,124	1,249	1,388	1,537	1,701	1,883	2,324
Capex	(1,193)	(1,250)	(1,375)	(1,513)	(1,628)	(1,753)	(1,887)	(2,023)	(2,168)	(2,324)	(2,324)
Delta Working Capital	312	-	20	40	116	129	143	153	169	187	68
Free Cashflow	2,214	2,266	2,575	2,913	3,326	3,754	4,234	4,747	5,326	5,971	6,511
Residual Value											105,531
Total Free Cashflow	2,214	2,266	2,575	2,913	3,326	3,754	4,234	4,747	5,326	5,971	112,042
Discount factor		0.924	0.855	0.790	0.730	0.675	0.624	0.577	0.534	0.493	0.456
Discounted Free Cashflow		2,095	2,200	2,302	2,429	2,535	2,643	2,739	2,841	2,945	51,087

Source: Company Reports and Citi Research Estimates

Figure 29. Inditex - DCF Valuation Summary (Euros in Millions)

	10 yr forecast
NPV	73,817
Cash	4,097
Total Valuation (M Euro)	77,914
Implied PE (Jan 2014)	29.2
# shares	623.3
Valuation per share	125

Source: Citi Research

Figure 30. Inditex - DCF Assumptions (€m)

DCF	Rf	Rm	Beta	Re
Inputs	4.6%	5.1%	0.70	8.2%
Growth rate				2.0%

Source: Citi Research

Figure 31. Inditex – DCF Assumptions continued (Euros in millions)

	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Sales	15,946	17,713	19,834	22,099	24,564	27,302	30,347	33,594	37,188	41,167	42,608
- growth	15.6%	11.1%	12.0%	11.4%	11.2%	11.2%	11.2%	10.7%	10.7%	10.7%	3.5%
- Lfl	8.1%	3.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
- Space	7.5%	8.1%	8.5%	7.9%	7.7%	7.7%	7.7%	7.2%	7.2%	7.2%	0.0%
Opening store numbers	5,527	6,009	6,459	6,934	7,414	7,981	8,592	9,249	9,915	10,629	11,394
Closing store numbers	6,009	6,459	6,934	7,414	7,981	8,592	9,249	9,915	10,629	11,394	11,394
# net new stores	482	450	475	480	667	718	773	832	892	957	-
COGS	6,417	7,128	7,981	8,893	10,440	11,604	12,897	14,277	15,805	17,496	18,108
PBIT (pre provision and goodwill)	3,117	3,541	3,976	4,456	4,953	5,505	6,119	6,774	7,498	8,301	8,591
ROS%	19.5%	20.0%	20.0%	20.2%	20.2%	20.2%	20.2%	20.2%	20.2%	20.2%	20.2%
- growth	23.6%	13.6%	12.3%	12.1%	11.2%	11.2%	11.2%	10.7%	10.7%	10.7%	3.5%
Depreciation	796	860	948	1,044	1,124	1,249	1,388	1,537	1,701	1,883	2,324
- depn/sales	5.0%	4.9%	4.8%	4.7%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	
Capex	(1,193)	(1,250)	(1,375)	(1,513)	(1,628)	(1,753)	(1,887)	(2,023)	(2,168)	(2,324)	(2,324)
- capex/sales	7.5%	7.1%	6.9%	6.8%	6.6%	6.4%	6.2%	6.0%	5.8%	5.6%	5.5%
- capex/store	2.0	2.2	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Working Capital	(980)	(980)	(1,000)	(1,040)	(1,156)	(1,285)	(1,428)	(1,581)	(1,750)	(1,937)	(2,005)
- working capital/sales	-6.1%	-5.5%	-5.0%	-4.7%	-4.7%	-4.7%	-4.7%	-4.7%	-4.7%	-4.7%	-4.7%
Stock	1,581	1,697	1,900	2,117	2,486	2,763	3,071	3,399	3,763	4,166	4,312
- stock turn	4.06	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20
Capex growth	38%	5%	10%	10%	8%	8%	8%	7%	7%	7%	0%
Capex/depn	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.0

Source: Company Reports and Citi Research Estimates

Inditex

Company description

Industria de Diseno Textil, S.A. (Inditex) manufactures and retails apparel. The company operates retail chains under the names Zara, Massimo Dutti, Pull & Bear, Stradivarius, Bershka, Oysho, Zara Home and Uterque in 79 countries around the world. Much of the manufacturing is subcontracted out and takes place in Northern Spain.

Investment strategy

As Inditex accelerates the store opening programme in the higher-growth Asian and Emerging markets, we expect the group to continue to deliver 'GDP-plus' LFL sales growth driving c.+10-15% compound EPS growth from here. A view underpinned by the group's recent doubling of the design, sourcing and store feedback management capacity. In combination with a c.2-3% dividend yield, this should drive a c.+15% ETR over time. Long-held Buy rating retained.

Valuation

Our target price of €120 is based on c.17x January 2015E target EV/EBIT (recent average), equating to 25x P/E and a 4% free cash flow yield (also in line with long-run averages) for the same forecast year.

Risks

The following risks may impede the achievement of our target price:

As with all retailers, Inditex's performance is linked to consumer spending patterns, which may be volatile

Management may fail to identify and respond to fashion trends

The launch of new store formats may prove to be less successful

Store portfolio expansion in multiple countries may be more demanding of management than in the more domestic growth achieved historically.

Appendix A-1

Analyst Certification

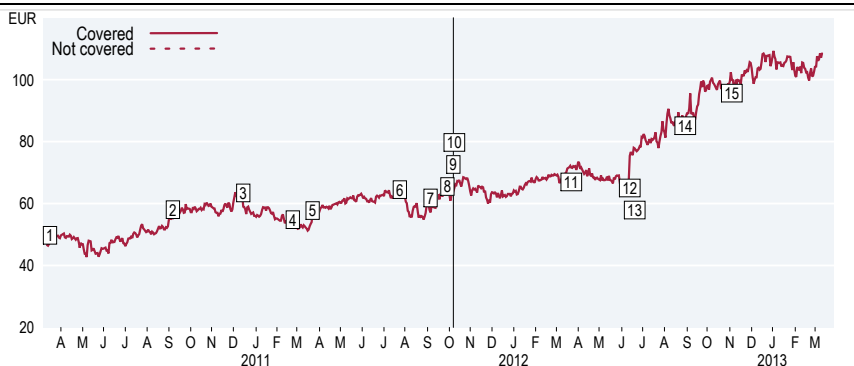
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Inditex (ITX.MC)

Ratings and Target Price History Fundamental Research

Analyst: Richard Edwards



Date	Rating	Target Price	Closing Price
1 17-Mar-10	1M	*60.00	48.54
2 7-Sep-10	1M	*65.00	55.02
3 15-Dec-10	1M	*69.00	59.00
4 23-Feb-11	1M	*62.00	53.26
5 23-Mar-11	1M	*66.00	57.25

Date	Rating	Target Price	Closing Price
6 24-Jul-11	1M	*74.00	64.17
7 6-Sep-11	1M	*70.00	57.13
8 29-Sep-11	1M	*75.00	65.27
9 7-Oct-11	Stock rating system changed		
10 8-Oct-11	*1	75.00	63.89

Date	Rating	Target Price	Closing Price
11 22-Mar-12	1	*82.00	71.59
12 13-Jun-12	1	*86.00	75.40
13 20-Jun-12	1	*90.00	77.78
14 30-Aug-12	1	*100.00	86.62
15 5-Nov-12	1	*115.00	100.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

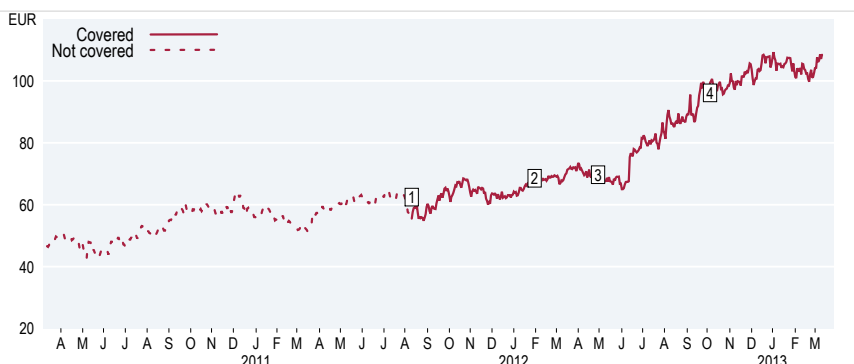
Inditex (ITX.MC)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Richard Edwards



	Date	Rating	Target Price	Closing Price
1	10-Aug-11	*ADD MP	-	55.52
2	31-Jan-12	*REM MP	-	66.70

* Indicates change

	Date	Rating	Target Price	Closing Price
3	30-Apr-12	*ADD MP	-	67.95
4	4-Oct-12	*REM MP	-	99.35

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53%	49%	45%	60%	49%	55%

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