

Pan-Euro General Retail – HAC & Online Analysis

Reasons To Be Cheerful

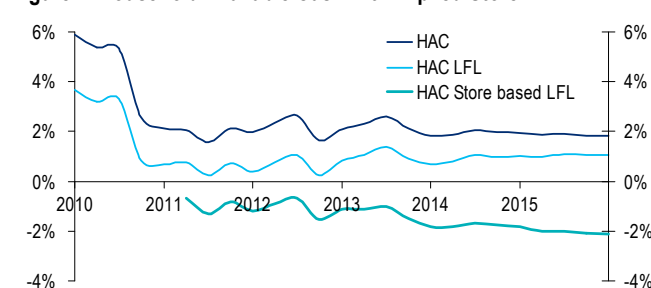
- **2013: Most/Least Favoured Stocks** — Most favoured ADS, SPD, CPW and ITX. Least favoured: Home, DRTY and H&M. We retain an overweight Pan-European and neutral UK General Retail sector stance.
- **Household Available Cashflow: Better UK, Weaker France** — Post the Citi Strategists' April Global Economic update, we have updated our European HAC framework. This drives a c.-1.5% sector 2013 LFL sales forecast agenda (from -1.3%). This splits UK +1.1% (from +0.3%), France -3.0% (from -1.4%), Germany +0.3% (from -0.7%) and Spain -4.4%. **This European demand agenda is consistent with our bottom-up sector earnings forecasts.**
- **Penetration of Online Retail Likely to Impact Profitability** — Our UK retailer aggregated forecast points to a +1.6% LFL sales growth trajectory in 2013-14. At current run rates, online growth contributes +2-3%pts of growth each year, implying that store growth will remain negative. As explored in our recent note ([Online Implications for Retail Profitability](#)), we believe this has a profound impact on profitability and it is the main explanation for our subdued +4-5% UK aggregate earnings growth outlook in 2013-14. ACS, ITX and SPD are beneficiaries of this theme. We expect DEB, MKS and NXT EBIT growth to be limited.
- **Preference for Revenue Growth & Self-Help. Adding a Cyclical Buy** — In this moderating 2013-14E demand environment, we still expect the Revenue Growth/Self-Help segments to outperform the Cyclical retailers given what we see as their DD vs. MSD underlying EPS growth outlook. However, we have added a Cyclical retailer (Dixons) to our Buy codes today.

Figure 1. European Retail Segmentation and Recommendations

	Buy			Neutral	Sell
Revenue Growth	ADS	ACS	DNLM	H&M	
	ITX	SPD			
Self-Help	CPW	KGF	NXT		
	SHFJ	SMWH			
Cyclicals	DXNS		BWNG	DEB	HFD
			INCH	MKS	HOME
					DRTY

Source: Citi Research

Figure 2. Household Available Cash with Implied Store LFL



Source: Citi Research

Equities

Richard Edwards

+44-20-7986-4006
richard.edwards@citi.com

Assad M Malic

+44-20-7986-8139
assad1.malic@citi.com

Dan F Homan

+44-20-7986-4112
dan.homan@citi.com

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

Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Contents

Sector Changes	3
Executive Summary	4
Pan-European General Retail Valuation	9
Household Available Cashflow Analysis	11
Pan-European Consumer Demand	12
UK General Retail – Demand Outlook	13
French General Retail – Demand Outlook	21
German General Retail – Demand Outlook	22
Spanish General Retail – Demand Outlook	23
Online Retail	25
Retail Sub-Sector Themes	33
European Clothing Retail	34
European Electricals	39
European DIY	41
UK Aggregation	43
Sector Profit Aggregation	44
EPS Forecast vs Consensus	47
Valuation	49
UK Retail Valuation	50
Company Section Buy-Rated Stocks	53
Company Section Neutral-Rated Stocks	97
Company Section Sell-Rated Stocks	119
Appendix 1: UK LFL Sales compared to BRC data and Citi Research HAC Forecasts	124
Appendix 2: Macro Drivers	126
Appendix A-1	128

Sector Changes

Figure 3. General Retail – Summary of Key Changes (Fiscal Year Closest to Calendar Year-End)

	Current Price	Citi Rating		Target Price		ETR	Earnings revision			Page
		Old	New	Old	New		2012E	2013E	2014E	
Growth										
adidas	€ 85	Buy	Buy	€ 98	€ 98	17.5%	-	-	-	54
ASOS	£37.70	Buy	Buy	£40	£44	17.9%	-	-	-	58
Dunelm	833 p	Buy	Buy	900 p	900 p	11.6%	-	-	-	68
H&M	SKr 234.5	Neutral	Neutral	SKr 230	SKr 230	2.4%	-	-	-	102
Inditex	€ 104.6	Buy	Buy	€ 120	€ 120	16.1%	-	-	-	72
Sports Direct	504 p	Buy	Buy	530 p	600 p	18.2%	-	-	-	84
CDON	SKr 24.8	Neutral	Neutral			-	-	-	-	112
Delticom	€ 37.1	Neutral	Neutral	€ 37	€ 37	6.1%	-	-	-	114
Zooplus	€38.7	Neutral	Neutral			-	-	-	-	116
Self-Help										
Carphone Warehouse	244 p	Buy	Buy	290 p	290 p	20.7%	-	-	-	62
Kingfisher	326.2 p	Buy	Buy	330 p	385 p	20.9%	-	-	-	76
Next	£45.89	Buy	Buy	£48.0	£52.0	15.8%		0.4%		80
Steinhoff	ZAR 23.3	Buy	Buy	ZAR 29	ZAR 29	25.8%	-	-	-	88
WH Smith	741 p	Buy	Buy	900 p	900 p	26.6%	-	-	-	92
Cyclicals										
Darty	52.8 p	Sell	Sell	32 p	39 p	(24.3%)	-	31.6%	1.8%	120
Debenhams	92.9 p	Neutral	Neutral	83 p	95 p	5.5%	-	0.1%	1.1%	98
Dixons Retail	39.1 p	Neutral	Buy	30 p	50 p	36.9%	18.9%	8.1%	1.8%	66
Halfords	400.8 p	Neutral	Neutral	325 p	385 p	1.2%	-	4.4%	17.0%	100
Home Retail	151.1 p	Sell	Sell	105 p	105 p	(28.4%)	-	-	-	122
Inchcape	526 p	Neutral	Neutral	500 p	500 p	(2.7%)	-	-	-	106
M&S	433.9 p	Neutral	Neutral	400 p	440 p	4.8%	-	-	-	108
N Brown	448.3 p	Neutral	Neutral	435 p	435 p	0.4%	-	-	-	110

Source: Citi Research (priced on 15 May 2013)

Executive Summary

Sector Investment Segmentation

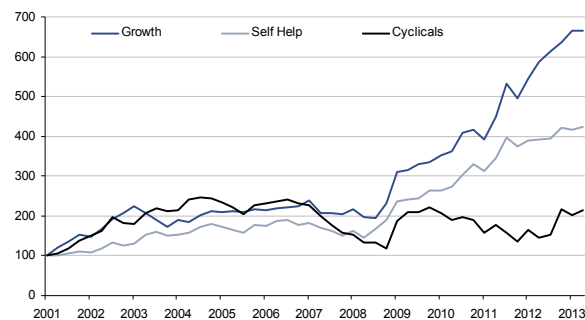
We segment the European General Retail sector into categories that we argue offer differentiated performance in this low-growth environment, namely Revenue Growth, Self-help and Cyclical stocks.

- **Revenue Growth** – companies that are capable of growing their sales in the current low growth environment, predominantly through international expansion, incremental online sales, or new space opening. We expect these retailers to continue taking market share.
- **Self-help** – companies that have the ability to drive their own earnings independent of the broader macro environment. We include companies with ongoing programmes to drive margin upside and those retiring their own equity.
- **Cyclicals** – companies that are dependent on the broader macro conditions to drive earnings.

This segmentation follows our strategists' outlook, with our preference for being defensive growth, self-help and de-equitising stocks over more cyclical names.

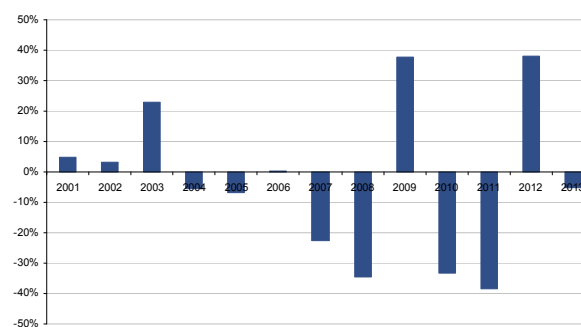
We will reassess stocks if they demonstrate that they are capable of moving from one category to another.

Figure 4. Growth vs Self-help vs Cyclicals, Relative to Eurostoxx



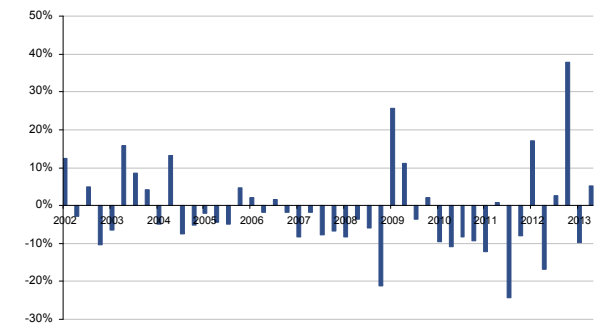
Source: Citi Research, Datastream

Figure 5. Cyclicals vs. Growth/Self-help Performance



Source: Citi Research, Datastream

Figure 6. Cyclicals vs. Growth/Self-help Performance



Source: Citi Research, Datastream

Pan-European Demand Outlook

The Citi Global Economic Outlook and Strategy publication summarises the Economic framework that drives our European Household Available Cashflow analysis and our bottom-up General Retail revenue forecast agenda (link: [GEOS, April 2013](#), author Willem Buiters). Applying these assumptions to our Pan-European Household Available Cashflow framework argues for a -1.5% decline in 2013 LFL retail sales (from -1.3%), driven by modest LFL sales growth in the UK +1.1% (from +0.3%) and Germany +0.3% (from -0.7%), and LFL declines in France -3.0% (from -1.4%) and Spain -4.4% (from -4.8%).

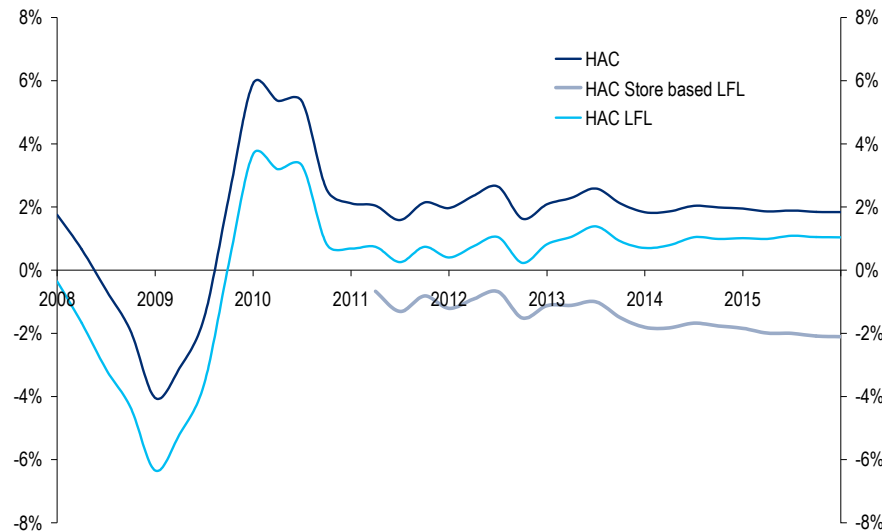
Figure 7. Pan-European – Household Available Cashflow

	UK			France			Germany			Spain		
	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E
Nominal disposable income	2.0%	2.6%	2.1%	-0.7%	-0.3%	0.1%	1.7%	2.9%	2.8%	-7.6%	-4.7%	-2.7%
Household credit	-0.2%	-0.3%	-0.1%	-2.9%	-1.6%	-0.6%	-1.9%	-1.6%	-1.8%	1.6%	0.7%	-0.7%
Household Available Cash	2.2%	2.3%	2.0%	-3.6%	-2.0%	-0.5%	-0.1%	1.3%	0.9%	-6.0%	-3.9%	-3.4%
Space	-1.5%	-1.2%	-1.0%	-1.0%	-1.0%	-0.5%	-1.0%	-1.0%	-1.0%	0.0%	0.0%	0.0%
VAT										-0.5%	-0.5%	0.0%
Implied LFL	0.7%	1.1%	1.0%	-4.6%	-3.0%	-1.0%	-1.1%	0.3%	-0.1%	-6.5%	-4.4%	-3.4%
Previous forecast	0.2%	0.3%	0.6%	-2.3%	-1.4%	-1.0%	-1.2%	-0.7%	-0.2%	-4.4%	-4.8%	-1.6%
Delta	0.5%	0.8%	0.4%	-2.3%	-1.2%	-0.3%	-0.1%	+1.0%	+0.1%	-2.1%	+0.4%	-1.8%

Source: Citi Research Estimates

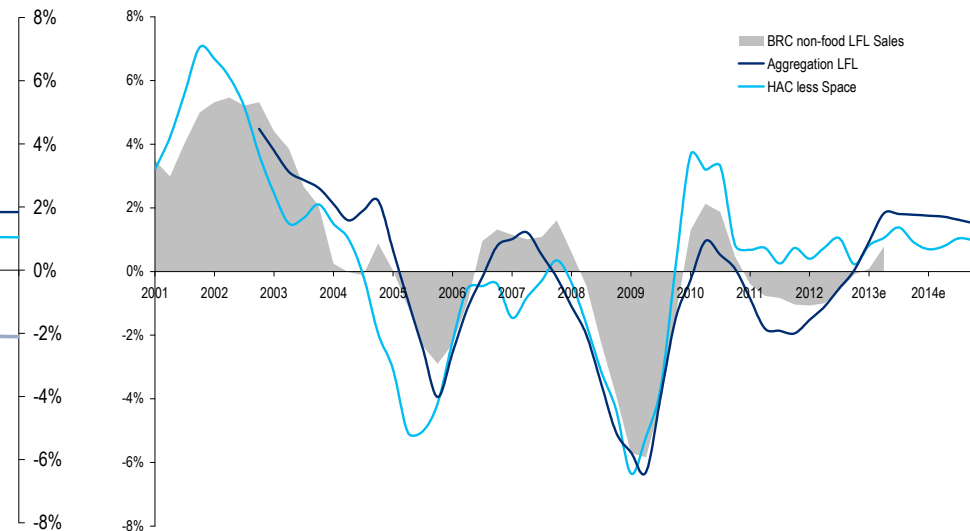
Within the UK, we split out the both space and online non-food sales growth to derive a c.-2% store-based LFL sales decline from here. We argue that retailers suffering this level of store-based sales cannibalization will struggle to deliver material EBIT progress in 2013-14, in the absence of significant cost saving initiatives, and/or other notable revenue growth initiatives.

Figure 8. Household Available Cash with Implied Store LFL



Source: BRC and Citi Research Estimates

Figure 9. UK HAC less Space vs BRC Non-Food Retail LFL Sales vs Aggregation LFL Sales

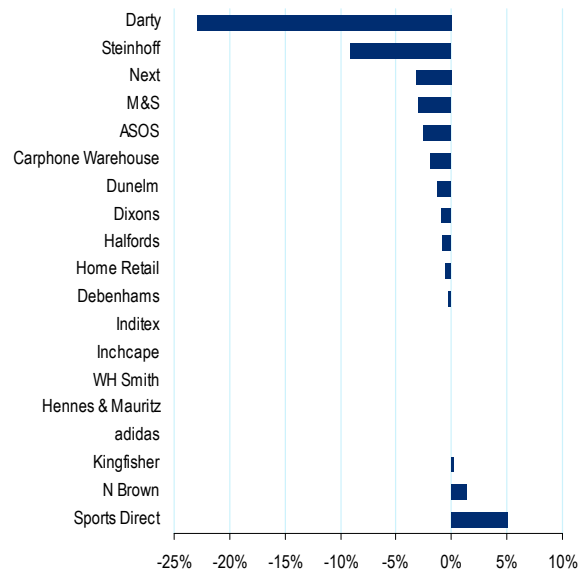


Source: BRC and Citi Research Estimates

Forecasts versus consensus

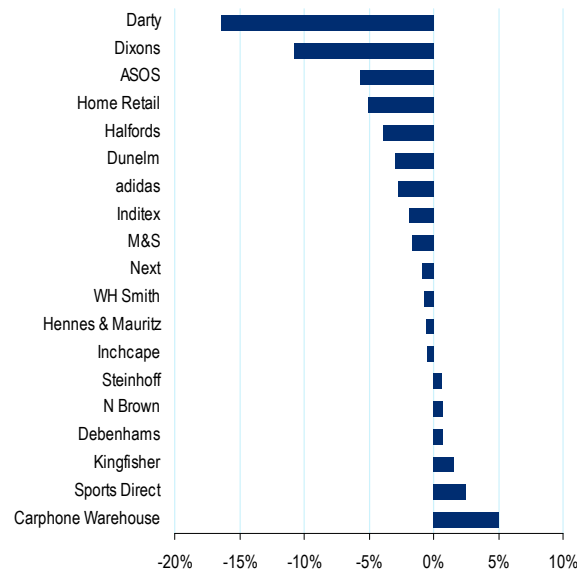
This demand outlook is largely consistent with our bottom-up Pan-European earnings forecast agenda; consequently our Pan-European 2013 and 2014 earnings growth forecast agenda remains +10% and +11%, respectively. The primary retailers to see earnings forecast changes are Dixons and Halfords, primarily reflecting an accounting change and an LFL increase to +1% (from -1%), respectively. Notably, in the light of our still dull European LFL sales forecast agenda, our earnings forecasts are most below consensus for the more Cyclical retailers – clear examples being Darty and Home Retail.

Figure 10. Citi vs Consensus Cal-2012e



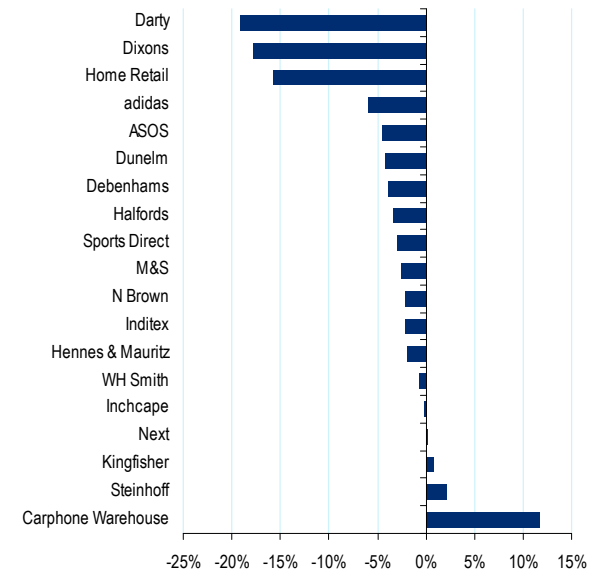
Source: Powered by DataCentral

Figure 11. Citi vs Consensus Cal-2013e



Source: Powered by dataCentral

Figure 12. Citi vs Consensus Cal-2014e

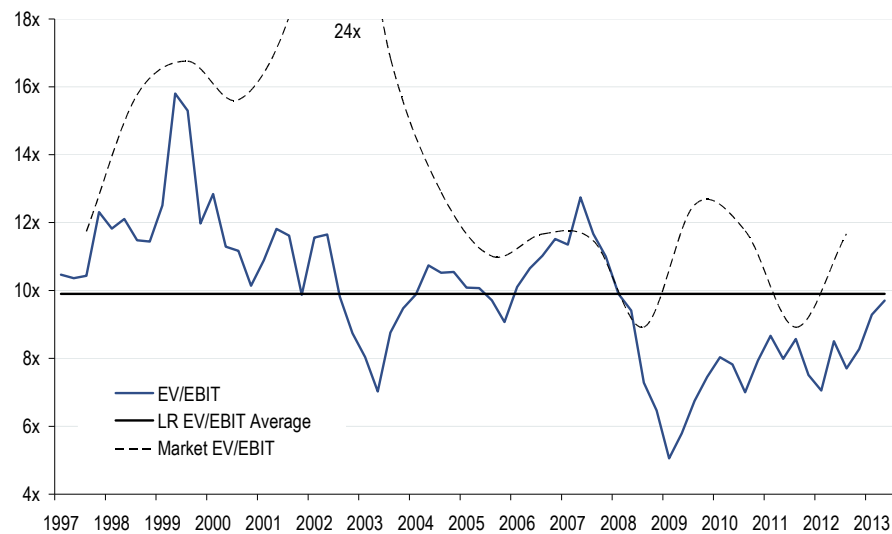


Source: Powered by dataCentral

Valuation

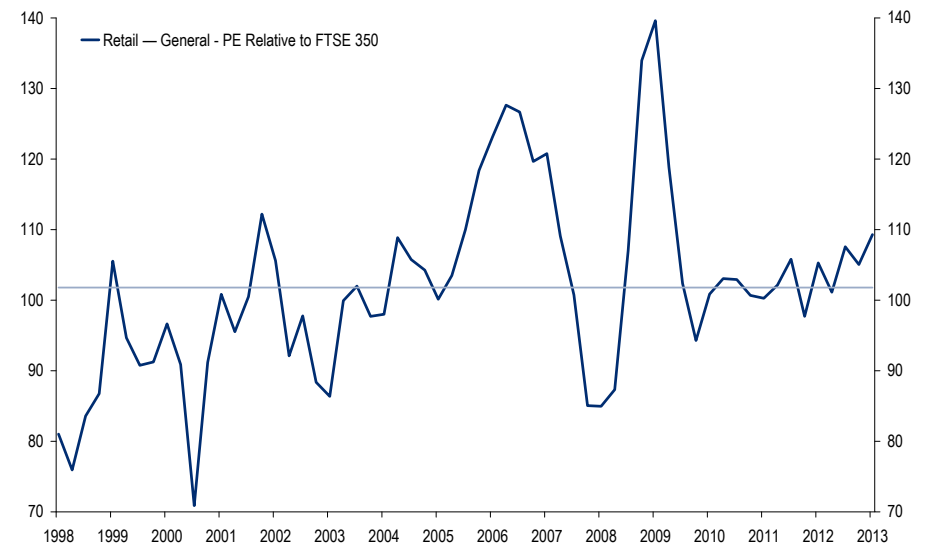
The UK general retail sector now trades on a consensus forward 2013E PE of c.14.3x and a PE relative of c.105, broadly in line with the c.102 long-run average. Likewise, on an EV/EBIT basis, adjusting for leverage, the UK general retailers are trading on 10.5x consensus forward 2013E, a modest premium to the c.10x long-run average. While the latter should continue to underpin sector valuation levels, we do not expect any material re-rating from the present EV/EBIT levels, arguing instead for the bulk of the sector to broadly hold current valuation metrics over time.

Figure 13. UK General Retail – Long Run EV/EBIT



Source: Company Reports and Citi Research

Figure 14. UK General Retail – Long Run P/E



Source: Company Reports, Datastream and Citi Research

Recommendations and Target Prices

Taking these dynamics together, our **Buy investment ratings focus on Revenue Growth retailers: adidas, ASOS, Dunelm, Inditex and Sports Direct**, and **Self-Help retailers: Carphone Warehouse, Kingfisher**, where we continue to forecast c.10-15% growth across 2013.

Given our flat LFL demand outlook for the European consumer, we continue to avoid retailers where earnings are likely to be impaired by macro conditions. Here we forecast +6% underlying EPS growth for the Cyclical retailers in 2013 and a modest +4.5% EPS growth in 2014 (ex Dixons – given tax charge and one-off capacity withdrawal distortions). **We retain Sell ratings on Home Retail and Darty** and retain Neutral ratings on Marks & Spencer, Inchcape and Halfords.

While in general we expect valuation metrics for the sector to hold over time, we think there is a reasonable argument for those retailers that have not re-rated in the last year, and that have improving EBIT margin/cash generation characteristics, to see their forward valuation metrics expand from here – this list includes adidas and Kingfisher among the larger-cap stocks, and WH Smith from the mid-caps.

Taken together, our most favoured stocks for 2013 are adidas, Carphone Warehouse, Sports Direct and Inditex. Least Favoured are Home Retail, Darty and H&M.

Pan-European General Retail Valuation

Figure 15. Valuation And Earnings Growth Sector Segmentation (Fiscal Year Nearest to Calendar Year-End)

		PE			EV/EBIT			EPS Growth		
		2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E
Growth basket										
adidas	Buy	22.5	19.4	16.9	14.6	12.9	11.2	18%	16%	15%
ASOS	Buy	95.2	79.9	63.1	64.3	56.2	43.1	42%	19%	27%
Dunelm*	Buy	21.3	19.3	17.6	16.7	15.0	13.3	12%	10%	10%
H&M	Neutral	23.0	22.0	19.9	17.1	16.7	15.1	7%	5%	10%
Inditex	Buy	27.6	25.0	22.3	19.6	17.6	15.4	22%	10%	12%
Sports Direct*	Buy	18.6	16.2	14.2	14.2	12.0	9.7	44%	15%	14%
CDON Group	Neutral	-92.3	62.5	29.0		31.2	17.3	-128%	-243%	115%
Delticom	Neutral	20.0	20.8	18.4	12.3	13.5	12.0	-39%	-4%	13%
Zooplus	Neutral	-111.5	131.3	36.9	-101.0	113.9	30.8	-67%	-185%	256%
Average (equal weighted) ex Online stocks		22.6	20.4	18.2	16.4	14.8	12.9	20%	11%	12%
Average (equal weighted)		2.7	44.1	26.5	7.2	32.1	18.7	-10%	-40%	53%
Self Help										
Carphone Warehouse*	Buy	20.0	12.8	11.4	22.4	8.5	7.7	1%	56%	12%
Kingfisher	Buy	14.8	13.4	12.0	10.6	9.5	8.4	-9%	10%	11%
Next	Buy	16.3	14.7	13.2	12.3	11.6	11.4	13%	11%	11%
Steinhoff*	Buy	7.3	6.7	6.2	8.1	7.2	5.8	11%	9%	8%
WH Smith	Buy	11.8	10.6	9.8	8.9	8.4	8.0	22%	11%	8%
Average (equal weighted)		14.0	11.6	10.5	12.5	9.0	8.3	8%	20%	10%
Cyclicals										
Darty*	Sell	29.9	14.3	12.1	12.0	9.2	8.0	-65%	59%	53%
Debenhams	Neutral	9.5	9.5	9.5	8.8	9.2	9.2	13%	0%	-1%
Dixons Retail*	Buy	35.5	21.6	17.0	9.4	7.9	6.7	21%	64%	27%
Halfords*	Neutral	14.7	14.6	13.7	11.9	11.7	10.8	-19%	0%	7%
Home Retail Group	Sell	20.0	18.4	19.2	9.8	10.8	11.9	-13%	9%	-4%
Inchcape	Neutral	13.0	12.2	11.1	7.9	7.7	7.0	12%	7%	10%
M&S*	Neutral	13.9	13.0	12.1	11.9	11.4	10.7	-3%	8%	7%
N Brown	Neutral	15.7	15.1	14.7	12.9	12.2	11.9	2%	4%	3%
Average (equal weighted)		19.0	14.8	13.7	10.6	10.0	9.5	-6%	25%	9%

Source: Company Reports and Citi Research Estimates (priced on 15 May 2013)



This page is intentionally left blank

Household Available Cashflow Analysis

Pan-European Consumer Demand

The Citi Global Economic Outlook and Strategy publication summarises the economic framework that drives our European Household Available Cashflow analysis and our bottom-up General Retail revenue forecast agenda (link: [GEOS, April 2013](#) , author Willem Buiter et al).

European 2013 LFL sales forecast -1.5%

Applying this Citi European economic forecast agenda to our Household Available Cashflow analysis drives a c.-20bp decrease in our sector 2013 LFL sales forecast agenda, driven primarily by a decrease in France, resulting in a c.-1.5% 2013 LFL sales environment across the major European retail markets (from -1.3%). In overview, this 2013 LFL sales environment is better than that in 2012, albeit driven by improvements in France and Spain, where the forecast is 'less bad' than 2012.

Figure 16. Pan-European – Household Available Cashflow

	UK			France			Germany			Spain		
	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E
Nominal disposable income	2.0%	2.6%	2.1%	-0.7%	-0.3%	0.1%	1.7%	2.9%	2.8%	-7.6%	-4.7%	-2.7%
Household credit	-0.2%	-0.3%	-0.1%	-2.9%	-1.6%	-0.6%	-1.9%	-1.6%	-1.8%	1.6%	0.7%	-0.7%
Household Available Cash	2.2%	2.3%	2.0%	-3.6%	-2.0%	-0.5%	-0.1%	1.3%	0.9%	-6.0%	-3.9%	-3.4%
Space	-1.5%	-1.2%	-1.0%	-1.0%	-1.0%	-0.5%	-1.0%	-1.0%	-1.0%	0.0%	0.0%	0.0%
VAT										-0.5%	-0.5%	0.0%
Implied LFL	0.7%	1.1%	1.0%	-4.6%	-3.0%	-1.0%	-1.1%	0.3%	-0.1%	-6.5%	-4.4%	-3.4%
Previous forecast	0.2%	0.3%	0.6%	-2.3%	-1.4%	-1.0%	-1.2%	-0.7%	-0.2%	-4.4%	-4.8%	-1.6%
Delta	0.5%	0.8%	0.4%	-2.3%	-1.2%	-0.3%	-0.1%	+1.0%	+0.1%	-2.1%	+0.4%	-1.8%

Source: Citi Research Estimates

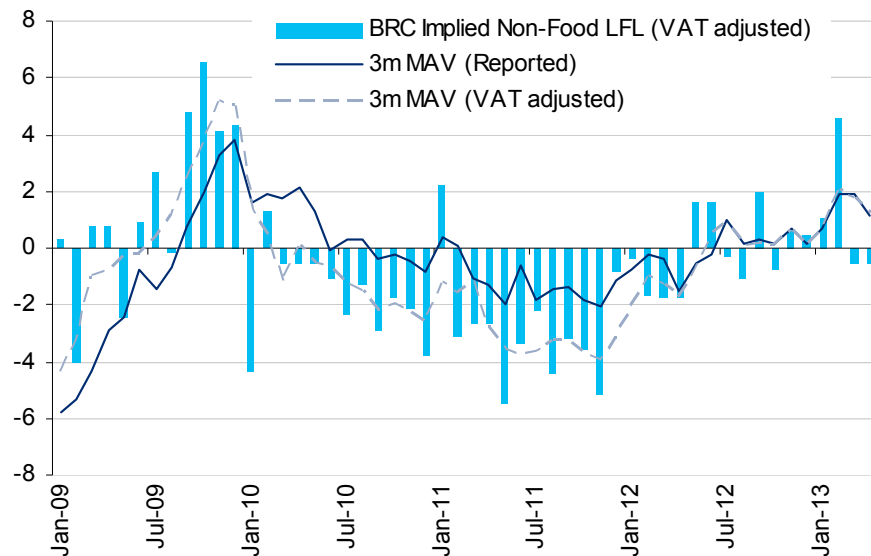
UK General Retail – Demand Outlook

Since our last update in December, [Wouldn't Change A Thing](#), Citi forecasts for UK GDP have been lowered slightly to +0.4% for 2013 and +0.7% for 2014, from +0.8% and +1.0%, respectively. This reflects a phased multi-year fiscal consolidation policy and an economy that has considerable spare capacity, with CPI likely to remain well above the 2% target.

We use a proprietary model, HAC, to forecast demand trends in the sector. HAC gathers multiple economic inputs across income, consumption and leverage and calculates the yoy% change in cash available for discretionary spending. We use this approach across the major European economies. Back-tested over nearly two decades, this is our best lead indicator for non-food retail LFL.

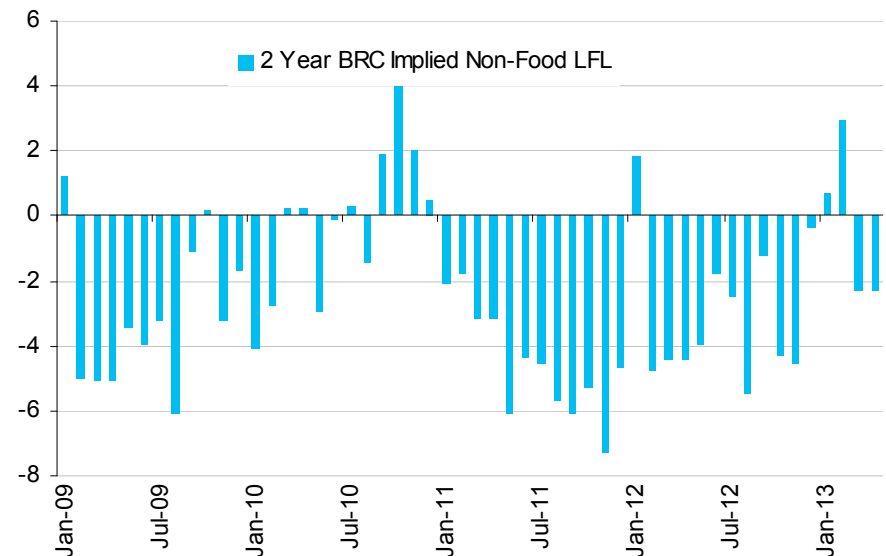
As illustrated below, the BRC non-food LFL sales growth pattern in 2013 to date has been running at c.+1%, albeit flattered by a strong +4.6% February LFL, against a c.-1% 4 month LFL comparative from last year. Notably, this c.+1% UK non-food LFL run rate is in line with our HAC analysis (see below).

Figure 17. Citi Implied BRC Non-Food LFL



Source: BRC and Citi Research

Figure 18. Citi Implied BRC Non-Food LFL – 2 year



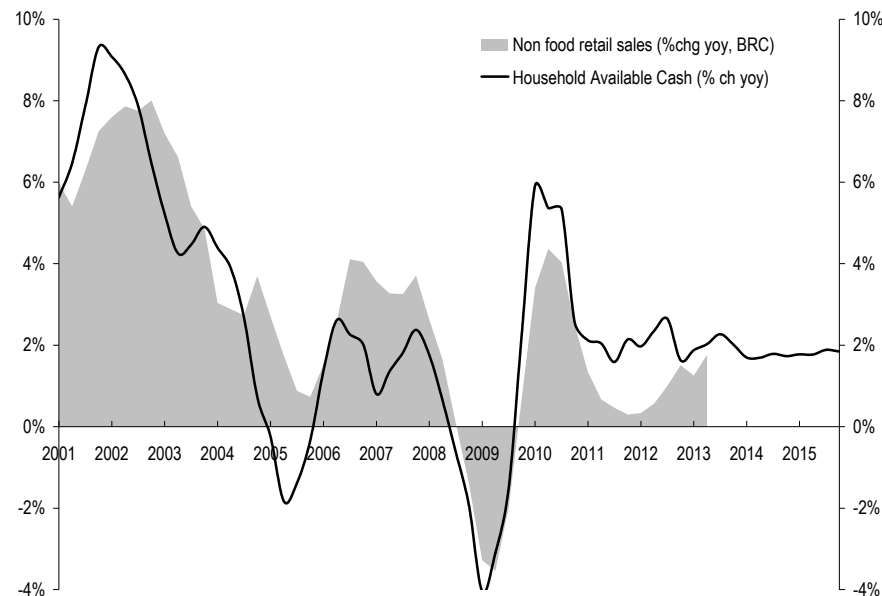
Source: BRC and Citi Research

2013e LFL raised to +1.1% (from +0.3%). Broadly in line with the +0.7% 2012 LFL

In this report we have modestly raised our 2013 UK employment forecast agenda (+1.2% from +0.9%), following the recent resilience in private sector employment trends, and further self-employment and part-time employment growth trends. This is the primary reason for an improvement in our HAC-driven 2013E LFL to +1.1% (from +0.3%), with our 2014E LFL broadly unchanged at +1.0% (from +0.6%). Looking out to 2015, we argue for a +1.1% UK non-food LFL sales trend (not previously forecast), as set out below.

Importantly, when applying this analysis to the general retailers under our research coverage, given the absence of other material earnings growth levers, the Cyclical retailers' relative share price performance is the most highly correlated to the UK HAC trends. Given their alternative sources of earnings growth (international markets, share buybacks), the Revenue Growth and Self-help companies have outperformed the Cyclical and the HAC since 2001 with 18% and 15% annual total returns versus 8% for the Cyclical and growth in HAC of c.2% per annum.

Figure 19. Household Available Cash vs. Non-Food Retail Sales



Source: ONS, DataStream, BoE and BRC and Citi Research Estimates

Figure 20. Cyclical Rel Share Price Performance vs Household Available Cashflow



Source: Citi Research

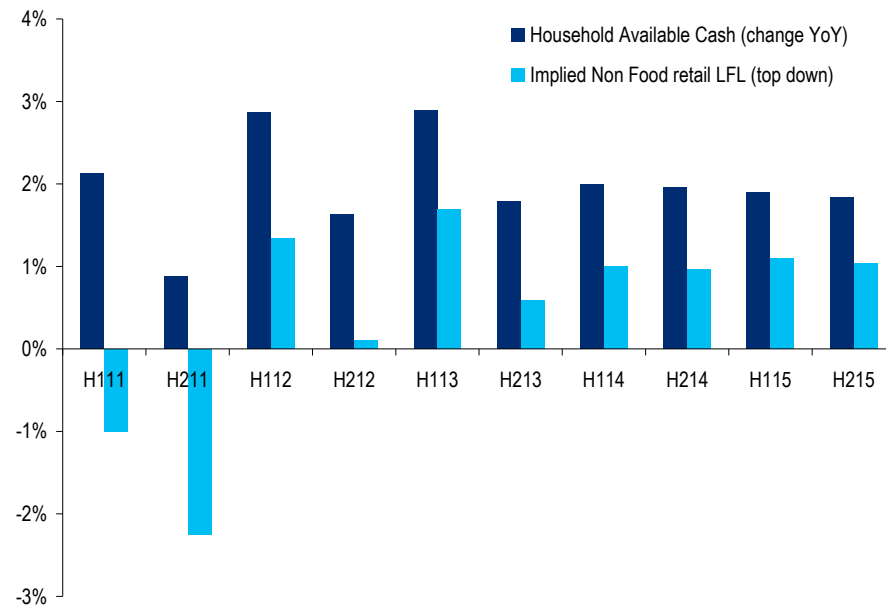
LFL sales forecast increased modestly to 0.7% and +1.1% in 2013 and 2014

Figure 21. Household Available Cash – Half-Yearly Breakdown

	H110	H210	H111	H211	H112	H212	H113	H213	H114	H214	H115	H215
Household Available Cash (change YoY)	5.4%	3.4%	2.1%	0.9%	2.9%	1.6%	2.9%	1.8%	2.0%	2.0%	1.9%	1.8%
Space Contribution	(1.9%)	(1.9%)	(1.3%)	(1.3%)	(1.5%)	(1.5%)	(1.2%)	(1.2%)	(1.0%)	(1.0%)	(0.8%)	(0.8%)
VAT	(1.8%)	(1.8%)	(1.8%)	(1.8%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Implied Non Food retail LFL (top down)	1.7%	(0.3%)	(1.0%)	(2.2%)	1.3%	0.1%	1.7%	0.6%	1.0%	1.0%	1.1%	1.0%
Reported/Forecast LFL (bottom up)	0.1%	(1.8%)	(1.9%)	(1.1%)	0.0%	1.6%	1.8%	1.7%	1.4%	1.5%		

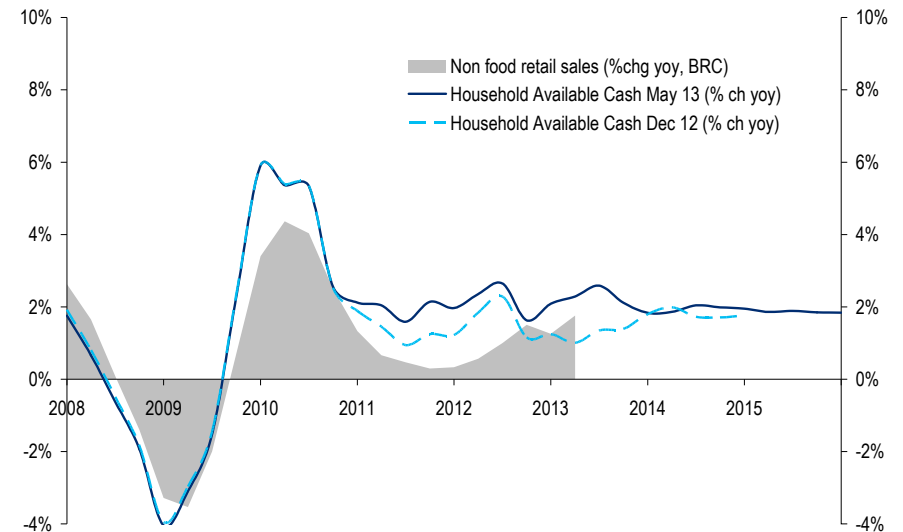
Source: Citi Research Estimates

Figure 22. Household Available Cash – Half-Yearly LFL



Source: ONS, Datastream, BRC and Citi Research Estimates

Figure 23. Household Available Cash (short run, 2008-15)



Source: ONS, Datastream, BRC and Citi Research Estimates

Summary of HAC gross earnings assumption changes in this report

Figure 24. Citi Research Household Available Cash – 2013 and 2014 Forecast Changes

	% ch yoy 2013	% ch yoy 2013	% ch yoy 2013	% ch yoy 2014	% ch yoy 2014	
% ch yoy 2012	Aug-12	Dec-12	May-13	Dec-12	May-13	Comment
Employment	-0.8%	+0.9%	+1.2%	+0.7%	+0.8%	Employment remained resilient
Average earnings	+1.6%	+1.8%	+1.3%	+1.6%	+1.7%	Rel stable inflation outlook
Base Rates (year-end)	0.5%	0.5%	0.5%	0.5%	0.5%	Unchanged
Food & Drink	+2.5%	+2.5%	+3.3%	+2.5%	+2.6%	Recent weakening of sterling
Savings Ratio	7.1%	7.0%	7.2%	+7.2%	7.1%	Deleveraging has not increased materially

Source: Citi Research Estimates

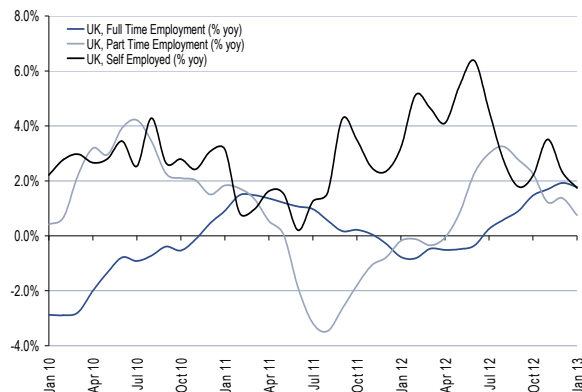
■ Employment; expected to rise +1.2% in 2013

In 2013, we derive a UK employment forecast of +1.2% (from +0.9%). In summary we assume that the UK public sector employment trends continue to decline c.-5%, offset by modest full-time employment progress and further increases in part-time and self-employed trends.

■ Average earnings; forecast to rise +1.3% in 2013

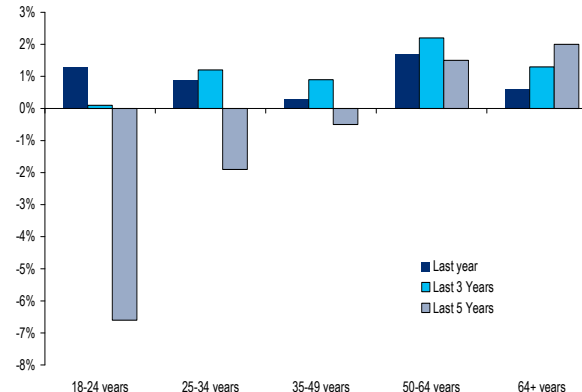
Average earnings have remained relatively stable at c.1.4% over the last 12 months and we expect the decline seen in March to be temporary. However, the mix affect of lower full time employment is not captured in these figures, which are essentially LFL. We expect this picture of +1-1.5% wage growth to persist in 2013 and to increase to around +1.7% in 2014.

Figure 25. UK Employment by Category (yoy %chg)



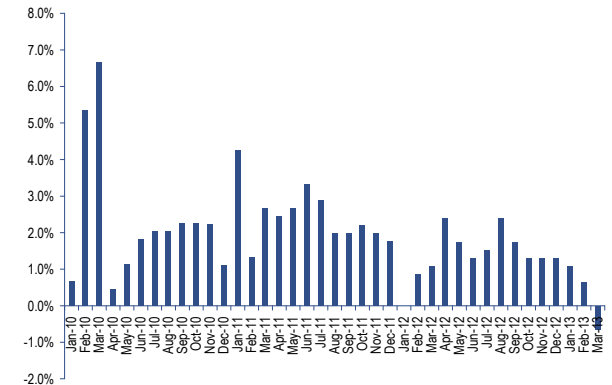
Source: DataStream, ONS and Citi Research

Figure 26. Change in UK Employment by Age, 2007-12



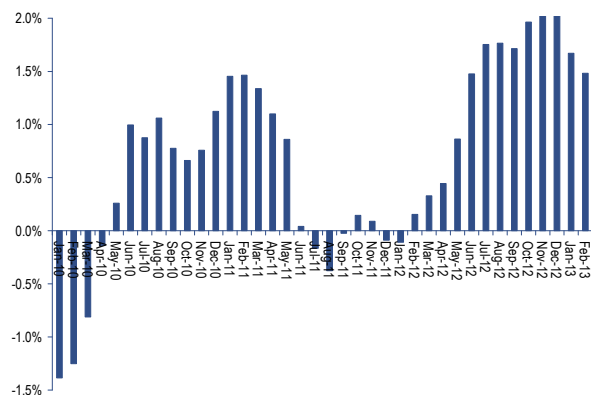
Source: DataStream, ONS and Citi Research

Figure 27. UK Weekly Earnings (%ch yoy)



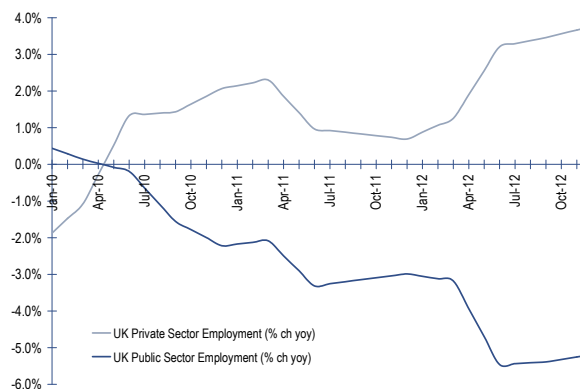
Source: DataStream, ONS and Citi Research

Figure 28. UK Employment (3m average % ch yoy)



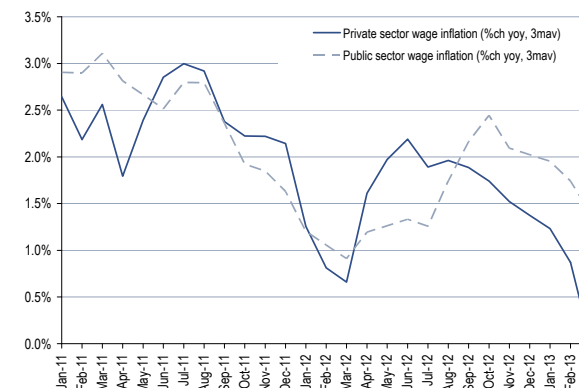
Source: LFS and Citi Research

Figure 29. UK Employment – Private vs Public Sector (% ch yoy)



Source: LFS and Citi Research

Figure 30. Public vs Private sector Wage Inflation (3 MAV)



Source: ONS, Datastream and Citi Research

■ Non-discretionary costs; +3.3% in 2013, slightly lower than 2012

We assume inflation in 2013 continues to reduce, albeit we have raised our forecast due to the recent weakening of sterling. We forecast Food & Drink spending will grow at c.3.3% in 2013. For Utilities, particularly electricity and gas, we have raised our inflation assumptions due to recent price increases to energy bills. We have lowered our insurance forecasts to -4% (from +2%) to reflect the reduction in costs seen in the second half of 2012.

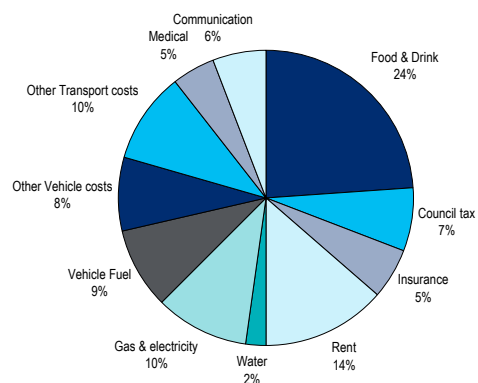
■ UK base rates; expected to remain unchanged in 2013

With the current low growth outlook and inflation now falling, we expect base rates to remain unchanged through 2013. With the MPC likely to schedule more quantitative easing (QE), our UK economist, Michael Saunders, does not see a base rate rise in the next 3 years.

■ Household debt reductions; rate of debt pay down was stable year on year in 2012, with more expected in 2013

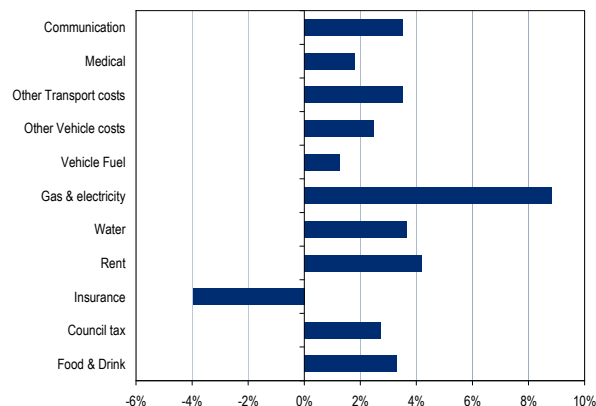
In line with our previous forecast, 2012 was a year when the UK consumer continued rather than accelerated debt pay-down activity. For this reason we have slightly lowered our pay-down forecast to £27bn in 2013 after £25bn in 2012 and 2011. In 2014, we forecast a mild acceleration to £28bn. For 2013E, this equates to a savings ratio of c.7.1%, in line with 2012.

Figure 31. Split of 2013E Non-discretionary Costs



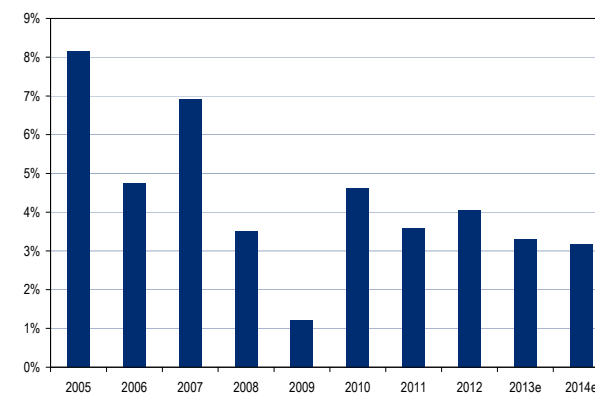
Source: Citi Research

Figure 32. Non-discretionary cost % Change, 2013E



Source: Citi Research

Figure 33. Non-discretionary Costs yoy Change



Source: Citi Research

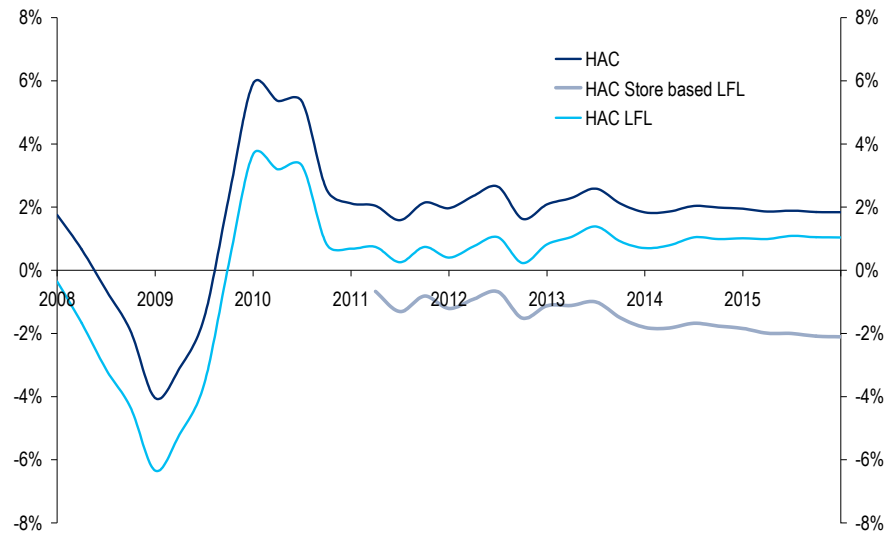
Our HAC forecast remains most sensitive to our 'Gross earnings' and 'Household debt' assumptions

Figure 34. HAC – Sensitivity Analysis

1% increase in:	Impact on 2013e HAC
Employment or Earnings growth	1.6%
Benefits income	0.6%
Food & Drink spend	-0.2%
Fuel & Utilities spend	-0.2%
Income tax	-0.3%
Savings Ratio	-1.5%
Deleverage by £10bn	-1.8%

Source: Citi Research

Figure 35. Household Available Cash with Implied Store LFL



Source: Citi Research

Using our HAC forecast for non-food retail sales, we can derive a total non-food retail LFL sales forecast by removing an assumed space contribution. Taking this one step further, and assuming that online was 15% of non-food retail sales in 2012 and will continue to grow at 15% p.a., we forecast that store-based LFL sales will continue to decline at 1-2% a year for the next three years.

After this time-horizon, we think store-based LFL is likely to decline further as online penetration grows.

We summarise our UK HAC forecast and assumptions in the table below

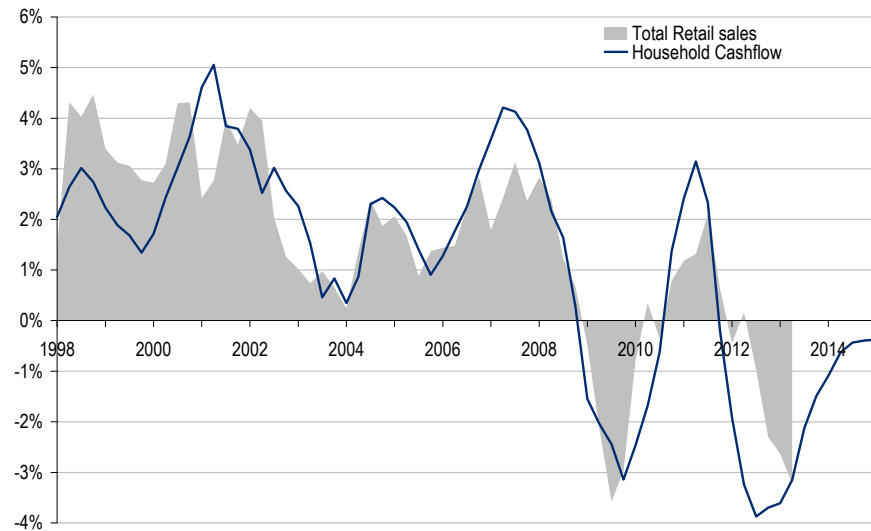
Figure 36. UK Household Available Cash – 2006-2015e

£m	2006	2007	2008	2009	2010	2011	2012	2013e	2014e	2015e
Gross earnings	748,373	794,778	811,588	788,580	811,741	842,453	873,406	895,103	918,070	940,104
- % ch yoy	4.6%	6.2%	2.1%	(2.8%)	2.9%	3.8%	3.7%	2.5%	2.6%	2.4%
State benefits	225,985	226,918	251,025	276,401	287,053	295,322	312,196	318,484	324,621	331,113
- % ch yoy	6.8%	0.4%	10.6%	10.1%	3.9%	2.9%	5.7%	2.0%	1.9%	2.0%
Income tax & NIC	(169,518)	(183,114)	(188,169)	(179,877)	(180,500)	(185,937)	(184,267)	(184,363)	(188,172)	(191,747)
- % ch yoy	43.7%	8.0%	2.8%	(4.4%)	0.3%	3.0%	(0.9%)	0.1%	2.1%	1.9%
- as % gross earnings	0.0%	0.0%	0.0%	(0.0%)	0.0%	0.0%	(0.0%)	0.0%	0.0%	0.0%
Other	68,667	72,691	57,988	75,041	89,418	89,276	74,202	80,485	86,124	91,195
- as % gross earnings	9.2%	9.1%	7.1%	9.5%	11.0%	10.6%	8.5%	9.0%	9.4%	9.7%
After Tax Earnings	873,507	911,273	932,432	960,145	1,007,712	1,041,114	1,075,537	1,109,710	1,140,643	1,170,666
- % ch yoy	4.0%	4.3%	2.3%	3.0%	5.0%	3.3%	3.3%	3.2%	2.8%	2.6%
Utility and Food Costs	(294,038)	(314,343)	(325,334)	(329,302)	(344,517)	(356,867)	(371,371)	(383,599)	(395,726)	(407,687)
- % ch yoy	4.8%	6.9%	3.5%	1.2%	4.6%	3.6%	4.1%	3.3%	3.2%	3.0%
Mortgage payments	(80,680)	(86,219)	(91,015)	(96,538)	(105,597)	(117,651)	(126,289)	(133,404)	(139,936)	(147,034)
- % ch yoy	4.2%	6.9%	5.6%	6.1%	9.4%	11.4%	7.3%	5.6%	4.9%	5.1%
Net Increase/(Decrease) in Household Debt	9,464	4,829	(5,874)	(23,820)	(24,880)	(25,919)	(25,059)	(26,968)	(28,053)	(28,233)
Non discretionary costs and change in debt	(365,254)	(395,733)	(422,223)	(449,660)	(474,994)	(500,437)	(522,719)	(543,970)	(563,715)	(582,955)
- % ch yoy	6.8%	8.3%	6.7%	6.5%	5.6%	5.4%	4.5%	4.1%	3.6%	3.4%
Total Discretionary Income	508,253	515,540	510,209	510,485	532,718	540,677	552,818	565,740	576,928	587,711
- % ch yoy	2.2%	1.4%	(1.0%)	0.1%	4.4%	1.5%	2.2%	2.3%	2.0%	1.9%
Less Space contribution	(2.6%)	(2.1%)	(2.4%)	(2.1%)	(1.9%)	(1.3%)	(1.5%)	(1.2%)	(1.0%)	(0.8%)
VAT				1.8%	(1.8%)	(1.8%)				
Implied Non Food Retail LFL (top down)	(0.4%)	(0.6%)	(3.5%)	(0.3%)	0.7%	(1.6%)	0.7%	1.1%	1.0%	1.1%
Reported/Forecast LFL (bottom up)	0.8%	(1.3%)	(5.7%)	(0.2%)	(0.9%)	(1.5%)	1.0%	1.6%	1.6%	na
Online Contribution						1.6%	1.7%	2.4%	2.7%	3.1%
Store based LFL						(3.2%)	(1.0%)	(1.3%)	(1.8%)	(2.0%)

Source: Citi Research Estimates

French General Retail – Demand Outlook

Figure 37. France – Non-food Retail Sales vs. Household Available Cash, 1998-2014e



Source: Banque de France and Citi Research

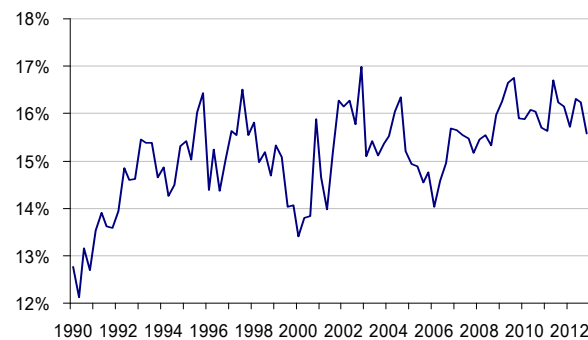
- The Citi Research forecast is for nominal disposable income to fade -0.3% in 2013, due primarily to a -0.4% employment forecast. Net of a savings ratio remaining at around 16%, this drives our French -3.0% 2013 LFL sales forecast agenda.

Figure 38. HAC and Key Economic Assumptions, 2012 – 2014e

	2012	2013E	2014E
Nominal disposable income	-0.7%	-0.3%	0.1%
Household credit	-2.9%	-1.6%	-0.6%
Household available cash	-3.6%	-2.0%	-0.5%
Space	-1.0%	-1.0%	-0.5%
Implied LFL	-4.6%	-3.0%	-1.0%
Key economic assumptions			
GDP	0.0%	-0.2%	0.2%
Employment	-0.2%	-0.4%	0.7%
Average earnings	2.0%	1.4%	1.2%
CPI	2.0%	1.0%	1.5%

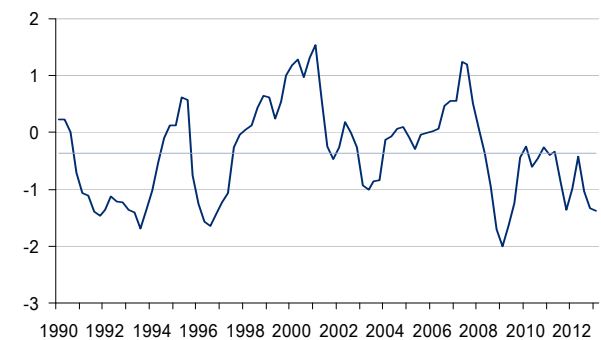
Source: Datastream and Citi Research Estimates

Figure 39. French Savings Ratio



Source: Datastream and Citi Research

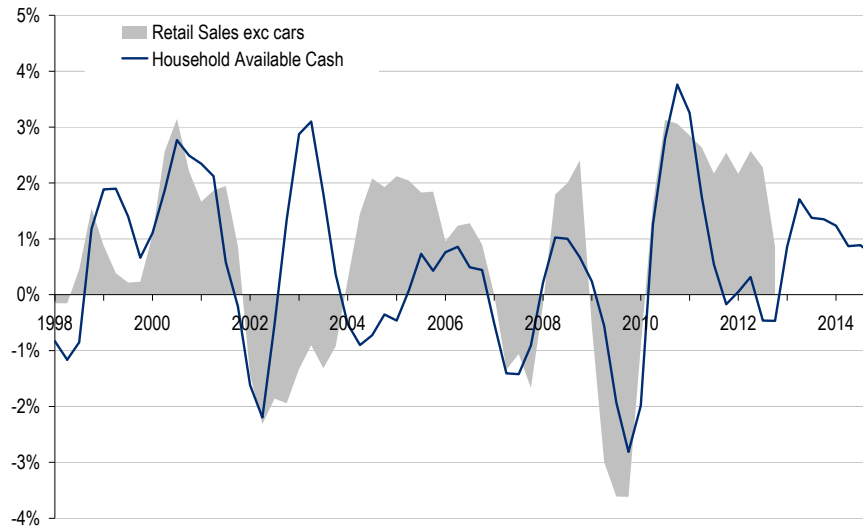
Figure 40. French Consumer Confidence



Source: Datastream and Citi Research

German General Retail – Demand Outlook

Figure 41. Germany – Non-food Retail Sales vs. Household Available Cash, 1998-2014e



Source: Datastream and Citi Research Estimates

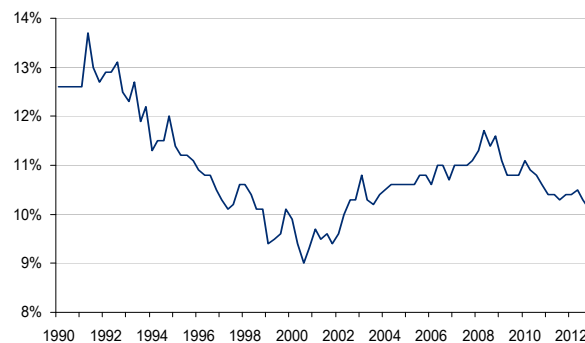
- Here, the combination of +2.9% nominal disposable income growth, combined with further tightening of consumer credit, drives our +0.3% 2013 German LFL sales forecast agenda.

Figure 42. HAC and Key Economic Assumptions, 2012 – 2014e

	2012	2013E	2014E
Nominal disposable income	1.7%	2.9%	2.8%
Household credit	-1.9%	-1.6%	-1.8%
Household available cash	-0.1%	1.3%	0.9%
Less space	-1.0%	-1.0%	-1.0%
Implied LFL	-1.1%	0.3%	-0.1%
Key economic assumptions			
GDP	0.9%	0.8%	0.8%
Employment	1.1%	0.3%	0.3%
Average Earnings	2.8%	3.2%	3.1%
CPI	2.0%	1.4%	2.1%

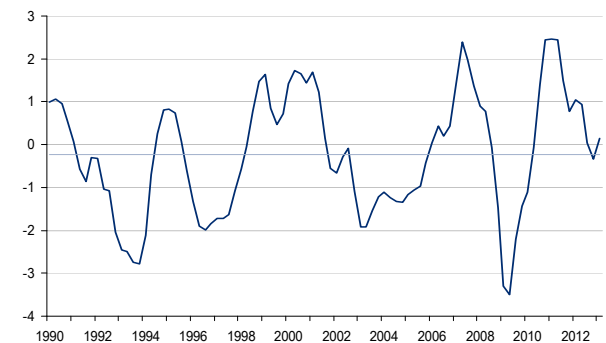
Source: Datastream and Citi Research Estimates

Figure 43. German Savings Ratio



Source: Datastream and Citi Research

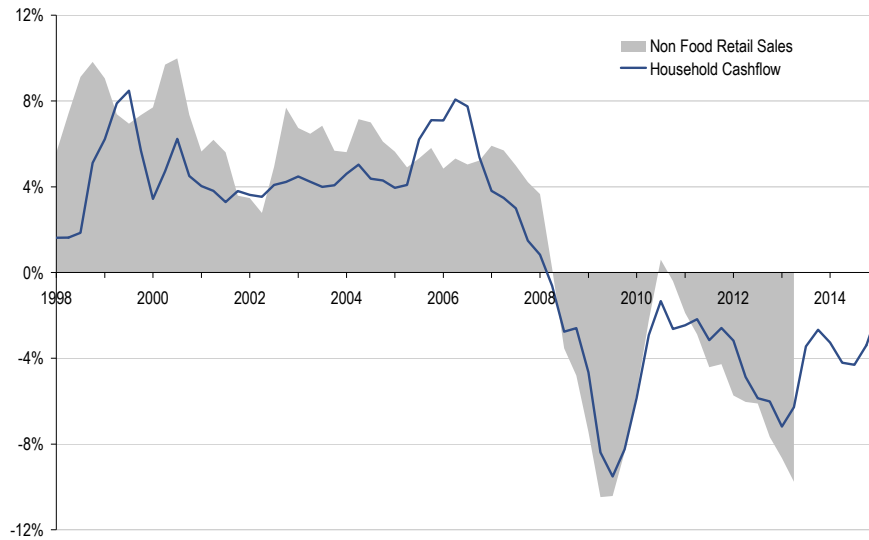
Figure 44. German Consumer Confidence



Source: Datastream and Citi Research

Spanish General Retail – Demand Outlook

Figure 45. Spain – Non-food Retail Sales vs. Household Available Cash, 1998-2014e



Source: Datastream, INE and Citi Research Estimates

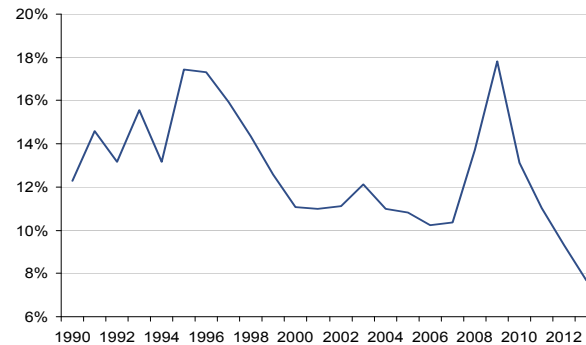
- The combination of our forecast of a further -2.8% employment decline in 2013 and continuing inflationary pressure drives our -4.4% 2013 Spanish LFL sales forecast agenda. This is not as weak as 2012, when the second half was especially weak, but any progress is likely to be weighted towards the back half of 2013, in our view.

Figure 46. HAC and Key Economic Assumptions, 2011 – 2014e

	2012E	2013E	2014E
Nominal disposable income	-7.6%	-4.7%	-2.7%
Household credit	1.6%	0.7%	-0.7%
Household available cash	-6.0%	-3.9%	-3.4%
Less space	0.0%	0.0%	0.0%
less VAT increase	-0.5%	-0.5%	0.0%
Implied LFL	-6.5%	-4.4%	-3.4%
Key economic assumptions	2012E	2013E	2014E
GDP	-1.4%	-2.2%	-2.1%
Employment	-4.5%	-2.8%	-2.0%
Wage growth	0.3%	-0.1%	0.0%
CPI	2.4%	1.6%	0.7%

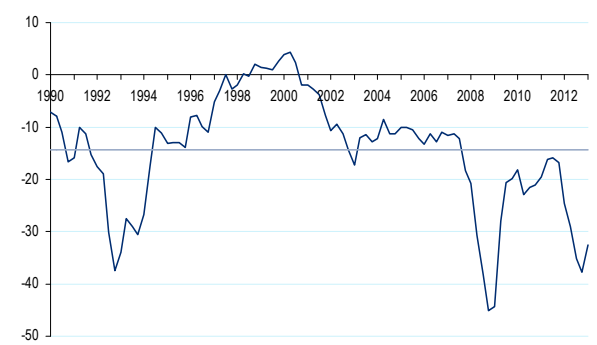
Source: Datastream and Citi Research Estimates

Figure 47. Spanish Savings Ratio



Source: Datastream and Citi Research

Figure 48. Spanish Consumer Confidence



Source: Datastream and Citi Research

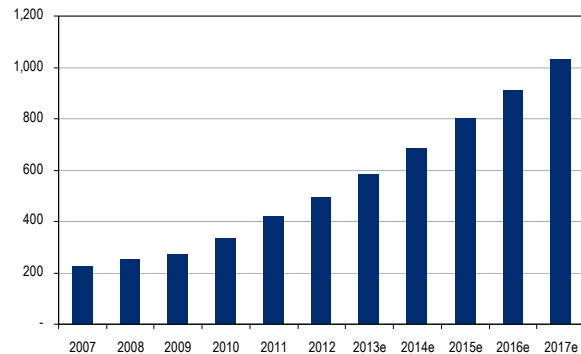


This page is intentionally left blank

Online Retail

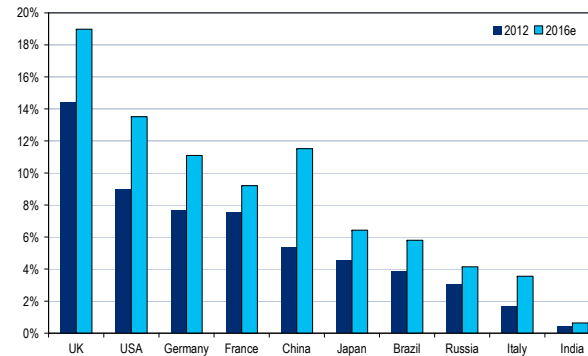
Globally online retail will change more in the next 5 years than it has in the last 25 years

Figure 49. Online Non-food Retail, Market Size, 2007–2017e (\$bn)



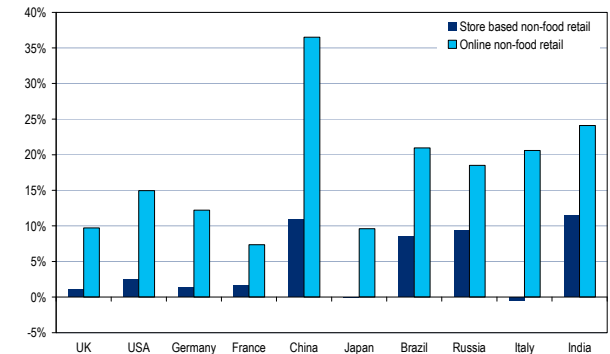
Source: Euromonitor International

Figure 50. Non-food Retail, Online Penetration



Source: Euromonitor International

Figure 51. Non-food Retail, Store and Online, 2012-2016e CAGR

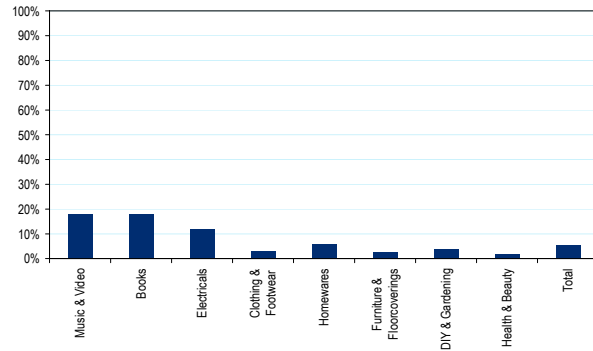


Source: Euromonitor International

The UK has the highest penetration of online retail in the world

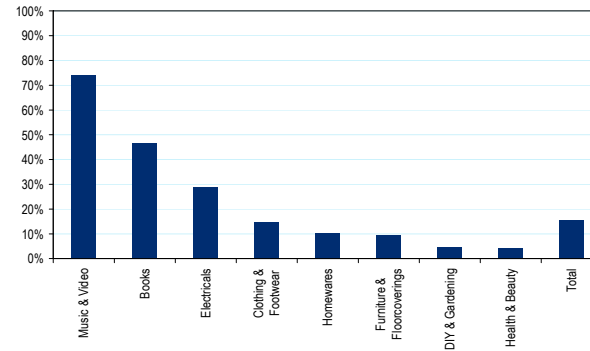
The UK serves as a test bed and case study for likely outcomes in other regions. If growth in UK is sustainable then we see no reason why it is not sustainable in other countries as they have lower penetration. We acknowledge that the relatively small size and advanced transport networks of the UK are an advantage but with continued development across global transport networks we do not see country size as a limiting factor to internet penetration, although it may affect growth rates.

Figure 52. UK – Online Sales Penetration by Category, 2006



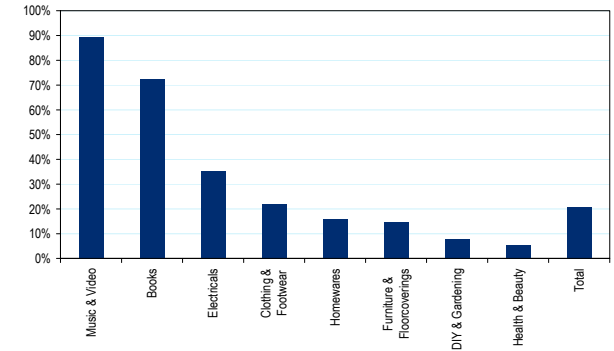
Source: Verdict

Figure 53. UK – Online Sales Penetration by Category, 2012



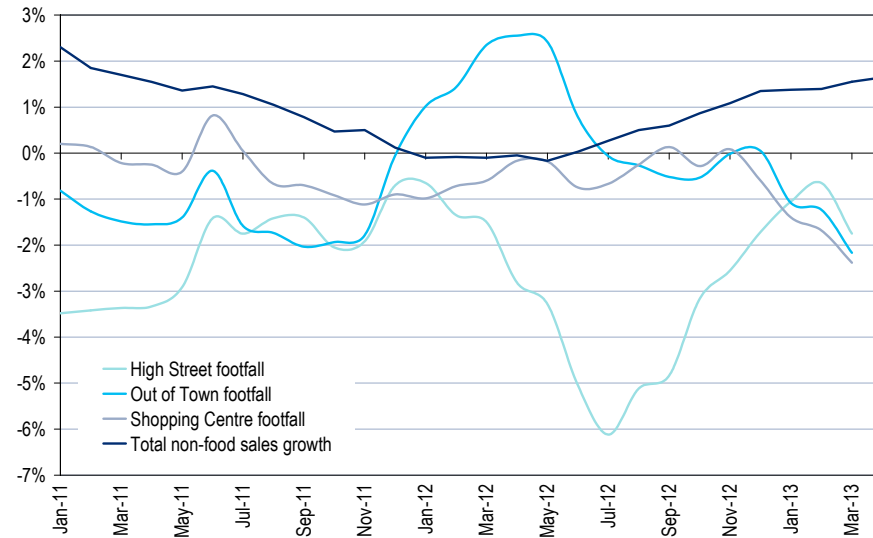
Source: Verdict

Figure 54. UK – Online Sales Penetration by Category, 2016e



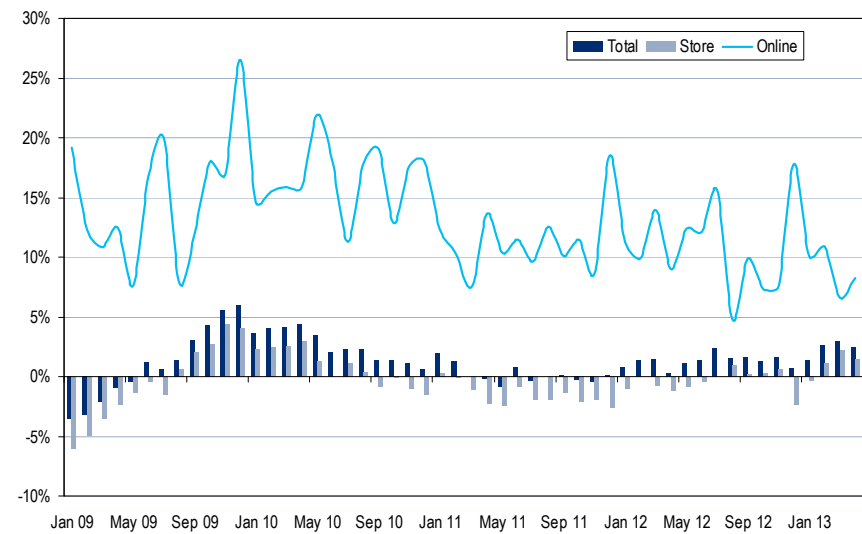
Source: Verdict and Citi Research Estimates

Figure 55. UK Shopper Footfall vs Total Sales Growth



Source: BRC and Citi Research

Figure 56. UK Non-food Retail Sales Growth vs Implied Store Sales Growth vs Online Sales Growth

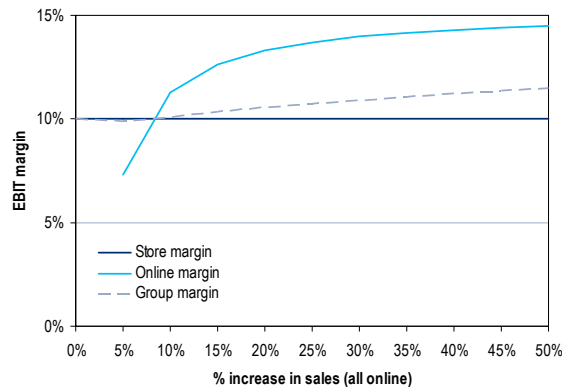


Source: BRC, Euromonitor International and Citi Research Estimates

Online sales are cannibalizing store-based sales and affecting profitability

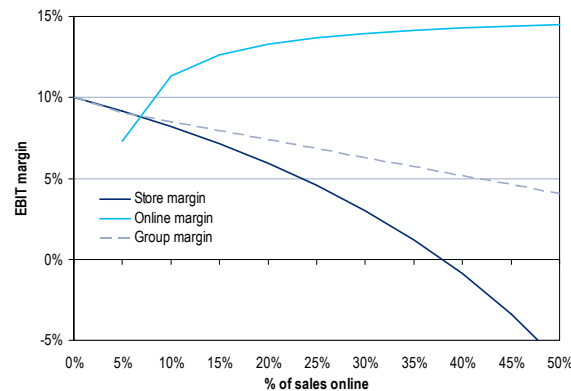
The migration of sales to online channels is creating a dynamic where retailers have to cover costs of online logistics while store-based costs remain. Whether retailers are getting a sales uplift from online or simply experiencing a shift in channel is relevant but profitability is affected in both cases.

Figure 57. Generic Example – Extra Sales Are Generated Online



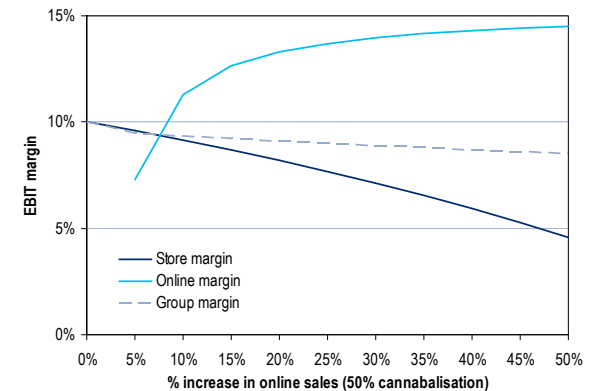
Source: Citi Research

Figure 58. Generic Example – Sales Migrate to Online



Source: Citi Research

Figure 59. Generic Example – Online Generates Extra Sales, 50% of Which Migrate from in Store



Source: Citi Research

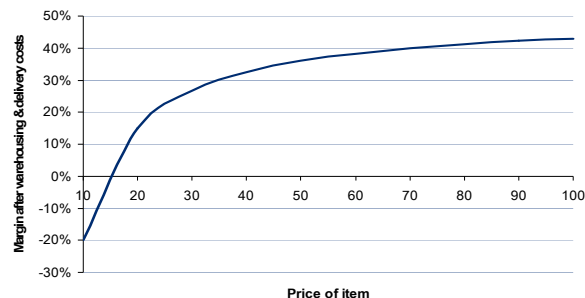
Online sales are incremental – In this bullish scenario, an established store-based retailer opens an online channel that generates extra sales for the group without any cannibalisation of the existing sales base. After online sales have reached a critical mass, this outcome generates margin enhancements across the group.

Online represents sales migration from stores – In this case, an established store-based retailer experiences a channel shift so that sales that were previously in store are purchased online without any uplift to total volumes. All store fixed costs remain in place, while some of the variable costs can be lowered due to the lower sales volumes. Here the de-leverage of the fixed costs sees store margin under intense pressure, trending to zero and below as sales migrate online. Even though the online margin is higher than the store average, this deleverage causes the total group EBIT margins to decline.

Online generates an extra sales channel, some sales migrate – In this scenario the retailer experiences a mixed effect from online. While the online channel does generate new sales, it also cannibalises some (50% in this case) of the existing sales base. This is likely to be the most relevant example and, although the level of online sales and cannibalisation will differ by retailer, we conclude that, even with a highly profitable online channel, the deleverage of the fixed cost of the stores makes it very challenging for a retailer to hold group EBIT margins

ASPs are an important driver of online profitability

Figure 60. Margin After Warehouse/Delivery Costs – Increasing Price of Single Item



Source: Citi Research

In addition to differing gross margin levels and scale economies, themes that impact both online and offline retailing, we conclude that the price of the goods is more important than the price of the basket in determining profitability for an online retailer. Due to the fixed costs that each item attracts in the picking, packing and delivery process, it is not possible to sell very cheap items profitably.

These dynamics highlight why some retailers have chosen not to use an online channel yet. In the UK the best example is Primark. Despite being one of the UK's largest clothing retailer by sales, Primark has no online presence as it believes the current economics make it unviable with the low-margin, low-ASP categories that it retails. A theme made more challenging if free delivery becomes the norm.

UK – At a profit tipping point?

Following the rapid growth of online sales in early adoption non-food retail markets (media products, electricals), clothing and footwear is the next most significant online retail market. Currently c.15% of sales are online and the market is growing rapidly at c.+15% p.a. From here, we expect the store-based sales cannibalization dynamics described above to begin to have significantly implications for clothing retail profitability (see below).

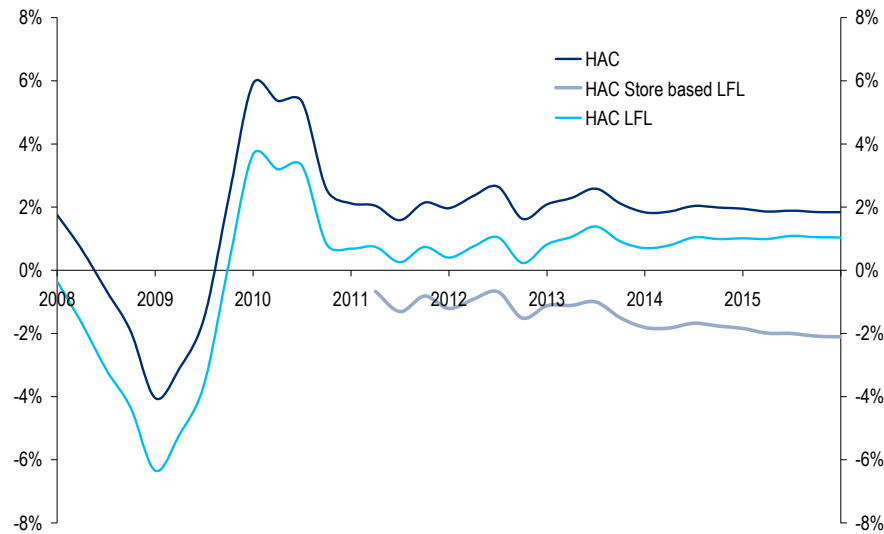
Figure 61. Summary - UK clothing profitability, by channel (2009-2012)

Nearest calendar year end	ASOS	N Brown	Debenhams	M&S UK	M&S - Gen Mer	Next	Sports Direct
Online sales penetration, 2012	100%	100%	10%	7%	16%	35%	15%
Online sales growth, 2009-2012 CAGR	42.5%	3.8%	65.7%	16.6%	16.6%	11.7%	80.6%
Online EBIT/sales, 2012	8.2%	13.4%	5.0%	7.0%	7.0%	25.3%	12.0%
Store-based sales penetration, 2012	Na	Na	90%	93%	84%	65%	85%
Store-based LFL sales growth, 2009-12	Na	Na	-4.8%	-0.2%	-3.2%	-4.6%	2.8%
Store-based LFL opex growth, 2009-12	Na	Na	-1.5%	-0.3%	na	-3.7%	-0.5%
Store-based EBIT/sales, 2012	Na	Na	7.1%	7.5%	13.9%	15.1%	11.0%
Online EBIT growth, 2009-12	56.0%	1.2%	183.3%	16.6%	Na	18.1%	127.5%
Store-based EBIT growth, 2009-12	Na	Na	-4.9%	0.5%	Na	0.7%	22.0%
Total EBIT growth, 2009-12	56.0%	1.2%	-2.5%	1.3%	Na	7.6%	28.1%
Total EBIT/sales delta, 2009-12	2.0%	-1.0%	-0.9%	-0.2%	Na	2.3%	2.9%

In the context of declining store-based LFL sales trends, Next has delivered the most impressive LFL operating expense improvements (LFL opex -3.7% p.a. 2009-12). Taken together with the strong growth of the high-margin Next Directory operation, this has driven group EBIT margins +230bp to 18.7% by calendar 2012, resulting in a +7.6% total EBIT 2009-12 EBIT CAGR, well ahead of the broadly flat UK EBIT trends at N Brown, Debenhams and M&S. However, the stand-out EBIT growth performances came from ASOS, Sports Direct and Inditex, which delivered impressive +56%, +28% and +22% 2009-12 EBIT CAGR trends, following both rapid sales growth and EBIT margin progress.

Source: Citi Research and Citi Research Estimates

Figure 62. Household Available Cash with Implied Store LFL



Source: Citi Research Estimates

Looking ahead, we forecast online sales penetration of 20-25% of UK retail sales at Debenhams, M&S (Gen Merch) and Sports Direct by 2015, and 40% of UK sales at Next. The latter assumes Next Directory sales trends slow to +7% p.a. from here. While we forecast continued store-based LFL sales progress at Sports Direct (c.+1% p.a.), the growing cannibalistic impact of online sales growth is forecast to drive Debenhams, M&S (Gen Merch) and Next store-based LFL sales of -0.5%, -2.1% and -2.5%, respectively.

As referenced above, using our HAC forecast for non-food retail sales, we can derive a total non-food retail LFL and non-food store-based LFL sales forecast. The latter is expected to continue to decline at 1-2% a year for the next three years.

Figure 63. Summary - UK Clothing Profitability, by Channel (2012-2015E)

Nearest calendar year end	ASOS	N Brown	Debenhams	M&S UK	M&S - Gen Mer	Next	Sports Direct
Online sales penetration, 2015E	100%	100%	20%	10%	23%	40%	24%
Online sales growth, 2012-2015E CAGR	28.5%	4.7%	30.7%	15.7%	15.7%	7.0%	26.5%
Online EBIT/sales, 2015E	7.9%	13.4%	9.0%	9.0%	9.0%	25.9%	11.1%
Store-based sales penetration, 2015E	Na	Na	80%	90%	77%	60%	76%
Store-based LFL sales growth, 2012-15E	Na	Na	-0.5%	0.1%	-2.1%	-2.5%	0.8%
Store-based LFL opex growth, 2012-15E	Na	Na	1.1%	0.5%	-2.3%	-1.8%	1.0%
Store-based EBIT/sales, 2015E	Na	Na	5.3%	7.8%	15.5%	14.3%	11.1%
Online EBIT growth, 2012-15E	26.5%	4.8%	58.8%	25.0%	25.0%	7.9%	36.3%
Store-based EBIT growth, 2012-15E	Na	Na	-9.0%	2.7%	2.5%	-1.4%	4.7%
Total EBIT growth, 2012-15E	26.5%	4.8%	-0.2%	4.5%	4.9%	3.2%	11.0%
Total EBIT/sales delta, 2012-15E	-0.4%	0.0%	-0.8%	0.4%	1.2%	0.2%	0.9%

To cope with the adverse-gearing effect of this on store-based EBIT margins, we argue that both M&S (Gen Merch) and Next should be capable of a further c.-2% LFL opex reduction p.a. 2012-15E, driving relatively stable store-based EBIT trends and c.3-5% EBIT growth from both businesses. Elsewhere, given the heavy opex reduction programmes undertaken while owned by private equity, we fear that Debenhams will have less scope for further opex reductions, and assume store-based LFL opex rises at c.+1% p.a. 2012-12E. Taken in combination with our -0.5% store-based LFL sales forecast, we derive a -9% p.a. Debenhams store-based EBIT forecast. Notably, we believe that this should be offset by the group's rapid online sales growth trajectory, driving a flat 2012-15E UK EBIT pattern.

Source: Citi Research and Citi Research Estimates

Retail Sub-Sector Themes

European Clothing Retail

Figure 64. UK, H&M and Inditex – Gross Margin Drivers, 2011-13e

	2011				2012E				2013E			
	UK	H&M	Inditex	adidas	UK	H&M	Inditex	adidas	UK	H&M	Inditex	adidas
Product cost inflation	8.1%	9.2%	5.6%	4.6%	-2.2%	-1.9%	-0.4%	-0.3%	0.1%	-0.9%	0.4%	-0.9%
Currency	-0.6%	4.1%	1.5%	-1.6%	-0.1%	-0.6%	0.3%	-2.5%	-0.2%	2.0%	1.1%	2.0%
Net inflation (local ccy)	7.5%	13.3%	7.1%	3.0%	-2.2%	-2.4%	-0.2%	-2.8%	0.0%	1.1%	1.6%	1.1%
Implied GM delta (bps)	-335	-530	-295	-150	100	100	-5	140	5	-45	-55	-55
Forecast GM delta (bps)	15	-280	-5	-20	15	-60	60	20	0	-20	-30	80
Implied out/(under)-performance	350	250	290	125	-85	-160	65	-125	-5	25	25	140

Source: Company Reports and Citi Research

Figure 65. Clothing, Sourcing: UK vs Europe

	UK	H&M	Inditex	adidas
Asian sourcing	67%	75%	33%	100%
Cotton as a % of COGS	17%	20%	10%	15%
Gross margin	55%	60%	58%	50%

Source: Company Reports and Citi Research Estimates

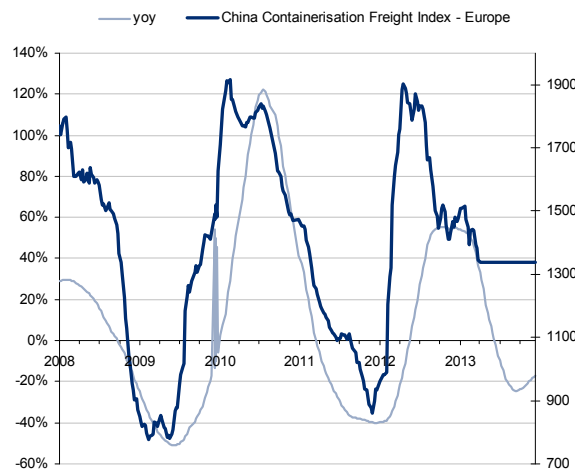
For the European clothing retailers, we have updated our analysis of input costs (cotton price, freight costs, wage inflation and currencies) to understand the theoretical movements in gross margin for the UK clothing retailers, as well as H&M, Inditex and adidas. Our conclusions are summarised above, but in general we conclude that 2013 gross margin dynamics are broadly neutral for UK apparel retailers, with a modest headwind for the primarily € sales based retailers (H&M, Inditex and adidas). Notably, the material impact of product, geographical and channel mix effects are still expected to drive c.+80bp achieved gross margin progress at adidas.

Figure 66. Chinese Cotton Price



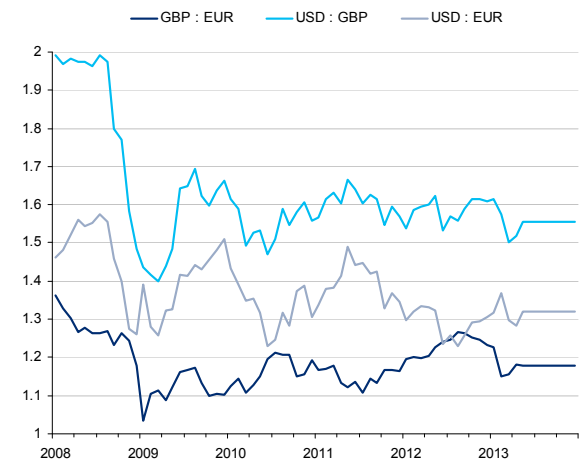
Source: Citi Research, DataStream

Figure 67. China Container Freight Index



Source: Citi Research, DataStream

Figure 68. Exchange Rates



Source: Citi Research, DataStream

UK Clothing Retail Gross Margin Drivers

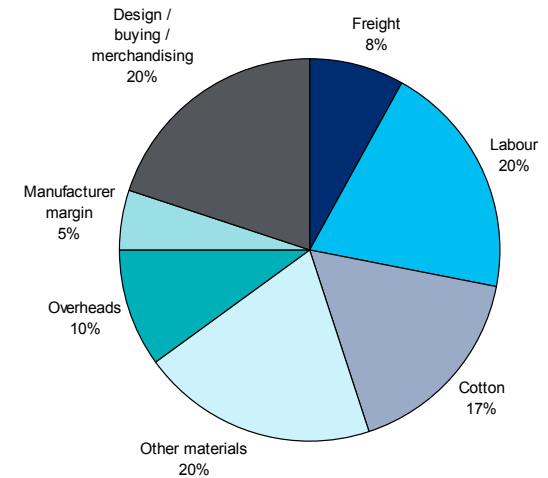
Following the fade in cotton prices and freight cost inflation, we forecast broadly stable gross margins for the UK clothing retailers in 2013.

Figure 69. Gross Margin Drivers for a Typical UK Clothing Retailer, 2010-2013e

		1H 10	2H 10	FY 10	1H 11	2H 11	FY 11	1H 12	2H 12e	FY 12e	1H 13e	2H 13e	FY 13e
Freight	8	-12.0%	62.9%	25.5%	33.4%	-0.2%	16.6%	-11.5%	4.6%	-3.5%	27.1%	-2.2%	12.5%
Labour	20	0.0%	3.0%	1.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Cotton	12	3.2%	28.4%	15.8%	46.8%	56.0%	51.4%	7.6%	-49.3%	-20.9%	-28.9%	4.4%	-12.2%
Other materials	25	0.0%	0.0%	0.0%	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%	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%	0.0%	0.0%	0.0%
Design / buying / merchandising	20	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Inflation at constant currency	100	-0.6%	9.0%	4.2%	8.9%	7.3%	8.1%	0.6%	-4.9%	-2.2%	-0.7%	1.0%	0.1%
Currency													
- dollar / gbp		3.4%	-2.9%	0.3%	3.2%	-3.1%	0.0%	-1.0%	1.2%	0.1%	0.0%	1.0%	0.5%
- euro / gbp		2.3%	-0.7%	0.8%	-1.1%	-0.2%	-0.6%	0.8%	-1.2%	-0.2%	-1.9%	0.6%	-0.7%
Inflation		5.2%	5.4%	5.3%	11.0%	4.0%	7.5%	0.4%	-4.9%	-2.2%	-2.6%	2.6%	0.0%
Implied GM delta (bps)		-230	-240	-235	-490	-180	-335	-20	220	100	120	-110	5
Achieved / Forecast GM delta (bps)		50	20	35	0	30	15	0	30	15	60	-60	0
Implied out/(under)-performance		280	260	270	490	210	350	20	-190	-85	-60	50	-5

Source: Citi Research

Figure 70. Typical COGS Split for a Clothing Retailer



Source: Citi Research

H&M Gross Margin Drivers

For H&M, while we forecast a modest ex-currency COGS decline in 2013, the recent Euro/US\$ weakness argues for c.+1.1% COGS inflation in 2013, equivalent to a -50bp bought-in gross margin decline. While H&M is typically capable of offsetting much of this (through negotiation, product mix, supplier allocation) we still fear 2013 could see approaching -20bp H&M bought-in gross margin headwind. Notably, this analysis assumes the US\$/€ remains c. 1.32.

Figure 71. H&M - Gross Margin Drivers, 2010-2013e

		1H 10	2H 10	FY 10	1H 11	2H 11	FY 11	1H 12	2H 12e	FY 12e	1H 13e	2H 13e	FY 13e
Freight	8	-13.9%	30.8%	8.5%	16.6%	1.0%	8.8%	-3.6%	16.0%	6.2%	13.3%	-8.1%	2.6%
Labour	20	0.0%	3.8%	1.9%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Cotton	15	3.2%	28.4%	15.8%	46.8%	56.0%	51.4%	7.6%	-49.3%	-20.9%	-28.9%	4.4%	-12.2%
Other materials	27	0.0%	0.0%	0.0%	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%	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%	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%	0.0%	0.0%	0.0%
	100	-0.6%	7.5%	3.4%	9.1%	9.2%	9.2%	1.6%	-5.4%	-1.9%	-2.5%	0.8%	-0.9%
Currency													
- dollar / euro		1.0%	-4.5%	-1.7%	7.8%	0.4%	4.1%	-4.8%	2.6%	-1.1%	3.8%	0.2%	2.0%
- euro / gbp		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Inflation		0.4%	3.0%	1.7%	16.9%	9.6%	13.3%	-3.2%	-2.7%	-3.0%	1.2%	1.0%	1.1%
Implied gross margin delta (bps)		-20	-120	-70	-680	-380	-530	130	110	120	-50	-40	-45
Achieved / Forecast gross margin delta (bps)		500	-225	130	-410	-160	-280	-90	-20	-60	-50	0	-20
Implied out/(under)-performance		520	-105	200	270	220	250	-220	-130	-180	0	40	25

Source: Company Reports and Citi Research Estimates

Inditex Gross Margin Drivers

At Inditex, we argue that the lower US\$ sourcing exposure (c.33% vs. H&M at 70-80%) and greater pricing power should be sufficient to offset the weak € driven 2013 bought-in gross margin headwind. Hence product mix effects are the primary driver of our -27bp calendar 2013E gross margin delta.

Figure 72. Inditex - Gross Margin Drivers, 2010-2013e

		1H 10	2H 10	Cal 10	1H 11	2H 11	Cal 11	1H 12	2H 12e	Cal 12e	1H 13e	2H 13e	Cal 13e
Freight	8	-13.9%	30.8%	8.5%	16.6%	1.0%	8.8%	-3.6%	16.0%	6.2%	15.0%	1.6%	8.3%
Labour	20	0.0%	3.8%	1.9%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Cotton	10	3.2%	28.4%	15.8%	46.8%	56.0%	51.4%	7.6%	-49.3%	-20.9%	-28.9%	4.4%	-12.2%
Other materials	32	0.0%	0.0%	0.0%	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%	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%	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%	0.0%	0.0%	0.0%
	100	-0.9%	5.5%	2.3%	5.8%	5.3%	5.6%	1.1%	-1.9%	-0.4%	-0.4%	1.2%	0.4%
Currency													
- dollar / euro		-1.3%	-0.4%	-0.9%	5.2%	-2.2%	1.5%	-1.4%	2.0%	0.3%	2.5%	-0.3%	1.1%
- euro / gbp		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Inflation		-2.2%	5.0%	1.4%	11.0%	3.1%	7.1%	-0.4%	0.1%	-0.2%	2.2%	1.0%	1.6%
Implied gross margin delta (bps)		90	-210	-60	-460	-130	-295	50	-60	-5	-70	-40	-55
Achieved / Forecast gross margin delta (bps)		400	70	215	-100	90	0	120	10	60	-52	-2	-27
Implied out/(under)-performance		310	280	275	360	220	295	56	70	65	18	38	28

Source: Company Reports and Citi Research Estimates

adidas Gross Margin Drivers

While adidas sources almost entirely in US\$, Europe is 30% of its sales mix and hence the recent € weakness vs. the US\$ has less impact than at other major European US\$-sourced apparel retailers (eg H&M), a conclusion also helped by the group's pricing power. In addition, the recent declines in rubber, polyester and cotton prices should more than offset higher freight costs, helping to reduce the recent adverse currency movements. Taken together with geographical mix effects, ASP inflation and some Reebok gross margin recovery, we forecast modest (+80bp) adidas gross margin progress in 2013.

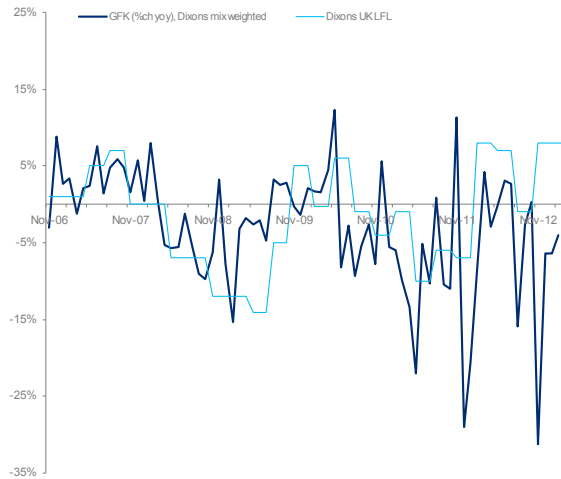
Figure 73. adidas - Gross Margin Drivers, 2010-2013e

		1H 10	2H 10	FY 10	1H 11	2H 11	FY 11	1H 12	2H 12e	FY 12e	1H 13e	2H 13e	FY 13e
Freight	5	-9%	13%	2%	16%	-2%	7%	-9%	0%	-4%	5%	12%	9%
Labour	15	0%	5%	3%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Cotton	15	3%	28%	16%	47%	56%	51%	8%	-28%	-10%	-6%	-1%	-4%
Polyester	10	-6%	36%	15%	18%	41%	29%	26%	-14%	6%	-15%	1%	-7%
Rubber	13	-15%	92%	39%	50%	50%	50%	17%	-28%	-6%	-32%	-20%	-26%
Other materials	27	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%
Manufacturer margin	5	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Theoretical inflation	100	-2.5%	21.5%	9.5%	17.0%	19.7%	18.4%	6.4%	-8.6%	-1.1%	-5.7%	-1.4%	-3.5%
Bought in inflation		-0.6%	5.4%	2.4%	4.2%	4.9%	4.6%	1.6%	-2.2%	-0.3%	-1.4%	-0.3%	-0.9%
Currency		5.4%	4.4%	4.9%	-2.5%	-0.8%	-1.6%	-1.3%	-3.7%	-2.5%	0.3%	3.7%	2.0%
Inflation		4.8%	9.8%	7.3%	1.7%	4.2%	3.0%	0.3%	-5.8%	-2.8%	-1.1%	3.4%	1.1%
Implied gross margin delta (bps)		-240	-490	-365	-90	-210	-150	-10	290	140	60	-170	-55
Achieved / Forecast Group gm% delta (bps)		370	120	240	0	-50	-20	-80	110	20	190	-20	80
Implied out/(under)-performance		610	610	610	90	160	125	-70	-180	-125	130	150	140

Source: Company Reports and Citi Research Estimates

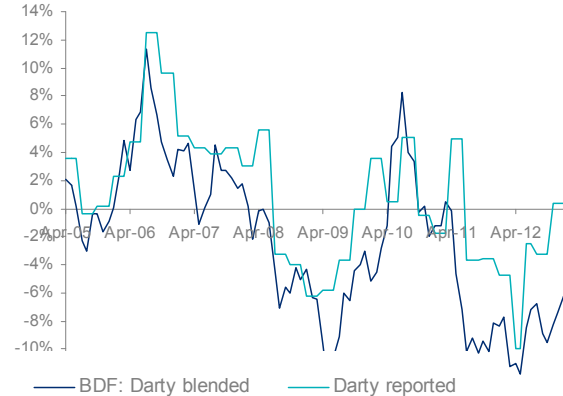
European Electricals

Figure 74. UK Electrical Market Growth vs Dixons UK LFL



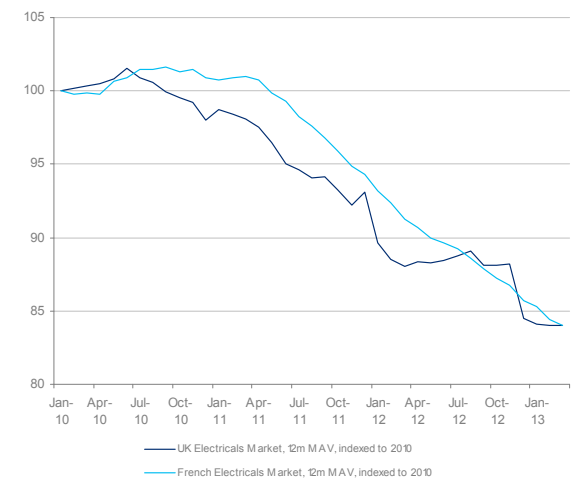
Source: Company Reports, GfK and Citi Research Estimates

Figure 75. France Electrical Market Growth vs Darty LFL



Source: Company Reports, BDF and Citi Research Estimates

Figure 76. Rolling 12-Month MAV Industry Sales, Indexed to 2010



Source: Company Reports and Citi Research Estimates

Over-capacity – but signs of improvement for incumbents

This in general remains a category under pressure. Some signs of over-capacity are still present, compounded by historical incursion by food retailers into non-food and high online penetration within the consumer electronics space. The UK continues to lead penetration in Europe, where online electrical sales are now approaching 30% (Verdict). We have in the last 6-12 months seen some exit of capacity, most recently by the administration of Comet, Best Buy UK exiting the market and the administration of Game Group. Dixons is still progressing with its plan to reduce its UK store estate from c.498 (ex Ireland and Dixons Travel) stores to between 400 and 420 outlets over time.

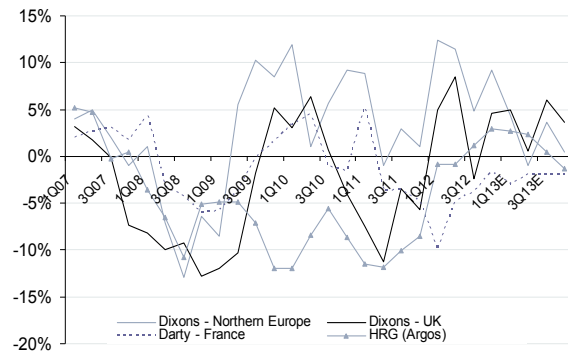
UK market performance mixed, France still weak

The UK performance since the beginning of the year has been mixed, with ongoing weakness in brown goods offset by a robust performance in white goods. Within brown goods, category performance has been driven largely by the strength of the current technology cycle in tablets. Market share gains from the demise of Comet are notably showing up strongest in Dixons, which reported Q4 UK LFL of +13%. French consumer electronic sales remain weak, down 9% in the last three months (to March), according to Banque De France, although Darty has been performing ahead of this (given its white goods exposure). Given ongoing macro headwinds in France, we do not expect any material improvement in this trend near term.

Dixons putting pure-play and stores under renewed pricing pressure in the UK?

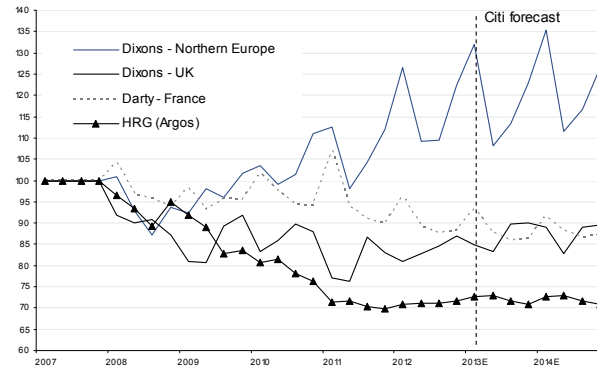
Dixons' recent results continue to highlight the extent to which the UK business has been narrowing its product pricing differential against the pure online players across both white and brown goods. As Figure 81 shows, while this has allowed Dixons UK to be more competitive on price, we believe it also acting as a disruptive force to existing store-based retailers, who, as the chart shows, have been reducing their own electricals product pricing in response, potentially at the risk of impacting gross margins.

Figure 77. Electricals LFL Gross Profit Trends (Calendarised)



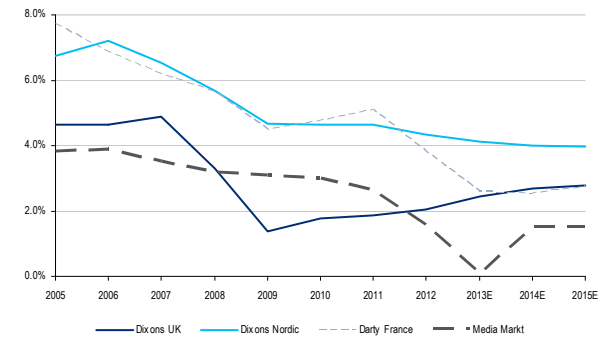
Source: Company Reports and Citi Research Estimates

Figure 78. Electricals LFL Gross Profit Rebased to 2007



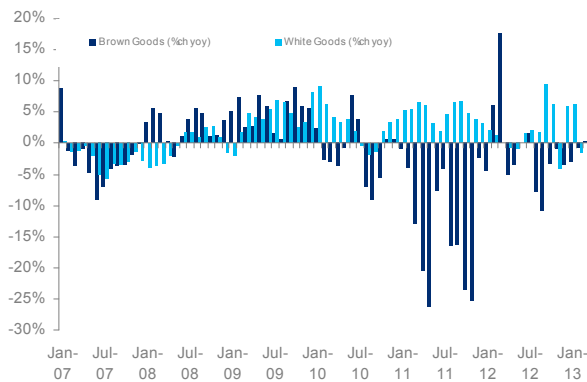
Source: Company Reports and Citi Research Estimates

Figure 79. Operating Margins, 2005-2015e



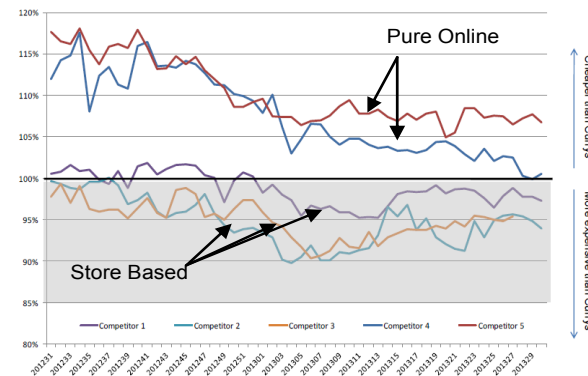
Source: Company Reports and Citi Research Estimates

Figure 80. UK ASP yoy% Trends (White and Brown Goods). ASP Inflation in White Goods Has Helped Offset Weakness in Brown



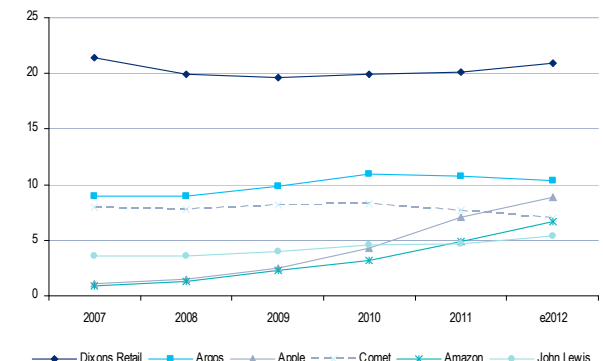
Source: GfK

Figure 81. Dixons Is Narrowing Its Price Gap Between Both Pure Online and In-store Competitors in the UK



Source: Company Reports

Figure 82. Electrical Retailers Market Share - Comet Administration - c£1.1bn Sales Support to Incumbents



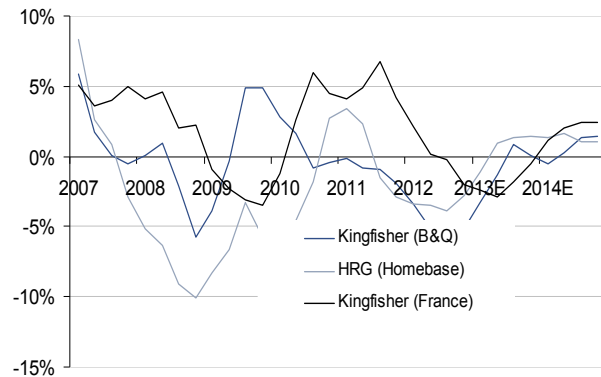
Source: Verdict

Remain cautious – but add Dixons to Buy list

Consistent with our cautious approach to this retail sub-sector, we continue to have a net underweight stance on the European Electrical retailers: Home Retail Group (Sell), Darty (Sell) and Dixons (Buy) – of these Dixons is the only one where the operating margin trend (UK) has seen improvement over the last three reported years and is potentially the largest beneficiary from the administration of Comet, in our view, alongside strong supplier support. We continue to regard Carphone Warehouse (Buy) as more of a special situation, given its focus on higher-growth categories (smartphones, tablets).

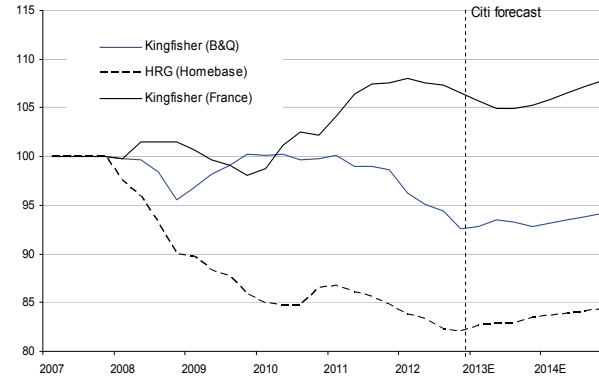
European DIY

Figure 83. DIY LFL Gross Profit Trends (Cal Years 2008-14e)



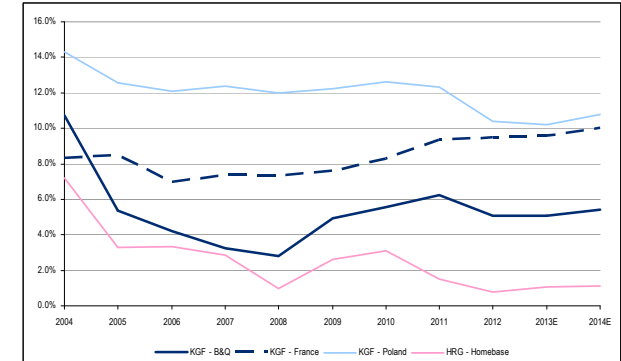
Source: Company Reports and Citi Research Estimates

Figure 84. DIY LFL Gross Profit Rebased to 2008



Source: Company Reports and Citi Research Estimates

Figure 85. DIY Operating Margins, 2005-15E



Source: Company Reports and Citi Research Estimates

DIY has remained relatively stable since 2008. This is supported through the analysis of LFL gross profit trends (a combination of LFL sales and gross margin movements, yoy), as shown in Figure 83 and Figure 84. The one exception here is within the UK, with the sharp deterioration suffered by Homebase in 2008 and 2009 as it repositioned its price architecture relative to B&Q.

We expect some improvement in UK trends in H2 2013. Looking past the softer 2012 trading period (KGF UK LFL -5.6%) for the retailers, which saw LFLs heavily weather-impacted and some gross margin pressure due to additional clearance, particularly in H1, and then muted demand trends in H2, we expect 2013 to be more constructive given the weaker comparatives and our view of stable yoy household cashflows. We expect some gross margin progression at B&Q and flat gross margins at Homebase, and still expect medium-term outperformance at Kingfisher, given direct sourcing and common product initiatives.

Within France, we expect the market to remain concerned about the macro-economic impact on Kingfisher France in the near term. While most of the DIY-related indicators held up reasonably well through 2012, Q1 2013 has seen further softening in a number of indicators including a weaker performance in French Banque De France DIY sales as well as housing- and construction-related indicators in France. We expect this to have some drag on Kingfisher's French LFL but would note that DIY in France tends to be more defensive vs other discretionary sub-sectors (such as Electricals) and that Kingfisher France has tended to outperform the French DIY market on average by about 100bp.

Kingfisher remains one of our top picks in the sector (Buy, TP 385p)

We continue to believe that longer term Kingfisher should be the beneficiary of strong market positions, material efficiency gains primarily from direct sourcing initiatives and International space growth, all underpinned by a strong balance sheet and management team. We maintain our Buy rating, given prospects on our forecast agenda still for 10% EPS growth in FY 2014E and FY 2015E, potential further cost savings within the French business and ongoing profit progression within the UK.



This page is intentionally left blank

UK Aggregation

Sector Profit Aggregation

At our previous aggregation update, in December, we forecast 2012 LFL sales of -0.2% with +30bps gross margin progress and +3.3% EBIT growth. Based on reported results and updated forecasts, our LFL sales aggregation has grown to +1.0% but notably our EBIT growth has moved up only marginally with the aggregation implying +3.8% EBIT growth for 2012. This forecast shape change has been driven by a -10bps decline in gross margin (from +30bps) with notable downgrades at Debenhams, Dixons and Sports Direct, with underlying cost growth of +0.4% (from +0.2%) driven by increased costs at Debenhams and Sports Direct offset by better cost control at M&S.

On the back of the above UK consumer analysis, we derive +5.0% and +4.4% 2013E and 2014E UK EBIT growth forecasts, from +4.5% and +4.9% previously. For 2013, we modestly raise our UK aggregate LFL sales forecast to +1.6% (from +1.3%) and maintain our gross margin delta forecast at flat, due primarily to forecast gross margin improvements at M&S, Kingfisher and WH Smith this year being offset by declines at Dixons and Home Retail. Within this 2013 LFL sales forecast, Dixons, Argos, Debenhams and Sports Direct are the main drivers of a positive LFL forecast, offset mainly by WH Smith's High Street operation and B&Q. Alongside this, we forecast a +130bp increase in the UK sector's LFL cost base driven by the de-leverage of the fixed store costs from the growing penetration of the online channel.

Figure 86. UK Divisional Aggregation

Calendar Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Sales	36,720	38,665	40,091	40,543	41,574	32,439	31,593	32,305	32,325	32,491	33,289	34,190	35,011
% Change	8.6%	5.3%	3.7%	1.1%	2.5%	2.4%	-2.6%	2.3%	0.1%	0.5%	2.5%	2.7%	2.4%
Space contribution	4.8%	3.2%	3.1%	3.6%	1.8%	3.7%	3.1%	2.5%	1.0%	2.0%	1.5%	1.1%	0.8%
LFL	3.8%	2.1%	0.6%	-2.5%	0.8%	-1.3%	-5.7%	-0.2%	-0.9%	-1.5%	1.0%	1.6%	1.6%
Gross profit	14,290	15,223	15,835	16,270	16,846	13,291	12,910	13,288	13,431	13,500	13,799	14,189	14,563
Gross margin	38.9%	39.4%	39.5%	40.1%	40.5%	41.0%	40.9%	41.1%	41.6%	41.5%	41.5%	41.5%	41.6%
Gross Margin change (%)		0.5%	0.1%	0.6%	0.4%	0.2%	-0.1%	0.3%	0.4%	0.0%	-0.1%	0.0%	0.1%
Costs	11,170	11,932	12,614	13,318	13,814	10,557	10,784	10,940	10,991	11,152	11,362	11,629	11,892
% Change		6.8%	5.7%	5.6%	3.7%	4.2%	2.2%	1.4%	0.5%	1.5%	1.9%	2.4%	2.3%
Underlying cost growth		3.6%	2.6%	2.0%	1.9%	0.5%	-0.9%	-1.0%	-0.5%	-0.6%	0.4%	1.3%	1.5%
% of sales	30.4%	30.9%	31.5%	32.8%	33.2%	32.5%	34.1%	33.9%	34.0%	34.3%	34.1%	34.0%	34.0%
EBIT	3,120	3,291	3,221	2,951	3,032	2,734	2,125	2,348	2,440	2,348	2,436	2,559	2,671
% EBIT growth		5.5%	-2.1%	-8.4%	2.7%	-2.2%	-22.3%	10.5%	3.9%	-3.8%	3.8%	5.0%	4.4%
% EBIT margin	8.5%	8.5%	8.0%	7.3%	7.3%	8.4%	6.7%	7.3%	7.5%	7.2%	7.3%	7.5%	7.6%
LFL Gross profit %		3.3%	0.9%	-0.9%	1.7%	-0.9%	-6.0%	0.4%	0.1%	-1.5%	0.8%	1.5%	2.0%
EBIT Indexed	100	111	115	110	117	115	89	98	102	98	102	107	112

Source: Company Reports and Citi Research Estimates

Looking out 2014, we have increased our UK divisional LFL sales forecast by +40bp to +1.6% to reflect our more resilient UK employment HAC assumption. The Kingfisher and WH Smith sourcing and product mix initiatives drive some UK gross margins progress, +10bp (unchanged), which, taken together with +1.5% LFL cost inflation (from +1.1%), drives our 2014 UK divisional EBIT growth forecast of +4.4% (from +4.9% previously).

Notably, given that online sales represent c.15% of UK non-food retail sales and are growing at c.+15% p.a., our 2013E and 2014E aggregate LFL growth is all derived from the online channel, leaving the UK non-food store base under our coverage with a negative LFL outlook (see Figure 62).

Figure 87. FY13E UK Divisional Aggregation Assumptions

Company	Period-end	Sales	% change	LFL %	Gross margin %	GM delta	Gross Profit	Costs	% change	EBIT	% change	EBIT/ Sales	Delta	Implied Cost Inflation
Debenhams	Feb-14	2,608	4.0%	3.0%	43.9%	0.2%	1,144	-981	5.0%	163	1.4%	6.2%	-0.2%	3.9%
Dunelm	Dec-13	695	7.9%	0.2%	48.9%	0.4%	340	-230	9.6%	110	7.1%	15.8%	-0.1%	1.9%
DSGI (UK)	Apr-14	4,235	3.9%	4.6%	27.5%	-0.4%	1,164	-1,042	1.5%	122	10.8%	2.9%	0.2%	2.1%
Halfords	Mar-14	749	0.5%	0.5%	53.0%	0.2%	397	-329	2.0%	68	-4.2%	9.1%	-0.4%	2.0%
Home Retail Group (Argos)	Mar-14	3,990	1.5%	2.5%	30.9%	-0.5%	1,232	-1,134	0.1%	98	-2.4%	2.5%	-0.1%	1.1%
Home Retail Group (Homebase)	Feb-14	1,424	-0.5%	1.5%	51.5%	0.0%	733	-718	-1.1%	15	37.6%	1.1%	0.3%	0.9%
Kingfisher (B&Q)	Jan-14	4,297	1.2%	-0.2%	41.0%	0.3%	1,762	-1,519	1.7%	243	3.8%	5.7%	0.1%	0.2%
M&S (UK Retail & Food)	Mar-14	9,200	2.7%	1.0%	41.2%	0.3%	3,790	-3,080	2.8%	710	6.0%	7.7%	0.2%	1.1%
Next (Retail & Directory)	Jan-14	3,466	2.4%	0.6%	57.5%	0.0%	1,993	-1,332	1.5%	661	4.4%	19.1%	0.4%	-0.4%
Sports Direct (Group)	Apr-14	2,337	8.4%	5.0%	41.6%	0.3%	972	-706	8.6%	266	10.8%	11.4%	0.2%	5.2%
WH Smith (UK Retail and Travel UK)	Feb-14	1,190	-2.1%	-3.9%	55.5%	1.1%	661	-557	-0.1%	104	0.2%	8.7%	0.2%	-1.9%
Sector Average		34,190	2.7%	1.6%	41.5%	0.0%	14,189	-11,629	2.4%	2,559	5.0%	7.5%	0.2%	1.3%

Source: Citi Research Estimates

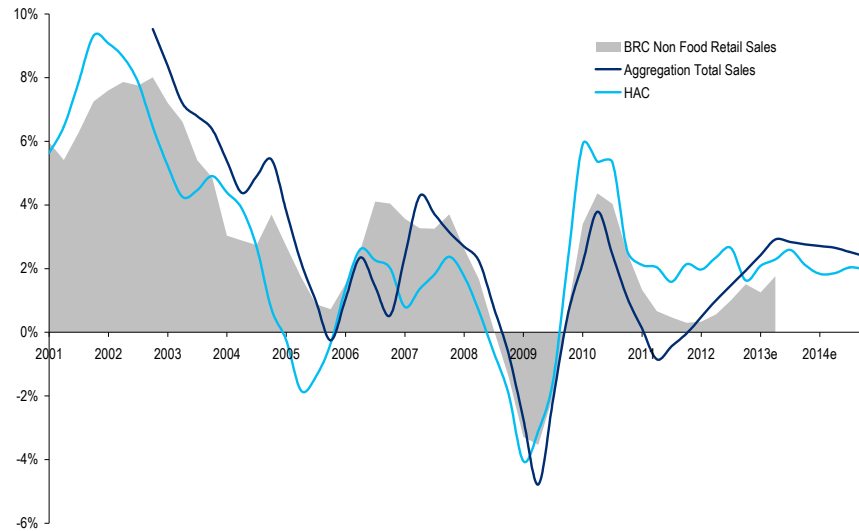
Figure 88. UK Divisional Aggregation Assumptions – Half-yearly split (£millions)

	Sales	% Chg	LFL %	Gross Margin %	GM delta	Gross Profit	Costs	% Chg	EBIT	% Chg	EBIT/Sales	Delta	Implied Cost inflation
1H11	15,266	(0.0%)	(1.9%)	42.1%	(0.1%)	6,425	(5,401)	1.2%	1,024	(7.7%)	6.7%	(0.6%)	(0.7%)
2H11	17,226	1.0%	(1.1%)	41.1%	0.1%	7,075	(5,751)	1.7%	1,324	(0.5%)	7.7%	(0.1%)	(0.4%)
FY11	32,491	0.5%	(1.5%)	41.5%	(0.0%)	13,500	(11,152)	1.5%	2,348	(3.8%)	7.2%	(0.3%)	(0.6%)
1H12	15,562	1.9%	0.0%	42.2%	0.1%	6,567	(5,525)	2.3%	1,042	1.8%	6.7%	(0.0%)	0.4%
2H12E	17,728	2.9%	1.8%	40.8%	(0.3%)	7,232	(5,837)	1.5%	1,394	5.3%	7.9%	0.2%	0.4%
FY12E	33,289	2.5%	1.0%	41.5%	(0.1%)	13,799	(11,362)	1.9%	2,436	3.8%	7.3%	0.1%	0.4%
1H13E	15,991	2.8%	1.8%	42.3%	0.1%	6,763	(5,659)	2.4%	1,104	5.9%	6.9%	0.2%	1.4%
2H13E	18,199	2.7%	1.7%	40.8%	0.0%	7,426	(5,971)	2.3%	1,455	4.4%	8.0%	0.1%	1.3%
FY13E	34,190	2.7%	1.6%	41.5%	0.0%	14,189	(11,629)	2.4%	2,559	5.0%	7.5%	0.2%	1.3%
1H14E	16,374	2.4%	1.5%	42.4%	0.1%	6,947	(5,793)	2.4%	1,153	4.5%	7.0%	0.1%	1.5%
2H14E	18,637	2.4%	1.7%	40.9%	0.1%	7,616	(6,099)	2.1%	1,517	4.3%	8.1%	0.1%	1.4%
FY14E	35,011	2.4%	1.6%	41.6%	0.1%	14,563	(11,892)	2.3%	2,671	4.4%	7.6%	0.1%	1.5%

Source: Company Reports and Citi Research Estimates

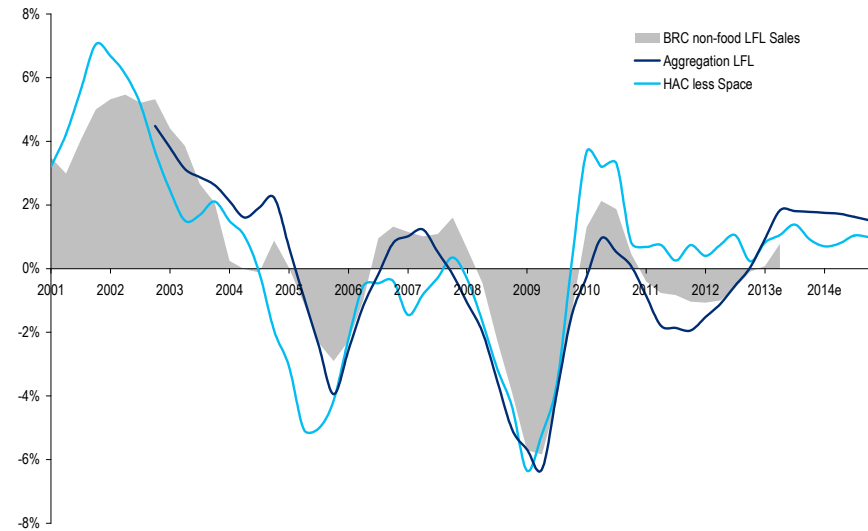
The correlation of our UK aggregate total and LFL sales history and forecasts are plotted against the reported BRC total non-food sales trends, our HAC history and forecast agenda in the graphs below. In general, our UK aggregate sales forecasts assume that the companies under our coverage will continue to broadly track the HAC total and LFL sales forecast in the next 18 months.

Figure 89. UK HAC vs BRC Non-Food Retail Total Sales vs Aggregation Total Sales



Source: BRC and Citi Research Estimates

Figure 90. UK HAC Less Space vs BRC Non-Food Retail LFL Sales vs Aggregation LFL Sales

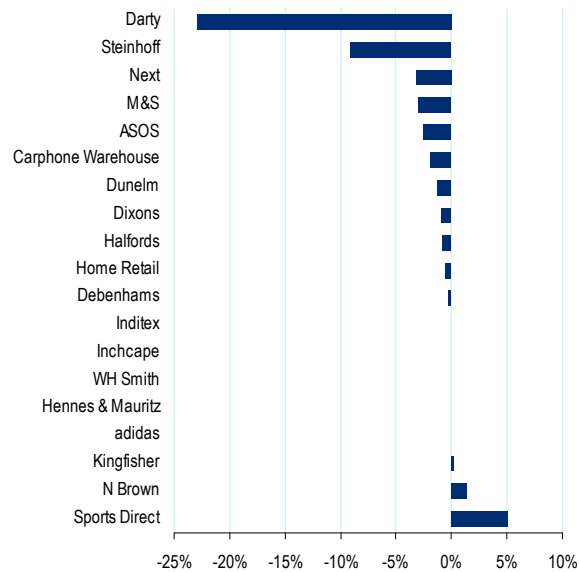


Source: BRC and Citi Research Estimates

EPS Forecast vs Consensus

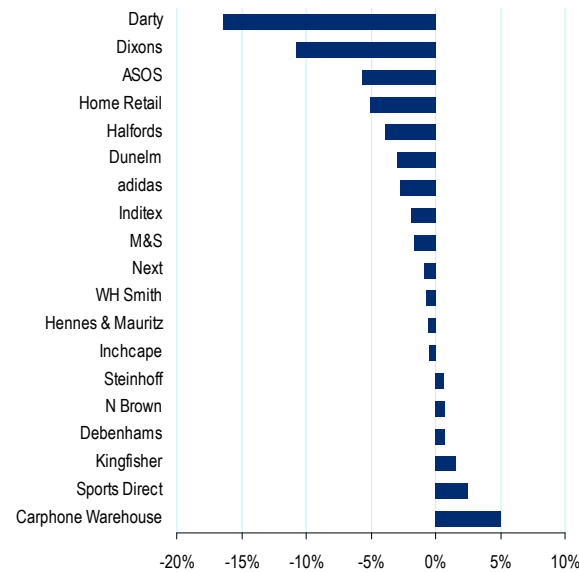
Our UK sector EPS forecasts are 2-4% below consensus

Figure 91. Citi vs Consensus Cal-2012e



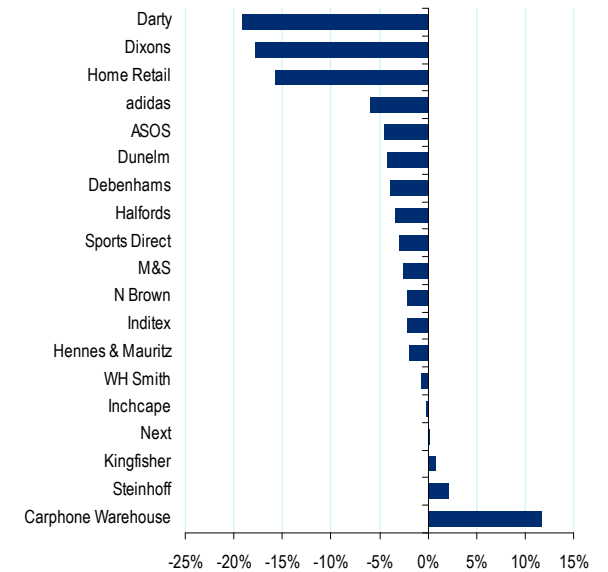
Source: Powered by dataCentral

Figure 92. Citi vs Consensus Cal-2013e



Source: Powered by dataCentral

Figure 93. Citi vs Consensus Cal-2014e



Source: Powered by dataCentral

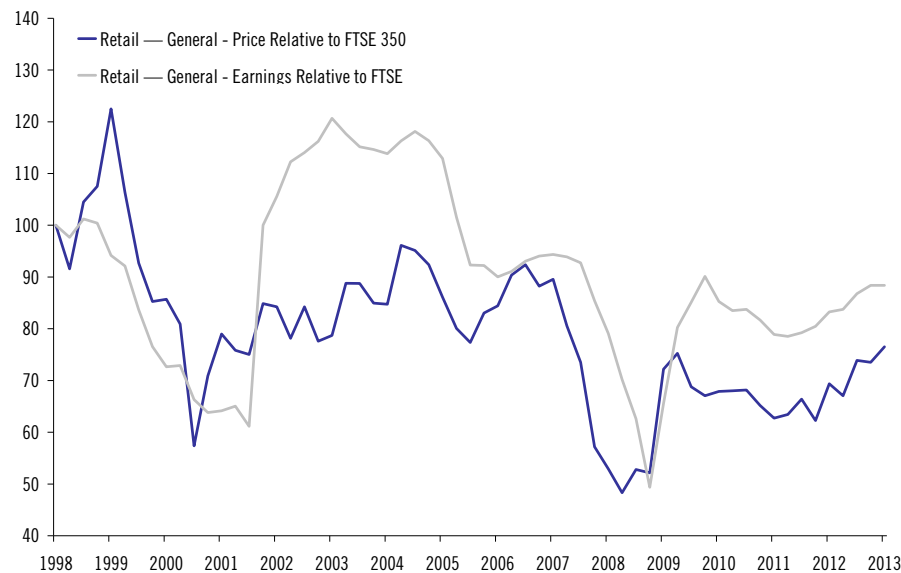
Valuation

UK Retail Valuation

UK Sector Stance

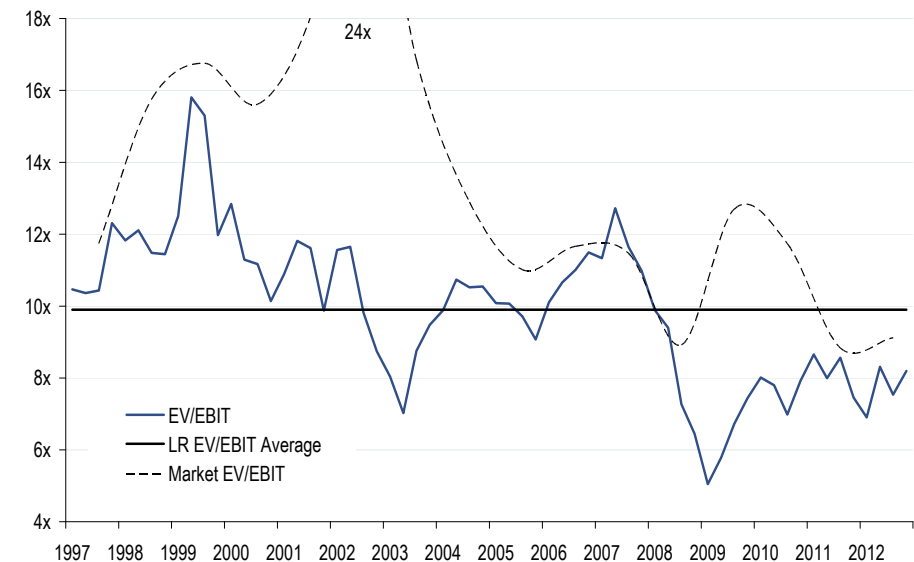
Year to date, the UK General Retailers have broadly tracked the UK equity market, and we have a c.+10% p.a. 2013E and 2014E earnings growth forecast agenda for this sector, also broadly in line with our strategists' outlook for the UK equity market. From a valuation perspective, the UK sector's 14.3x 2013E PE represents a c.105 PE relative, broadly in-line with its 15-year average. From here, our central case is that the sector holds this valuation metric, hence, given that our c.+10% 2013 sector EPS growth forecast is in line with the consensus UK equity market earnings growth forecast, we argue for a neutral UK General Retail sector stance.

Figure 94. General Retailers – Price and Earnings Relative to FTSE 350, 1998-13



Source: Company Reports and Citi Research

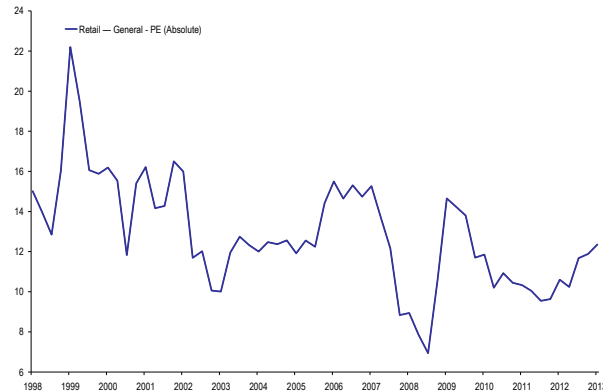
Figure 95. UK General Retail – Long Run EV/EBIT



Source: Company Reports, Datastream and Citi Research

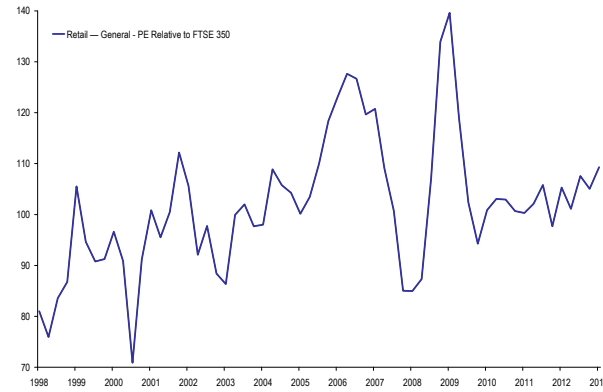
While the broad equity market still seems to focus on PE and PE relatives in valuation discussions, we continue to argue that in light of the variation in balance sheet structures across the sector, EV/EBIT is a more credible valuation ratio. At present, the UK retailers trade on a 2013 EV/EBIT of c.10.5x, marginally above the long run average of c.10x. Notably, the average growth in HAC over the last decade has been 2.1% pa, in line with our +2% 2012-2015e forecast. We believe that this EV/EBIT multiple should continue to underpin sector valuation levels, arguing for the bulk of the sector to broadly hold current valuation metrics over time. On this basis, we think the share price outlook by retailer is largely EBIT growth and cash generation dependent.

Figure 96. UK General Retail – 1-Yr Fwd Consensus PE Absolute



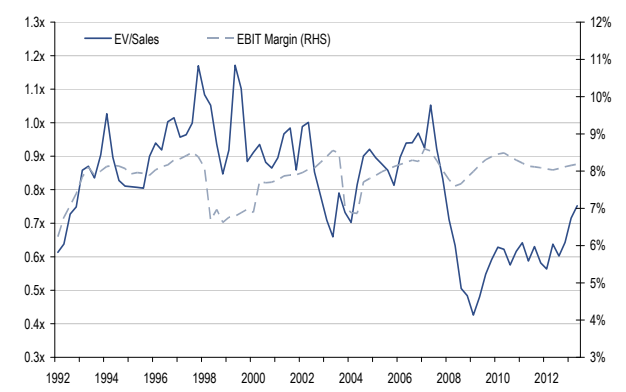
Source: Citi Research and Datastream, IBES

Figure 97. UK General Retail – 1-Yr Fwd Consensus PE Relative



Source: Citi Research and Datastream, IBES

Figure 98. UK General Retail – Long Run EV/Sales, EBIT Margin



Source: Citi Research and Datastream

Sensitivity Analysis

The operational gearing of the UK retail sector is currently c.3.7x, i.e. each +1% increase in sales results in +3.7% on EPS (assuming that sales are in store and not online). Using this ratio it would take LFL sales to be +3%pts better than our forecast in order for the sector to be trading on a 9x EV/EBIT multiple.

Figure 99. Valuation Sensitivity

If sales are x%pts better	2014e EV / EBIT
-3%	11.4
-2%	10.9
-1%	10.5
0%	10.1
1%	9.7
2%	9.4
3%	9.1

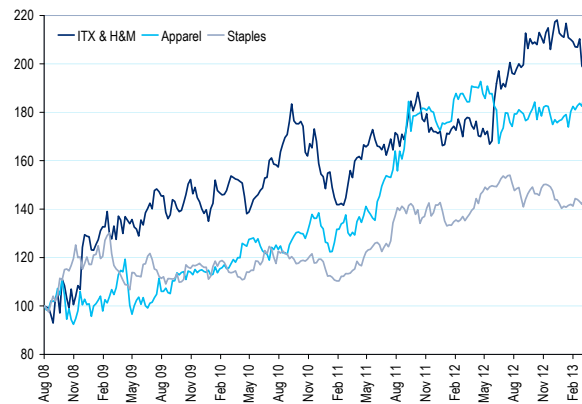
Source: Citi Research

European Retail Valuation

Unlike the UK retailers, in continental Europe, the two global fashion retailers (Inditex and H&M) and the sporting goods brand adidas have sharply outperformed the wider equity market over time, driven by immature and/or highly profitable formats, in multiple geographies. Given our Buy ratings on Inditex and adidas, we retain our overweight stance on the European retailers.

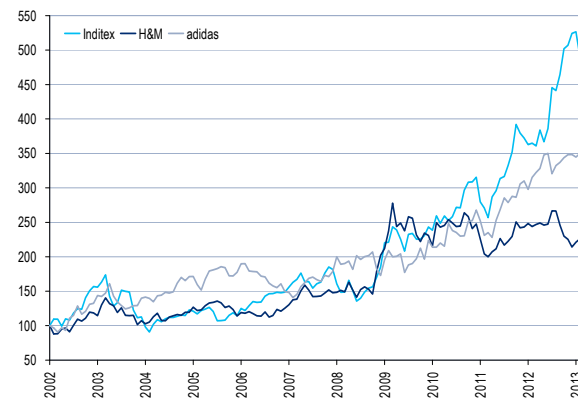
Importantly, we flag that the GDP+10% revenue models of Inditex and H&M (driven by the c.8-10% annual space growth metrics) have driven sharp outperformance, notably in uncertain markets (4Q 2008), while the more US-centric GDPx2.5 revenue models (adidas, Nike, Ralph Lauren and VF) have outperformed a fading Euro-zone over the last year. Both have outperformed Consumer Staples over the period (in the graphic below we include BAT, Nestle, Colgate, and Coca Cola).

Figure 100. ITX/H&M v. Apparel Buy Codes v. Staples, All Relative to MSCI World Index – 5-Year Share Price



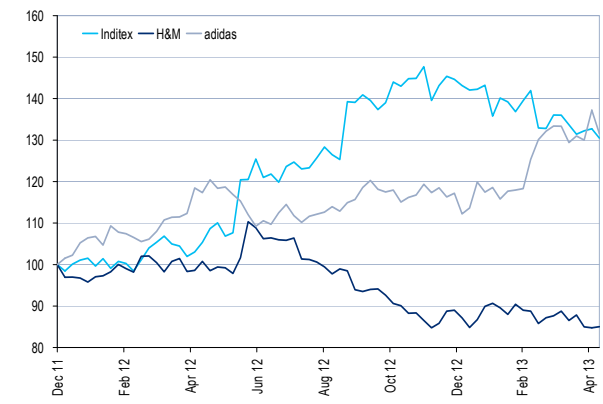
Source: Citi Research and Datastream

Figure 101. H&M, Inditex and adidas Relative to Eurostoxx, 10yr



Source: Citi Research and Datastream

Figure 102. H&M, Inditex and adidas Relative to Eurostoxx, 1yr



Source: Citi Research and Datastream

Company Section Buy-Rated Stocks

adidas Group (ADSGn.DE) - Buy (1) Rating, Target Price €98

- Cyclical global growth and margin self-help** — We argue that adidas is one of a small group of genuine global growth apparel retailers and brands that is capable of GDP-plus revenue growth. Like the other global apparel brands (Nike, VF Corp, Ralph Lauren) adidas has a track record of organic sales growth of c.2-3x real global GDP, underpinning our c.5% p.a. adidas organic revenue growth forecast (2012-2015E). In addition, as group profitability recovers from one of the lower EBIT margin and ROCE metrics across its peers, adidas also offers material EBIT margin upside (Citi +250bp to 10.6% by 2015E).
- Our FY13E and FY 14E PBT forecasts remain €1275m and €1475m (EPS €4.39 €5.04 +16%, +15% yoy)** — This earnings forecast agenda is consistent with c.+4-5% organic revenue growth p.a. from 2013 to 2015 alongside EBIT margin improvement from 8.0% in 2012 to 10.6% in 2015E (still shy of its 11% target). Notably, we continue to assume a -3.5% currency translation headwind in the year ahead, primarily stemming from Other Asia (of which Japan is c.40%), +4% ccy-neutral sales progress, +80bp gross margin, and +90bp EBIT margin to 8.9%.
- Buy rating retained** — Across 2013 we expect adidas to maintain strong revenue growth trends in key emerging market geographies (most notably Greater China and European Emerging Markets), alongside a return to material gross margin progress (product, channel and geographical mix effects). Importantly, the group has recently reiterated its 9% EBIT margin target for FY13. Combining market share progress, global geographical expansion and EBIT margin self-help, we argue that adidas is capable of delivering c.+15% p.a. compound earnings growth (2012-15E).
- Target price €98** — We have a €98 12-month target price for adidas Group, based on adidas Group holding a c.13x EV/EBIT multiple (recent average) to Dec-14E, which is equivalent to a 19x PE and 2% dividend yield to the same forecast year.

Figure 103. adidas – Financial Summary, 2009-2015E

€m	2009	2010	2011	2012	2013E	2014E	2015E
Sales	10,379	11,990	13,344	14,883	14,962	15,610	16,382
- growth	-3.9%	15.5%	11.3%	11.5%	0.5%	4.3%	4.9%
- LFL	-5.5%	8.5%	13.1%	6.8%	4.0%	4.3%	4.9%
- Space	3.8%	1.7%	0.8%	0.8%	1.0%	1.5%	1.4%
Gross Profit	4,712	5,730	6,344	7,103	7,263	7,680	8,160
- margin	45.4%	47.8%	47.5%	47.7%	48.5%	49.2%	49.8%
- delta	-327bps	239bps	-25bps	18bps	82bps	66bps	61bps
EBITDA	780	1,159	1,264	1,456	1,596	1,776	2,006
EBIT	508	894	1,011	1,185	1,325	1,505	1,735
- margin	4.9%	7.5%	7.6%	8.0%	8.9%	9.6%	10.6%
PBT	358	806	927	1,116	1,275	1,475	1,725
EPS	1.22	2.71	3.21	3.78	4.39	5.04	5.85
- growth	-60.3%	122.4%	18.2%	17.9%	16.1%	14.9%	16.1%
Dividend	0.35	0.80	1.00	1.35	1.65	2.00	2.35
- growth	-30.0%	na	na	35.0%	22.2%	21.2%	17.5%
Working Capital/Sales	16.7%	17.4%	17.3%	16.0%	17.1%	17.6%	18.0%
Depreciation	272	265	253	271	271	271	271
Depreciation / Sales	2.6%	2.2%	1.9%	1.8%	1.8%	1.7%	1.7%
Capex	231	252	376	433	525	525	525
Capex / Sales	2.2%	2.1%	2.8%	2.9%	3.5%	3.4%	3.2%
FCF	1,056	768	556	625	539	646	772
FCF/Sales	10.2%	6.4%	4.2%	4.2%	3.6%	4.1%	4.7%
Net (Debt) / Cash	-917	-221	91	448	655	925	1,268
Net Debt/EBITDA	1.2x	0.2x	na	na	na	na	na
ROCE	9.9%	18.7%	20.1%	24.0%	26.2%	27.4%	29.2%
Lease Adj ROCE		13.7%	14.2%	16.0%	16.9%	18.0%	19.2%
Fixed Charge Cover	1.6x	2.3x	2.3x	2.5x	2.7x	3.0x	3.3x

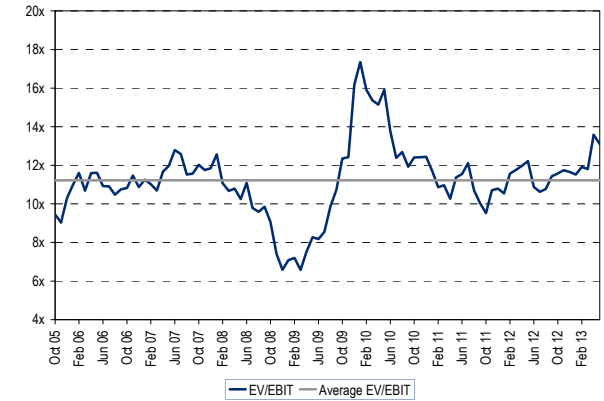
Source: Company Reports and Citi Research Estimates

Figure 104. adidas – Statistical Abstract

Yr to Dec	Sales	EBIT (€)	Net Debt	PBT (€m)	Tax Rate	EPS (€)	EPS Old (€)	PE	Net Div (c)	Div Yld (%)	EV/Sales	EV/EBIT	EV/EBITDA
2010A	11,990	894	221	806	29.5%	2.71	2.71	31.4	0.8	0.9	1.5	20.1	15.5
2011A	13,344	1,011	-91	927	27.7%	3.21	3.21	26.5	1.0	1.2	1.3	17.5	14.0
2012A	14,883	1,185	-448	1,116	29.3%	3.78	3.78	22.5	1.4	1.6	1.2	14.6	11.9
2013E	14,962	1,325	-655	1,275	28.0%	4.39	4.39	19.4	1.7	1.9	1.1	12.9	10.7
2014E	15,610	1,505	-925	1,475	28.5%	5.04	5.04	16.9	2.0	2.4	1.1	11.2	9.5
2015E	16,382	1,735	-1,268	1,725	29.0%	5.85	5.85	14.5	2.4	2.8	1.0	9.5	8.2
										YTD	1M	3M	12M
MV	17,783	Shares				209	Abs %			24.7	7.7	21.3	39.7
EV	17,335					Rel %			15.7	2.1	14.5	10.5	

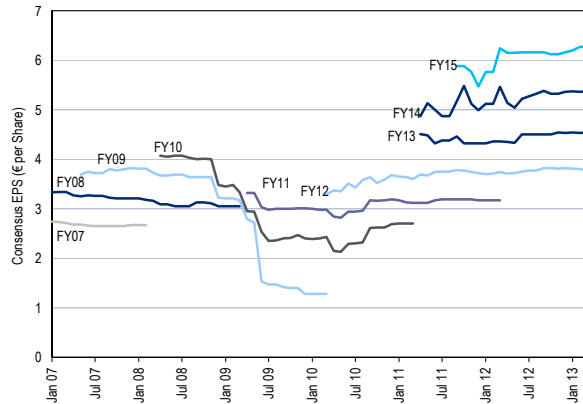
Source: Company Reports and Citi Research Estimates

Figure 105. adidas – Long Run EV/EBIT Valuation



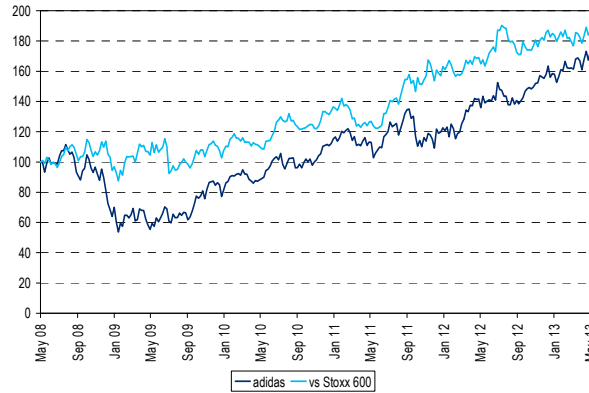
Source: DataStream and Citi Research

Figure 106. adidas – Consensus EPS



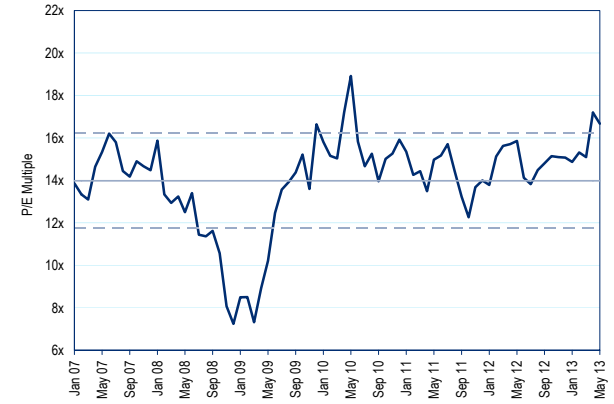
Source: DataStream and Citi Research

Figure 107. adidas – 5-Year Share Price Performance



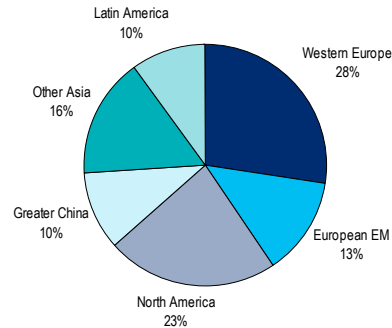
Source: DataStream and Citi Research

Figure 108. adidas – 12-Month Forward PE



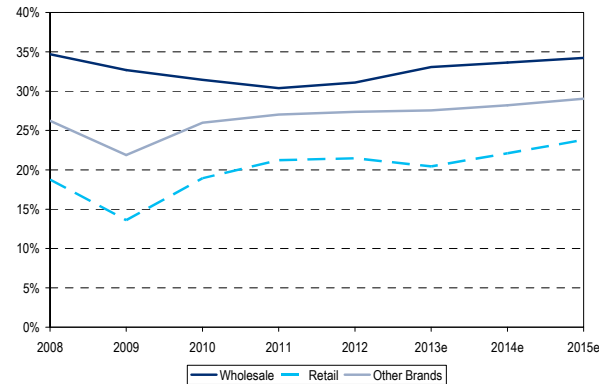
Source: DataStream and Citi Research

Figure 109. adidas – Geographic Sales Split, 2012



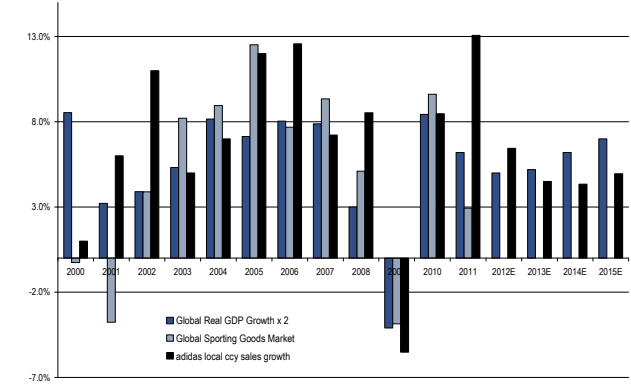
Source: Company Reports and Citi Research

Figure 110. adidas – Divisional EBIT Margin Progression



Source: Company Reports and Citi Research Estimates

Figure 111. adidas – Sales Growth vs 2x Real GDP Growth



Source: Company Reports and Citi Research Estimates

Figure 112. Currency-Neutral Sales Growth by Geography

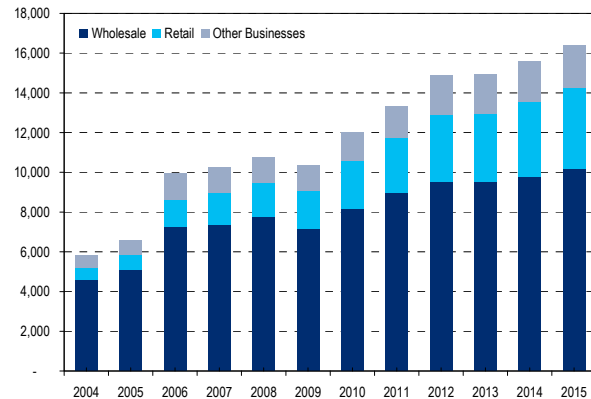
	1Q12	2Q12	1H12	3Q12	4Q12	2H12	2012	1Q13	2Q13e	1H1e	3Q13e	4Q13e	2H13e	2013e
Western Europe	7.2%	4.2%	5.8%	0.3%	-4.1%	-0.7%	2.6%	-6.6%	3.1%	-2.2%	2.0%	-4.1%	5.4%	1.5%
European EM	15.5%	16.7%	16.1%	19.3%	8.7%	13.9%	14.9%	2.3%	12.6%	7.8%	8.1%	8.7%	10.2%	9.1%
Greater China	25.5%	12.0%	18.9%	11.5%	12.5%	11.3%	14.7%	5.7%	9.7%	7.6%	9.6%	12.5%	9.5%	8.6%
Other Asia	26.2%	1.1%	12.8%	0.1%	3.6%	3.4%	7.7%	-3.3%	9.0%	2.7%	4.2%	3.6%	4.1%	3.5%
North America	11.0%	9.6%	10.3%	-6.1%	-7.5%	-6.1%	1.6%	3.1%	-4.8%	-0.9%	6.3%	-7.5%	6.3%	2.7%
Latin America	14.1%	-1.7%	6.1%	16.0%	4.4%	10.5%	8.4%	12.0%	-2.6%	5.1%	5.2%	4.4%	5.3%	5.2%
Total	13.7%	7.6%	10.7%	3.8%	1.0%	2.5%	6.0%	0.3%	3.4%	1.7%	5.0%	7.9%	6.3%	4.0%
Currency	2.9%	7.5%	5.1%	7.7%	2.3%	5.1%	5.5%	-2.0%	-3.9%	-2.9%	-4.8%	-3.1%	-4.1%	-3.5%
Total revenue growth	16.6%	15.0%	15.8%	11.4%	3.3%	7.6%	11.5%	-1.7%	-0.6%	-1.2%	0.1%	4.8%	2.2%	0.5%

Figure 113. Currency-Neutral Revenue Growth and Channel by Brand

Wholesale	1Q12	2Q12	1H12	3Q12	4Q12	2H12	2012	1Q13	2Q13e	1H1e	3Q13e	4Q13e	2H13e	2013e
adidas sports performance	11.0%	13.2%	12.0%	4.0%	-3.7%	0.6%	6.0%	-2.0%						
addias sports style	24.4%	-5.1%	11.0%	22.5%	5.4%	15.0%	13.0%	4.0%						
adidas brand	15.0%	7.9%	11.7%	7.3%	2.7%	5.6%	8.6%	-0.9%	4.0%	1.3%	5.0%	8.8%	6.6%	4.0%
Reebok brand	-11.4%	-41.6%	-24.8%	-40.7%	-19.0%	-30.7%	-28.0%	-21.3%	44.2%	2.0%	2.0%	2.0%	2.0%	2.0%
	10.4%	0.0%	5.6%	-0.1%	-2.0%	-1.0%	2.2%	-3.4%	6.4%	1.0%	4.0%	7.5%	5.5%	3.3%
Retail	1Q12	2Q12	1H12	3Q12	4Q12	2H12	2012	1Q13	2Q13e	1H1e	3Q13e	4Q13e	2H13e	2013e
adidas sports performance	14.4%	13.7%	14.0%	9.2%	8.9%	9.1%	11.3%	6.6%						
addias sports style	22.9%	23.6%	23.3%	21.5%	15.0%	18.0%	20.4%	4.8%						
adidas brand	17.3%	16.8%	16.9%	13.2%	10.9%	11.9%	14.2%	6.4%	3.3%	4.7%	5.2%	8.9%	7.1%	6.0%
Reebok brand	12.1%	11.7%	11.9%	19.0%	4.9%	12.1%	12.0%	6.8%	7.2%	7.0%	7.0%	7.0%	7.0%	7.0%
	14.9%	16.9%	16.1%	13.9%	11.4%	12.6%	14.2%	7.4%	3.3%	5.1%	5.5%	8.2%	6.8%	6.0%

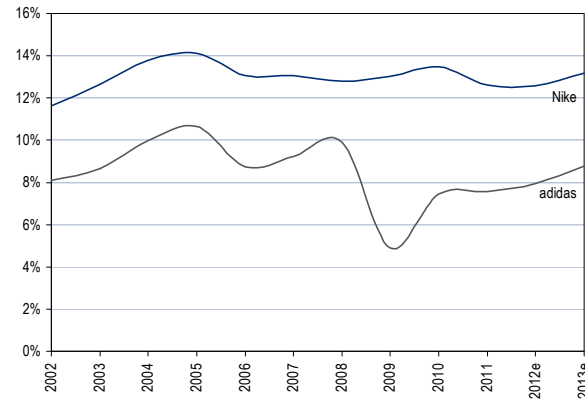
Source: Company Reports and Citi Research Estimates

Figure 114. adidas – Sales by Division (€m)



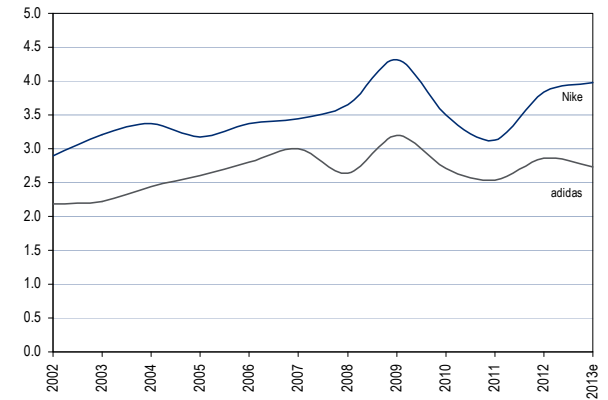
Source: Company Reports and Citi Research Estimates (2013-15)

Figure 115. adidas – Long Run EBIT Margin (vs Nike)



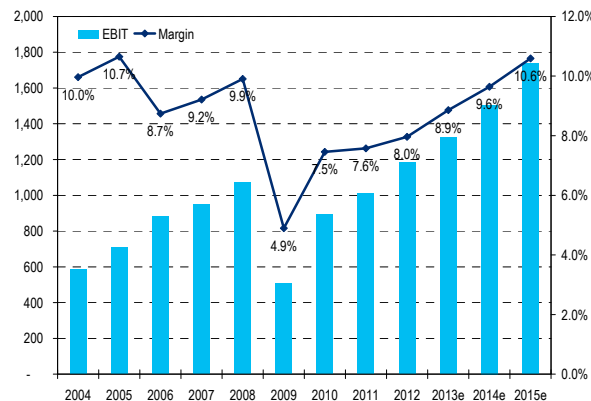
Note: 2012 numbers are actuals for adidas.
Source: Company Reports and Citi Research Estimates

Figure 116. adidas – Long Run GROI (vs Nike (NKE.N; US\$65.83; 1))



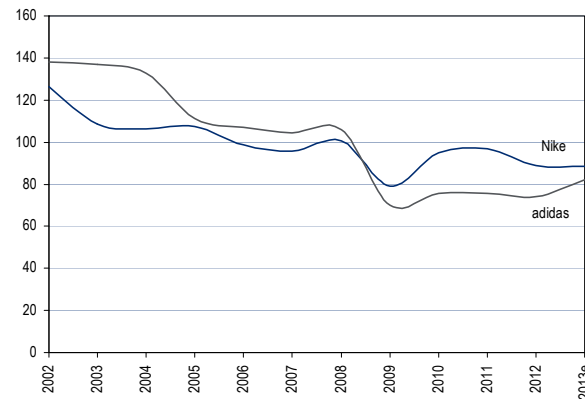
Note: 2012 numbers are estimates for Nike.
Source: Company Reports and Citi Research Estimates

Figure 117. adidas – EBIT and Margin



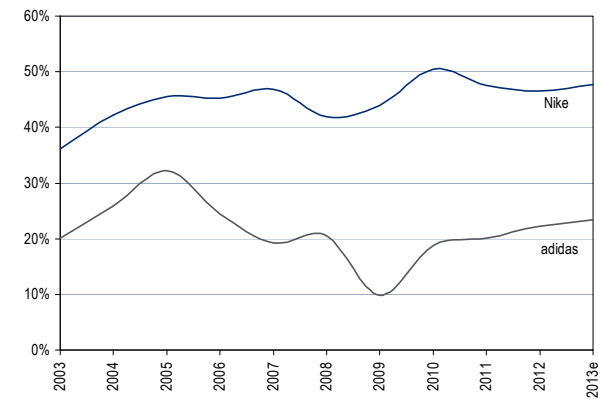
Source: Company Reports and Citi Research Estimates

Figure 118. adidas – Long Run Working Capital Days (vs Nike)



Note: 2012 numbers are estimates for Nike.
Source: Company Reports and Citi Research Estimates

Figure 119. adidas – Long Run ROCE (vs Nike)



Note: 2012 numbers are estimates for Nike.
Source: Company Reports and Citi Research Estimates

ASOS Plc (ASOS.L) - Buy (1) Rating, Target Price 4400p (from 4000p)

- **Global growth trajectory continues** — In early Autumn 2012, comScore ranked ASOS as the most visited fashion website on the planet for 15-34 year-olds. ASOS now has 6m active customers and has recently appointed territory managers for the US, France and Germany along with the senior staff changes.
- **Truly global** — 72% of ASOS traffic is now international, up from 65% in 2011, 48% in 2010, and 35% in 2009.
- **UK still strong** — In early autumn 2012, ASOS accounted for 5% of the monthly UK apparel web traffic, behind Next (7%) and ahead of New Look (3.5%) and Topshop (3.2%).
- **FY13E PBT £52m (EPS 47.2p, +19% yoy)** — Despite a higher 2H opex growth assumption, we forecast +19% EPS growth in FY13 (47.2p), driven by 2H sales +32% (UK +15% and International +42%), 2H retail gross margin +140bp and operating costs +35% (+75bp as % sales, reflecting elevated A&P spend).
- **Global growth: +25-30% EPS CAGR retailer** — The encouraging early signs of the sales and profit growth potential from local country management recruitment, elevated A&P spend, greater CRM leverage, and supply chain efficiencies underpin our +25-30% p.a. earning forecast agenda. We remain Buyers of the shares.
- **Buy rating, target price 4400p** — Our 4400p target price (raised from 4000p, reflecting valuation year roll-forward) assumes the ASOS EV/EBIT multiple normalises to c.16x (in line with international growth peers) by our year 5 forecast (based on FY18e from FY17e, given the close proximity of August 2013 year-end). This equates to a c.21x PE multiple for the same forecast year, and is underpinned by our 4460p DCF valuation.

Figure 120. ASOS – Financial Summary, 2009-2015E

£ms	2009	2010	2011	2012	2013E	2014E	2015E
Sales	191.2	258.9	403.0	552.9	732.0	917.8	1,136.2
- growth		35%	56%	37%	32%	25%	24%
- LFL		35%	56%	37%	32%	25%	24%
- Space		na	na	na	na	na	na
Gross Profit	93.5	131.4	197.6	282.9	375.8	473.6	589.5
- margin	48.9%	50.8%	49.0%	51.2%	51.3%	51.6%	51.9%
- delta		184bps	-174bps	213bps	17bps	27bps	28bps
EBITDA	12.0	28.3	38.1	55.8	65.7	81.8	105.1
EBIT	12.0	24.3	32.1	45.6	51.5	64.3	85.3
- margin	6.3%	9.4%	8.0%	8.2%	7.0%	7.0%	7.5%
PBT	12.0	24.3	31.7	44.5	52.0	65.0	86.0
EPS	11.0	22.0	27.9	39.6	47.2	59.8	79.4
- growth		100.0%	26.7%	42.1%	19.1%	26.7%	32.7%
Working Capital/Sales			1.4%	3.4%	3.9%	4.3%	4.7%
Depreciation			6.0	10.2	14.2	17.5	19.8
Depreciation / Sales			1.5%	1.8%	1.9%	1.9%	1.7%
Capex			32.5	21.7	30.0	30.0	35.0
Capex / Sales			8.1%	3.9%	4.1%	3.3%	3.1%
FCF			11.1	12.7	18.9	27.2	46.5
FCF/Sales			2.8%	2.3%	2.6%	3.0%	4.1%
Net (Debt) / Cash			11	13	19	27	47
Net Debt/EBITDA			-	-	-	-	-
Lease Adj Net Debt/EBITDA			-	-	-	-	-
ROCE			41.1%	58.4%	50.0%	48.8%	53.2%
Lease Adj ROCE	na	na	na	na	na	na	na
Fixed Charge Cover	67x	3039x	76x	41x	na	na	na

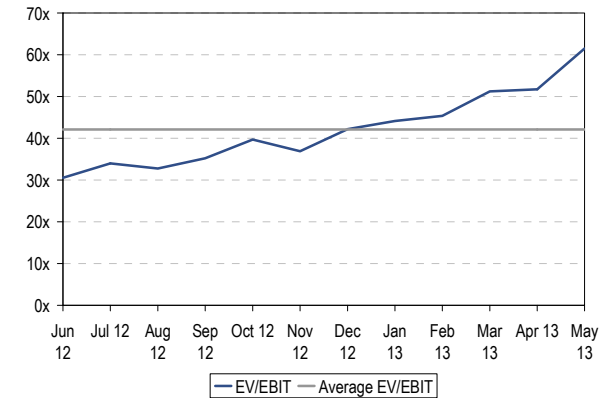
Source: Company Reports and Citi Research Estimates

Figure 121. ASOS – Statistical Abstract

Yr to Aug	Sales (£m)	EBIT (£m)	PBT (£m)	Tax (%)	EPS (p)	P/E	PEG	Net Div (p)	EV/ Sales	EV/ EBIT	EV/ EBITDA
2010A	259	24.3	24.3	29%	22.0	171.4	1.7	0.0	11.18	121.7	102.1
2011A	403	32.1	31.7	29%	27.9	135.2	5.1	0.0	7.19	92.4	76.1
2012E	553	45.6	44.5	26%	39.6	95.2	2.3	0.0	5.18	64.3	51.4
2013E	731	51.5	52.0	25%	47.2	79.9	4.2	0.0	3.87	56.2	43.1
2014E	922	64.3	65.0	23%	59.8	63.1	2.4	0.0	3.03	44.4	34.1
2015E	1,148	84.3	85.0	22%	79.4	47.5	1.4	0.0	2.38	33.2	26.2
								YTD	1M	3M	12M
MV	2,959 Shares				78.5	Abs %		18.06	35.5	134.3	110.7
EV	2,894					Rel %		11.94	27.9	87.7	86.0

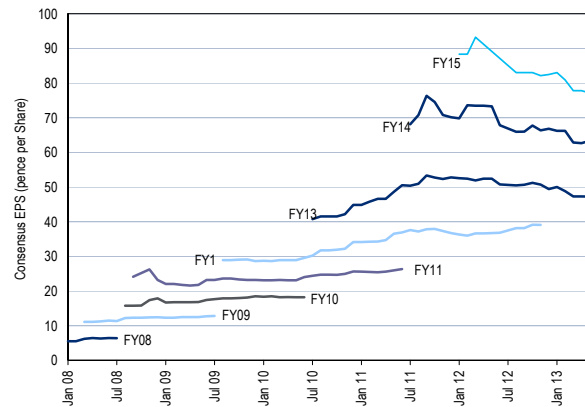
Source: Company Reports and Citi Research Estimates

Figure 122. ASOS – EV/EBIT Valuation



Source: DataStream and Citi Research

Figure 123. ASOS – Consensus EPS



Source: DataStream and Citi Research

Figure 124. ASOS – 5-Year Share Price Performance



Source: DataStream and Citi Research

Figure 125. ASOS – 12-Month Forward PE



Source: DataStream and Citi Research

Figure 126. ASOS – Quarterly Performance: 2012-2013E (year to August)

Retail sales growth (%)	1QA	2QA	H1A	3QE	4QE	2HE	FYE
ASOS Group	30%	37%	34%	31%	32%	32%	33%
UK	24%	28%	26%	15%	15%	15%	21%
International	34%	45%	39%	42%	41%	42%	41%
US	57%	50%	54%	55%	57%	56%	55%
EU	15%	58%	36%	40%	47%	43%	40%
RoW	42%	33%	37%	40%	34%	37%	37%
Sales Actuals (£m)							
ASOS Group	165.8	186.5	352.3	177.9	186.4	364.3	716.5
UK	62.1	75.5	137.6	53.4	57.4	110.8	248.4
International	103.7	110.9	214.7	124.5	129.0	253.5	468.2
US	19.0	16.5	35.6	20.7	20.6	41.3	76.9
EU	33.3	44.1	77.5	42.3	45.1	87.4	164.8
RoW	51.4	50.3	101.7	61.5	63.3	124.8	226.5

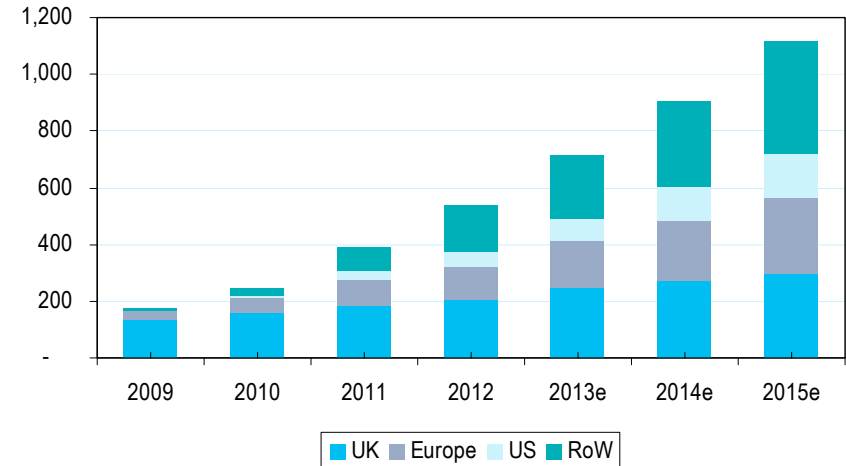
Source: Company Reports and Citi Research Estimates

Figure 128. ASOS – Quarterly Performance: 2011-2012A

Retail sales growth (%)	1QA	2QA	H1A	3QA	4QA	2HA	FYA
ASOS Group	57%	35%	45%	34%	31%	33%	38%
UK	5%	12%	9%	8%	15%	11%	10%
International	129%	61%	89%	54%	42%	48%	64%
US	190%	73%	119%	78%	65%	72%	91%
EU	55%	18%	35%	27%	22%	25%	29%
RoW	233%	113%	158%	71%	53%	61%	94%
Sales Actuals (£m)							
ASOS Group	127.1	135.8	262.9	133.9	141.0	275.0	537.9
UK	49.9	59.0	109.0	46.4	49.9	96.3	205.3
International	77.2	76.8	154.0	87.5	91.2	178.7	332.6
US	12.1	11.0	23.1	13.4	13.1	26.4	49.6
EU	28.9	27.9	56.8	30.2	30.7	60.9	117.7
RoW	36.1	37.8	74.0	43.9	47.4	91.3	165.3

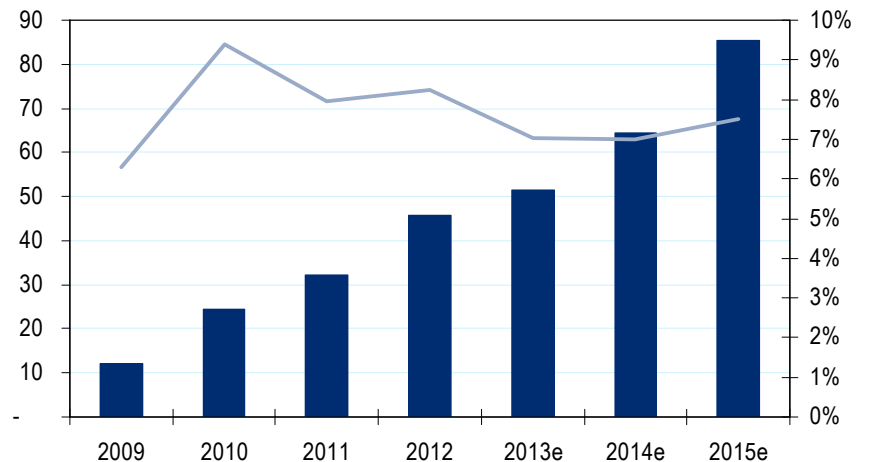
Source: Company Reports and Citi Research

Figure 127. ASOS Geographical Retail Revenues Split (£m)



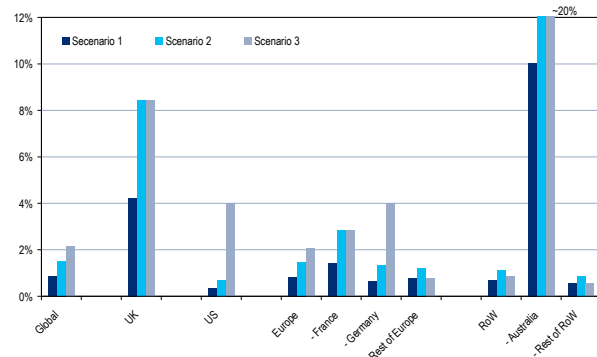
Source: Company Reports and Citi Research Estimates

Figure 129. ASOS EBIT / Margin Growth Profile



Source: Company Reports and Citi Research Estimates

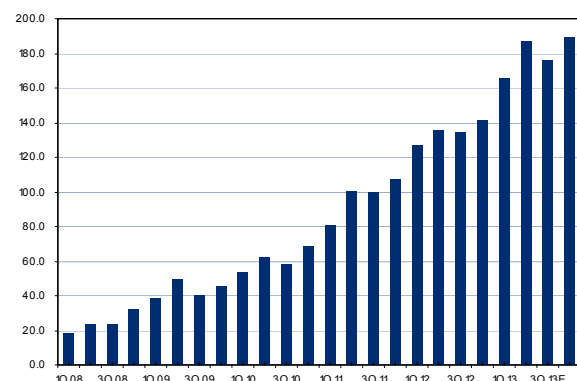
Figure 130. ASOS – Online Apparel Market Share Scenarios



Note: We base these scenarios on company sales data and Euromonitor International market data. Source: Citi Research Estimates

- 1) ASOS holds market share in all markets and simply grows at the pace of the market – this implies total 2017e sales of £1.1bn (2012 – 2017e CAGR +15%)
- 2) ASOS doubles share in key markets (UK, Australia, US, France, Germany), in other markets it grows share by 50% - this implies total 2017e sales of £2.0bn (2012 – 2017e CAGR +30%)
- 3) ASOS doubles market share in already well penetrated markets (UK, Australia). In the US and key European markets the growth accelerates from here and market share is gained rapidly, similar to the recent dynamic in the UK. In other markets it grows share by 50% - this implies total 2017e sales of £3.0bn (2012 – 2017e CAGR +41%)

Figure 131. ASOS – Quarterly Sales (£m's)



Source: Company Reports and Citi Research Estimates

Figure 132. ASOS Implied 2017e EV/EBIT Multiple Using £37 Current Share Price and a Range of Assumptions

2012-2017e CAGR Margin	Sales										
	17%	21%	24%	27%	30%	33%	35%	37%	39%	41%	
	£ 1,200	£ 1,400	£ 1,600	£ 1,800	£ 2,000	£ 2,200	£ 2,400	£ 2,600	£ 2,800	£ 3,000	
6%	39.4	33.8	29.6	26.3	23.6	21.5	19.7	18.2	16.9	15.8	
7%	33.8	28.9	25.3	22.5	20.3	18.4	16.9	15.6	14.5	13.5	
8%	29.6	25.3	22.2	19.7	17.7	16.1	14.8	13.6	12.7	11.8	
9%	26.3	22.5	19.7	17.5	15.8	14.3	13.1	12.1	11.3	10.5	
10%	23.6	20.3	17.7	15.8	14.2	12.9	11.8	10.9	10.1	9.5	
11%	21.5	18.4	16.1	14.3	12.9	11.7	10.7	9.9	9.2	8.6	
12%	19.7	16.9	14.8	13.1	11.8	10.7	9.9	9.1	8.4	7.9	
13%	18.2	15.6	13.6	12.1	10.9	9.9	9.1	8.4	7.8	7.3	
14%	16.9	14.5	12.7	11.3	10.1	9.2	8.4	7.8	7.2	6.8	
15%	15.8	13.5	11.8	10.5	9.5	8.6	7.9	7.3	6.8	6.3	

Source: Citi Research Estimates

Carphone Warehouse (CPW.L) - Buy (1) Rating, Target Price 290p

■ **Earnings-enhancing deal and good trading momentum** — We believe CPW has paid an extremely good price to take control of its remaining stake from Best Buy, which enhances March 2014E EPS by 40%. Importantly this gives CPW full control over the Global Connect joint venture where we expect accelerating newsflow in the next 6 months. This also means that CPW can apply for a premium listing and FTSE index inclusion over time. Trading-wise management's renewed retail focus on CPW Europe is becoming more evident, with a priority to reinforce scale in Europe (Global Connect trials, European re-organisation), generate cash and drive postpay connections.

■ **Q4 trends across CPW Europe bode well for 2013** — LFL sales have gathered momentum since Q2 driven by strong postpay performance and improving volumes in tablets in the UK. The aggressive focus on top-line growth is, however, coming at the expense of margins but should help consolidate market share gains. We expect this margin investment to normalise into FY 2013. European trends have been more mixed, with price competition in France dragging on European profitability with CPW now exiting this market. Virgin Mobile France has seen continued pressure on ARPU, given strong SIM only postpay competition, but continues to benefit from a focus on high-quality postpay subscriber acquisition and mobile termination revenues as the group continues its customer migration to the full MVNO platform.

■ **FY March 2013E and March 14E EPS growth +1% and +56%** — We forecast March 2013 PBT of £60.3m, EPS 12.2p, +1% yoy (guidance 11.5p – 13.0p). This assumes a FY LFL of +4.6%, core business gross margins down c300bp and FY 2013 CPW Europe EBIT of £142m. For Virgin Mobile France we forecast EBIT of £14m. Our March 2014 PBT estimate is £141m (EPS 19.1p, +56% yoy) assuming 100% consolidation of CPW Europe, CPW Europe LFL of +1% and CPW Europe EBIT of £156m.

■ **Buy rating, target price 290p** — The shares trade at a PE of 12.8x FY 2014E and 11.4x FY 2015E, discounts to the UK Retail Sector on 15x and 13x, which looks unjustified in our view. Our price target of 290p is based on a PE of 15x March 2014E EPS. This is underpinned by our SOTP based on an EV/EBIT multiple of 9.7x for CPW Europe, a 0.6x sales multiple for Virgin Mobile France and adjustments for property, cash assets and central costs: this delivers a fair value of 290p.

Figure 133. Carphone Warehouse – Financial Summary, 2009-2015E

£ms	2009	2010	2011	2012	2013E	2014E	2015E
Sales (Best Buy Europe)	3,491.7	3,528.8	3,509.3	3,313.1	3,746.5	3,961.7	4,159.0
- growth	13.0%	1.1%	-0.6%	-5.6%	13.1%	5.7%	5.0%
- LFL	1.1%	1.2%	0.9%	-4.6%	4.6%	1.0%	2.0%
- Space/Other	5.1%	-2.2%	0.6%	-2.1%	12.0%	3.0%	3.0%
Gross Profit (Best Buy Europe)	1,033.0	1,037.1	990.1	947.4	935.7	969.6	1,026.2
- margin	29.6%	29.4%	28.2%	28.6%	25.0%	24.5%	24.7%
- delta	-83bps	-19bps	-118bps	38bps	-362bps	-50bps	20bps
EBITDA (Best Buy Europe)	186.1	231.7	257.4	219.6	227.0	242.0	257.0
EBIT (Best Buy Europe)	96.1	139.8	170.3	135.0	142.0	156.0	170.0
- margin	2.8%	4.0%	4.9%	4.1%	3.8%	3.9%	4.1%
PBT (Group)	19.2	37.3	69.4	58.3	60.3	140.6	156.1
EPS (Group) (p)	4.4	7.9	14.4	12.1	12.2	19.1	21.4
- growth		77.9%	82.0%	-16.1%	1.0%	56.2%	12.3%
Dividend (Group) (p)	-	-	5.0	5.0	5.0	6.4	7.1
- growth				0.0%	0.0%	28.0%	10.9%
Net (Debt) / Cash (Group)	0.0	97.5	120.6	102.7	90.6	36.3	34.3
Net Debt/EBITDA	0.4x	-0.8x	-1.1x	-0.6x	-1.1x	-0.1x	-0.1x
Lease Adj Net Debt/EBITDA	3.6x	2.4x	1.7x	2.3x	2.0x	2.5x	2.4x

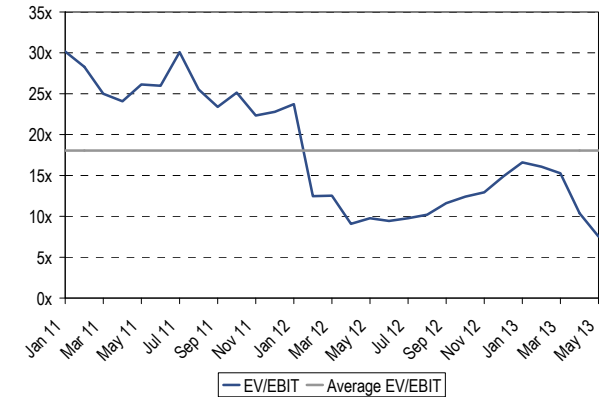
Source: Company Reports and Citi Research Estimates

Figure 134. Carphone Warehouse – Statistical Abstract

Yr to Mar	EBITDA (£m)	EBIT (£)	PBT (£m)	EPS (p)	EPS Old (p)	PE	Net Div (p)	Div Yld (%)	EV/EBIT
2010A	39.3	38.3	37.3	7.9	7.9	30.8	0.0	0.0	33.3
2011A	66.5	65.5	69.4	14.4	14.4	17.0	5.0	2.0	19.1
2012A	56.4	55.4	58.3	12.1	12.1	20.2	5.0	2.0	22.9
2013E	58.3	57.3	60.3	12.2	12.2	20.0	5.0	2.0	22.4
2014E	245.6	157.6	140.6	19.1	19.1	12.8	6.4	2.6	8.5
2015E	261.6	172.6	156.1	21.4	21.4	11.4	7.1	2.9	7.7
						YTD	1M	3M	12M
MV	1,371	Shares		562	Abs %	19.4	22.6	21.9	85.0
EV	1,269				Rel %	4.9	17.3	15.2	49.4

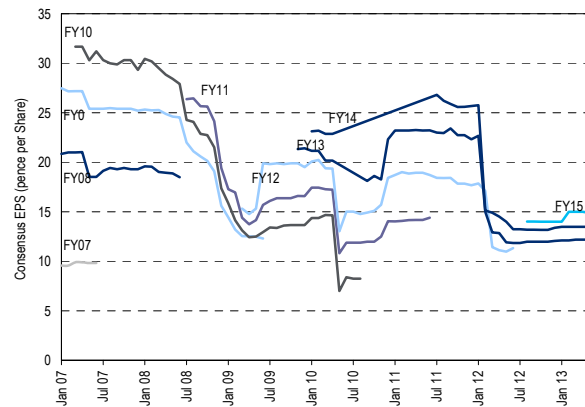
Source: Company Reports and Citi Research Estimates

Figure 135. Carphone Warehouse – EV/EBIT Valuation



Source: DataStream and Citi Research

Figure 136. Carphone Warehouse – Consensus EPS



Source: DataStream and Citi Research

Figure 137. CPW Group – Pro-forma P&L (£m)

	2010A	2011A	2012A	2013E	2014E	2015E
Revenues	5.0	5.6	6.4	10.7	3,168	4,166
- Best Buy Europe					3,162	4,159
- Rental Income/Consultancy Fee	5.0	5.6	6.4	10.7	6.7	6.7
EBIT	38.3	65.5	55.4	57.3	157.6	172.6
- Best Buy Europe (100 %)					156.0	170.0
- Rental Income/Consultancy Fee	5.0	5.6	6.4	10.7	6.7	6.7
- Virgin Mobile France Associate Income	-9.0	8.2	6.1	3.6	3.9	3.9
- Best Buy Europe Associate Income (50%)	47.8	60.4	48.3	52.0		
- Central Costs	-5.5	-8.7	-5.4	-9.0	-9.0	-8.0
EBITDA	39.3	66.5	56.4	58.3	243.6	259.6
Net Interest	-1.0	3.9	2.9	3.0	-17.0	-16.5
PBT	37.3	69.4	58.3	60.3	140.6	156.1
Tax	0.0	-1.6	-0.6	-2.0	-31.9	-34.2
PAT	37.3	67.8	57.7	58.3	108.6	122.0
Weighted average no. shares (basic)	452.7	452.7	457	470	562	562
Weighted average no. shares (fully diluted)	471.1	471.1	478	478	570	570
EPS (basic)	8.2	15.0	12.6	12.4	19.3	21.7
EPS (fully diluted)	7.9	14.4	12.1	12.2	19.1	21.4
- EPS growth	78%	82%	-16%	1%	56%	12%
DPS	0.0	5.0	5.0	5.0	6.4	7.1
Dividend Cover	0.0	2.9	2.4	2.4	3.0	3.0

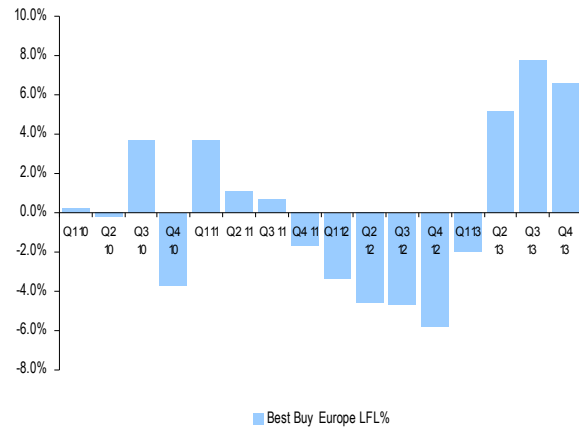
Source: Company Reports and Citi Research Estimates

Figure 138. CPW SOTP March 14E

Mar-14 (£m)	EBIT (£m)	Stake (%)	Attributable to CPW	EBIT Multiple	Valuation
Core CPW	156	100%	156	9.7	1,517
Global Connect	0	50%	0.0		0
Virgin Mobile	15	47.1%	7.1	16.4	116
CPW Europe Best Buy Fee	5	100%	5.0	3.5	18
					1,651
Central costs	-8.0	100%	-8.0	10.0	-80
Property					24
Cash					36
Group Equity Value					1,631
Shares (000's)					562
Per share valuation					290

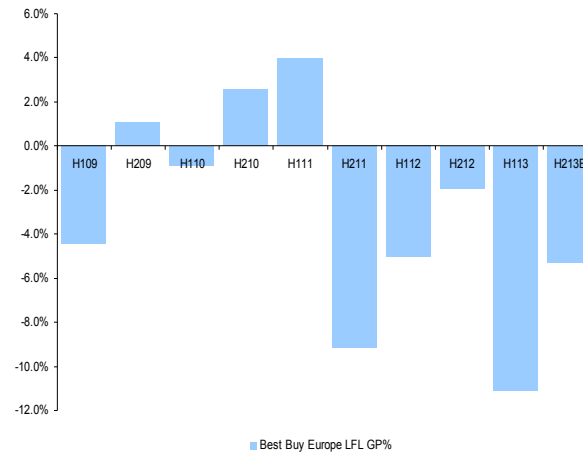
Source: Citi Research

Figure 139. CPW Europe LFL (%)



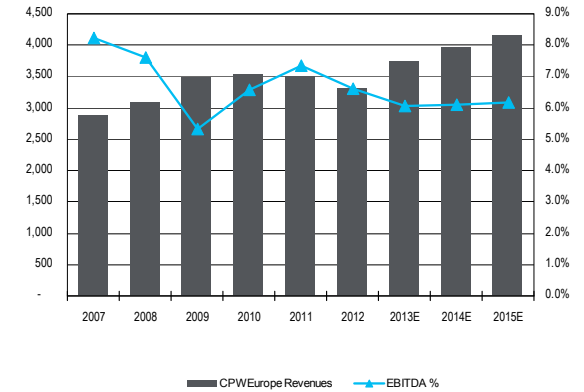
Source: Company Reports and Citi Research

Figure 140. CPW Europe LFL GP (%)



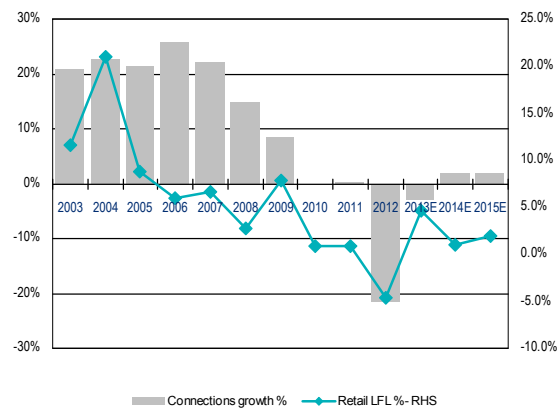
Source: Company Reports and Citi Research Estimates

Figure 141. CPW Europe – Financials (£m)



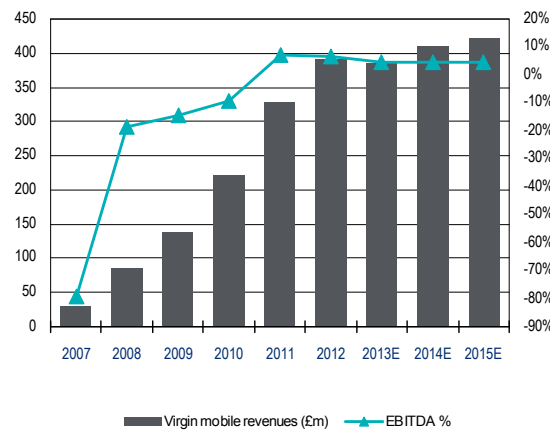
Source: Company Reports and Citi Research Estimates

Figure 142. CPW Europe – Connections vs Retail LFL (%)



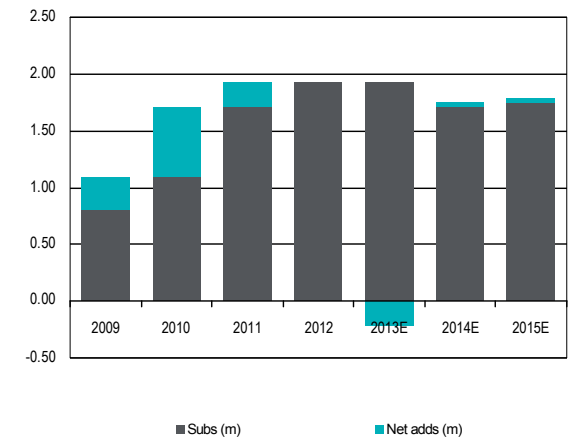
Source: Company Reports and Citi Research Estimates

Figure 143. Virgin Mobile France – Financials (£m)



Source: Company Reports and Citi Research Estimates

Figure 144. Virgin Mobile France – Subscribers



Source: Company Reports and Citi Research Estimates



This page is intentionally left blank

Dixons Retail PLC (DXNS.L) - Buy (1) Rating (from Neutral), Target Price 50p (from 30p)

- **Upgrading to Buy** — We upgrade to Buy post the recent Q4 given improving visibility on Dixons' trading execution abilities, strong cash management and expectations for further profit progress within its UK business. We have increased our price target to 50p.
- **Active margin management driving cash** — In the near term we continue to expect the UK operation to benefit from strong market share progress at the expense of the Comet administration, competing with both store-based and online pure plays and ongoing supplier support. For PIXmania ongoing cost actions should begin to offset weak underlying trading conditions. We expect some resolution on this by the end of the financial year (FY14). Clearly some risk remains that overall benefits could in part be offset by higher levels of investment in price/service in the UK and ongoing soft demand in Southern Europe, but we believe to date management has done an effective job at managing these risks.
- **April 2014E PBT forecast increased 14% to £130m (EPS 1.81p, +64% yoy)** — Our April 2014E PBT is £130m as we factor in some sales transfer benefit from the administration of Comet. This assumes a 20% sales transfer (in line with Dixons' UK market share) on a Comet sales base of over £1bn at a 10% EBIT margin. This would imply UK LFL of c+4.5% for April 2014. We forecast Nordics LFL +3.0% with flat EBIT growth. We expect some reduction in Southern Europe losses -£19m (vs £-24m prior year) and PIXmania losses of £21m assuming some cost action here.
- **Increasing target price to 50p** — Given the stronger balance sheet, our view that Dixons should continue to be a beneficiary of market share gains through FY 2014 and expectations of some stability in margins, we believe the shares are likely to maintain their rating going forward. Our new price target of 50p is derived from applying a 9x FY 2015E EV/EBIT target multiple. This is in line with the group's recent average and equates to an EV/Sales multiple of 0.2x and a PE of 22x for the same forecast year.

Figure 145. Dixons Retail – Financial Summary, 2009-2015E

£ms	2009	2010	2011	2012	2013E	2014E	2015E
Sales	8,168.6	8,531.6	8,154.4	8,186.7	8,429.0	8,619.6	8,686.8
- growth	-4.2%	4.4%	-4.4%	0.4%	3.0%	2.3%	0.8%
- LFL	-9.1%	1.0%	-1.8%	-3.5%	3.8%	2.0%	1.0%
- Space/Other	5.0%	3.4%	-2.6%	3.9%	-0.8%	0.3%	-0.2%
Gross Profit	2,353.7	2,487.7	2,404.0	2,383.8	2,377.2	2,397.2	2,403.9
- margin	28.8%	29.2%	29.5%	29.1%	28.2%	27.8%	27.7%
- delta	-1bps	34bps	32bps	-36bps	-91bps	-39bps	-14bps
EBITDA	231.2	280.6	279.8	267.5	301.6	328.2	344.8
EBIT	95.5	152.0	140.4	128.7	156.6	183.2	199.8
- margin	1.2%	1.8%	1.7%	1.6%	1.9%	2.1%	2.3%
PBT	50.5	90.5	85.3	70.8	93.0	130.0	150.0
EPS	0.6	1.4	1.4	0.9	1.1	1.8	2.3
- growth	-89.3%	122.3%	4.8%	-36.9%	21.4%	64.3%	27.1%
Working Capital/Sales	-2.3%	-2.8%	-3.7%	-4.4%	-6.3%	-5.5%	-5.5%
Depreciation	135.7	128.6	139.4	138.8	145.0	145.0	145.0
Depreciation / Sales	1.7%	1.5%	1.7%	1.7%	1.7%	1.7%	1.7%
Capex	141.8	165.3	223.2	101.5	110.0	135.0	135.0
Capex / Sales	1.7%	1.9%	2.7%	1.2%	1.3%	1.6%	1.6%
FCF	-289.0	49.6	18.7	88.9	246.9	35.0	112.9
FCF/Sales	-3.5%	0.6%	0.2%	1.1%	2.9%	0.4%	1.3%
Net (Debt) / Cash	-477.5	-220.6	-206.8	-104.0	27.9	69.9	182.8
Net Debt/EBITDA	2.1x	0.8x	0.7x	0.4x	-0.1x	-0.2x	na
Lease Adj Net Debt/EBITDA	5.6x	4.9x	4.9x	4.8x	4.4x	4.2x	4.0x
Lease Adj ROCE	9.8%	11.4%	10.0%	10.5%	12.5%	13.2%	13.6%
Fixed Charge Cover	1.5x	1.6x	1.6x	1.5x	1.6x	1.7x	1.8x

Source: Company Reports and Citi Research Estimates

Figure 146. Dixons Retail - Statistical Abstract

Yr to Apr	EBITDA (£m)	EBIT (£m)	PBT (£m)	Tax	EPS (p)	EPS Old (p)	Abs P/E	Net Div (p)	Div Yld (%)	EV/Sales	EV/EBIT	EV/EBITDA
2009A	231	96	50.5	68.0%	0.6	0.6	59.8	0.0	0.0	0.23	19.6	8.1
2010A	281	152	90.5	45.0%	1.4	1.4	26.9	0.0	0.0	0.19	10.7	5.8
2011A	280	140	85.3	37.0%	1.4	1.4	25.7	0.0	0.0	0.20	11.8	5.9
2012A	268	129	70.8	51.0%	0.9	0.9	40.7	0.0	0.0	0.19	12.0	5.8
2013E	302	157	93.0	55.0%	1.1	0.9	33.5	0.0	0.0	0.17	9.0	4.7
2014E	328	183	130.0	48.0%	1.8	1.7	20.4	0.0	0.0	0.16	7.4	4.1
2015E	345	200	150.0	43.0%	2.3	2.3	16.0	0.0	0.0	0.14	6.2	3.6
YTD										1M	3M	12M
Shares	3,606.6	Gearing =			50.1%	Abs (%)		28.56	3.14	33.74	146.69	
MV	1,331	EV =			1,361	Rel (%)		12.77	-2.22	26.25	97.69	

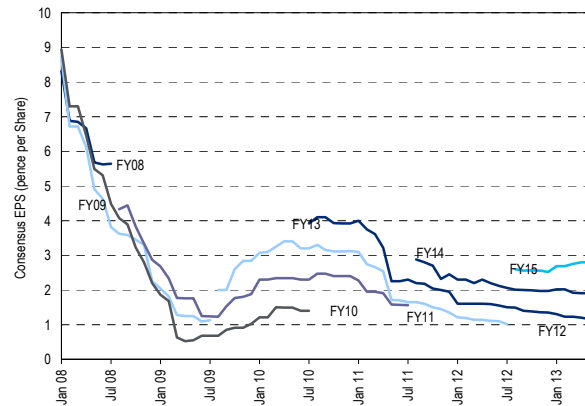
Source: Company Reports and Citi Research Estimates

Figure 147. Dixons Retail – Long Run EV/EBIT Valuation



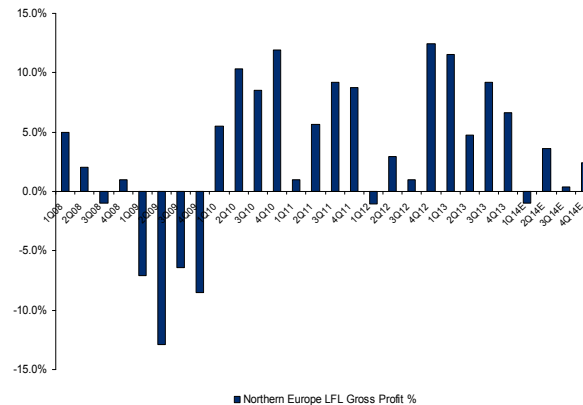
Source: DataStream and Citi Research

Figure 148. Dixons Retail – Consensus EPS



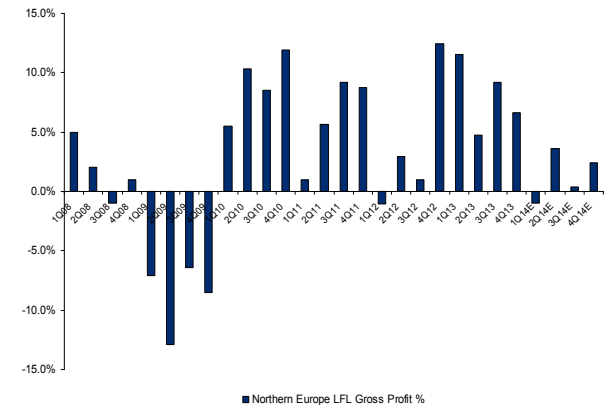
Source: DataStream and Citi Research

Figure 149. Dixons UK LFL Gross Profit %



Source: Company Reports and Citi Research Estimates

Figure 150. Dixons Nordics LFL Gross Profit %



Source: Company Reports and Citi Research Estimates

Dunelm (DNL.M.L) – Buy (1) Rating, Target Price 900p

- **Steady growth** — Dunelm is a high-quality retailer that should continue to see earnings progression through its store rollout programme, enhanced internet offering and possible sourcing efficiencies, in our view. The combination of this with high cash generation and a strong balance sheet means that Dunelm looks in a better position to weather the tough macro environment than many UK retail peers.
- **Product range and depth is key differentiator** — Dunelm offers a wide choice of products over a price architecture that aims to match supermarkets for price but beat them on quality at the low end and match high end department stores on quality but beat them on price at the top end. This range of products and pricing is unmatched in the UK and has been the main driver of Dunelm's success.
- **Still many improvements to be made** — Despite this success we see a lot of improvements that could be made over the medium term. These include further direct sourcing (currently c.16% of sales); more sophisticated pricing techniques; further central checking and processing of stock; enhancement of the web platform and customer fulfillment options; better in store and back office IT systems and improved national brand promotion. The successful roll-out of these is highly likely to improve the sales trajectory and profit margins of the company, in our view.
- **Double-digit EPS growth and further cash returns expected** — Our forecast for double-digit EPS growth is driven by i) further store expansion, ii) continued LFL sales improvements, iii) gross margin gains and iv) tax rate reductions. We believe these forecasts are well underpinned and in combination with Dunelm's strong balance sheet and cash generation qualities make further cash returns to shareholders likely in the medium term.
- **Buy. Target Price 900p** — This target price is based on Dunelm trading on an EV/EBIT multiple of c.13x to Jun-15E. We feel this multiple is justified by the significant and sustainable growth opportunities that Dunelm provides over the medium term. This equates to a target P/E multiple of c.19x and dividend yield of 2.2% in the same forecast year

Figure 151. Dunelm – Financial Summary, 2009-2015E

£ms	2009	2010	2011	2012	2013E	2014E	2015E
Sales	423.8	492.8	538.5	603.7	666.4	718.9	773.4
- growth	8.2%	16.3%	9.3%	12.1%	10.4%	7.9%	7.6%
- LFL	-0.5%	8.0%	-0.6%	3.1%	0.8%	1.0%	1.0%
- Space	7.0%	10.2%	9.9%	9.0%	9.6%	6.9%	6.6%
Gross Profit	190.2	230.6	258.3	291.7	324.0	352.4	382.2
- margin	44.9%	46.8%	48.0%	48.3%	48.6%	49.0%	49.4%
- delta	176bps	192bps	119bps	34bps	30bps	40bps	40bps
EBITDA	63.2	86.8	97.4	113.9	123.4	132.7	142.5
EBIT	52.6	75.5	83.3	95.2	105.0	113.5	124.0
- margin	12.4%	15.3%	15.5%	15.8%	15.8%	15.8%	16.0%
PBT	53.5	76.8	83.6	96.2	106.0	115.0	125.0
EPS	18.6	26.9	29.3	35.1	39.2	43.1	47.3
- growth	11.8%	44.6%	9.2%	19.6%	11.6%	9.9%	9.8%
Dividend	6.0	8.0	11.5	14.0	16.0	18.0	20.0
- growth	9.1%	33.3%	43.8%	21.7%	14.3%	12.5%	11.1%
Working Capital/Sales	0.7%	0.3%	1.0%	1.0%	1.6%	2.2%	2.7%
Depreciation	10.6	11.4	14.1	18.7	18.4	19.2	18.5
Depreciation / Sales	2.5%	2.3%	2.6%	3.1%	2.8%	2.7%	2.4%
Capex	19.6	23.3	36.1	37.0	25.0	26.5	28.0
Capex / Sales	4.6%	4.7%	6.7%	6.1%	3.8%	3.7%	3.6%
FCF	36.8	42.4	32.9	51.1	66.6	73.4	80.3
FCF/Sales	8.7%	8.6%	6.1%	8.5%	10.0%	10.2%	10.4%
Net (Debt) / Cash	24.0	15.4	35.1	65.2	40.0	86.0	136.5
Net Debt/EBITDA	na	na	na	na	na	na	na
Lease Adj Net Debt/EBITDA	2.0x	1.7x	1.5x	1.1x	1.5x	1.2x	0.9x
ROCE	58.0%	81.1%	75.9%	72.2%	71.4%	71.8%	72.8%
Lease Adj ROCE	23.6%	31.5%	30.4%	32.0%	30.2%	30.3%	30.6%
Fixed Charge Cover	2.4x	3.3x	3.1x	3.7x	3.3x	3.4x	3.4x

Source: Company Reports and Citi Research Estimates

Figure 152. Dunelm – Statistical Abstract

Yr to June	Sales (£m)	EBIT (£m)	PBT (£m)	Tax (%)	EPS (p)	P/E	Net Div (p)	Div Yld (%)	EV/ Sales	EV/ EBIT	EV/ EBITDA	
2009A	424	53	53	30%	18.6	48.4	6.0	0.7%	4.17	33.6	28.0	
2010A	493	75	77	29%	26.9	33.5	8.0	0.9%	3.60	23.5	20.5	
2011A	538	83	84	28%	29.3	30.7	11.5	1.3%	3.26	21.1	18.0	
2012A	604	95	96	26%	35.1	25.6	14.0	1.6%	2.86	18.1	15.2	
2013E	666	105	106	25%	39.2	23.0	16.0	1.8%	2.63	16.7	14.2	
2014E	719	114	115	24%	43.1	20.9	18.0	2.0%	2.37	15.0	12.9	
2015E	773	124	125	23%	47.3	19.0	20.0	2.2%	2.14	13.3	11.6	
									YTD	1M	3M	12M
MV	1,831	Shares			203	Abs %		19.8	-1.6	7.7	69.0	
EV	1,791					Rel %		5.3	-5.8	1.8	36.5	

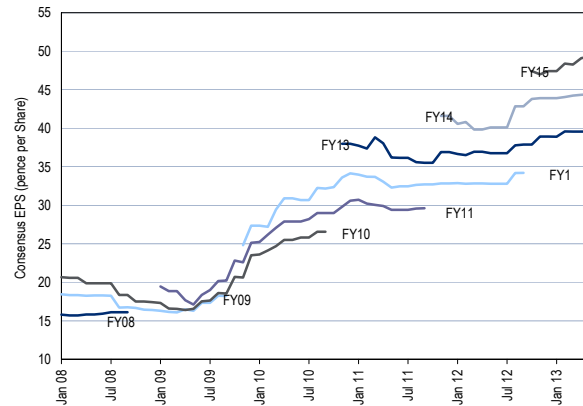
Source: Company Reports and Citi Research Estimates

Figure 153. Dunelm – Long Run EV/EBIT Valuation



Source: DataStream and Citi Research

Figure 154. Dunelm – Consensus EPS



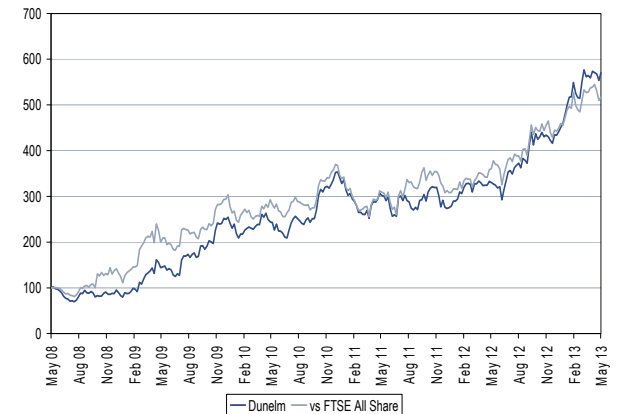
Source: DataStream and Citi Research

Figure 155. Dunelm – 1-Year Share Price Performance



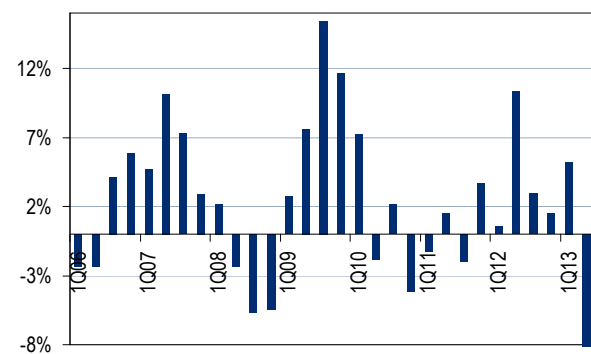
Source: DataStream and Citi Research

Figure 156. Dunelm – 5-Year Share Price Performance



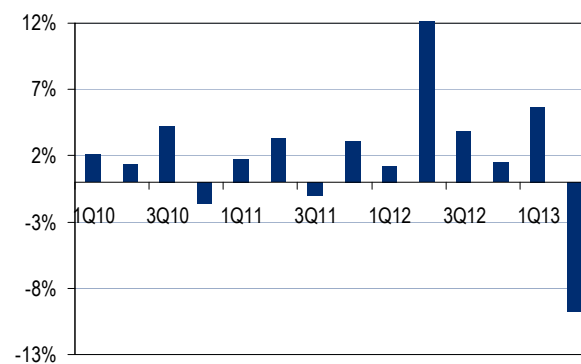
Source: DataStream and Citi Research

Figure 157. Dunelm – Quarterly LFL Sales Growth – Calendarised



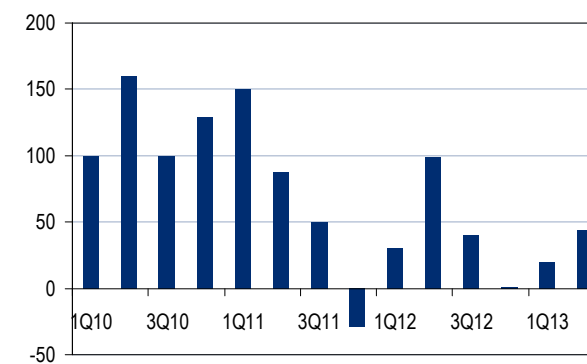
Source: Company Reports and Citi Research Estimates

Figure 158. Dunelm – Quarterly LFL Gross Profit – Calendarised



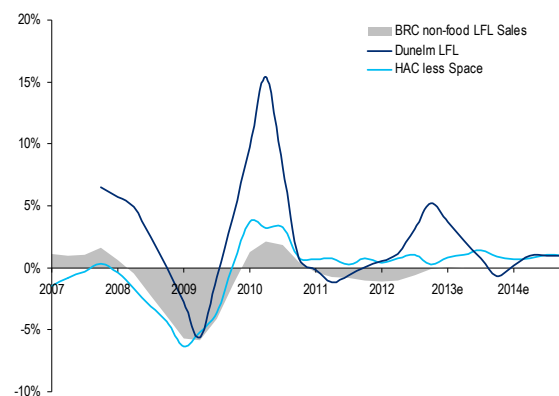
Source: Company Reports and Citi Research Estimates

Figure 159. Dunelm – YoY Gross Margin Progression (bps)



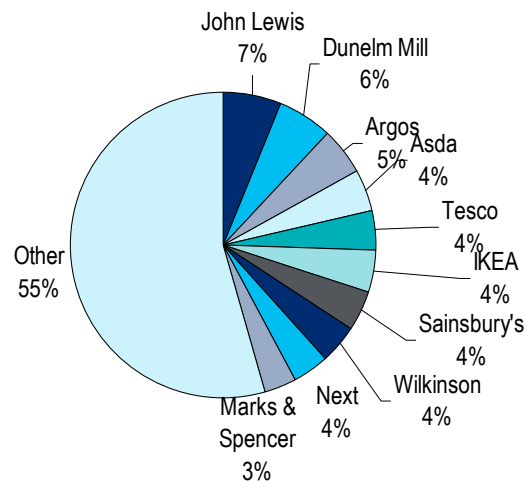
Source: Company Reports and Citi Research Estimates

Figure 160. Dunelm LFL vs BRC Non-Food LFL Sales vs HAC Less Space (Calendarised)



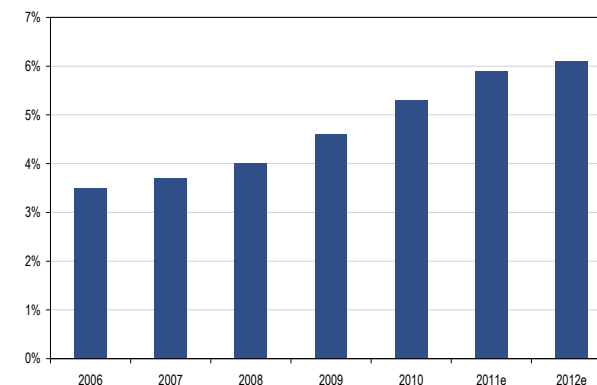
Source: Company Reports and Citi Research Estimates

Figure 161. UK Homewares – Market Share Split, 2012e



Source: Verdict

Figure 162. Dunelm – Share of UK Homewares Market, 2006-2012e



Source: Verdict

This page is intentionally left blank

Inditex (ITX.MC) - Buy (1) Rating, Target Price €120

- **We forecast a €563m 1Q PBT (EPS €0.70, +1% yoy)** — Ahead of the Inditex 1Q results on June 12, we strike a €563m PBT forecast, equating to €0.70 EPS +1% year on year, driven by 1Q sales +5.6% (LFL +0%, ccy -2%, space +8.6%, leap year -1%), gross margins -75bp and opex +8% (-2.5% LFL cost inflation).
- **We forecast flat 1Q LFL (2-year LFL +7%)** — This flat 1Q LFL forecast represents a fade from the c.+3% underlying LFL over the first 6 weeks of 1Q, in the wake of the adverse weather patterns in March and early April. For context, 1Q Spanish non-food retail sales have declined -10%. Our flat 1Q LFL forecast represents a c.+7% 2-year 1Q LFL, in line with the 2-year LFL run rate in 4Q last year.
- **Jan 2014 PBT forecast €3,465m (EPS €4.18, +10% yoy)** — This reflects the slower 1Q trends and assumes +3% January 2014 group LFL sales growth, space contribution +8%, a -20bp gross margin, and total operating costs +10% (-0.7% LFL cost inflation). In deriving this LFL sales growth forecast, we continue to argue that Inditex can sustain LFL sales trends above GDP growth (sales-weighted for its markets).
- **What does it all mean?** — As discussed in our recent report 'Online Implications for Retail Profitability', we regard Inditex as one of the few beneficiaries of the ongoing, rapid channel shift to online from store-based apparel sales (given that store-based sales cannibalisation remains minimal). In combination with an aggressive store opening programme in the higher-growth Asian and Emerging markets, we expect Inditex 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 current near completion of an approximate doubling of its design, sourcing and store feedback management capacity. In combination with a c.2.5% dividend yield, we expect this to drive a c.+15% total return p.a. over time. Long-held Buy rating retained.
- **Buy rating; target price €120** — This target is based on 15.5x January 2016E target EV/EBIT (recent average), equating to a 23x P/E and a 4% free cash flow yield for the same forecast year.
- **Inditex is on the Citi European Focus List:** [Citi Focus List Europe](#)

Figure 163. Inditex – Financial Summary, 2010-2016E

€m	2010	2011	2012	2013E	2014E	2015E	2016E
Sales	11,084.0	12,527.0	13,793.0	15,946.0	17,533.2	19,583.0	21,842.6
- growth	6.5%	13.0%	10.1%	15.6%	10.0%	11.7%	11.5%
- LFL	0.2%	3.0%	4.2%	6.1%	2.9%	3.5%	3.5%
- Space	8.8%	7.0%	7.2%	7.5%	8.3%	8.2%	8.0%
Gross Profit	6,328.0	7,423.0	8,180.0	9,529.0	10,434.7	11,654.7	12,999.5
- margin	57.1%	59.3%	59.3%	59.8%	59.5%	59.5%	59.5%
- delta	26bps	216bps	5bps	45bps	-24bps	0bps	0bps
EBITDA	2,340.1	2,914.1	3,202.1	3,913.0	4,245.8	4,764.4	5,336.3
EBIT	1,728.0	2,291.0	2,522.0	3,117.0	3,425.0	3,860.0	4,340.0
- margin	15.6%	18.3%	18.3%	19.5%	19.5%	19.7%	19.9%
PBT	1,732.0	2,322.0	2,559.0	3,131.0	3,465.0	3,910.0	4,400.0
EPS	2.11	2.78	3.10	3.79	4.18	4.70	5.28
- growth	4.3%	32.0%	11.5%	22.1%	10.2%	12.4%	12.6%
Dividend	1.20	1.60	1.80	2.20	2.49	2.85	3.24
- growth	na	na	12.5%	22.2%	13.1%	14.4%	13.9%
Working Capital/Sales	-7.70%	-7.78%	-6.31%	-6.15%	-5.71%	-5.32%	-5.05%
Depreciation	612.1	623.1	680.1	796.0	820.8	904.4	996.3
Depreciation / Sales	5.5%	5.0%	4.9%	5.0%	4.7%	4.6%	4.6%
Capex	510.0	691.0	864.0	1,193.0	1,250.0	1,375.0	1,512.5
Capex / Sales	4.6%	5.5%	6.3%	7.5%	7.1%	7.0%	6.9%
FCF	1,811.0	1,865.0	1,545.0	1,926.0	2,194.8	2,496.9	2,838.8
FCF/Sales	16.3%	14.9%	11.2%	12.1%	12.5%	12.8%	13.0%
Net (Debt) / Cash	2,380.0	3,433.0	3,467.0	4,097.0	4,920.5	5,866.6	6,930.5
Net Debt/EBITDA	na	na	na	na	na	na	na
ROCE	55.3%	77.0%	72.2%	72.2%	70.7%	73.3%	76.0%
Lease Adj ROCE	21.8%	26.8%	26.5%	28.2%	28.0%	28.7%	29.4%
Fixed Charge Cover	3.1x	3.4x	3.4x	3.7x	3.6x	3.7x	3.7x

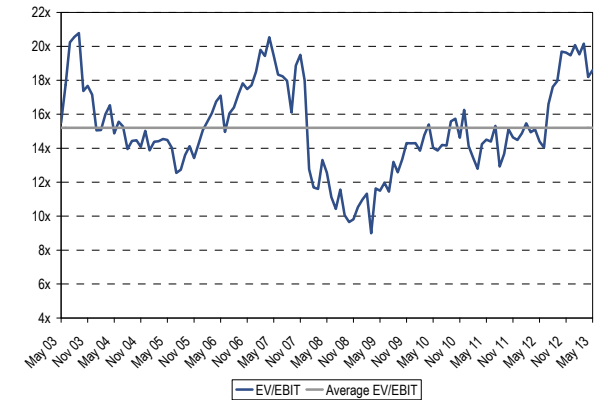
Source: Company Reports and Citi Research Estimates

Figure 164. 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	37.6	1.60	1.5	4.93	27.0	21.2	
2012A	2,522	2,559	24.7%	3.10	3.10	33.7	1.80	1.7	4.47	24.5	19.3	
2013A	3,117	3,131	24.4%	3.79	3.79	27.6	2.20	2.1	3.83	19.6	15.6	
2014E	3,425	3,465	25.0%	4.18	4.18	25.0	2.49	2.4	3.44	17.6	14.2	
2015E	3,860	3,910	25.0%	4.70	4.70	22.3	2.85	2.7	3.03	15.4	12.4	
2016E	4,340	4,400	25.0%	5.28	5.28	19.8	3.24	3.1	2.67	13.4	10.9	
									YTD	1M	3M	12M
Gearing =	-48.3%	Shares =	623.1			Abs %		(1.1)	3.2	0.5	54.7	
MV =	65,176.3	FV =	61,079.3			Rel %		(13.1)	(1.3)	(5.0)	24.9	

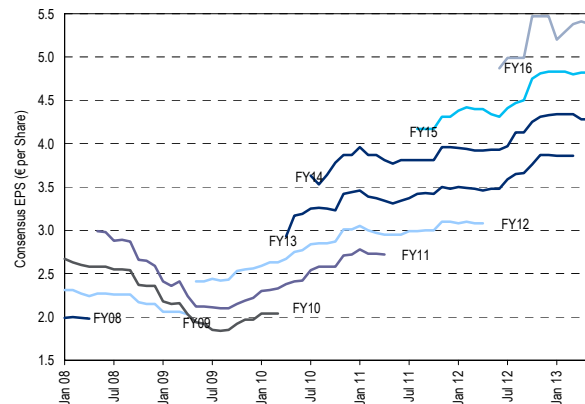
Source: Company Reports and Citi Research Estimates

Figure 165. Inditex – Long Run EV/EBIT Valuation



Source: DataStream and Citi Research

Figure 166 Inditex – Consensus EPS



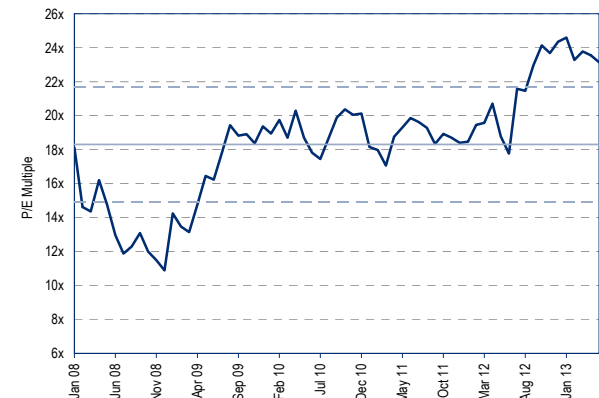
Source: DataStream and Citi Research

Figure 167. Inditex – 10-Year Share Price Performance (\$ rebased)



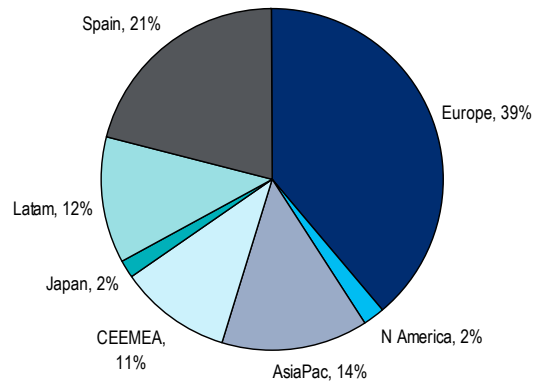
Source: DataStream and Citi Research

Figure 168. Inditex – 12-Month Forward P/E



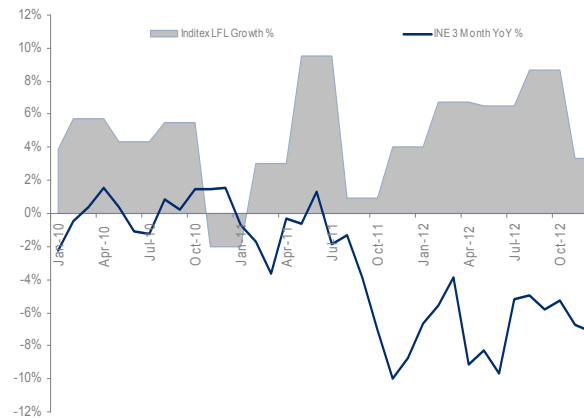
Source: DataStream and Citi Research

Figure 169. Inditex – Revenue Split by Geography, FY13E



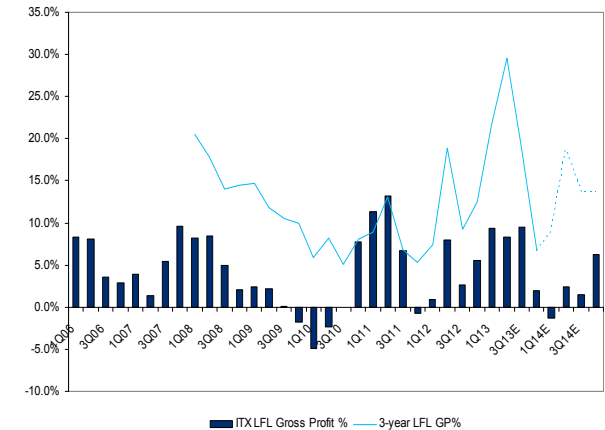
Source: Citi Research

Figure 170. Inditex LFL vs Spanish Clothing Market



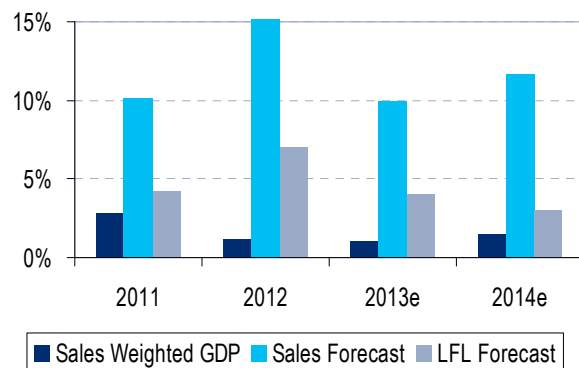
Source: INE, Company Reports and Citi Research

Figure 171. Inditex – LFL Gross Profit



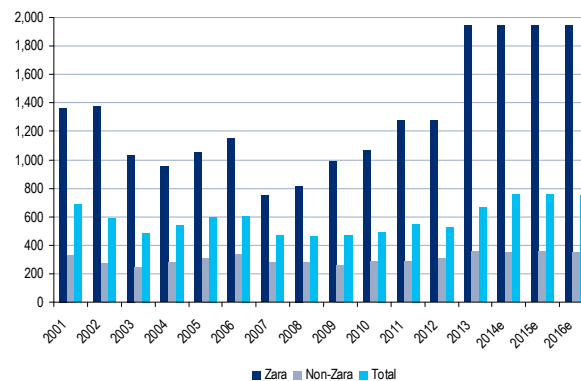
Source: Company Reports and Citi Research Estimates

Figure 172. Inditex LFL Growth vs Weighted Average GDP Growth



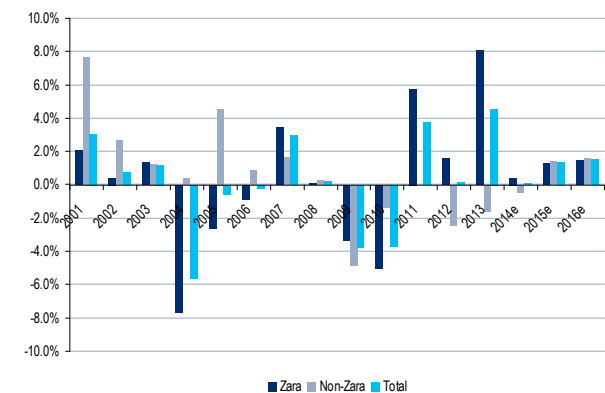
Source: Company Reports and Citi Research Estimates

Figure 173. Inditex – Average New Store Size (sq m)

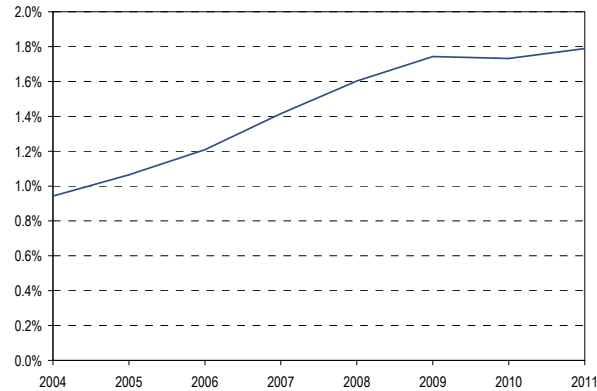


Source: Company Reports and Citi Research Estimates

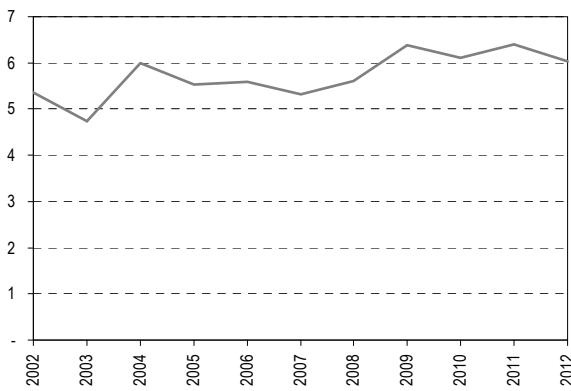
Figure 174. Change in Sales per Avg sqm



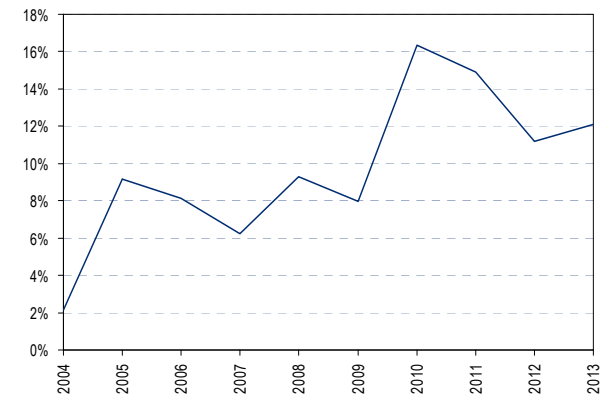
Source: Company Reports and Citi Research Estimates

Figure 175. Inditex – Long Run Market Share Trends


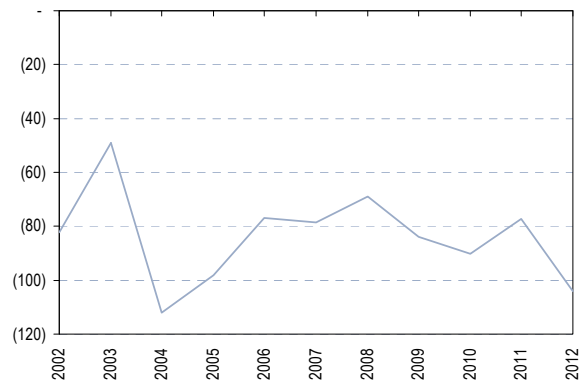
Source: Euromonitor International

Figure 176. Inditex – Long Run GROI


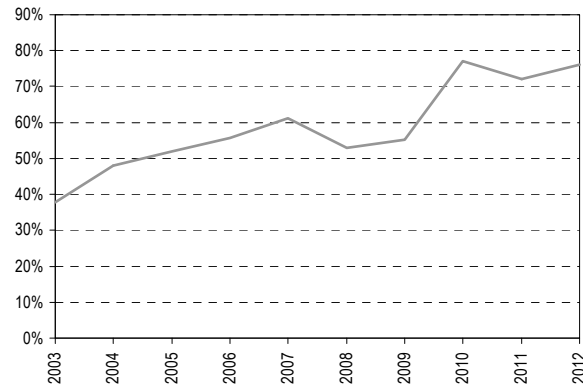
Source: Company Reports and Citi Research

Figure 177. Inditex – Long Run Free Cashflow/Sales


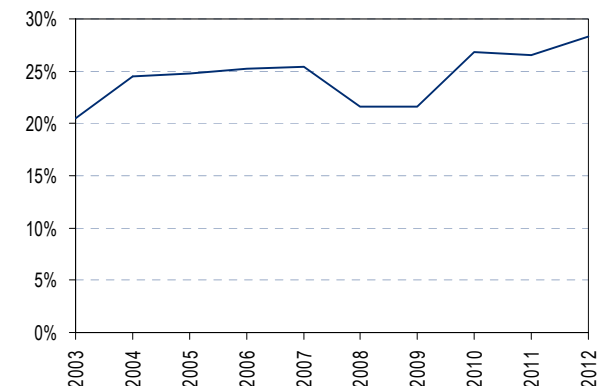
Source: Company Reports and Citi Research

Figure 178. Inditex – Long Run Working Capital Days


Source: Company Reports and Citi Research

Figure 179. Inditex – Long Run ROCE


Source: Company Reports and Citi Research

Figure 180. Inditex – Long Run Lease CAP ROCE


Source: Company Reports and Citi Research

Kingfisher PLC (KGF.L) – Buy (1) Rating, Target Price 385p (from 330p)

- Investment thesis** — KGF should be the beneficiary of strong market positions, material efficiency gains from direct sourcing initiatives and International space growth, underpinned by a strong balance sheet. Near-term forecast volatility due to adverse weather, French macro and softer UK trading remain risks but our forecast agenda for FY14E assuming little top line improvement in demand for core UK and French markets still drives a 10%+ EPS growth estimate for both FY14E and FY15E. We believe sector valuation metrics are likely to expand once the market focuses back on the core margin and cost story. Buy maintained.
- FY 2014E PBT £780m (EPS 24.3p, +10% yoy)** — For France we forecast EBIT of £417m (growth of 5% yoy) reflecting LFLs of -3.1% alongside gross margin progression (+50bp). For UK B&Q we forecast LFLs flat which assumes a small recovery in H1 (LFL +1%) given the weak weather-related comparatives, gross margins +30bp, driving EBIT +4% yoy (inc Screwfix) to £243m. For the group we forecast trading profit of £843m, +8% yoy.
- Balance sheet remains robust** — Given its strong cash generation (c£400m+ of free cash flow per annum through FY14-16E), we estimate KGF's lease-adjusted net debt/EBITDAR will improve from 2.4x in FY13 to nearer 1.8x in FY16E. We believe this cash generation profile remains supportive of future share buybacks. In our analysis presented within this note we estimate KGF's balance sheet could support a c£300m-£350m per annum share buyback, potentially enhancing EPS growth in FY15E and FY16E by c+4-5% whilst still maintaining the same leased-adjusted leverage ratio of 2.4x.
- Buy rating, target price of 385p (from 330p)** — KGF trades at a c.17% FY15E EV/EBIT discount to its FTSE 100 peers. Given what we see as prospects for strong EPS growth next year, £660m of net cash by FY16e, medium-term potential for cash returns (pending resolution of French tax situation) and the ongoing strategic initiatives, we believe KGF should trade closer to both Next and MKS. Our new price target of 385p (raised due to roll-forward of our reference base year) is based on a Jan 2015E EV/EBIT multiple of 10x. This equates to a Jan 2015E PE of 14.3x and dividend yield of c.3%.

Figure 181. Kingfisher – Financial Summary, 2010-2016E

£ms	2010	2011	2012	2013	2014E	2015E	2016E
Sales	10,502.5	10,450.0	10,831.4	10,501.4	10,955.1	11,342.7	11,812.4
- growth	4.8%	-0.5%	3.6%	-3.0%	4.3%	3.5%	4.1%
- LFL	-0.9%	-0.7%	1.8%	-2.2%	-1.1%	1.2%	1.6%
- Space/Other	5.6%	0.2%	1.9%	-0.8%	5.4%	2.4%	2.5%
Gross Profit	3,797.0	3,905.0	4,083.1	3,910.2	4,070.4	4,223.8	4,399.5
- margin	36.2%	37.4%	37.7%	37.2%	37.2%	37.2%	37.2%
- delta	115bps	121bps	33bps	-46bps	-8bps	8bps	1bps
EBITDA	866.0	980.0	1,086.0	969.0	1,045.0	1,134.0	1,210.9
EBIT	606.0	704.0	812.0	721.0	785.0	862.0	926.9
- margin	5.8%	6.7%	7.5%	6.9%	7.2%	7.6%	7.8%
PBT	547.0	670.0	800.0	715.0	780.0	865.0	936.9
EPS	16.2	20.1	24.3	22.0	24.3	26.9	29.3
- growth	48.2%	23.5%	21.1%	-9.3%	10.2%	10.8%	9.0%
Dividend	5.5	7.1	8.8	9.5	10.3	11.0	12.0
- growth	3.3%	28.5%	25.0%	7.0%	8.9%	6.8%	9.1%
Working Capital/Sales	-3.2%	-2.1%	0.2%	1.9%	1.8%	2.2%	2.5%
Depreciation	260.0	276.0	274.0	248.0	260.0	272.0	284.0
Depreciation / Sales	2.5%	2.6%	2.5%	2.4%	2.4%	2.4%	2.4%
Capex	256.0	310.0	338.0	316.0	375.0	400.0	400.0
Capex / Sales	2.4%	3.0%	3.1%	3.0%	3.4%	3.5%	3.4%
FCF	660.0	320.0	358.0	305.0	378.3	457.8	527.3
FCF/Sales	6.3%	3.1%	3.3%	2.9%	3.5%	4.0%	4.5%
Net (Debt) / Cash	-250.0	14.0	-88.0	38.0	190.0	400.0	664.2
Net Debt/EBITDA	0.3x	na	0.1x	na	na	na	na
Lease Adj Net Debt/EBITDA	2.6x	2.3x	2.2x	2.4x	2.2x	2.0x	1.8x
ROCE	23.3%	24.8%	25.3%	20.5%	21.1%	22.2%	22.9%
Lease Adj ROCE	9.1%	9.9%	10.7%	9.4%	9.9%	10.5%	10.9%
Fixed Charge Cover	2.2x	2.5x	2.8x	2.6x	2.7x	2.9x	3.0x

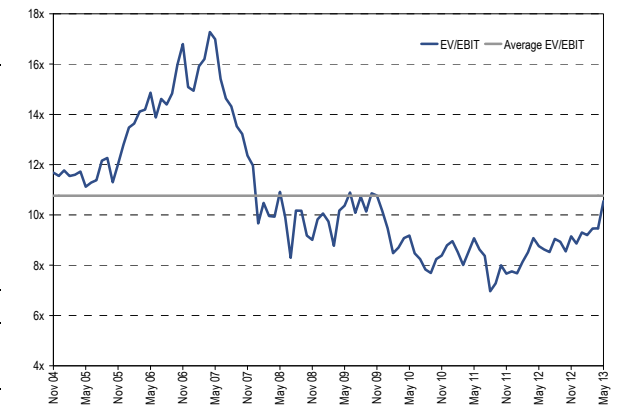
Source: Company Reports and Citi Research Estimates

Figure 182. Kingfisher – Statistical Abstract

Yr to Jan	EBIT (£m)	PBT (£m)	EPS (p)	EPS (Old) (p)	P/E	Net Div (p)	Div Yld (%)	EV/ Sales	EV/ EBIT	EV/ EBITDA
2010A	606	547	16.2	16.2	18.0	5.5	1.9	0.68	11.7	8.2
2011A	704	670	20.1	20.1	14.6	7.1	2.4	0.66	9.7	7.3
2012A	812	800	24.3	24.3	12.0	8.8	3.0	0.64	8.6	6.6
2013A	721	715	22.0	22.0	13.2	9.5	3.2	0.65	9.5	7.0
2014E	784	780	24.3	24.3	12.0	10.3	3.5	0.61	8.5	6.4
2015E	861	865	26.9	26.9	10.8	11.0	3.8	0.57	7.5	5.7
2016E	926	937	29.3	-	10.0	12.0	4.1	0.52	6.7	5.1
							YTD	1M	3M	12M
Gearing =	1.5%	Shares =	2,339.0			Abs %	(0.3)	1.1	0.1	(9.2)
MV =	6,859	EV =	6,821			Rel %	(8.4)	0.5	(7.2)	(18.0)

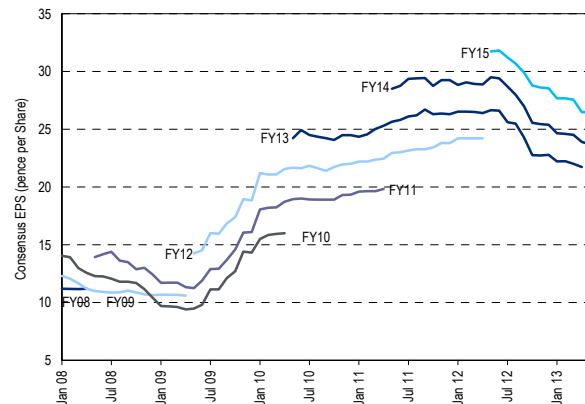
Source: Company Reports and Citi Research Estimates

Figure 183. Kingfisher – Long Run EV/EBIT Valuation



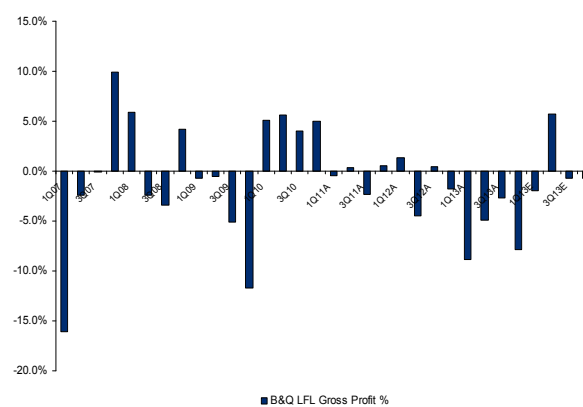
Source: DataStream and Citi Research

Figure 184. Kingfisher – Consensus EPS



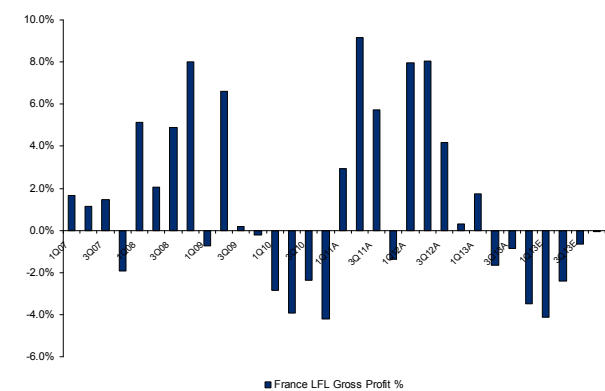
Source: DataStream and Citi Research

Figure 185. B&Q LFL Gross Profit %



Source: Company Reports and Citi Research Estimates

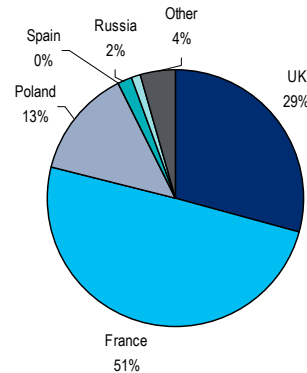
Figure 186. France LFL Gross Profit %



Source: Company Reports and Citi Research Estimates

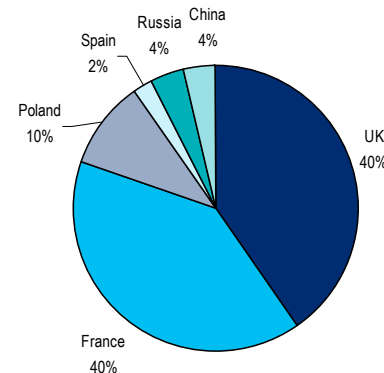
Kingfisher Snapshot → A quality Pan-European DIY retailer

Figure 187. Kingfisher EBIT breakdown, 2013A



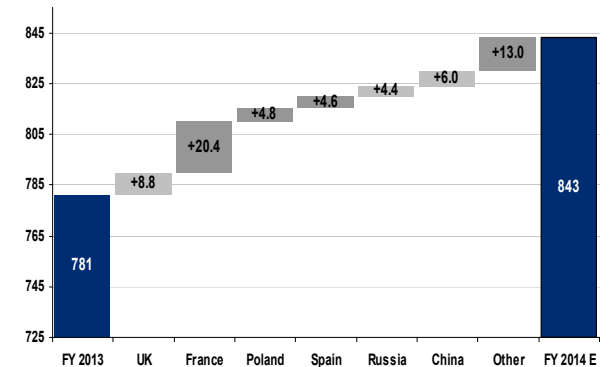
Source: Company Reports and Citi Research

Figure 188. Kingfisher sales breakdown, 2013A



Source: Company Reports and Citi Research

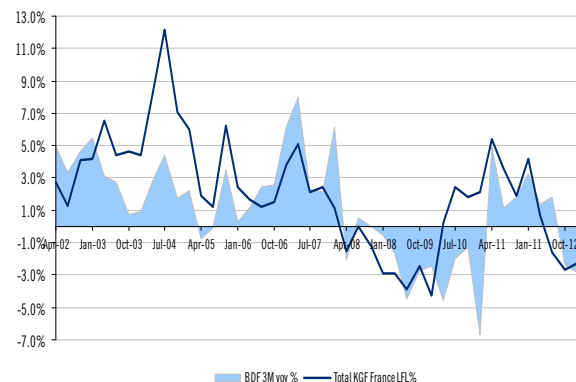
Figure 189. Kingfisher Trading Profit Bridge, 2014E



Source: Company Reports and Citi Research Estimates

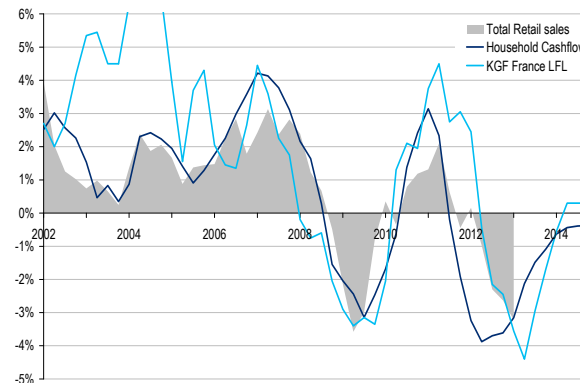
France remains a market concern → Focus on costs and margin into FY 2014

Figure 190. French DIY Data Has Softened



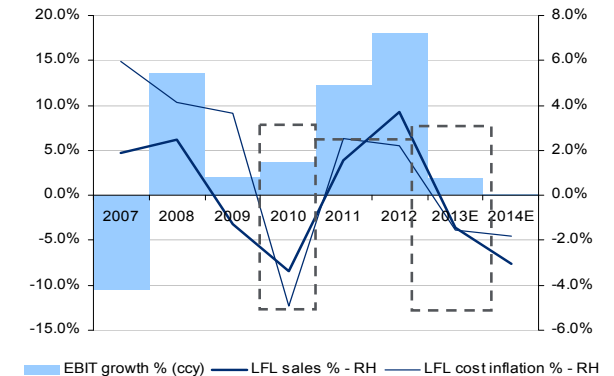
Source: Ministère du Développement Durable

Figure 191. KGF France LFL Estimates Below Citi France HAC



Source: BdF, Company Reports and Citi Research Estimates (2013-14)

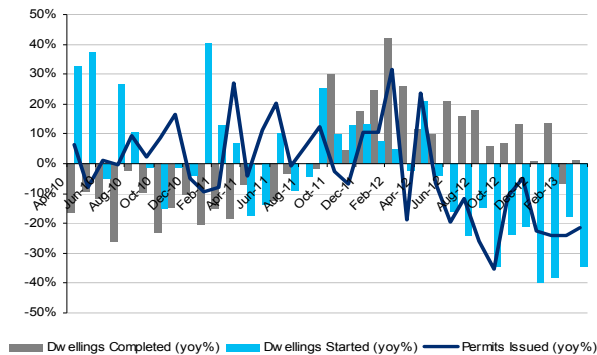
Figure 192. France: Focus on Costs and Ongoing Sourcing Margin Gains



Source: Company Reports and Citi Research Estimates

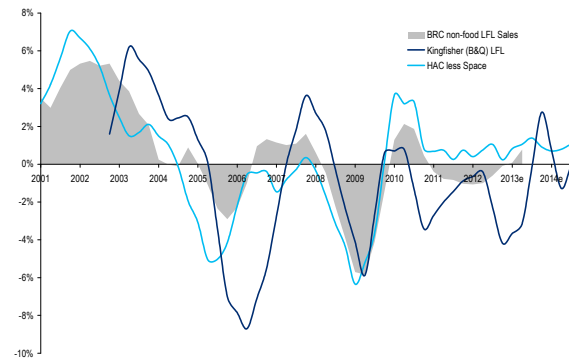
Poland data soft ↓ UK improvement ↔ Gross margins ↑

Figure 193. Poland Dwellings Data Has Softened



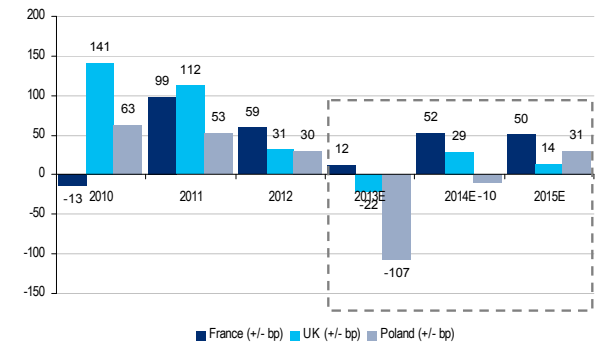
Source: Poland Central Statistical Office

Figure 194. Kingfisher UK LFL vs Citi UK HAC



Source: Company Reports, ONS and Citi Research Estimates

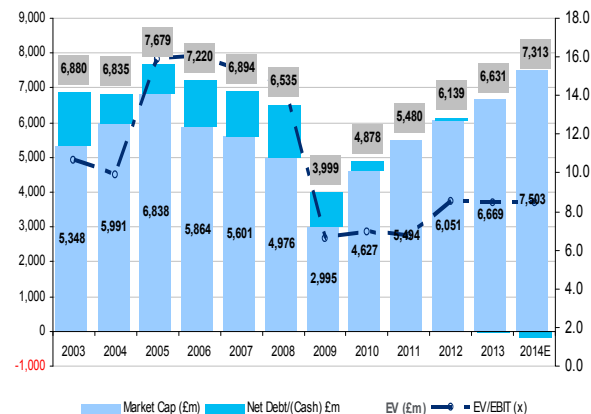
Figure 195. Gross Margin Increase: Direct Sourcing and Common



Source: Company Reports and Citi Research Estimates

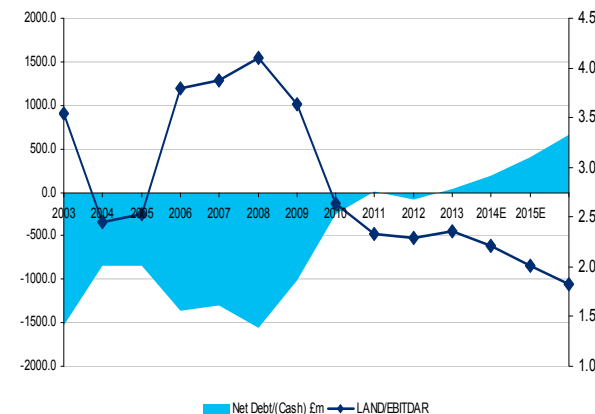
Valuation undemanding + Growing cash pile + Buyback potential

Figure 196. Restructured Balance Sheet, Rerating Not Followed



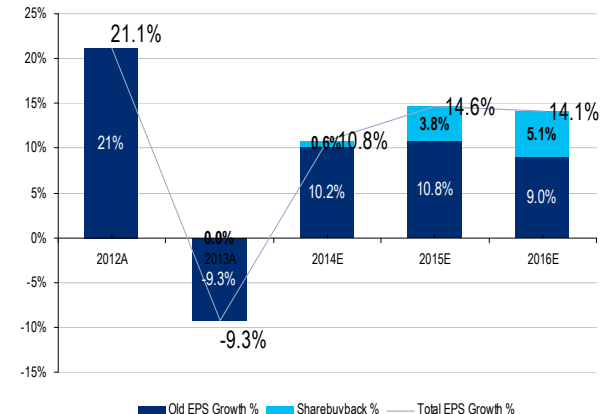
Source: Company Reports and Citi Research Estimates

Figure 197. Debt Eradicated, Growing Cash Pile



Source: Company Reports and Citi Research Estimates

Figure 198. Potential Buyback Contribution to EPS Growth %



Source: Company Reports and Citi Research Estimates

Next Group PLC (NXT.L) - Buy (1) Rating, Target Price 5200p (from 4800p)

- **De-equitiser: a double-digit EPS CAGR retailer** — The combination of a stable, well managed c.15% EBIT margin store-based clothing business (2/3 group sales), and a high-growth, higher EBIT margin Directory/online operation (1/3 group sales) should allow Next to maintain c.+4-5% p.a. EBIT progress, in our view. In conjunction with 4% p.a. share buyback programme we forecast c.+10-11% p.a. earnings growth from here. While the management's buyback commentary looks likely to limit the group's valuation metrics at close to the current level, holding this multiple should still drive an ETR of c.+15% p.a., on our estimates. We remain Buyers.
- **Next Brand LFL gross profit has been positive since Jan 2009 to date** — Notably, blending the Next Retail and Next Directory performance metrics to derive a Next Brand LFL gross profit, we calculate that the half-yearly trends have been positive since January 2009, and forecast them to remain positive through FY14.
- **FY14E PBT remains £653m (EPS 313p, +11% yoy)** — This assumes Next Brand total sales +2.4% and Next Brand LFL sales +0.6% (in line with our sector average non-food LFL sales expectation), a flat gross margin and group operating costs +1.5%. By operating division, this splits Next Retail LFL -3%, Directory +7%.
- **Buy investment rating, £52 target price** — In deriving our 5,200p target price (raised from 4,800p given the recent equity market re-rating), we apply a c.13.5x January 2016e PE multiple (in line with the recent average for the large-cap sector peers). This equates to a 12x EV/EBIT multiple and c.3% dividend yield target for the same forecast year. Our forecasts are essentially unchanged but include an update for the current share price in the share buyback calculation, which drives a minor change in FY14e.

Figure 199. Next – Financial Summary, 2010-2016E

£ms	2010	2011	2012	2013	2014E	2015E	2016E
Sales	3,439.4	3,453.7	3,441.1	3,562.8	3,660.5	3,768.3	3,895.8
- growth	3.6%	0.4%	-0.4%	3.5%	2.7%	2.9%	3.4%
- LFL	0.5%	-0.1%	0.9%	1.0%	0.6%	1.0%	1.5%
Gross Profit	1,727.9	1,782.9	1,869.1	1,945.9	1,993.5	2,043.1	2,104.2
- margin	50.2%	51.6%	54.3%	54.6%	54.5%	54.2%	54.0%
- delta	34bps	138bps	270bps	30bps	-16bps	-24bps	-21bps
EBITDA	662.3	705.9	735.2	785.2	821.0	831.0	847.5
EBIT	529.8	574.8	598.7	650.2	681.0	691.0	715.0
- margin	15.4%	16.6%	17.4%	18.2%	18.6%	18.3%	18.4%
PBT	505.3	551.4	570.3	621.6	653.0	663.0	687.0
EPS	185.5	216.4	247.5	280.8	312.7	346.4	381.4
- growth	19.1%	16.6%	14.4%	13.5%	11.4%	10.8%	10.1%
Dividend	66.0	78.0	90.0	105.0	117.0	130.0	143.5
- growth	20.0%	18.2%	15.4%	16.7%	11.4%	11.1%	10.4%
Working Capital/Sales	10.9%	13.6%	15.3%	14.4%	14.0%	13.9%	13.8%
Depreciation	123.1	119.3	119.7	117.2	125.0	125.0	125.0
Depreciation / Sales	3.6%	3.5%	3.5%	3.3%	3.4%	3.3%	3.2%
Capex	98.2	138.1	126.1	92.4	95.0	110.0	110.0
Capex / Sales	2.9%	4.0%	3.7%	2.6%	2.6%	2.9%	2.8%
FCF	442.1	336.7	380.9	544.8	547.8	537.1	557.7
FCF/Sales	12.9%	9.7%	11.1%	15.3%	15.0%	14.3%	14.3%
Net (Debt) / Cash	(400.0)	(530.4)	(575.0)	(492.6)	(424.1)	(376.4)	(315.9)
Net Debt/EBITDA	0.6x	0.8x	0.8x	0.6x	0.5x	0.5x	0.4x
ROCE	77.9%	84.6%	73.4%	78.4%	87.0%	94.1%	99.7%
Lease Adj ROCE	29.2%	30.1%	28.2%	28.9%	29.3%	28.9%	28.6%
Fixed Charge Cover	3.7x	3.7x	3.6x	3.6x	3.5x	3.4x	3.6x

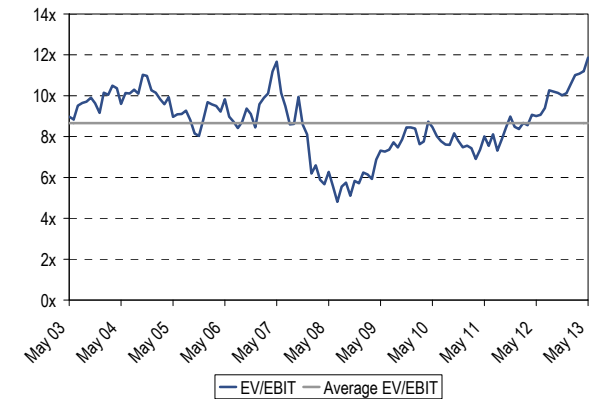
Source: Company Reports and Citi Research Estimates

Figure 200. Next – Statistical Abstract

Yr to Jan	EBIT (£M)	PBT (£m)	Tax Rate	EPS (p)	EPS (p) (Old)	P/E	Net Div (p)	Div Yld (%)	EV/ Sales	EV/ EBIT	EV/ EBITDA
2010A	530	505	28.0%	185.5	185.5	24.7	66.0	1.4	2.3	14.9	12.1
2011A	575	551	27.3%	216.4	216.4	21.2	78.0	1.7	2.3	13.9	11.5
2012A	599	570	25.1%	247.5	247.5	18.5	90.0	2.0	2.3	13.5	11.2
2013E	650	622	23.9%	280.8	280.8	16.3	105.0	2.3	2.2	12.3	10.4
2014E	681	653	23.0%	312.7	311.6	14.7	117.0	2.5	2.2	11.6	9.8
2015E	691	663	22.0%	346.4	346.4	13.2	130.0	2.8	2.1	11.4	9.6
							Price	Ytd	-1m	-3m	-12m
Gearing	172%	Shares		163.1			Ab%	24.0	5.3	10.0	54.1
FV=	8,060	MV		7,485			Rel%	9.0	0.8	4.0	24.4

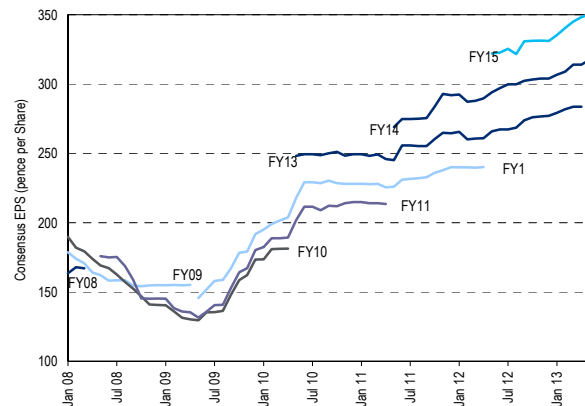
Source: Company Reports and Citi Research Estimates

Figure 201. Next – Long Run EV/EBIT Valuation



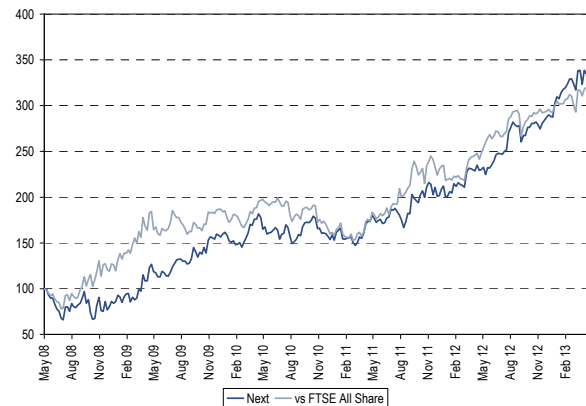
Source: DataStream and Citi Research

Figure 202. Next – Consensus EPS



Source: DataStream and Citi Research

Figure 203. Next – 5-Year Share Price Performance May 08 – May 13



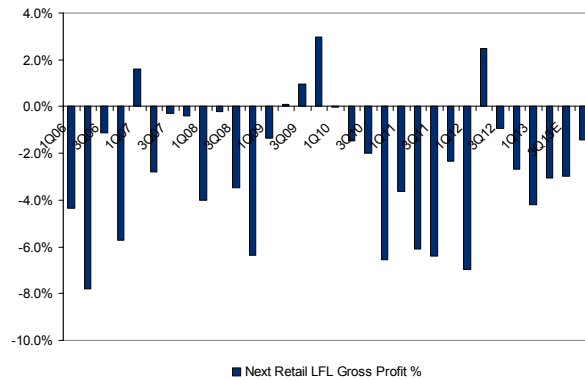
Source: DataStream and Citi Research

Figure 204. Next – 12-Month Forward PE



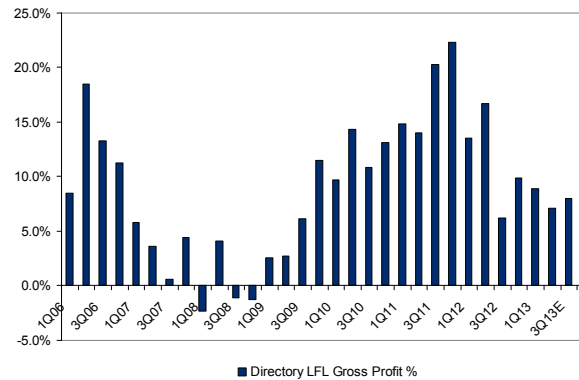
Source: DataStream and Citi Research

Figure 205. Next Retail - LFL Gross Profit Growth (Calendarised)



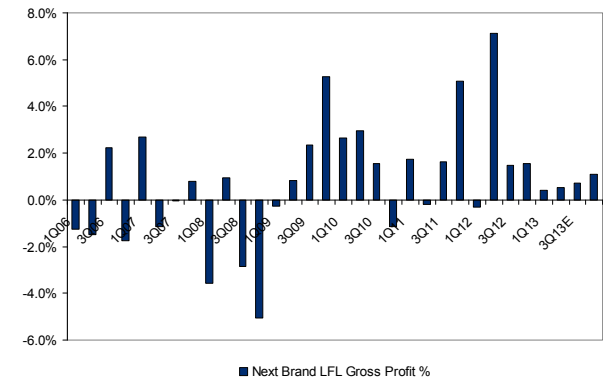
Source: Company Reports and Citi Research Estimates

Figure 206. Next Directory – LFL Gross Profit Growth (Calendarised)



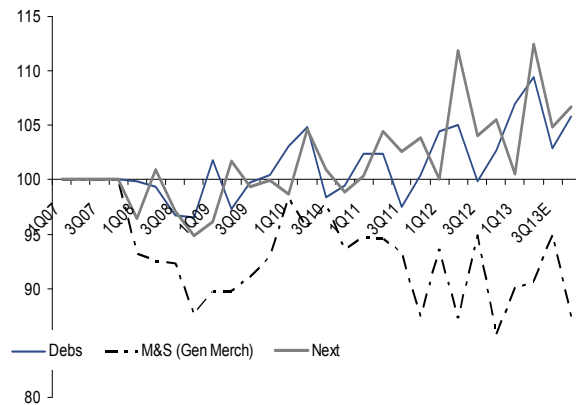
Source: Company Reports and Citi Research Estimates

Figure 207. Next Brand – LFL Gross Profit Growth (Calendarised)



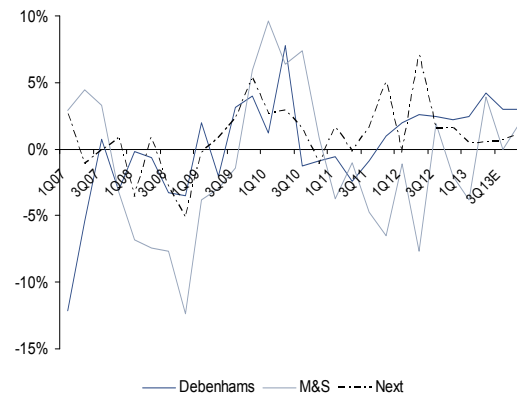
Source: Company Reports and Citi Research Estimates

Figure 208. Clothing LFL Gross Profit Trends (Calendarised, Rebased)



Source: Company Reports and Citi Research Estimates

Figure 209. Clothing LFL Gross Profit Trends (yoy change, calendarised)



Source: Company Reports and Citi Research Estimates

Figure 210. Next Retail – Half-Yearly P&L, 2009-2014E (£ in Millions)

Year end Jan	2009		2010		2011		2012		2013		2014	
	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H	1HE	2HE
Next Retail Sales	996.4	1,201.5	1,004.3	1,237.7	1,026.2	1,195.9	1,008.2	1,183.2	1,009.9	1,181.0	994.7	1,189.4
% change	-3.1%	-2.0%	0.8%	3.0%	2.2%	-3.4%	-1.8%	-1.1%	0.2%	-0.2%	-1.5%	0.7%
Lfi Sales Growth %	-7.3%	-5.8%	-2.5%	-0.1%	-1.5%	-6.0%	-5.8%	-5.6%	-3.5%	-3.0%	-4.0%	-2.5%
Gross margin %	59.6%	54.3%	60.4%	55.5%	60.8%	56.2%	61.3%	57.1%	62.0%	57.5%	62.2%	57.7%
Next Retail Gross Profit (est)	593.9	651.8	606.6	686.3	623.9	671.6	618.0	675.2	626.1	679.6	618.7	686.9
Less Operating Costs	(486.3)	(470.6)	(494.3)	(474.6)	(501.0)	(465.7)	(495.5)	(474.0)	(503.4)	(471.2)	(501.4)	(472.5)
% Change	3.1%	3.9%	1.7%	0.8%	1.4%	-1.9%	-1.1%	1.8%	1.6%	-0.6%	-0.4%	0.3%
Next retail EBIT	107.6	181.2	112.3	211.7	122.9	205.9	122.5	201.2	122.7	208.4	117.3	214.4
Next retail EBIT margin %	10.8%	15.1%	11.2%	17.1%	12.0%	17.2%	12.2%	17.0%	12.1%	17.6%	11.8%	18.0%
% change	-4.4%	61.1%	4.4%	96.7%	9.4%	-2.7%	-0.3%	-2.3%	0.2%	3.6%	-4.4%	2.9%

Source: Company Reports and Citi Research Estimates

Figure 211. Next Directory – Half-Yearly P&L, 2009-2014 (£ in Millions)

Year end Jan	2009		2010		2011		2012		2013		2014	
	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H	1HE	2HE
Next Directory Sales	379.9	436.5	386.2	470.4	422.8	512.7	486.6	602.1	551.7	640.9	595.8	685.8
% change	2.2%	2.0%	1.7%	7.8%	9.5%	9.0%	15.1%	17.4%	13.4%	6.5%	8.0%	7.0%
Gross profit	194.1	216.5	199.3	235.7	223.2	264.2	255.5	320.4	294.1	346.1	317.6	370.3
Gross margin %	51.1%	49.6%	51.6%	50.1%	52.8%	51.5%	52.5%	53.2%	53.3%	54.0%	53.3%	54.0%
Costs	(115.7)	(137.3)	(116.0)	(135.4)	(121.9)	(143.6)	(142.7)	(170.6)	(156.4)	(181.7)	(166.8)	(191.7)
% change	-2.6%	6.9%	0.2%	-1.4%	5.1%	6.0%	17.0%	18.9%	9.6%	6.5%	6.7%	5.5%
Next Directory EBIT	78.4	79.2	83.3	100.3	101.3	120.6	112.8	149.8	137.7	164.4	150.7	178.6
% change	6.2%	-12.6%	6.2%	26.6%	21.6%	20.2%	11.4%	24.2%	22.1%	9.7%	9.5%	8.7%
Next Directory EBIT margin %	20.6%	18.1%	21.6%	21.3%	24.0%	23.5%	23.2%	24.9%	25.0%	25.7%	25.3%	26.1%

Source: Company Reports and Citi Research Estimates

Sports Direct International Plc (SPD.L) - Buy (1) Rating, Target Price 600p (from 530p)

- **Special Situation: +15% EPS CAGR retailer** — We argue that the recent strong group LFL sales and gross profit trading patterns (online sales growth incremental to the still positive LFL stores sales growth), the weak state of UK sports retail competition, the recent support of the Olympics, and the Brazil World Cup in 2014 make Sports Direct's achievement of its target c.+15% p.a. EBITDA growth over the next four years increasingly plausible. Taken together with a focus on cash generation and hence a sharply fading forecast EV/EBIT multiple, we continue to have a Buy rating on the shares.
- **FY13E EPS +44%, FY14E EPS growth still +15% despite Euro 2012 and Olympic anniversary** — On the back of an exceptional FY13 to date, where we expect c.+12% LFL sales trends and modest gross margin progress to deliver c.+44% EPS growth, we are forecasting a still impressive +5% FY14 LFL sales increase, which, together with a +30bp expected gross margin delta (reversal of predatory pricing in 1H FY13 and input cost gains), drives a £253m FY14 PBT forecast (EPS 31.1p, +15% yoy). This forecast equates to FY14E EBITDA of £315m, struck pre- the performance share plan bonus.
- **Super-stretch Bonus Share Scheme** — The company recently outlined a new 'super-stretch' bonus share scheme, with EBITDA targets £20m higher than previously at £310m and £360m to FY14 and FY15. These compare with our £315m and £345m respective EBITDA forecasts.
- **Acquisitions/cash return?** — The Sports Direct management have made it clear that they have no interest in building up a net cash position, and are actively looking at acquisition opportunities. As illustrated in the table opposite, we expect the group to have generated c.£200m net cash by April 2015. In practice this is more likely to be spent on acquisitions and/or returned to shareholders, in our view.
- **Buy; target price 600p (from 530p)** — In deriving our 600p target price (raised from 530p, given the recent equity market re-rating), we apply a 12x April 2015e EV/EBIT multiple (at a slight premium to the peer group's recent average, reflecting what we see as a superior earnings growth outlook), which equates to c.17x PE and c.10x EV/EBITDA for the same forecast year.

Figure 212. Sports Direct – Financial Summary, 2009-2015E

£ms	2009	2010	2011	2012	2013E	2014E	2015E
Sales	1,367.3	1,451.6	1,599.2	1,807.2	2,155.5	2,336.7	2,541.6
- growth	9.5%	6.2%	10.2%	13.0%	19.3%	8.4%	8.8%
- LFL				7.9%	12.5%	5.0%	7.0%
Gross Profit	557.6	589.2	658.9	732.5	889.9	971.9	1,058.1
- margin	40.8%	40.6%	41.2%	40.5%	41.3%	41.6%	41.6%
- delta	-323bps	-19bps	61bps	-67bps	75bps	31bps	4bps
EBITDA	132.6	176.1	211.0	240.1	290.0	315.0	345.0
EBIT	86.6	115.0	137.5	157.7	218.0	254.0	284.0
- margin	6.3%	7.9%	8.6%	8.7%	10.1%	10.9%	11.2%
PBT	79.1	102.1	135.5	153.5	214.0	253.0	285.0
EPS	9.3	12.3	16.8	18.8	27.1	31.1	35.5
- growth	14.8%	32.3%	36.7%	11.8%	44.0%	14.7%	14.2%
Dividend	1.2	na	na	na	-	-	-
- growth	-72.9%	na	na	na	na	na	na
Working Capital/Sales	12.0%	6.4%	4.7%	6.5%	12.2%	12.1%	11.9%
Depreciation	48.5	50.3	62.9	58.2	50.0	49.0	48.0
Depreciation / Sales	3.5%	3.5%	3.9%	3.2%	2.3%	2.1%	1.9%
Capex	34.8	18.8	21.9	60.4	53.0	50.0	50.0
Capex / Sales	2.5%	1.3%	1.4%	3.3%	2.5%	2.1%	2.0%
FCF	50.1	177.7	158.1	99.6	30.2	177.2	202.7
FCF/Sales	3.7%	12.2%	9.9%	5.5%	1.4%	7.6%	8.0%
Net (Debt) / Cash	(431.3)	(311.9)	(148.4)	(145.2)	(182.5)	(5.3)	197.5
Net Debt/EBITDA	3.3x	1.8x	0.7x	0.7x	0.6x	na	na
ROCE	13.0%	17.2%	21.9%	24.2%	26.7%	27.7%	30.6%
Lease Adj ROCE	9.1%	11.2%	12.8%	13.4%	14.8%	15.0%	15.8%
Fixed Charge Cover	2.2x	2.3x	2.5x	2.5x	2.5x	2.7x	2.7x

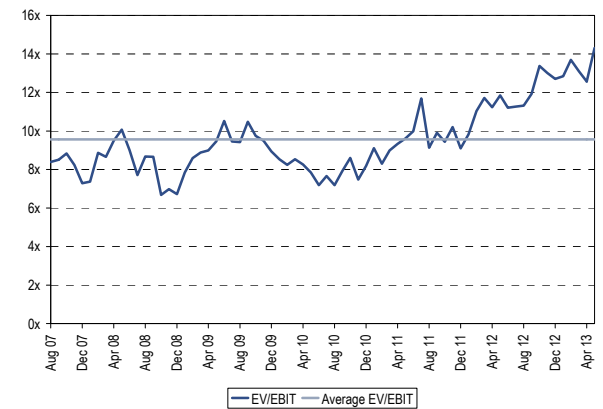
Source: Company Reports and Citi Research Estimates

Figure 213. Sports Direct – Statistical Abstract

Year to Apr	EBITDA (£m)	EBIT* (£m)	PBT (£m)	Tax Rate (%)	EPS (p)	EPS Old (p)	P/E	Net Div (p)	Div Yld (%)	EV/ Sales	EV/ EBIT*	EV/ EBITDA
2010A	176	115	102	31.4%	12.3	12.3	40.9	0.0	0.0	2.2	27.6	18.0
2011A	211	137	136	29.4%	16.8	16.8	29.9	0.0	0.0	1.9	21.9	14.3
2012A	240	158	154	30.3%	18.8	18.8	26.8	0.0	0.0	1.7	19.1	12.5
2013E	290	218	214	27.0%	27.1	27.1	18.6	0.0	0.0	1.4	14.2	10.6
2014E	315	254	253	26.0%	31.1	31.1	16.2	0.0	0.0	1.3	12.0	9.7
2015E	345	284	285	25.0%	35.5	35.5	14.2	0.0	0.0	1.1	10.0	8.2
Ytd (%)												
MV	2,905.8	Shares	576.6					Abs %	30.3	18.1	19.7	66.4
Gearing	29.0%	EV	3,088		NAV =	0.83		Rel %	14.5	13.0	13.2	34.3

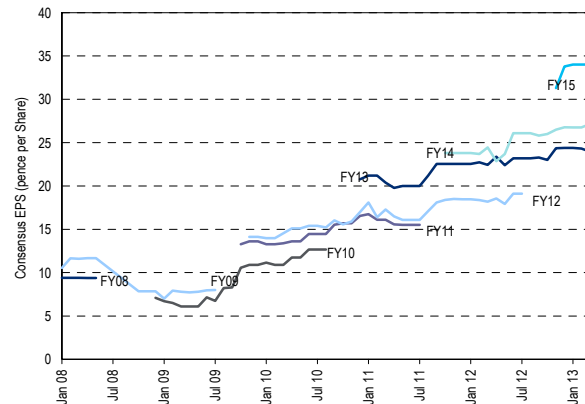
Source: Company Reports and Citi Research Estimates

Figure 214. Sports Direct – Long Run EV/EBIT Valuation



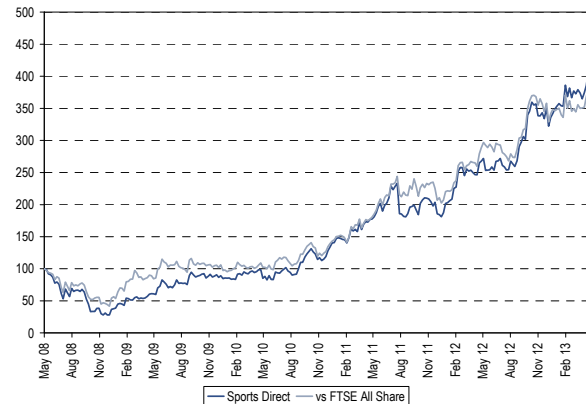
Source: DataStream and Citi Research

Figure 215. Sports Direct – Consensus EPS



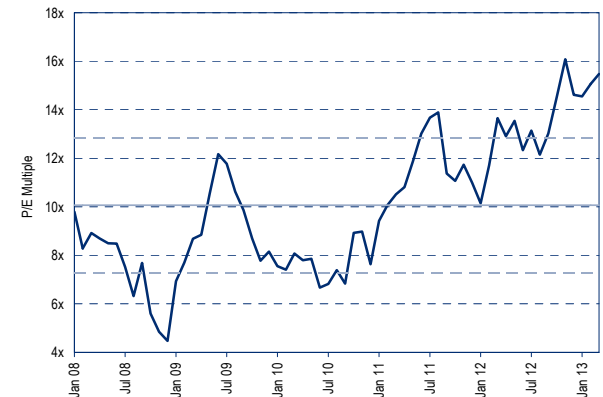
Source: DataStream and Citi Research

Figure 216. Sports Direct – 5-Year Share Price Performance May 08 – May 13



Source: DataStream and Citi Research

Figure 217. Sports Direct – 12-Month Forward PE



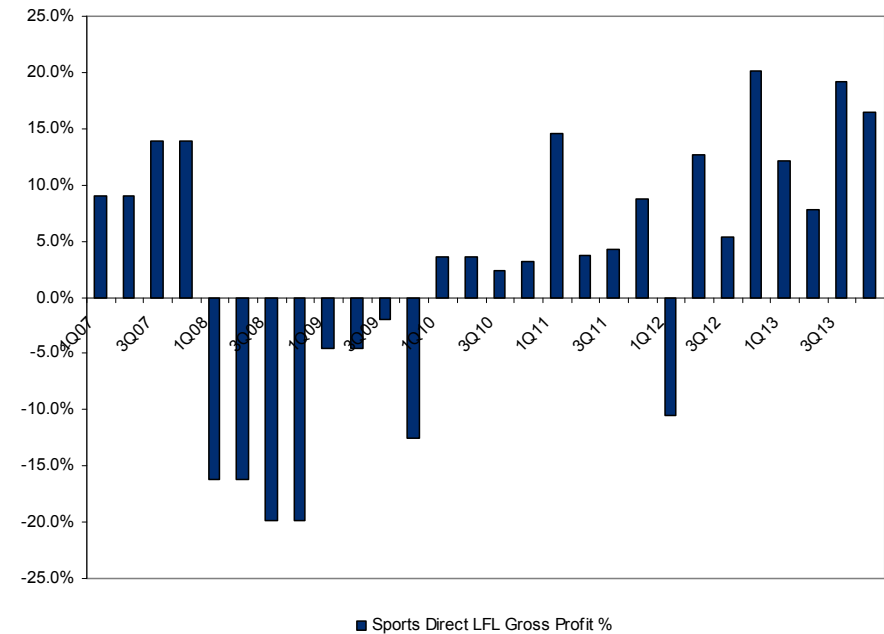
Source: DataStream and Citi Research

Figure 218. Sports Direct - Modelling Assumptions, 2011-2014E

	1H	2H	2011	1H	2H	2012	1H	2HE 2013E	1HE	2HE 2014E
Sports Direct - Retail										
LFL %	5.1%	9.1%	7.0%	3.8%	12.2%	7.9%	12.0%	13.0%	12.5%	3.0%
Total Revenue Growth	9.9%	14.2%	11.9%	10.0%	18.6%	14.2%	23.5%	18.2%	20.8%	8.6%
Gross Margin Change	1.6%	-1.0%	0.3%	-1.2%	-0.1%	-0.7%	-0.7%	1.6%	0.4%	0.7%
Total Cost Growth	4.8%	10.0%	7.5%	7.8%	13.4%	10.8%	25.0%	20.4%	22.5%	9.0%
Underlying Cost Inflation	0.0%	4.9%	2.5%	1.7%	7.1%	4.5%	13.5%	15.2%	14.2%	3.4%
EBIT %	13.1%	5.0%	9.2%	12.8%	7.2%	10.0%	12.9%	9.3%	11.1%	13.7%
Sports Direct - Brands										
LFL %										
Total Revenue Growth	-4.8%	1.8%	-1.5%	2.1%	6.5%	4.4%	11.3%	2.0%	6.4%	3.2%
Gross Margin Change	3.3%	1.6%	2.5%	-0.2%	-0.1%	-0.1%	4.1%	3.5%	3.8%	0.6%
Total Cost Growth	-5.0%	7.6%	1.5%	2.7%	0.4%	1.5%	22.6%	14.1%	18.0%	3.4%
Underlying Cost Inflation	-0.2%	5.8%	2.9%	0.7%	-6.1%	-2.9%	11.3%	12.1%	11.6%	0.2%
EBIT %	10.6%	8.5%	9.5%	9.7%	9.0%	9.3%	10.8%	11.3%	11.0%	11.3%
Sports Direct - Group										
LFL %										
Total Revenue Growth	8.0%	12.5%	10.2%	9.1%	17.1%	13.0%	22.3%	16.4%	19.3%	8.1%
Gross Margin Change	1.9%	-0.7%	0.6%	-1.1%	-0.1%	-0.7%	-0.3%	1.8%	0.8%	0.7%
Total Cost Growth	3.6%	9.7%	6.7%	7.2%	11.8%	9.6%	24.7%	19.7%	22.0%	8.4%
Underlying Cost Inflation	-4.5%	-2.8%	-3.5%	-1.9%	-5.3%	-3.4%	2.5%	3.3%	2.7%	0.3%
EBIT %	12.9%	5.4%	9.2%	12.5%	7.4%	9.9%	12.7%	9.5%	11.1%	13.5%

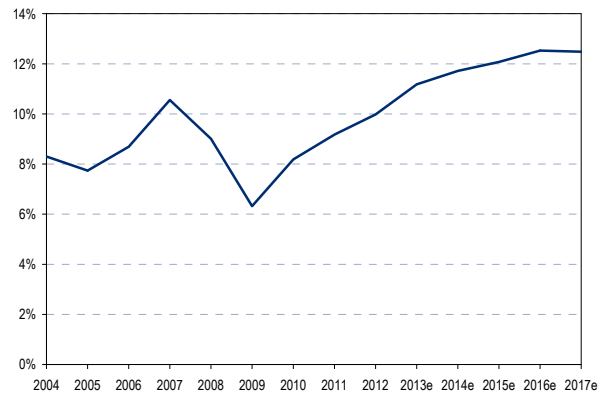
Source: Company Reports and Citi Research Estimates

Figure 219. Sports Direct – LFL Gross Profit



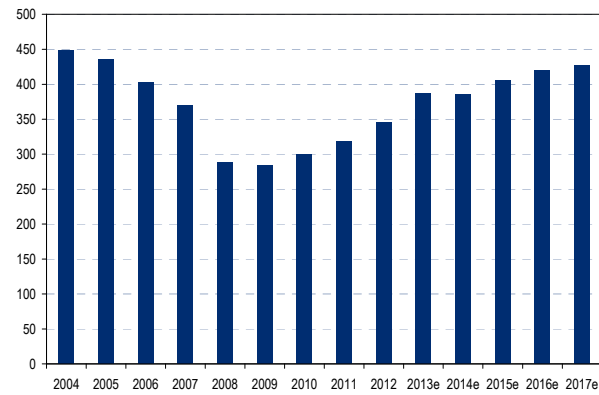
Source: Company Reports and Citi Research Estimates

Figure 220. Sports Direct – EBIT Margin Progression



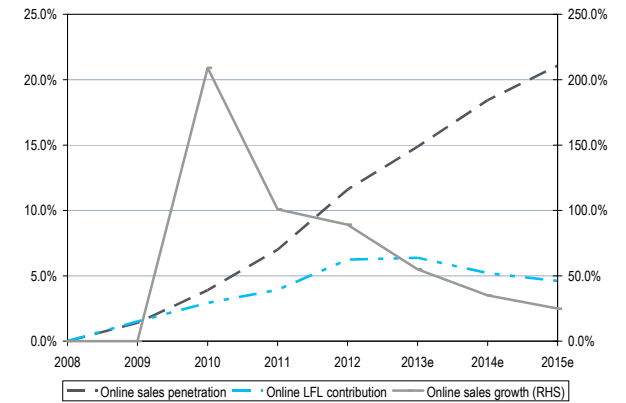
Source: Company Reports and Citi Research Estimates

Figure 221. Sports Direct – Sales per Square Foot



Source: Company Reports and Citi Research Estimates

Figure 222. Sports Direct – Online Performance Trends, 2008-2015E



Source: Company Reports and Citi Research Estimates

Steinhoff International Holdings Ltd (SHFJ.J) – Buy (1) Rating, Target Price R29

- **Lower macro risk into 2013E, restructuring opportunities and a modest re-rating off a low valuation base support our Buy rating** — In our view, the combination of: 1) restructuring of its European Retail operations (45% of sales, 27% of Group EBIT) given the full integration of Conforama; 2) margin gains from more vertically integrated sourcing; and 3) double-digit growth in its South African Retail operations supports our group forecast agenda of FY14-15E EBIT and EPS CAGRs of 8%. We think the share price is also likely to be supported by the potential separate listing of the European operations in the future.
- **We forecast the French Conforama business will see the most fundamental change from restructuring** — We estimate this will 1) drive product mix changes away from electricals towards higher-margin decorative. 2) deliver sourcing gains as it vertically integrates deeper into Steinhoff's manufacturing and sourcing business and 3) drive cost savings in 2013. This should result in gross margin gains of 50-60bp and operating margin increases of 10-30bp per annum through FY14-15E.
- **FY13 PBT estimate of R8.76bn (HEPS 321c, +11% yoy)** — Our EPS forecast of 321c, +11% yoy is struck post net interest of R1.6bn, minorities of R788m and assuming a 14.5% tax rate (vs 12.5% in the previous year).
- **FY14 PBT estimate of R9.50bn (HEPS 349c, +9% yoy)** — We forecast overall sales growth of 7%. The key contribution to overall forecast group EBIT growth of +9% is evenly split between International and African Retail. Our EPS forecast of 349c, +9% yoy is struck post net interest of R1.5bn and minorities of R880m.
- **Buy rating, R29 target price** — On FY14E PE and EV/EBIT valuation looks deeply discounted, with Steinhoff trading at a ~50% and ~35% discount to our peer group, respectively. Our target price of R29 is based on our DCF and SOTP valuations, cross-checked against our peer PE analysis. At our target price Steinhoff would still trade on a PE of only 8.3x, EV/EBIT of 7.6x and dividend yield of 3.1% for FY14E. This gives an ETR of c.25%.

Figure 223. Steinhoff – Financial Summary, 2011-2015E

Rm	2011	2012	2013E	2014E	2015E
Sales	43,040	80,436	110,133	118,261	123,450
- growth		86.9%	36.9%	7.4%	4.4%
Gross Profit	16,726	28,634	39,648	42,574	44,442
- margin	38.9%	35.6%	36.0%	36.0%	36.0%
- delta		-326bps	40bps	0bps	0bps
EBITDA	6,563	9,812	12,461	13,521	14,398
EBIT	5,424	8,011	10,033	10,910	11,663
- margin	12.6%	10.0%	9.1%	9.2%	9.4%
PBT	4,253	6,906	8,757	9,499	10,403
EPS (HEPS, cents)	225.8	288.2	320.7	348.6	376.6
- growth		27.6%	11.3%	8.7%	8.0%
Dividend (cents)	65.0	80.0	82.6	90.0	94.9
- growth		23.1%	3.3%	8.9%	5.4%
Working Capital/Sales	0.6%	0.8%	1.0%	-0.5%	-0.3%
Depreciation	1,073	1,658	2,270	2,438	2,545
Depreciation / Sales	2.5%	2.1%	2.1%	2.1%	2.1%
Capex	6,334	5,254	6,057	4,730	4,938
Capex / Sales	14.7%	6.5%	5.5%	4.0%	4.0%
FCF	(9,580)	(1,579)	2,039	4,570	5,389
FCF/Sales	-22.3%	-2.0%	1.9%	3.9%	4.4%
Net Debt / (Cash)	24,178	33,075	33,657	30,205	26,079
Net Debt/EBITDA	3.7x	3.4x	2.7x	2.2x	1.8x
Lease Adj Net Debt/EBITDAR	4.5x	4.2x	3.5x	3.1x	2.7x
ROCE	10.3%	10.4%	10.5%	10.7%	11.5%
Lease Adj ROCE	10.7%	10.8%	10.8%	11.0%	11.7%

Source: Company Reports and Citi Research Estimates

Figure 224. Steinhoff – Statistical Abstract

Yr to Jun ZAR m's	EBIT (Rm)	Net Debt	EV	EBITDA (Rm)	PBT (Rm)	Tax (%)	EPS (cents)	P/E	Net Div (cents)	Div Yld (%)	EV/ Sales	EV/ EBIT	EV/ EBITDA
2011A	5,424	24,178	72,224	6,563	4,253.1	10.2%	225.8	10.3	65.0	2.8	1.68	13.3	11.0
2012A	8,011	33,075	81,121	9,812	6,905.5	12.5%	288.2	8.1	80.0	3.4	1.01	10.1	8.3
2013E	10,033	33,657	81,704	12,461	8,757.4	14.5%	320.7	7.3	82.6	3.5	0.74	8.1	6.6
2014E	10,910	30,205	78,251	13,521	9,499.5	14.5%	348.6	6.7	90.0	3.9	0.66	7.2	5.8
2015E	11,663	26,079	74,126	14,398	10,402.5	14.5%	376.6	6.2	94.9	4.1	0.60	6.4	5.1
										YTD	1M	3M	12M
										Abs (%)	-15.0	-16.8	-12.5
										Rel (%)	-21.0	-6.2	-21.6
													-30.9

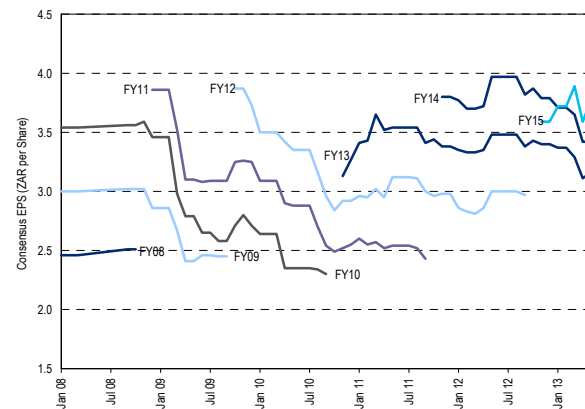
Source: Company Reports and Citi Research Estimates

Figure 225. Steinhoff – Long Run EV/EBIT Valuation



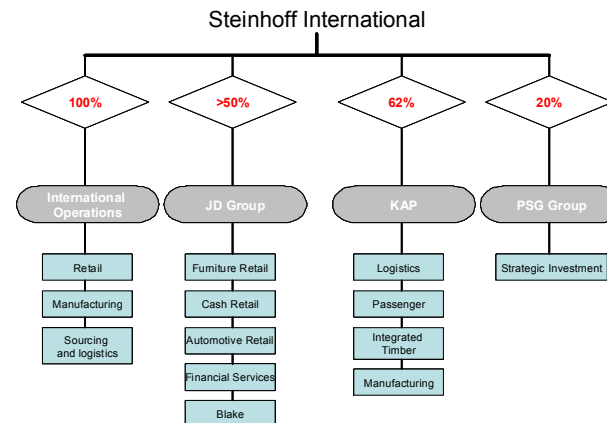
Source: DataStream and Citi Research

Figure 226. Steinhoff – Consensus EPS



Source: DataStream and Citi Research

Figure 227. Steinhoff International – Group Structure



Source: Company data, Citi Research

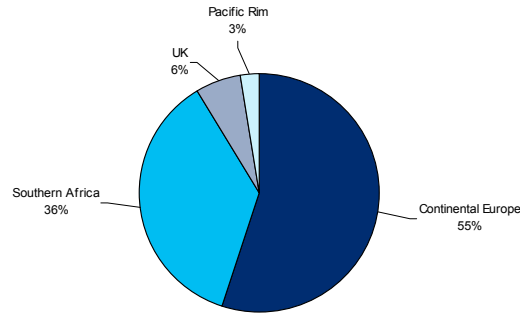
Figure 228. International Operations - Structure



Source: Company data, Citi Research

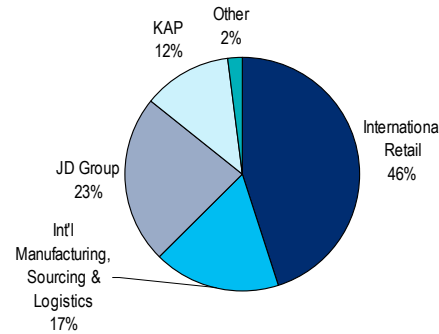
Steinhoff International Snapshot → A vertically integrated retailer and manufacturer

Figure 229. Geographical Revenue Split, FY13E



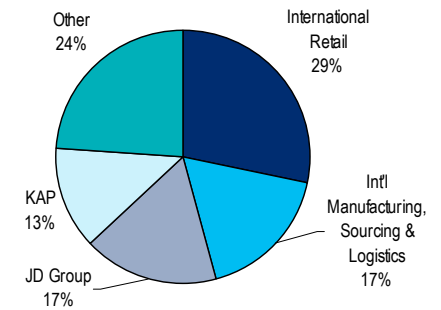
Source: Citi Research

Figure 230. Steinhoff – Revenue Split by Division, FY13E*



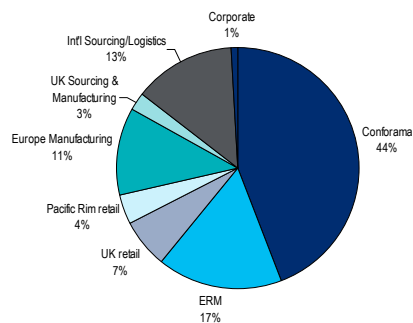
*Pre-intercompany eliminations Source: Citi Research

Figure 231. Operating Profit Split by Division, FY13E*



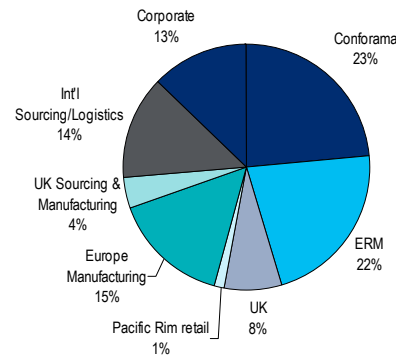
*Pre-intercompany eliminations Source: Citi Research

Figure 232. Int'l Operations – Revenue Split by Division, FY13E



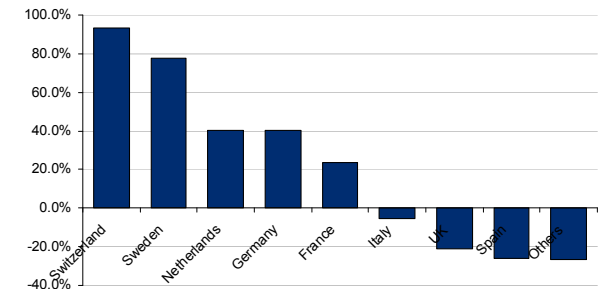
Source: Citi Research

Figure 233. Int'l Operations – Operating Profit Split by Division, FY13E



Source: Citi Research

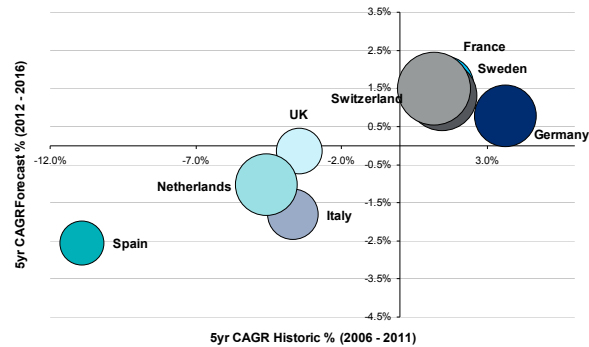
Figure 234. Furniture Spend per Capita vs Western European Average



Source: Company Reports and Citi Research

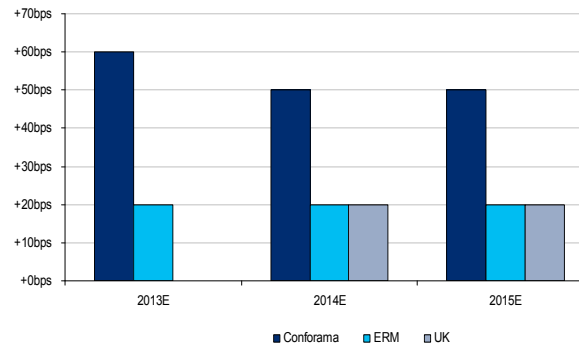
Macro remains uncertain ↓ Sourcing gains ↑ Gross margins ↑

Figure 235. Household Goods Market – CAGR Sales Growth (%)



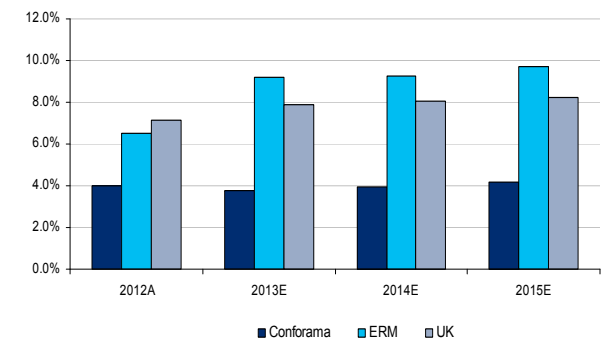
Source: Data and projections from Euromonitor, Eurostat and www.housingeurope.eu, Citi Research

Figure 236. European Retail – Projected Gross Margin Gains, FY13-15E



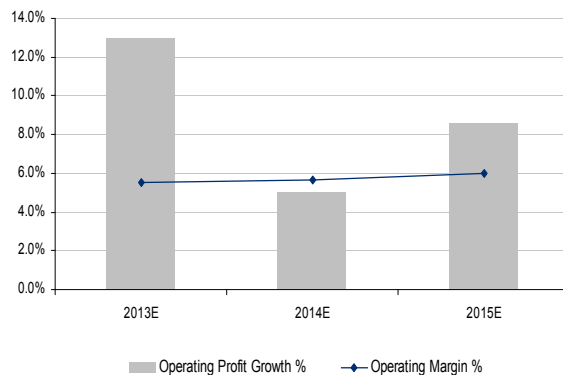
Source: Company data, Citi Research estimates

Figure 237. European Retail – Operating Margin Progression, FY13-15E



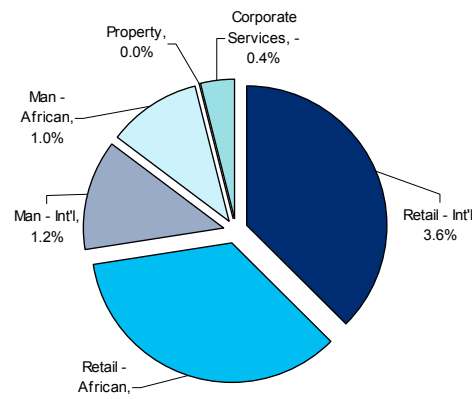
Source: Company data, Citi Research estimates

Figure 238. European Retail – Operating Profit Growth and Margin %, FY13-15E



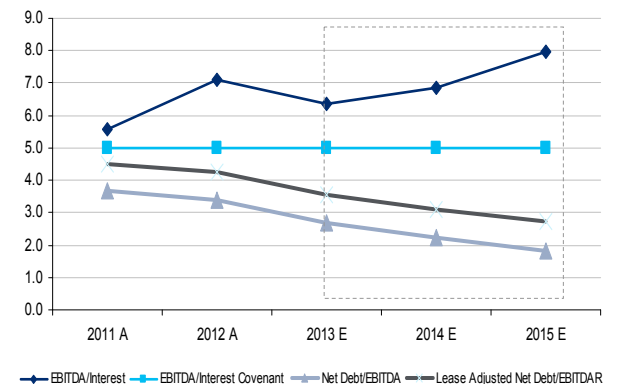
Source: Citi Research Estimates

Figure 239. FY14E EBIT – Segmental Contribution to Growth



Source: Citi Research Estimates

Figure 240. Gearing Metrics Improving



Source: Company Reports and Citi Research Estimates

WH Smith (SMWH.L) - Buy (1) Rating, Target Price 900p

- **Strong company in a weak sector** — WH Smith operates in sectors such as books, newspapers and travel which have seen major cyclical and structural pressures in recent years. Throughout this time WH Smith has grown earnings in double digits (EPS CAGR 17% 2007-12) due to its high-quality, well-incentivised management team and best-in-class operations, in our view. The company has one of the most visible P&L forecasts in the sector and has made a habit of beating consensus estimates.
- **Focus on shareholder return** — In each of the last 5 years WH Smith has returned on average 11% of its market capital through dividend and buy-backs. At current share prices the company will buy back another 5% of market cap this year, which, combined with a 4% dividend yield and 5% operating profit growth, should generate a ~15% shareholder return for Aug-13E.
- **Prospects for travel division still strong** — WH Smith opened 35 travel units in the UK in FY12 and plans to open at least another 30 in FY13. This persistent space opening with careful product and space management has ensured profit growth despite LFL sales declines. The division remains well placed to take advantage of any macro-driven upturn in passenger numbers in the UK. The International rollout has also continued, with 121 units now planned or opened, representing a low-risk, capital-light franchise model that we see as a potentially very lucrative opportunity.
- **Change of CEO does not change investment case** — Kate Swann announced that she will step down as CEO in June 2013, ending a very successful period of leadership which has seen shareholders well rewarded. Steve Clarke, the current MD of High Street, will replace her. After years of overseeing profit growth despite sales declines in the High Street division, Steve looks to us well placed to run the business and continue Kate's culture of cost savings and valuing shareholder returns over sales growth.
- **Buy Rating, Target Price 900p** — We value WH Smith using a SoTP valuation to reflect the differentiated growth profiles of the operations. Our target price is derived from applying an 12.5x 2014e PE multiple to Travel (in line with peers) and an ex-growth multiple of 10x to High Street. We value the unproven International operations at nil. This equates to a 11.9x group target 2014E PE.

Figure 241. WH Smith – Financial Summary

£ms	2009	2010	2011	2012	2013e	2014e	2015e
Sales	1,340.0	1,312.0	1,273.0	1,243.0	1,195.1	1,192.6	1,192.4
- growth	-0.9%	-2.1%	-3.0%	-2.4%	-3.9%	-0.2%	0.0%
- LFL	-4.8%	-3.3%	-5.0%	-4.3%	-5.2%	-1.9%	-1.6%
- Space	3.9%	1.2%	2.0%	1.9%	1.3%	1.7%	1.6%
Gross Profit	658.1	664.2	664.0	665.3	659.5	666.1	672.8
- margin	49.1%	50.6%	52.2%	53.5%	55.2%	55.9%	56.4%
- delta	229bps	151bps	154bps	136bps	166bps	67bps	57bps
EBITDA	124.0	128.0	131.0	140.0	148.0	152.0	156.0
EBIT	83.0	89.0	93.0	102.0	108.0	112.0	116.0
- margin	6.2%	6.8%	7.3%	8.2%	9.0%	9.4%	9.7%
PBT	82.0	89.0	93.0	102.0	107.0	111.0	115.0
EPS	41.3	45.7	51.4	62.7	69.9	75.4	80.3
- growth	16.8%	10.7%	12.5%	21.9%	11.5%	7.9%	6.5%
Dividend	16.7	19.4	22.5	26.9	31.2	35.9	41.3
- growth	16.8%	16.2%	16.0%	19.6%	16.0%	15.0%	15.0%
Working Capital / Sales	-2.6%	-2.9%	-2.9%	-3.3%	-3.1%	-3.4%	-3.9%
Depreciation	41.0	39.0	38.0	38.0	40.0	40.0	40.0
Depreciation / Sales	3.1%	3.0%	3.0%	3.1%	3.3%	3.4%	3.4%
Capex	28.0	29.0	36.0	37.0	34.0	34.0	34.0
Capex / Sales	2.1%	2.2%	2.8%	3.0%	2.8%	2.9%	2.9%
FCF	89.0	82.0	88.0	86.0	100.9	103.9	105.5
FCF / Sales	6.6%	6.3%	6.9%	6.9%	8.4%	8.7%	8.8%
Net (Debt) / Cash	45.0	56.0	41.0	37.0	38.0	41.8	44.4
Net Debt / EBITDA	na	na	na	na	na	na	na
Lease Adj Net Debt / EBITDA	3.0x	2.9x	3.0x	2.9x	2.8x	2.8x	2.7x
ROCE	51.1%	63.0%	73.5%	87.2%	67.3%	56.2%	61.7%
Lease Adj ROCE	16.5%	17.4%	17.9%	18.8%	18.7%	18.4%	18.9%
Fixed Charge Cover	1.7x	1.7x	1.7x	1.8x	1.8x	1.8x	1.8x

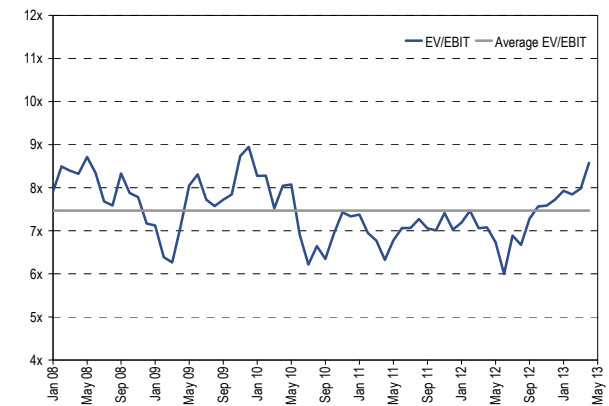
Source: Company Reports and Citi Research Estimates

Figure 242. WH Smith – Statistical Abstract

Yr to Aug	EBIT (£m)	PBT (£m)	Tax Rate (%)	EPS (p)	EPS Old (p)	P/E	Net Div (p)	Div Yld (%)	EV/Sales	EV/EBIT	EV/EBITDA
2010A	89	89	22%	45.7	45.7	16.2	19.4	2.6	0.68	10.0	6.9
2011A	93	93	22%	51.4	51.4	14.4	22.5	3.0	0.71	9.7	6.9
2012A	102	102	18%	62.7	62.7	11.8	26.9	3.6	0.73	8.9	6.7
2013E	108	107	17%	69.9	69.9	10.6	31.2	4.2	0.76	8.4	6.1
2014E	112	111	18%	75.4	75.4	9.8	35.9	4.8	0.75	8.0	5.9
2015E	116	115	20%	80.3	80.3	9.2	41.3	5.6	0.75	7.7	5.8
									YTD	1M	3M
MV	942	Shares	127				Ab %	10.5	-5.7	4.8	42.3
EV	906						Rel %	-2.9	-9.8	-0.9	14.9

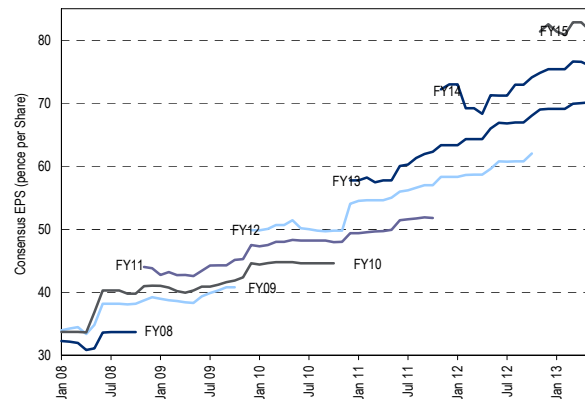
Source: Company Reports and Citi Research Estimates

Figure 243. WH Smith – EV/EBIT Valuation



Source: DataStream and Citi Research

Figure 244. WH Smith – Consensus EPS



Source: DataStream and Citi Research

Figure 245. WH Smith – Sum of The Parts Valuation

2014 Forecast	Sales	EV/Sales	EBIT	PAT	PE	EV/EBIT	Valuation	Comments
High Street	720	0.6x	56.0	45.9	10.0x	8.2x	459	Ex growth EV/EBIT
UK Travel	473	1.4x	64.0	52.5	12.5x	10.3x	656	Premium EV/EBIT
Int'l Travel	37	-	6.0	4.9	-	-	-	Nil value
Property			1.0	0.8			13	NAV
Central costs			(15.0)	(13.1)	10.5x	9.2x	(138)	Perpetuity valuation
Total			112.0	91.0			990	
Cash							42	
Total			112.0				1,032	
# Shares							115	
Valuation (p)							901	
Implied PE							11.9x	
Implied EV/EBIT							8.8x	

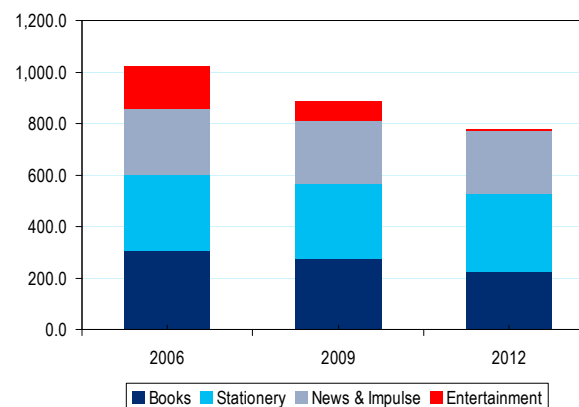
Source: Company Reports and Citi Research Estimates

Figure 246. UK Retail – Share Buy Back as % of Market Capitalisation

	WHSmith	Next	Debenhams	Halfords
2007	1.7%	7.1%		3.8%
2008	5.6%	2.5%		2.3%
2009	0.0%	3.3%		0.0%
2010	5.0%	5.7%	1.2%	0.0%
2011	7.9%	7.2%		8.5%
2012	7.1%	4.1%	2.1%	
2013e	5.4%	4.1%	4.1%	
2010-13e Average	6.4%	5.3%	1.8%	2.1%

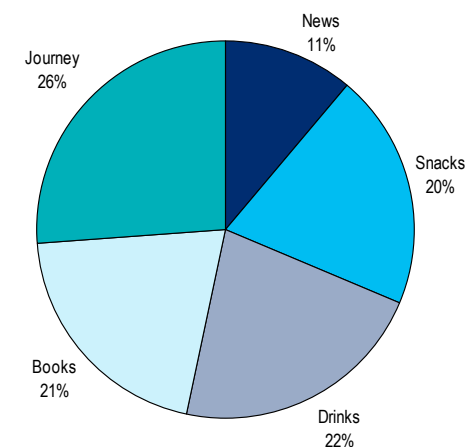
Source: Company Reports and Citi Research Estimates

Figure 247. High Street – Split of Sales by Category



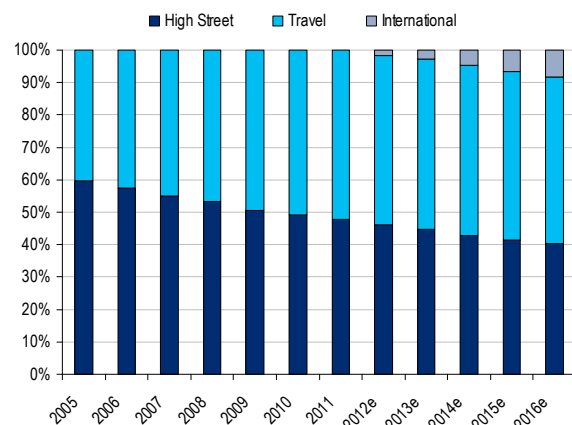
Source: Company Reports and Citi Research Estimates

Figure 248. UK Travel – Estimated Gross Profit by Category



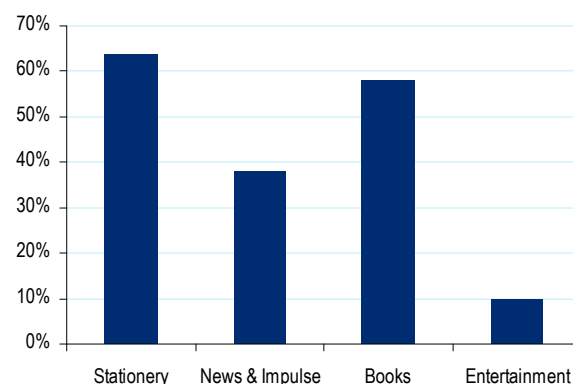
Source: Company Reports and Citi Research Estimates

Figure 249. WH Smith – Operating Profit Split



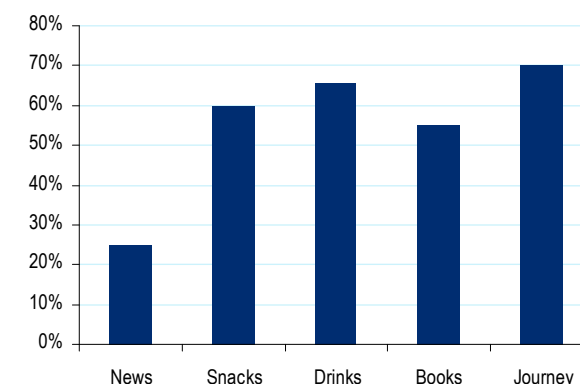
Source: Company Reports and Citi Research Estimates

Figure 250. High Street – Gross Margin by Category, 2012



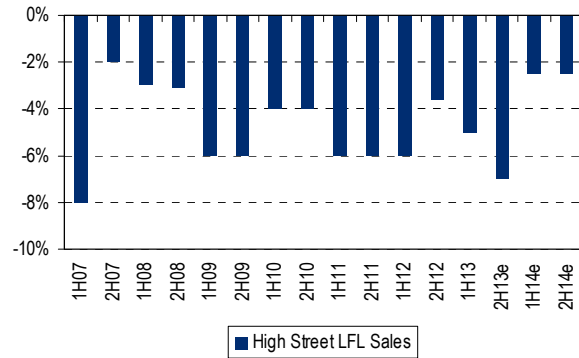
Source: Company Reports and Citi Research Estimates

Figure 251. Travel – Gross Margin by Category, 2012



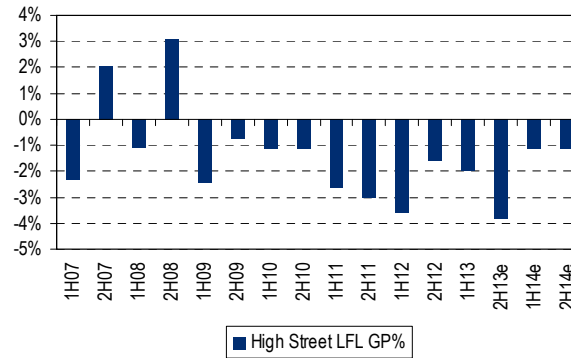
Source: Company Reports and Citi Research Estimates

Figure 252. High Street LFL Sales



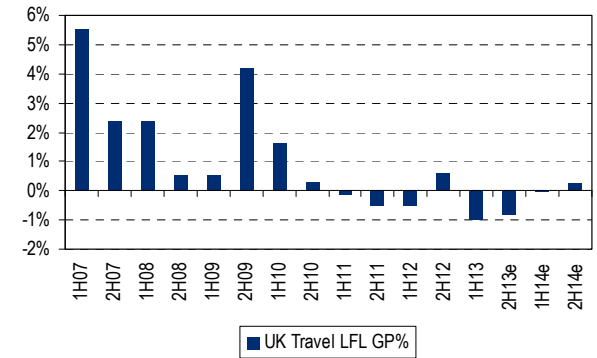
Source: Company Reports and Citi Research Estimates

Figure 253. High Street LFL GP% Progression



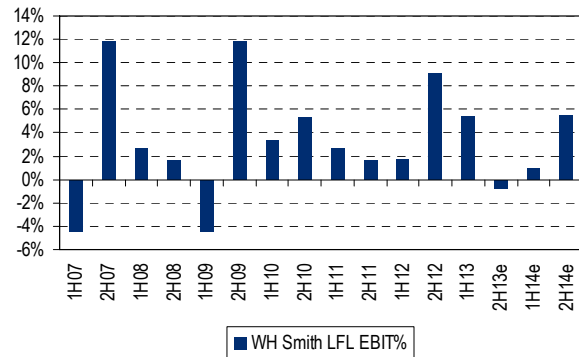
Source: Company Reports and Citi Research Estimates

Figure 254. UK Travel LFL GP% Progression



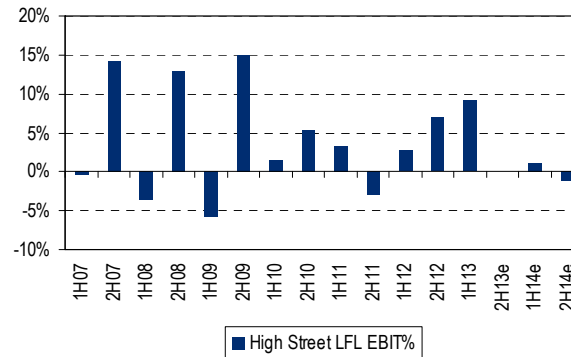
Source: Company Reports and Citi Research Estimates

Figure 255. WH Smith LFL EBIT % Progression



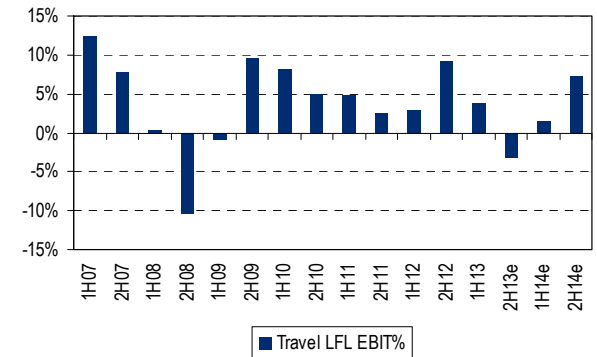
Source: Company Reports and Citi Research Estimates

Figure 256. High Street LFL EBIT% Progression



Source: Company Reports and Citi Research Estimates

Figure 257. UK Travel LFL EBIT % Progression



Source: Company Reports and Citi Research Estimates



This page is intentionally left blank

Company Section Neutral-Rated Stocks

Debenhams Plc (DEB.L) - Neutral (2) Rating, Target Price 95p (from 83p)

- **Neutral Rating** — Despite Debenhams' steady market share gain progress through good retail discipline, strong online progress and ongoing store openings, the step-up in operating cost/sales trends this year and the introduction of the revised IAS19 in FY14 look set to drive group EBIT margins lower in both FY13E and FY14E. We expect the resultant stalled EPS in FY13E and FY14E to continue to weigh on the shares for now. We remain Neutral.
- **FY13 and FY14 PBT forecasts £154m and £152m** — Given the recent 1H PBT miss, we strike a £154m FY13 PBT forecast, 9.8p EPS, flat yoy. In addition to the lower FY13E PBT base, FY14E sees the introduction of the revised IAS19 accounting standard. This could drive a c.£2m FY14 pension charge (vs the current c.£11m pension credit). Combined, these have reduced our FY14 PBT forecast to £152m (EPS 9.8p, -1% year on year).
- **Target price 95p** — We base our 95p target price (raised from 83p, given the recent equity market re-rating) on a c.10x 2014e target PE multiple, in line with the group's recent average and at a slight discount to the sector, given what we see as a lower earnings growth outlook. This equates to a c.9.5x EV/EBIT multiple and c.3.5% dividend yield to the same year-end.

Figure 258. Debenhams – Financial Summary, 2010-2015E

£ms	2010	2011	2012	2013E	2014E	2015E
Sales	2,564.3	2,639.5	2,708.0	2,809.5	2,922.3	3,044.7
- growth	9.6%	2.9%	2.6%	3.7%	4.0%	4.2%
- LFL	0.0%	-0.3%	1.6%	3.4%	3.0%	3.0%
Gross Profit	1,120.6	1,148.1	1,169.7	1,213.7	1,265.3	1,318.5
- margin	43.7%	43.5%	43.2%	43.2%	43.3%	43.3%
- delta	71bps	-20bps	-30bps	0bps	10bps	1bps
EBITDA	289.3	267.3	269.6	265.6	270.6	281.6
EBIT	195.1	175.3	178.0	171.0	173.0	181.0
- margin	7.6%	6.6%	6.6%	6.1%	5.9%	5.9%
PBT	145.3	151.9	158.3	154.0	152.0	160.0
EPS	7.8	8.6	9.8	9.8	9.8	10.8
- growth	-22.2%	10.7%	13.4%	0.0%	0.1%	9.9%
Dividend	-	3.0	3.3	3.3	3.3	3.6
- growth	na	na	8.7%	0.0%	1.2%	8.7%
Working Capital/Sales	2.1%	2.9%	3.0%	2.9%	2.7%	2.5%
Depreciation	94.2	92.0	91.6	94.6	97.6	100.6
Depreciation / Sales	3.7%	3.5%	3.4%	3.4%	3.3%	3.3%
Capex	98.6	114.0	118.6	135.0	135.0	100.0
Capex / Sales	3.8%	4.3%	4.4%	4.8%	4.6%	3.3%
FCF	102.1	68.5	82.9	61.1	62.6	106.3
FCF/Sales	4.0%	2.6%	3.1%	2.2%	2.1%	3.5%
Net (Debt) / Cash	(514.0)	(381.6)	(368.7)	(389.0)	(406.5)	(380.2)
Net Debt/EBITDA	1.8x	1.4x	1.4x	1.5x	1.5x	1.4x
ROCE	34.6%	29.8%	28.8%	26.5%	24.9%	25.1%
Lease Adj ROCE	13.7%	12.2%	12.0%	11.4%	11.0%	11.1%
Fixed Charge Cover	2.2x	2.1x	2.1x	2.1x	2.1x	2.1x

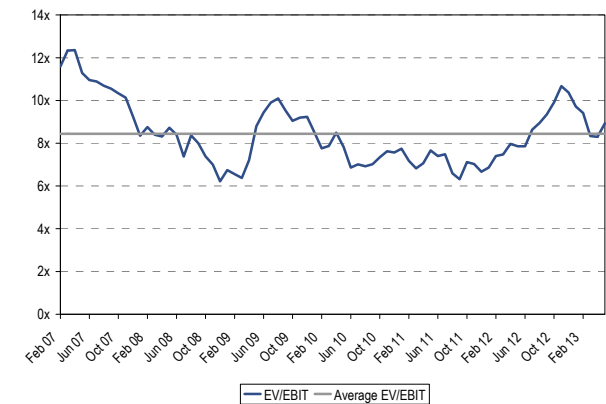
Source: Company Reports and Citi Research Estimates

Figure 259. Debenhams – Statistical Abstract

Yr to Aug	EBIT (£M)	PBT (£M)	Tax Rate (%)	EPS (p)	EPS (Old)	P/E	Net Div (p)	Div Yld (%)	EV/ Sales	EV/ EBIT	EV/ EBITDA
2010A	195	145.3	31.0%	7.8	7.8	11.9	0.0	0.0	0.72	8.7	5.9
2011A	175	151.9	26.9%	8.6	8.6	10.8	3.0	3.2	0.66	9.0	5.9
2012A	178	158.3	20.8%	9.8	9.8	9.5	3.3	3.5	0.63	8.8	5.8
2013E	171	154.0	21.0%	9.8	9.8	9.5	3.3	3.5	0.62	9.2	5.9
2014E	173	152.0	23.0%	9.8	9.7	9.5	3.3	3.6	0.60	9.2	5.9
2015E	181	160.0	23.0%	10.8	10.5	8.6	3.6	3.9	0.57	8.7	5.6
Gearing	57.7%			Shares	1,281.3		Abs %	(19.7)	9.9	(5.2)	18.5
MV	1,190.3			EV	1,571.9		Rel %	(29.4)	5.2	(10.4)	(4.3)

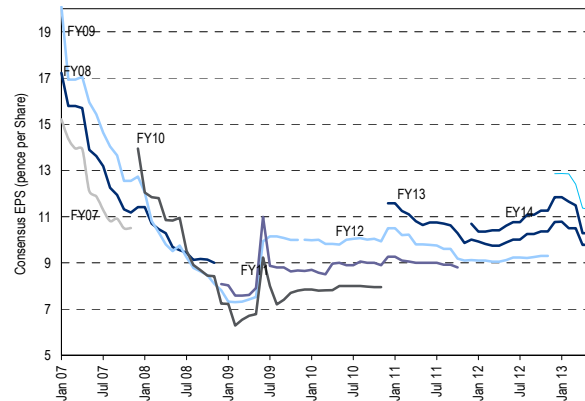
Source: Company Reports and Citi Research Estimates

Figure 260. Debenhams – Long Run EV/EBIT Valuation



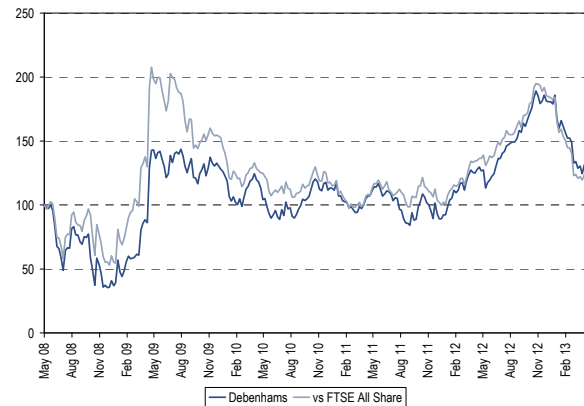
Source: DataStream and Citi Research

Figure 261. Debenhams – Consensus EPS



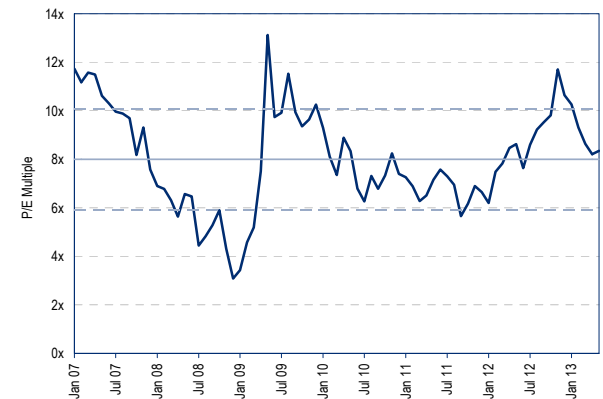
Source: DataStream and Citi Research

Figure 262. Debenhams – 5-Year Share Price Performance May 08 – May 13



Source: DataStream and Citi Research

Figure 263. Debenhams – 12-Month Forward PE



Source: DataStream and Citi Research

Halfords Group Plc (HFD.L) - Neutral (2) Rating, Target Price 385p (from 325p)

- **Halfords will take time to overcome hurdles** — We think there are potentially positive actions that Halfords can take to turn around its recent poor trading and grow profitability again, but these actions will take time. In the near to medium term we expect a lack of earnings progression due to the cost, capital and cash investments that the new CEO will be forced to make in order to overcome Halfords' structural issues.
- **Categories are not a source of growth** — Halford's products are under structural and cyclical pressure and we believe it will require a lot of hard work to stimulate growth. 1) Car enhancement: the new car market is declining, in-car technology pipeline is poor, young drivers have significantly less income than pre-recession 2) Car maintenance: the UK car population is not growing and is becoming more reliable 3) Cycling: the largest and most lucrative part of the market is regular cyclists, and we believe Halfords has yet to convince this group of its high-end cycling credentials.
- **Store portfolio is a hindrance** — We think the current store portfolio is overspaced and inefficient, the new 'lab' store formats do not solve many of the issues and the in-store services are not yet a material driver of profitability.
- **Trading is unlikely to be aided by macro upturn** — Our HAC model points to little or no improvement in macro trends next year, and against this backdrop we believe Halfords will struggle because it has not managed to outperform the UK macro environment since 2008. Even if the environment does improve, Halfords' operational gearing is below the sector average.
- **We see some good opportunities for Halfords to drive earnings** — We think Halfords has the opportunity for self-help and to grow earnings despite these pressures. We highlight the main opportunities as staff training, staff incentive programmes, reconfiguring stores and enhancing the multichannel proposition.
- **Neutral rating, target price raised to 385p (from 325p)** — Despite our concerns, we believe the dividend yield supports the current share price and the market will wait to hear the new CEO's strategy. Our target price of 385p (raised due to our forecast increases and valuation roll-forward) is based on Halfords trading on a March 2015e EV/EBIT of c.10x, in line with mid-cap UK retail peers and supported by a ~5-6% dividend yield that is covered by cash even on our below-consensus forecasts. This equates to a PE of c.13x in the same forecast year.

Figure 264. Halfords – Financial Summary, 2009-2015E

£ms	2009	2010	2011	2012	2013E	2014E	2015E
Sales	794.7	831.6	869.7	863.1	871.2	887.2	908.6
- growth	-0.3%	4.6%	4.6%	-0.8%	0.9%	1.8%	2.4%
- LFL	-2.6%	1.5%	-5.0%	-1.4%	0.3%	0.9%	1.3%
- Space	2.3%	1.6%	0.1%	0.6%	0.6%	1.0%	1.1%
Gross Profit	413.9	452.8	485.0	472.8	474.7	486.1	500.5
- margin	52.1%	54.4%	55.8%	54.8%	54.5%	54.8%	55.1%
- delta	160bps	237bps	132bps	-99bps	-28bps	30bps	29bps
EBITDA	127.0	148.8	155.3	125.4	107.8	107.7	112.5
EBIT	101.9	119.7	128.1	97.2	76.0	76.0	81.0
- margin	12.8%	14.4%	14.7%	11.3%	8.7%	8.6%	8.9%
PBT	92.4	117.1	125.6	92.2	71.0	71.0	76.0
EPS	31.8	39.4	43.2	33.5	27.3	27.4	29.3
- growth	8.5%	24.0%	9.7%	-22.3%	-18.6%	0.3%	7.1%
Dividend	15.9	20.0	22.0	22.0	22.0	22.0	22.0
- growth	6.0%	25.8%	10.0%	0.0%	0.0%	0.0%	0.0%
Working Capital/Sales	-1.6%	3.8%	-0.3%	-0.2%	0.0%	-0.2%	-0.4%
Depreciation	25.1	29.1	25.0	26.0	30.0	30.0	30.0
Depreciation / Sales	3.2%	3.5%	2.9%	3.0%	3.4%	3.4%	3.3%
Capex	22.7	19.1	24.0	20.0	23.0	25.0	25.0
Capex / Sales	2.9%	2.3%	2.8%	2.3%	2.6%	2.8%	2.8%
FCF	50.9	40.8	93.5	72.5	60.1	56.5	58.4
FCF/Sales	6.4%	4.9%	10.8%	8.4%	6.9%	6.4%	6.4%
Net (Debt) / Cash	(164.0)	(155.0)	(95.6)	(139.2)	(122.8)	(109.1)	(93.5)
Net Debt/EBITDA	1.3x	1.0x	0.6x	1.1x	1.1x	1.0x	0.8x
Lease Adj Net Debt/EBITDA	3.9x	3.6x	3.2x	3.9x	4.1x	4.1x	4.0x
ROCE	49.2%	51.8%	53.8%	36.3%	26.2%	26.7%	28.7%
Lease Adj ROCE	15.5%	16.4%	17.7%	13.7%	11.2%	11.2%	11.6%
Fixed Charge Cover	2.8x	2.7x	2.9x	2.5x	2.3x	2.3x	2.3x

Source: Company Reports and Citi Research Estimates

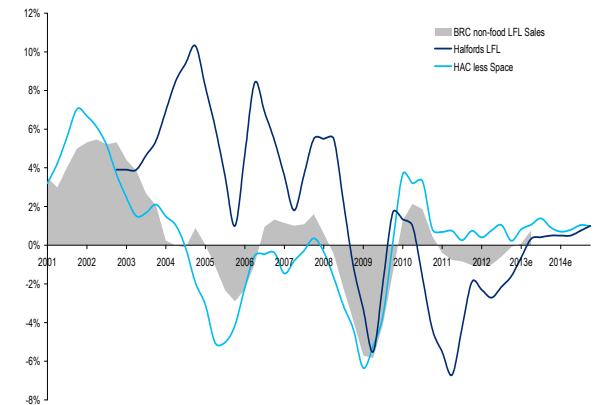
Figure 266. Halfords – Long Run EV/EBIT Valuation

The chart displays the EV/EBIT Multiple for the S&P 500 from January 2007 to January 2013. The Y-axis represents the multiple in 'x' (4x to 12x), and the X-axis shows time in quarters. A horizontal line at 8.3x indicates the average multiple. The multiple starts at approximately 10.5x in Jan 07, peaks at 11x in mid-2007, then drops sharply to around 6.5x by early 2009. It then fluctuates between 6.5x and 10.5x until late 2012, when it rises sharply to 11x by Jan 13.

Date	EV/EBIT Multiple (x)
Jan 07	10.5
Jul 07	11.0
Jan 08	8.5
Jul 08	7.5
Jan 09	6.5
Jul 09	8.3
Jan 10	8.3
Jul 10	10.0
Jan 11	8.0
Jul 11	6.5
Jan 12	7.5
Jul 12	6.0
Jan 13	11.0

Source: DataStream and Citi Research

Figure 269. Halfords LFL v BRC Non-food LFL v HAC less space



Source: Company Reports, ONS and Citi Research Estimates

Hennes & Mauritz AB (Hmb.ST) - Neutral (2), Target Price SKr230

- Global growth: Investment costs and H1 gross margin weakness depress 2013 growth outlook** — Following the +6.6% 2012 earnings progress, held back by a further gross margin decline (driven by a combination of currency headwinds, input cost inflation, and proposition investment), we forecast a similarly modest c.+5% EPS progress in FY13, this time depressed by a blend of 1H gross margin weakness and ongoing IT investment, in combination with another stable LFL sales year. We retain a Neutral rating on the shares.
- 2013 PBT SKr22.9bn (EPS SKr10.7, +4.5% yoy)** — Specifically, in 2013 we assume group LFL sales of -1% due primarily to the weak LFL sales progress so far in 1Q . We forecast gross margins across FY13 -20bp, assuming higher mark-down activity. Net of an expected -0.5% LFL cost delta, we derive SKr22.4bn and SKr22.9bn 2013 EBIT and PBT forecasts, respectively (EPS SKr10.7, +4.5% year on year).
- Neutral rating, target price SKr230** — We derive a SKr230 target price based on a target 14.5x 2014E EV/EBIT multiple (recent average), underpinned by our SKr 230 DCF. This equates to a c.19x target PE and 4.4% target dividend yield for the same forecast year.

Figure 270. H&M – Financial Summary, 2010-2015E

SKr m	2010	2011	2012	2013E	2014E	2015E
Sales	108,483.0	109,999.0	120,799.0	128,163.6	141,795.0	156,781.7
- growth	7.0%	1.4%	9.8%	6.1%	10.6%	10.6%
- LFL	5.3%	-0.8%	1.6%	-1.3%	1.2%	1.1%
- Space	10.7%	8.8%	9.2%	9.9%	9.3%	9.4%
Gross Profit	68,269.0	66,147.0	71,871.0	75,971.8	84,049.2	92,927.2
- margin	62.9%	60.1%	59.5%	59.3%	59.3%	59.3%
- delta	131bps	-280bps	-64bps	-22bps	0bps	0bps
EBITDA	27,720.0	23,641.0	25,459.0	26,649.8	29,475.8	32,644.5
EBIT	24,659.0	20,379.0	21,754.0	22,389.0	24,789.0	27,489.0
- margin	22.7%	18.5%	18.0%	17.5%	17.5%	17.5%
PBT	25,008.0	20,942.0	22,285.0	22,900.0	25,300.0	28,000.0
EPS	11.29	9.56	10.19	10.65	11.77	13.02
- growth	14.1%	-15.3%	6.6%	4.5%	10.5%	10.6%
Dividend	9.50	9.50	9.50	9.50	9.81	10.85
- growth	na	na	0.0%	0.0%	3.2%	10.6%
Working Capital/Sales	9.02%	10.77%	10.92%	10.92%	10.92%	10.92%
Depreciation	3,061.0	3,262.0	3,705.0	4,260.8	4,686.8	5,155.5
Depreciation / Sales	2.8%	3.0%	3.1%	3.3%	3.3%	3.3%
Capex	4,959.0	5,174.0	6,864.0	7,481.8	8,229.9	9,052.9
Capex / Sales	4.6%	4.7%	5.7%	5.8%	5.8%	5.8%
FCF	16,527.0	11,563.0	10,214.4	12,454.6	13,824.8	15,373.9
FCF/Sales	15.2%	10.5%	8.5%	9.7%	9.7%	9.8%
Net (Debt) / Cash	24,858.0	21,277.0	17,143.0	14,385.4	12,998.0	12,653.9
Net Debt/EBITDA	na	na	na	na	na	na
ROCE	128.9%	96.7%	87.9%	77.1%	73.6%	72.4%
Lease Adj ROCE	27.4%	22.5%	22.5%	21.4%	21.5%	21.4%
Fixed Charge Cover	3.2x	2.8x	2.8x	2.8x	2.8x	2.8x

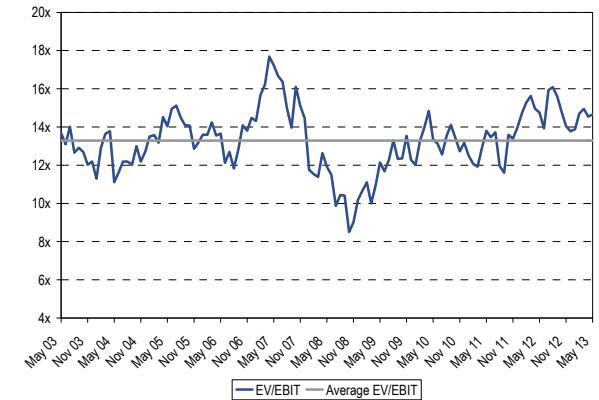
Source: Company Reports and Citi Research Estimates

Figure 271. Hennes & Mauritz AB – Statistical Abstract

Yr to Nov	EBIT (SKr M)	PBT (SKr M)	Tax Rate	EPS (SKr)	EPS Old (SKr)	P/E	Net Div (SKr)	Div Yld (%)	EV/ Sales	EV/ EBIT	EV/ EBITDA
2009A	21,644	22,103	25.9%	9.9	9.9	23.7	8.0	3.4	3.6	16.9	15.0
2010A	24,659	25,008	25.3%	11.3	11.3	20.8	9.5	4.1	3.3	14.7	13.1
2011A	20,379	20,942	24.5%	9.6	9.6	24.5	9.5	4.1	3.3	18.0	15.5
2012A	21,754	22,285	24.3%	10.2	10.2	23.0	9.5	4.1	3.1	17.1	14.6
2013E	22,389	22,900	23.0%	10.7	10.7	22.0	9.5	4.1	2.9	16.7	14.0
2014E	24,789	25,300	23.0%	11.8	11.8	19.9	9.8	4.2	2.6	15.1	12.7
Ytd -1m -3m -12m											
Gearing	-39.1%	Shares	1,655.2	Abs %		4.5	2.5	2.9	4.4		
MV	388,144	EV	370,001	Rel %		-3.1	-2.9	-2.9	-17.5		

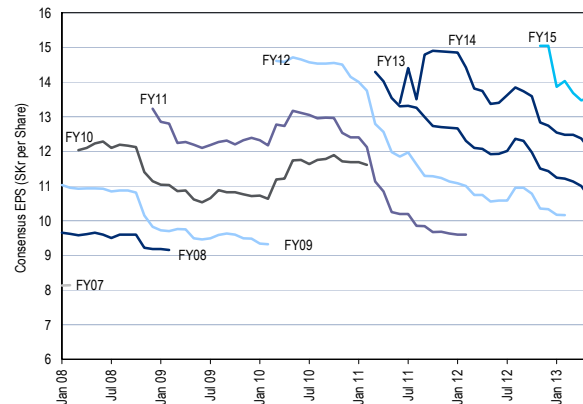
Source: Company Reports and Citi Research Estimates

Figure 272. Hennes & Mauritz AB – Long Run EV/EBIT Valuation



Source: DataStream and Citi Research

Figure 273. Hennes & Mauritz AB – Consensus EPS



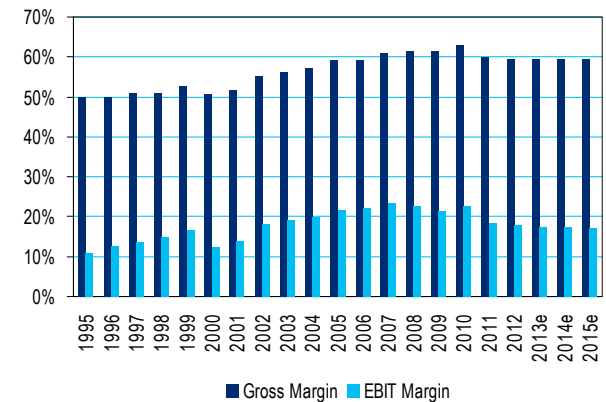
Source: DataStream and Citi Research

Figure 274. H&M – 10 year Share Price Performance (\$ rebased)



Source: DataStream and Citi Research

Figure 275. H&M – Long Run Gross and EBIT Margin Trends



Source: Company Reports and Citi Research Estimates

Figure 276. H&M – LFL Sales Growth by Country

	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
China	-15.1%	-15.4%	-17.4%	-6.8%	-5.2%	2.5%	2.8%	-8.9%	-53.3%	11.1%	2.6%	-2.3%	-32.8%	-26.2%	-4.6%	-20.7%
Spain	4.4%	-6.3%	-7.9%	0.7%	2.2%	25.8%	19.7%	-3.9%	2.1%	-3.7%	-7.9%	-1.2%	-3.0%	-1.7%	-6.1%	-10.6%
England	10.8%	-1.9%	-12.4%	4.4%	4.3%	9.0%	18.7%	3.3%	14.2%	13.6%	7.8%	13.0%	5.4%	0.8%	-4.3%	-6.5%
Switzerland	6.5%	1.0%	-0.3%	6.4%	1.0%	21.8%	13.5%	-7.4%	-2.8%	-14.1%	-13.4%	-8.6%	-10.0%	-4.2%	-4.6%	-5.9%
Holland	-7.6%	-14.6%	-24.7%	-2.4%	-0.6%	15.2%	17.1%	-1.4%	-3.4%	-6.9%	-10.4%	-2.3%	-3.9%	-8.7%	-4.0%	-5.6%
Sweden	-33.4%	-23.1%	-20.9%	-22.1%	-11.6%	-0.9%	1.7%	0.3%	-1.6%	-5.1%	-4.9%	-0.9%	-2.7%	-3.5%	-4.1%	-5.1%
Italy	-3.1%	-8.3%	-7.9%	2.3%	-0.4%	14.2%	5.5%	11.3%	3.5%	-3.7%	-11.4%	-9.2%	1.7%	2.3%	-1.5%	-4.9%
Belgium	-27.8%	-16.8%	-14.0%	11.2%	0.4%	28.2%	26.6%	-0.4%	5.8%	-5.6%	-4.5%	6.8%	3.2%	2.7%	4.9%	-4.7%
Czech Republic	-2.1%	4.7%	-1.5%	-0.2%	-4.2%	-2.5%	-2.7%	-6.5%	0.5%	-13.5%	-3.7%	7.6%	3.1%	3.9%	-2.7%	-4.4%
Portugal	5.1%	-5.1%	-11.3%	-3.6%	-4.1%	1.4%	5.7%	-2.5%	1.7%	1.7%	-10.8%	-4.7%	-6.1%	0.5%	-2.0%	-4.2%
Slovenia	-0.3%	0.1%	-2.0%	5.6%	2.9%	7.1%	9.3%	-5.6%	-9.7%	-17.5%	-14.1%	-7.2%	-3.4%	4.4%	-1.0%	-4.2%
Norway	-9.2%	-17.8%	-6.3%	8.4%	17.4%	22.9%	22.9%	-12.8%	-2.9%	-9.8%	-8.1%	4.3%	1.7%	2.7%	-3.0%	-4.2%
France	-19.3%	-23.5%	-24.9%	-13.8%	-18.0%	0.4%	-7.5%	-1.9%	10.1%	-1.0%	-3.7%	6.5%	-0.3%	1.3%	2.2%	-3.6%
Ireland	-11.2%	-12.5%	-9.8%	-0.6%	5.8%	6.1%	1.7%	-4.3%	-1.7%	-9.6%	-12.4%	3.6%	6.2%	12.6%	8.3%	-3.2%
Poland	-12.6%	-16.4%	-12.5%	0.7%	-11.7%	8.0%	0.2%	-3.6%	6.7%	-5.6%	4.4%	7.8%	7.6%	-0.2%	-5.1%	-3.1%
Germany	-5.8%	-1.9%	-5.6%	2.4%	-4.2%	3.3%	3.8%	4.5%	6.3%	-3.9%	-2.3%	6.4%	3.9%	-0.9%	3.3%	-2.2%
Austria	-31.6%	-13.4%	17.5%	-2.3%	7.7%	4.5%	-28.7%	-2.9%	-2.3%	-8.9%	-3.8%	1.9%	6.4%	5.9%	-1.3%	-2.2%
Finland	3.7%	-2.4%	-4.7%	-0.1%	-2.1%	14.8%	2.6%	-6.1%	-4.7%	-6.4%	-7.6%	1.7%	-1.1%	-3.1%	-4.6%	-2.0%
Luxembourg	-134.0%	-47.0%	-18.3%	26.4%	12.0%	14.3%	-0.3%	2.2%	4.3%	-9.3%	-0.8%	2.3%	2.0%	-0.7%	-0.7%	-1.5%
USA	4.2%	-9.7%	-4.8%	1.2%	-4.3%	11.0%	-1.9%	19.0%	11.7%	15.2%	10.3%	20.9%	20.9%	15.4%	7.4%	1.2%
Canada	-3.6%	0.1%	5.5%	3.1%	4.1%	6.3%	-5.1%	7.1%	0.4%	9.7%	2.0%	8.7%	8.7%	1.7%	3.8%	2.0%
Greece	1.7%	-5.9%	-5.5%	4.7%	-16.7%	4.1%	-6.5%	11.3%	-26.4%	23.0%	-5.7%	-3.1%	17.5%	2.0%	0.0%	2.6%
Denmark	0.9%	-4.5%	-9.7%	-9.3%	-9.2%	8.3%	3.1%	-4.7%	2.6%	-4.2%	-3.4%	5.3%	5.9%	1.7%	2.5%	3.9%
Slovakia	-88.8%	-0.8%	-6.1%	7.8%	0.9%	0.2%	1.7%	-20.7%	-58.6%	-13.3%	-9.5%	1.4%	-2.4%	-3.3%	1.0%	4.5%
Hungary	3.7%	-7.3%	-6.2%	0.8%	-5.8%	8.5%	-3.2%	7.2%	13.1%	-3.4%	-1.9%	13.4%	9.8%	9.6%	2.1%	4.6%
# positive LFL	9	4	11	13	8	20	16	8	14	4	4	15	14	15	10	6

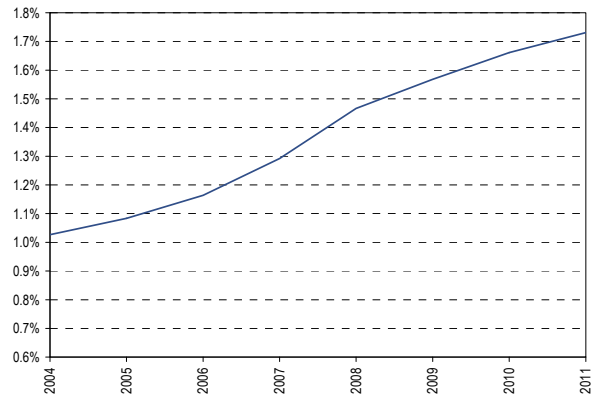
Source: Company Reports and Citi Research

Figure 277. H&M – Cost Of Goods Sold Analysis

Gross Margin Delta - 2009 to 2013 Actual Analysis													
		1H 10	2H 10	FY 10	1H 11	2H 11	FY 11	1H 12	2H 12	FY 12e	1H 13	2H 13	FY 13e
Freight	8.0	-13.9%	30.8%	8.5%	16.6%	1.0%	8.8%	-3.6%	16.0%	6.2%	13.3%	-8.1%	2.6%
Labour	20.0	0.0%	3.8%	1.9%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Cotton	15.0	3.2%	28.4%	15.8%	46.8%	56.0%	51.4%	7.6%	-49.3%	-20.9%	-28.9%	4.4%	-12.2%
Other materials	27.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Overheads	10.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Manufacturer margin	5.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Design / buying / merchandising	15.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	100.0	-0.6%	7.5%	3.4%	9.1%	9.2%	9.2%	1.6%	-5.4%	-1.9%	-2.5%	0.8%	-0.9%
Currency													
- dollar / euro		0.5%	-2.3%	-0.9%	4.0%	0.2%	2.1%	-2.5%	1.4%	-0.6%	3.8%	0.2%	2.0%
- euro / gbp		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Inflation		-0.1%	5.2%	2.5%	13.1%	9.4%	11.3%	-0.9%	-4.0%	-2.4%	1.2%	1.0%	1.1%
Implied gross margin delta (bps)		0	-210	-105	-530	-380	-455	40	160	100	1.2%	1.0%	1.1%
Achieved / Forecast gross margin delta (bps) *		500	-225	130	-410	-160	-280	-90	-30	-60	-50	-40	-45
0Implied out/(under)-performance		500	-15	235	120	220	175	-130	-190	-100	-50	0	-45

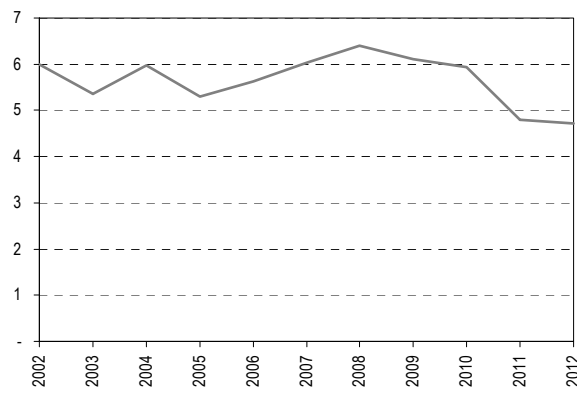
Source: Company Reports and Citi Research Estimates

Figure 278. H&M – Long Run Market Share Trends



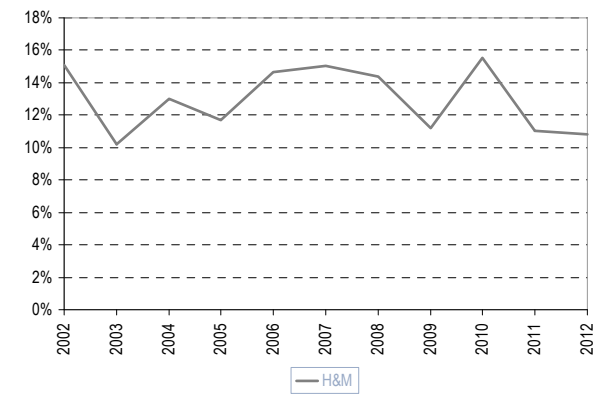
Source: Euromonitor International

Figure 279. H&M – Long Run GROI



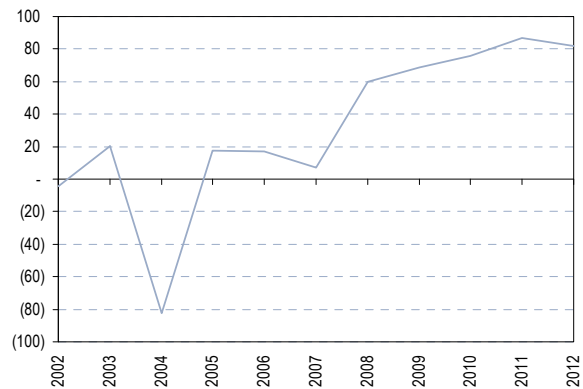
Source: Company Reports and Citi Research

Figure 280. H&M – Long Run Free Cashflow/Sales



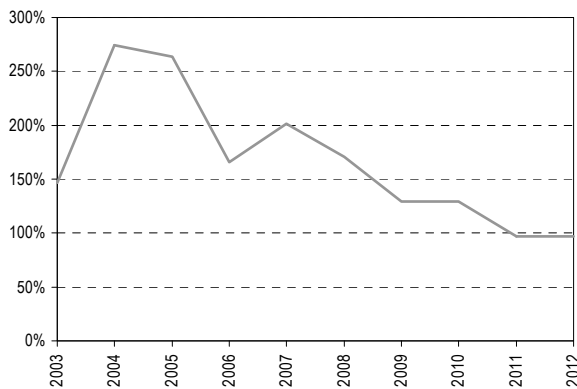
Source: Company Reports and Citi Research

Figure 281. H&M – Long Run Working Capital Days



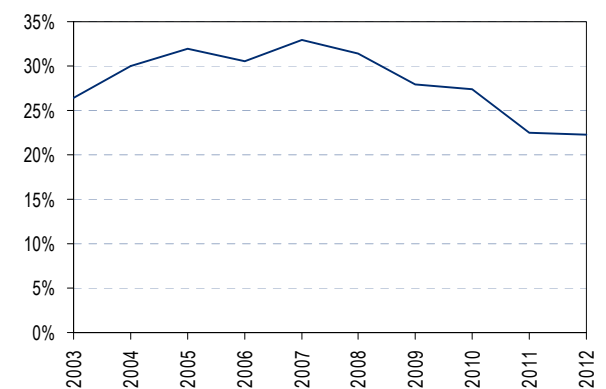
Source: Company Reports and Citi Research

Figure 282. H&M – Long Run ROCE



Source: Company Reports and Citi Research

Figure 283. H&M – Long Run Lease CAP ROCE



Source: Company Reports and Citi Research

Inchcape PLC (INCH.L) – Neutral (2), Target Price 500p

- **Forecast risk remains given into 2013** — After mixed FY 2012 results, Inchcape faces tougher comparatives into 2013. With outlook comments suggesting further pressure on new vehicle margins in key territories and ongoing pressure from weak demand in Europe and Emerging markets (despite more group level cost savings), we expect little further rerating in the medium term and retain our Neutral rating.
- **FY 2013E PBT £269m (EPS 41.8p, +7% yoy)** — Our FY 2013 PBT forecast is based on group FY 2012 LFL +2% and total growth of 10% (c4% from Trivett acquisition). Within this we assume a trading profit contribution of £9m from the acquisition of Trivett. We forecast gross margins down 10bp yoy driven by pricing pressure within Emerging Markets. We forecast full-year operating margins flat year on year, assuming underlying cost inflation of 2%.
- **FY 2014E PBT £295m (EPS 46p, +10% yoy)** — Our FY 2014 PBT forecast is based on group FY 2012 LFL +4%. Within this we assume a trading profit contribution of £14m from the acquisition of Trivett. We assume flat gross margins. We forecast full-year operating margins increasing by +10bp yoy.
- **What does it all mean?** — In the longer term we like Inchcape's two-thirds profit exposure to Asia-Pacific and Emerging markets and support from a highly profitable after-sales business (c50% of group gross profit). However, we believe Inchcape needs to focus on delivering higher-margin distribution contracts to support its recent re-rating. In addition, we remain concerned about Inchcape's ability to drive returns from hereon based on a purely organic expansion strategy.
- **Neutral; price target 500p** — Our 500p target price references a c.7x 2014E EV/EBIT multiple, we remain Neutral given our concerns of slowing growth trends in 2013.

Figure 284. Inchcape – Financial Summary, 2010-2015E

£ms	2010	2011	2012	2013E	2014E	2015E
Sales	5,885.4	5,826.3	6,085.5	6,690.7	7,070.3	7,379.2
- growth	5.4%	-1.0%	4.4%	9.9%	5.7%	4.4%
- LFL	3.1%	-1.7%	5.8%	1.9%	3.9%	4.9%
- Space	-0.5%	-0.7%	-0.3%	4.7%	1.4%	-0.5%
Gross Profit	880.9	856.1	874.2	957.2	1,012.4	1,059.6
- margin	15.0%	14.7%	14.4%	14.3%	14.3%	14.4%
- delta	16bps	-27bps	-33bps	-6bps	1bps	4bps
EBITDA	267.0	277.9	295.3	317.8	343.4	365.9
EBIT	225.5	244.4	261.9	284.4	310.0	332.5
- margin	3.8%	4.2%	4.3%	4.3%	4.4%	4.5%
PBT	214.0	227.7	250.3	268.6	295.2	318.7
EPS	31.7	34.9	39.1	41.8	46.0	49.8
- growth	17.2%	10.2%	11.9%	6.9%	10.2%	8.2%
Dividend	6.6	11.0	14.5	16.6	18.7	20.2
- growth		66.7%	31.8%	14.3%	12.8%	8.2%
Working Capital/Sales	-0.1%	0.3%	0.6%	1.7%	2.1%	2.4%
Depreciation	41.5	33.5	33.4	33.4	33.4	33.4
Depreciation / Sales	0.7%	0.6%	0.5%	0.5%	0.5%	0.5%
Capex	54.0	109.7	87.3	110.0	100.0	85.0
Capex / Sales	0.9%	1.9%	1.4%	1.6%	1.4%	1.2%
FCF	173.2	83.0	93.7	22.6	102.6	135.2
FCF/Sales	2.9%	1.4%	1.5%	0.3%	1.5%	1.8%
Net (Debt) / Cash	205.8	243.5	276.2	143.8	166.7	213.4
Net Debt/EBITDA	na	na	na	na	na	na
Lease Adj Net Debt/EBITDA	0.4x	0.3x	0.2x	0.5x	0.4x	0.3x
ROCE	232.2%	124.2%	102.3%	110.2%	95.3%	67.2%
Lease Adj ROCE	57.5%	48.8%	46.0%	49.8%	48.6%	41.2%
Fixed Charge Cover	6.0x	6.2x	5.8x	6.0x	6.5x	7.0x

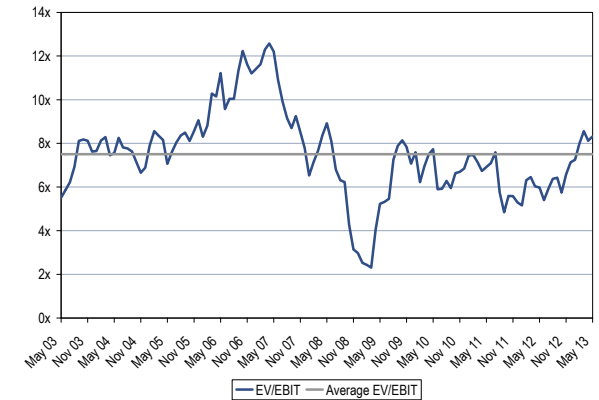
Source: Company Reports and Citi Research Estimates

Figure 285. Inchcape – Statistical Abstract

Yr to Dec	Sales	Net Debt	EV EBITDA	EBIT	PBT	Tax	EPS	EPS Old	P/E	Net	Div	EV/	EV/	EV/	
	(£m)		(£m)	(£m)	(£m)	(%)	(p)	(p)		Div (p)	Yld (%)	Sales	EBIT	EBITDA	
2011A	5,826	-244	2,181	278	244	228	26%	34.9	34.9	15.1	11.0	2.1%	0.37	8.9	7.8
2012A	6,086	-276	2,148	295	262	250	25%	39.1	39.1	13.5	14.5	2.8%	0.35	8.2	7.3
2013E	6,691	-144	2,280	318	284	269	25%	41.8	41.8	12.6	16.6	3.2%	0.34	8.0	7.2
2014E	7,070	-167	2,257	343	310	295	25%	46.0	46.0	11.4	18.7	3.6%	0.32	7.3	6.6
2015E	7,379	-213	2,211	366	333	319	25%	49.8	46.0	10.6	20.2	3.8%	0.30	6.6	6.0
											YTD	1M	3M	12M	
										Abs %	22.0	2.4	8.5	52.5	
MV	2,424	Shares	461												
										Rel %	7.2	-2.0	2.5	23.1	

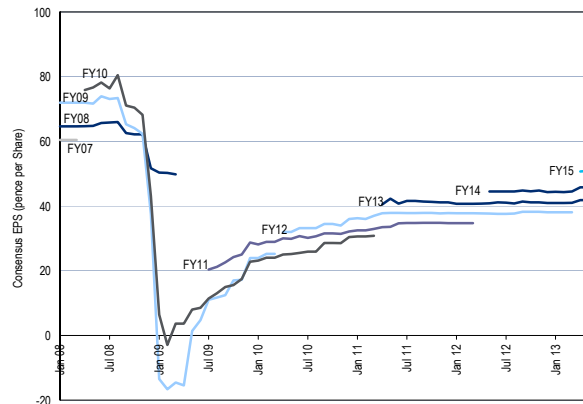
Source: Company Reports and Citi Research Estimates

Figure 286. Inchcape – Long Run EV/EBIT Valuation



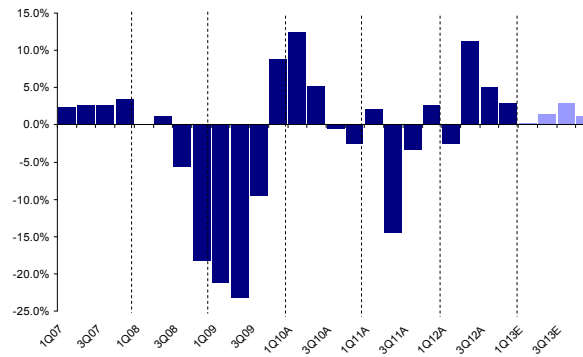
Source: DataStream and Citi Research

Figure 287. Inchcape – Consensus EPS



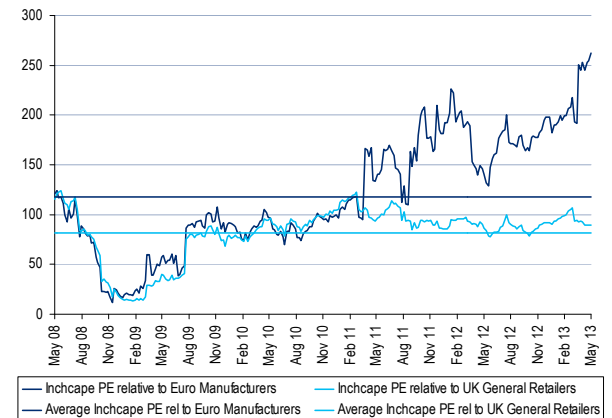
Source: DataStream and Citi Research

Figure 288. Inchcape LFL GP %



Source: Company Reports and Citi Research Estimates

Figure 289. Inchcape PE Relative to UK General Retail and Euro Autos



Source: Company Reports and Citi Research

Marks & Spencer Group PLC (MKS.L) - Neutral (2) Rating, Target Price 440p (from 400p)

- Cyclical: Dull macro drives limits 2012-15E PBT growth outlook** — In the context of a dull UK consumer demand environment (see our Household Available Cashflow analysis above), the M&S general merchandise division has been the relative underperformer among its UK clothing peers, while M&S has held its own in Food. Notably, in UK clothing, since 2007 the M&S General Merchandise LFL gross profit has declined c.-10% vs. LFL gross profit growth of c.+5-10% from Next and Debenhams. From here we assume M&S holds market share in both the Gen Merch and Food divisions, and delivers modest gross margin progress, in the wake of recent product and operational initiatives. Despite this, in an ongoing dull consumer demand environment the combination of the resultant +7-8% 2013-2015E PBT growth outlook and what looks to us to be a premium valuation multiple leaves us with a Neutral rating on the shares.
- FY14E PBT remains £705m** — This assumes FY14 UK LFL sales +1% (General Merchandise +1%, Food +1%). Assuming modest gross margin progress (c.+30bp p.a.) and +2.8% opex growth, this drives a £705m FY14 PBT forecast (EPS 33.5p, +8% yoy). This forecast is in line with consensus.
- Margin dilution from rapid online channel shift?** — Across the clothing retail sub-sector we argue that the only channel shift from store-based retailing is largely cannibalistic, driving down store-based EBIT margins, and hence overall clothing EBIT margins. While M&S looks capable of offsetting a significant quantum of this adverse opex leverage through reduced mark-down opportunities and absolute opex savings, and is consequently better positioned than most, the resultant EBIT growth outlook still remains modest, in our view.
- Neutral rating, 440p target price** — Our 440p target price (raised from 400p, given the recent equity market re-rating) is based on a 11.5x FY15e EV/EBIT multiple, in line with the recent average for the large-cap sector peers, and equates to a c.12x PE and a 4% dividend yield for the same forecast year.

Figure 290. Marks & Spencer – Financial Summary, 2009-2015E

£ms	2009	2010	2011	2012	2013e	2014e	2015e
Sales	9,062.1	9,349.1	9,740.3	9,934.3	10,035.5	10,331.3	10,680.0
- growth	0.4%	3.2%	4.2%	2.0%	1.0%	2.9%	3.4%
- UK LFL	-5.9%	0.9%	2.9%	0.2%	-1.0%	1.0%	1.3%
- UK Space	4.2%	1.9%	1.1%	1.3%	2.1%	1.7%	1.3%
Gross Profit	3,371.1	3,464.3	3,591.3	3,615.6	3,664.9	3,789.9	3,908.2
- margin	41.3%	41.2%	41.1%	40.8%	40.9%	41.2%	41.4%
- delta	-174bps	-5bps	-12bps	-35bps	14bps	28bps	22bps
EBITDA	1,177.9	1,207.2	1,292.1	1,289.7	1,281.9	1,339.2	1,396.6
EBIT	768.9	779.3	824.6	810.0	795.0	845.0	895.0
- margin	8.5%	8.3%	8.5%	8.2%	7.9%	8.2%	8.4%
PBT	604.4	632.5	714.0	705.9	665.0	705.0	745.0
EPS	28.0	29.7	32.7	32.0	31.1	33.5	35.9
- growth	-34.5%	6.1%	10.4%	-2.3%	-2.8%	7.6%	7.2%
Dividend	17.8	15.0	17.0	17.0	17.0	17.5	18.5
- growth	-20.9%	-15.7%	13.3%	0.0%	0.0%	2.9%	5.7%
Working Capital/Sales	3.7%	-1.0%	-1.4%	-1.6%	-1.6%	-1.6%	-1.6%
Depreciation	409.0	427.9	467.5	479.7	486.9	494.2	501.6
Depreciation / Sales	4.5%	4.6%	4.8%	4.8%	4.9%	4.8%	4.7%
Capex	662.4	408.6	450.3	765.5	825.0	850.0	600.0
Capex / Sales	7.3%	4.4%	4.6%	7.7%	8.2%	8.2%	5.6%
FCF	443.8	690.4	607.0	309.3	151.7	181.4	487.1
FCF/Sales	4.9%	7.4%	6.2%	3.1%	1.5%	1.8%	4.6%
Net (Debt) / Cash	- 2,490.8	- 2,068.4	- 1,901.2	- 1,857.1	- 2,620.1	- 2,809.3	- 2,705.6
Net Debt/EBITDA	2.1x	1.7x	1.5x	1.4x	2.0x	2.1x	1.9x
Lease Adj Net Debt/EBITDAR	2.9x	2.6x	2.5x	2.5x	3.1x	3.2x	3.0x
ROCE	15.5%	16.4%	17.4%	17.0%	16.0%	15.6%	15.6%
Lease Adj ROCE	13.4%	13.7%	14.3%	13.7%	13.0%	12.7%	12.8%
Fixed Charge Cover	3.4x	3.8x	3.9x	3.8x	3.6x	3.6x	3.6x

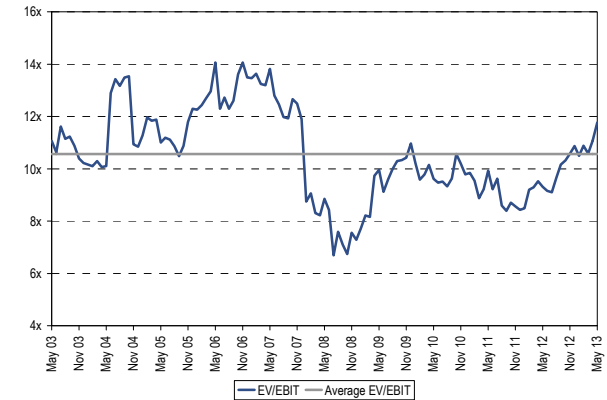
Source: Company Reports and Citi Research Estimates

Figure 291. Marks & Spencer– Statistical Abstract

Yr to Mar	EBIT (£m)	PBT (£m)	Tax Rate (%)	EPS (p)	EPS Old (p)	P/E	Net Div (p)	Div Yld (%)	EV/ Sales	EV/ EBIT	EV/ EBITDA
2010A	779	633	26%	29.7	29.7	14.6	15.0	3.5	0.95	11.4	7.4
2011A	825	714	25%	32.7	32.7	13.3	17.0	3.9	0.90	10.6	6.8
2012A	810	706	25%	32.0	32.0	13.6	17.0	3.9	0.88	10.8	6.8
2013E	795	665	24%	31.1	31.1	13.9	17.0	3.9	0.94	11.9	7.4
2014E	845	705	23%	33.5	33.5	13.0	17.5	4.0	0.94	11.4	7.2
2015E	895	745	22%	35.9	35.9	12.1	18.5	4.3	0.89	10.7	6.8
							Price	YTD	1M	3M	12M
Gearing = 66.6%							Abs%	10.0	5.3	8.0	19.7
FV = 8,709.7							Rel %	(3.3)	0.7	2.1	(3.3)
Shares = 1,579.3				MV = 6,852.6							

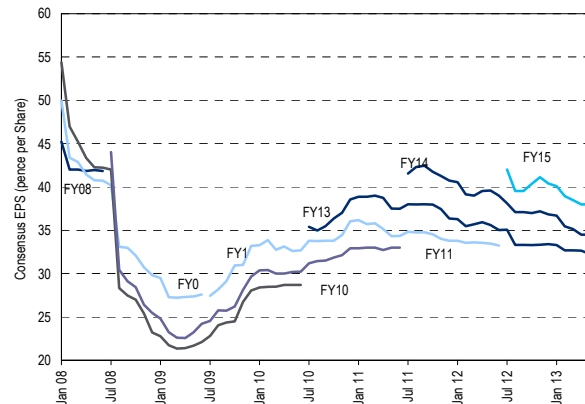
Source: Company Reports and Citi Research Estimates

Figure 292. Marks and Spencer – Long Run EV/EBIT Valuation



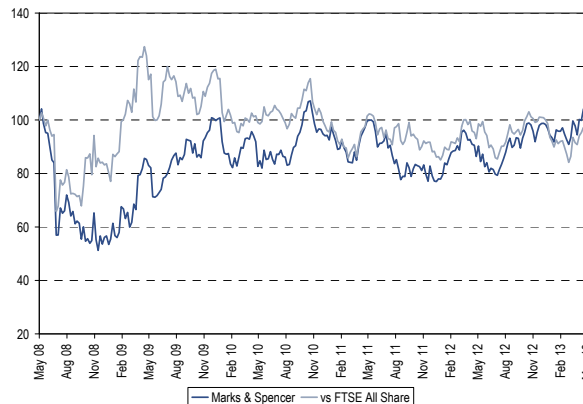
Source: DataStream and Citi Research

Figure 293. Marks & Spencer – Consensus EPS



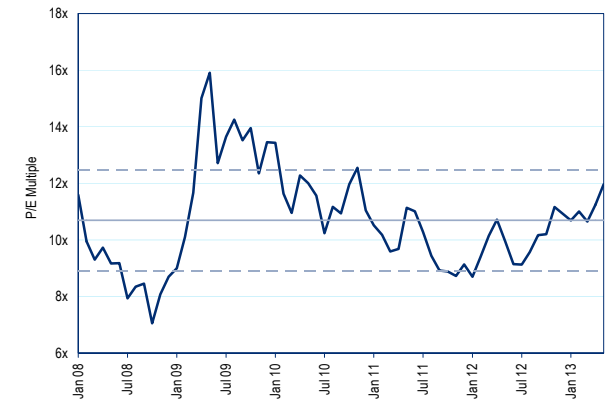
Source: DataStream and Citi Research

Figure 294. Marks & Spencer – 5-Year Share Price Performance



Source: DataStream and Citi Research

Figure 295. Marks & Spencer – 12-Month Forward PE



Source: DataStream and Citi Research

N Brown (BWNG.L) - Neutral (2) Rating, Target Price 435p

- Sales growth but at a cost** — N Brown has shown sustained customer acquisition to drive sales although this 'recruitment' appears to have been more successful at driving home & leisure sales as opposed to higher-margin womenswear. We believe that in certain areas N Brown is doing the right things such as focusing on younger customer groups (<50s), transitioning away from paper catalogues, streamlining its brands and testing International opportunities. In theory, reducing reliance on paper distribution should drive some cost productivity as physical catalogue costs reduce. However, despite online sales penetration now at 55%, there has been little change in the group's overall opex/sales profile since FY 2007. As demonstrated by these results, near-term benefits appear to be offset by ongoing investment and customer recruitment costs resulting in a fairly muted 2013-16E EPS CAGR of +3%.
- Online sales drive growth** — Online sales now account for over half (55%) of product revenue and upgrades of the internet offer have clearly started to gain traction with the consumer. This transition should continue to drive cost productivity due to the lower catalogue and staff costs, although we expect some of this to be reinvested back into customer acquisition.
- Full year Feb 2014 PBT forecast £102m (EPS 29.6p, +4% yoy)** — Our FY 2014 PBT forecast assumes LFL and total sales of +6.0%. We assume gross margins up 50bp, driven mainly by improving product margins and opex growth of +7.0%. Overall this drives FY 2014E EBIT growth of +7% to £109m and PBT of £102m +5.8% yoy. A 19% tax charge gives FY 2014E EPS of 29.6p (+4% yoy). The forecast PBT is only 4% higher than that achieved in 2010, demonstrating the stagnation of bottom line growth.
- Neutral rating, target price 435p** — The group's valuation now looks rich to us, with some market anticipation of any new strategy that CEO Angela Spindler may propose for N Brown when she joins towards the end of H1 13, although we do not expect any fundamental announcement on group strategy until late in 2013. Given the recent sector re-rating, we value N Brown on c.14x PE for Feb 2015E, a small premium to the Retail mid-cap average. This target price equates to 11.9x EV/EBIT and a 3.6% dividend yield in the same forecast year.

Figure 296. N Brown – Financial Summary, 2010-2016E

£ms	2010	2011	2012	2013	2014E	2015E	2016E
Sales	690.0	718.8	740.3	784.7	831.8	865.1	891.0
- growth	4.2%	4.2%	3.0%	6.0%	6.0%	4.0%	3.0%
- LFL	na	1.3%	1.6%	5.5%	6.0%	4.0%	3.0%
- Space	na	2.9%	1.4%	0.5%	0.0%	0.0%	0.0%
Gross Profit	362.2	386.7	392.3	415.8	444.9	461.0	473.9
- margin	52.5%	53.8%	53.0%	53.0%	53.5%	53.3%	53.2%
- delta	-70bps	130bps	-80bps	0bps	50bps	-20bps	-10bps
EBITDA	111.9	117.3	115.3	121.2	130.3	137.0	140.6
EBIT	97.6	102.6	99.1	102.2	109.3	115.0	117.6
- margin	14.1%	14.3%	13.4%	13.0%	13.1%	13.3%	13.2%
PBT	93.1	98.2	92.7	96.4	102.0	108.0	111.0
EPS	24.7	27.0	25.6	28.5	29.6	30.6	31.4
- growth	12.9%	9.3%	-5.3%	1.8%	4.0%	3.3%	2.7%
Dividend	10.8	12.4	13.0	13.7	14.4	15.5	16.0
- growth	17.4%	15.0%	5.0%	5.0%	5.3%	7.6%	3.2%
Working Capital/Sales	68.5%	63.2%	67.3%	67.0%	66.5%	67.8%	69.5%
Depreciation	14.3	14.7	16.2	19.0	21.0	22.0	23.0
Depreciation / Sales	2.1%	2.0%	2.2%	2.4%	2.5%	2.5%	2.6%
Capex	11.2	22.1	24.9	24.9	25.0	25.0	20.0
Capex / Sales	1.6%	3.1%	3.4%	3.2%	3.0%	2.9%	2.2%
FCF	79.7	32.1	40.6	57.5	66.8	65.5	68.9
FCF/Sales	11.6%	4.5%	5.5%	7.3%	8.0%	7.6%	7.7%
Net (Debt) / Cash	(170.0)	(180.9)	(192.5)	(188.7)	(177.6)	(170.8)	(157.1)
Net Debt/EBITDA	1.5x	1.5x	1.7x	1.6x	1.4x	1.2x	1.1x
Lease Adj Net Debt/EBITDA	na	na	na	na	na	na	na
ROCE	17.1%	18.2%	16.2%	14.9%	15.6%	15.9%	15.4%
Lease Adj ROCE	na	na	na	na	na	na	na
Fixed Charge Cover	2.7x	2.8x	2.5x	20.9x	17.8x	19.6x	21.3x

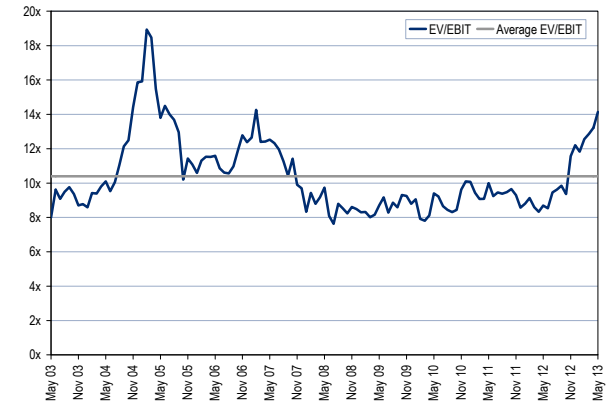
Source: Company Reports and Citi Research Estimates

Figure 297. N Brown – Statistical Abstract

Yr to Feb	Sales	EBIT (£m)	PBT (£m)	Tax Rate (%)	EPS (p)	PE	Net Div (p)	Div Yld (%)	EV/ Sales	EV/EBIT	EV/ EBITDA	
2011A	719	103	98.2	24.1%	27.0	16.6	12.4	2.8	1.97	13.8	12.1	
2012A	740	99	92.7	16.4%	28.0	16.0	13.0	2.9	1.93	14.4	12.4	
2013A	785	102	96.4	17.6%	28.5	15.7	13.7	3.1	1.82	13.9	11.8	
2014E	832	109	102.0	19.0%	29.6	15.1	14.4	3.2	1.70	12.9	10.9	
2015E	865	115	108.0	21.0%	30.6	14.7	15.5	3.5	1.63	12.2	12.2	
2016E	891	118	111.0	21.0%	31.4	14.3	16.0	3.6	1.56	11.9	11.9	
									YTD	1M	3M	12M
								Abs %	21.3	7.3	12.7	89.4
								Rel %	6.6	2.7	6.6	52.9

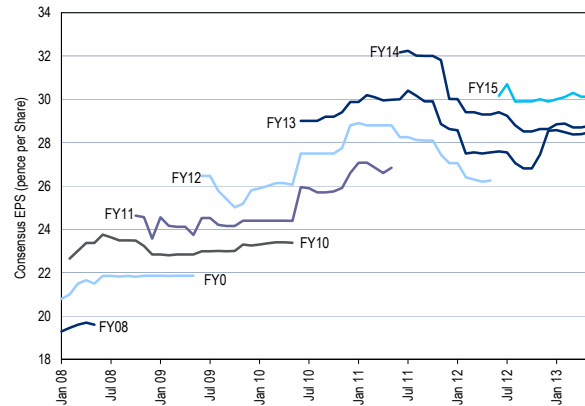
Source: Company Reports and Citi Research Estimates

Figure 298. N Brown – Long Run EV/EBIT Valuation



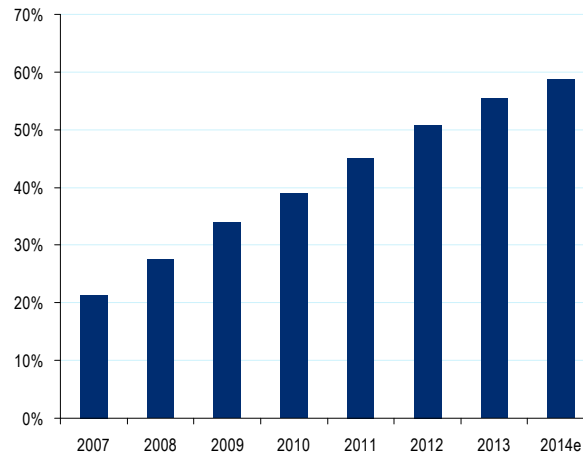
Source: DataStream and Citi Research

Figure 299. N Brown – Consensus EPS



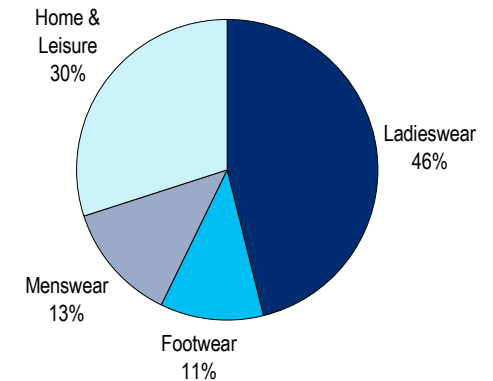
Source: DataStream and Citi Research

Figure 300. Online sales as % of revenue



Source: Company Reports and Citi Research Estimates

Figure 301. Revenue Split by Category, FY13



Source: Company Reports and Citi Research

CDON Group (CDON.ST) - Neutral (2) Rating

- **Diversified online retailer** — CDON holds a market leading position in the Nordic market with an online market share of 5.4%, on our estimates. The company operates within the entertainment (54% of 2012 sales), fashion, (21%) sports & health (11%) and home & garden (14%) sectors.
- **Growth set to continue** — We anticipate that CDON will demonstrate continued strong top line growth driven by: 1) online market growth in Nordics (Sweden's online retail penetration is currently c.6% vs the UK at c.15%); 2) further international expansion; 3) strong expansion of Nelly.com; 4) development of CDON.com into further product categories and 5) eventual development of a marketplace concept for third-party vendors.
- **Key positives** — 1) CDON has established websites and brands able to take advantage of this growth; 2) the business is scalable and has proven itself profitable in home markets and 3) there is currently little market interference from international players due to language and geographical barriers to entry.
- **The negatives** — 1) Over 25% of group sales are in media products, and the market for these is in decline; 2) the fashion segment has had large operational issues, which have coincided with international expansion; it may be that profitability does not return for a number of years; and 3) expansion outside of home markets may be difficult due to international competition.
- **Maintain a Neutral rating** — Although CDON could benefit from the continued boom in on-line retailing in the Nordics, we believe recent issues in the Nelly.com fashion business demonstrate the high execution risks. The key risks beyond this are the overhang, competition risks and frequent recent management changes.

Figure 302. CDON – Financial Summary, 2009-2015E

Skr m's	2009	2010	2011	2012	2013E	2014E	2015E
Sales	1,746.0	2,210.0	3,403.7	4,461.7	5,398.1	6,515.1	7,635.9
- growth	35.8%	26.6%	54.0%	31.1%	21.0%	20.7%	17.2%
- LFL							
- Space							
Gross Profit	275.3	427.2	597.8	471.2	766.5	964.2	1,175.9
- margin	15.8%	19.3%	17.6%	10.6%	14.2%	14.8%	15.4%
- delta	45bps	356bps	-177bps	-700bps	364bps	60bps	60bps
EBITDA	131.3	141.5	139.3	12.2	89.8	147.8	219.4
EBIT	125.1	134.6	129.2	- 173.9	77.6	134.6	204.9
- margin	7.2%	6.1%	3.8%	-3.9%	1.4%	2.1%	2.7%
PBT	113.3	115.8	111.0	- 201.2	57.3	124.2	195.2
EPS	1.0	1.1	1.0	- 0.3	0.4	0.9	1.3
- growth	63.9%	14.2%	-14.3%	-128.0%	-247.6%	115.3%	56.9%
Dividend	-	-	-	-	-	-	-
- growth							
Working Capital/Sales	-1.6%	1.8%	2.3%	-2.5%	-2.5%	-2.5%	-2.5%
Depreciation	6.1	6.9	10.5	15.7	12.2	13.2	14.5
Depreciation / Sales	0.4%	0.3%	0.3%	0.4%	0.2%	0.2%	0.2%
Capex	3.2	5.4	21.9	35.4	42.8	51.7	60.6
Capex / Sales	0.2%	0.2%	0.6%	0.8%	0.8%	0.8%	0.8%
FCF	215.7	87.9	173.5	- 275.0	50.5	99.7	146.3
FCF/Sales	12.4%	4.0%	5.1%	-6.2%	0.9%	1.5%	1.9%
Net (Debt) / Cash	- 255.3	224.1	37.7	- 261.9	288.6	388.3	534.6
Net Debt/EBITDA	1.9x	-1.6x	-0.3x	21.5x	-3.2x	-2.6x	-2.4x
Lease Adj Net Debt/EBITDA							
ROCE	47.5%	69.1%	34.0%	-32.9%	14.9%	26.2%	39.9%
Lease Adj ROCE							
Fixed Charge Cover	10.0x	6.8x	6.1x	-6.2x	3.7x	9.7x	14.8x

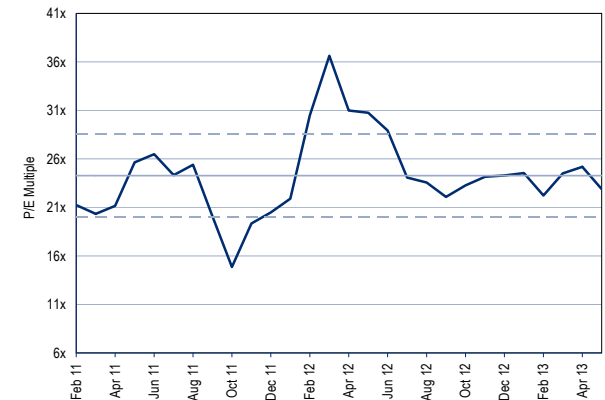
Source: Company Reports and Citi Research Estimates

Figure 303. CDON – Statistical Abstract

Yr to Feb	Sales	PBT (£m)	Tax Rate (%)	EPS (p)	PE	Net Div (p)	Div Yld (%)	EV/Sales	EV/EBIT	EV/EBITDA
2010A	2,210	116	22%	1.1	22.2	0.0	0.0%	1.16	19.0	18.1
2011A	3,404	111	25%	1.0	25.8	0.0	0.0%	0.79	20.7	19.2
2012A	4,462	-31	25%	-0.3	(92.7)	0.0	0.0%	0.67	(849.9)	243.8
2013E	5,398	57	25%	0.4	62.5	0.0	0.0%	0.45	31.2	27.0
2014E	6,515	124	25%	0.9	29.0	0.0	0.0%	0.36	17.3	15.7
2015E	7,636	195	25%	1.3	18.5	0.0	0.0%	0.29	10.6	9.9
					YTD	1M	3M	12M		
MV	2,713	Shares	10,938		Abs %	(26.5)	(22.4)	(16.2)	(34.7)	
EV	2,975				Rel %	(35.4)	(25.8)	(20.8)	(47.3)	

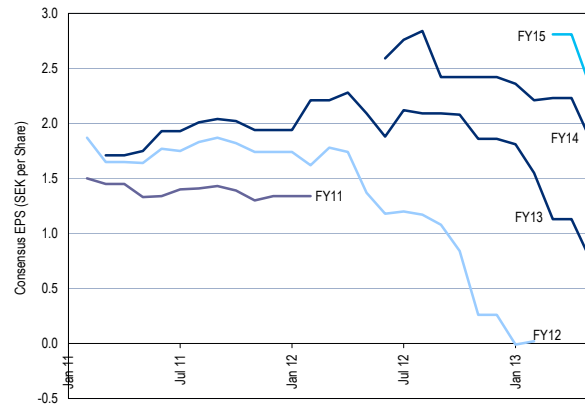
Source: Company Reports and Citi Research Estimates

Figure 304. CDON – P/E Valuation



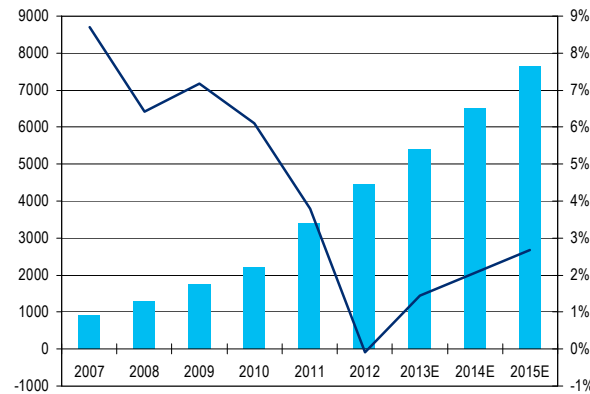
Source: DataStream and Citi Research

Figure 305. CDON – Consensus EPS



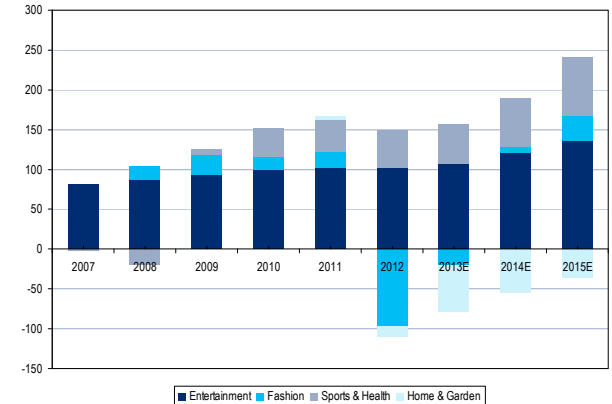
Source: DataStream and Citi Research

Figure 306. CDON – Sales and EBIT Margin



Source: Company Reports and Citi Research Estimates

Figure 307. CDON – EBIT by Product Segment



Source: Company Reports and Citi Research Estimates

Delticom (DEXGn.DE) - Neutral (2) Rating, Target Price €37

- **Leading European Online tyre dealer** — Delticom has more than 120 online shops in more than 41 countries. Delticom specialises in car replacement tyres and also provides tyres for other vehicles (motorcycles, bicycles, truck, and industrial vehicles) as well as complete wheels and rims, motor oil, car parts and accessories. In 2011 it generated c79% of its revenues from Europe with the remaining 21% from the US and Asia.
- **Growth has faded recently** — What was once widely regarded as a growth stock with an EPS CAGR of 36% between 2006 and 2011 has now been heavily de-rated in recent months, with overall European tyre volumes a seemingly more important driver of earnings progress than the potential for internet penetration of tyre retailing to increase, in our view. The reversal in its growth trajectory was clearly demonstrated by the 39% fall in EPS in 2012.
- **Competition likely to increase** — Online tyre retailing, we believe, is going to get more competitive in the years ahead. The roll-out of European tyre labelling could potentially increase confidence in buying on-line, nevertheless this isn't clear as labels do not include information such as durability, which are an important element of consumer choice. Indeed, if it makes consumers more confident in buying on-line it may also encourage new entrants to proliferate especially as Delticom has shown that this business can be a profitable one with low capital intensity.
- **Maintain a Neutral rating** — Though we do see some recovery into 2013 and 2014 as European tyre volumes likely improve, we also think its recent de-rating is merited, particularly given the nascent and unpredictable nature of the industry where there is little public information on competitor performance.
- **€37 target price** — We maintain our €37 target price. Our €37 target price is based on Delticom holding an EV/EBIT multiple of c.11.5x to Dec 2014E. This is broadly in line with the European retail average and the c. 25% premium over the UK mid cap sector, which we think is justified by the growth potential and high capital return of this business.

Figure 308. Delticom – Financial Summary, 2009-2015E

€ ms	2009	2010	2011	2012	2013	2014E	2015E
Sales	311.3	419.6	480.0	456.4	453.2	498.0	564.1
- growth	20.2%	34.8%	14.4%	-4.9%	-0.7%	9.9%	13.3%
- LFL							
- Space							
Gross Profit	85.5	119.5	131.6	117.4	114.7	126.5	143.3
- margin	27.5%	28.5%	27.4%	25.7%	25.3%	25.4%	25.4%
- delta	225bps	102bps	-105bps	-169bps	-43bps	10bps	0bps
EBITDA	30.4	48.9	55.0	35.3	34.4	38.8	44.0
EBIT	29.4	47.6	52.9	32.6	31.4	35.6	40.8
- margin	9.4%	11.3%	11.0%	7.1%	6.9%	7.2%	7.2%
PBT	29.6	47.7	52.9	32.5	31.3	35.5	40.6
EPS	1.70	2.74	3.02	1.85	1.78	2.02	2.31
- growth	71.2%	61.3%	10.3%	-38.5%	-3.9%	13.4%	14.5%
Dividend	20.1	32.2	34.9	22.5	21.6	24.5	28.1
- growth	70.3%	60.2%	8.5%	-35.6%	-3.9%	13.4%	14.5%
Working Capital/Sales	5.3%	2.1%	10.1%	1.9%	6.8%	6.8%	6.8%
Depreciation	1.0	1.3	2.1	2.7	3.0	3.2	3.2
Depreciation / Sales	0.3%	0.3%	0.4%	0.6%	0.7%	0.6%	0.6%
Capex	3.6	4.3	8.6	1.1	3.6	5.0	6.2
Capex / Sales	1.2%	1.0%	1.8%	0.2%	0.8%	1.0%	1.1%
FCF	9.5	47.4	-18.1	60.2	-1.5	19.3	20.1
FCF/Sales	3.1%	11.3%	-3.8%	13.2%	-0.3%	3.9%	3.6%
Net (Debt) / Cash	40.6	67.8	17.8	43.0	19.0	16.7	12.2
Net Debt/EBITDA	-1.3x	-1.4x	-0.3x	-1.2x	-0.6x	-0.4x	-0.3x
Lease Adj Net Debt/EBITDA							
ROCE	-1625.5%	-164.0%	232.9%	-1129.6%	151.3%	156.7%	152.7%
Lease Adj ROCE							
Fixed Charge Cover	980.2x	1488.1x	416.9x	179.3x	157.2x	178.2x	204.0x

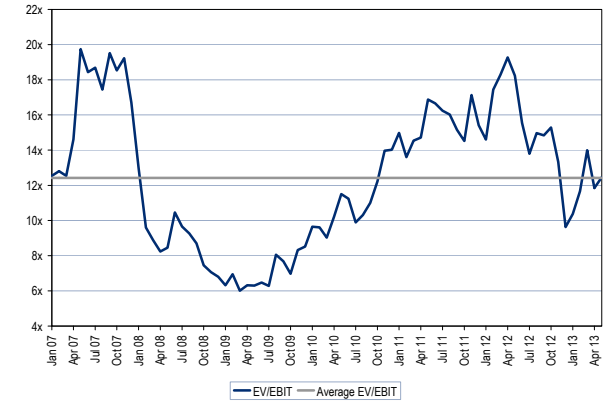
Source: Company Reports and Citi Research Estimates

Figure 309. Delticom – Statistical Abstract

Yr to Feb	Sales	EBIT (£m)	PBT (£m)	Tax Rate (%)	EPS (p)	PE	Net Div (p)	Div Yld (%)	EV/ Sales	EV/EBIT	EV/ EBITDA
2010A	420	48	48	32%	2.74	13.6	2.70	7.3%	0.89	7.9	7.7
2011A	480	53	53	32%	3.02	12.3	2.95	8.0%	0.89	8.0	7.7
2012A	456	33	32	31%	1.85	20.0	1.90	5.1%	0.88	12.3	11.3
2013E	453	31	31	32%	1.78	20.8	1.81	4.9%	0.94	13.5	12.3
2014E	498	36	35	32%	2.02	18.4	2.05	5.5%	0.86	12.0	11.0
2015E	564	41	41	32%	2.31	16.0	2.35	6.3%	0.76	10.6	9.8
									YTD	1M	3M
MV	443	Shares		12		Abs %	15.6	5.9	(4.6)	(42.3)	
EV	427					Rel %	1.6	1.3	(9.9)	(53.4)	

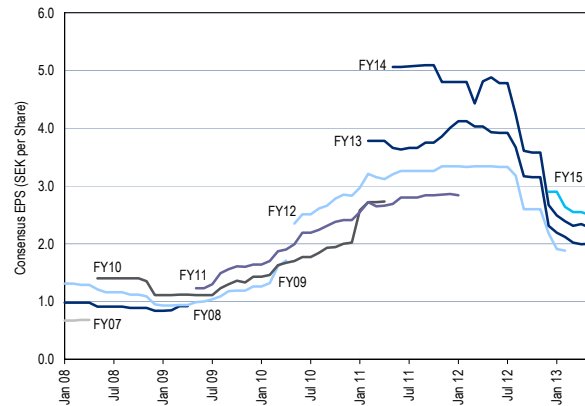
Source: Company Reports and Citi Research Estimates

Figure 310. Delticom – Long Run EV/EBIT Valuation



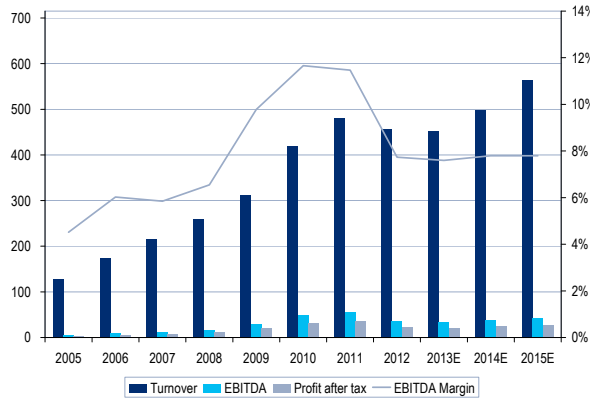
Source: DataStream and Citi Research

Figure 311. Delticom – Consensus EPS



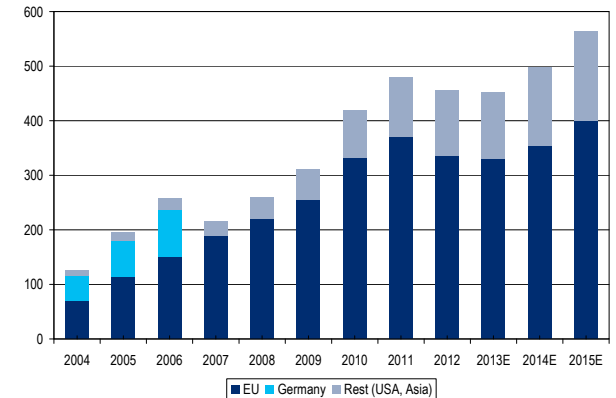
Source: DataStream and Citi Research

Figure 312. Delticom – Sales and Profit (€ms)



Source: Company Reports and Citi Research Estimates

Figure 313. Delticom – Sales by Geography (€ms)



Source: Company Reports and Citi Research Estimates

Zooplus (ZO1G.DE) - Neutral (2) Rating

- Europe's largest on-line pet product retailer** — Zooplus is Europe's leading online pet products supplier with a c5% market share in pet food products in its domestic market (online and offline) and a market share of 1.6% in the European market of €19-20bn that is growing by 3-4% per annum. The selling proposition is based on a wide range of products and accessories (8,000 items), combined with convenience and in many cases free delivery.
- Strong top line growth driven by customer acquisition and geographical expansion** — The success of the proposition has led to customer accounts growing at 46% CAGR 2006-12 and Zooplus expanding into 20 countries. Since inception over 6.5m customers have used Zooplus with new accounts for 2012 amounting to a record high of c1.7m.
- Expansion has created a volatile operating margin** — Over 2006-12 operating margins have been quite volatile, varying from 3.2% in 2008 (ex IPO costs) to a negative 2.9% in 2011 and remaining negative in 2012. Zooplus operates with a lower gross margin and higher delivery expense as a % of sales than other pure play online retailers, due predominantly to the nature of the goods that it sells (low-margin, heavy, bulky). These dynamics mean that Zooplus is highly geared to its operating expenses, which creates earnings volatility and limits its long-term operating margin potential.
- Strategy is sound but with considerable risks** — We believe that Zooplus is well positioned to benefit from structural growth of the European online pet product market but due to the highly geared nature of the company and the need to chase growth the execution risks remain high, which creates a risk/reward balance that is difficult to assess. More clarity on the profitability of established markets would be welcome.
- Neutral rating retained** — We do not assign a target price to Zooplus as we argue the volatility of the earnings is too great for a reasonable assessment of the current risk/reward profile on a 12-month view. We await Zooplus reporting of margins in its home markets to assess the profitability of mature markets.

Figure 314. Zooplus – Financial Summary, 2009-2015E

€ ms	2009	2010	2011	2012	2013E	2014E	2015E
Sales	129.1	193.6	257.1	335.6	429.2	539.3	668.9
- growth	51.7%	50.0%	32.8%	30.5%	27.9%	25.6%	24.0%
- LFL							
- Space							
Gross Profit	51.9	84.1	100.0	121.3	154.5	195.8	244.8
- margin	40.2%	43.4%	38.9%	36.2%	36.0%	36.3%	36.6%
- delta	-112bps	323bps	-451bps	-275bps	-16bps	30bps	30bps
EBITDA	0.8	3.9	- 6.8	- 1.8	2.9	8.9	15.5
EBIT	- 1.9	3.3	- 7.6	- 2.6	2.2	8.1	14.6
- margin	-1.5%	1.7%	-2.9%	-0.8%	0.5%	1.5%	2.2%
PBT	- 2.1	3.1	- 8.5	- 2.6	2.0	7.7	14.2
EPS	- 0.3	0.4	- 1.1	- 0.3	0.3	1.1	1.9
- growth	-127.0%	-222.9%	-380.6%	-67.4%	-184.9%	255.4%	80.7%
Dividend	-	-	-	-	-	-	-
- growth							
Working Capital/Sales	8.4%	7.6%	8.0%	7.4%	9.0%	7.7%	6.8%
Depreciation	0.5	0.6	0.8	0.7	0.7	0.8	0.9
Depreciation / Sales	0.4%	0.3%	0.3%	0.2%	0.2%	0.1%	0.1%
Capex	1.1	0.8	0.7	0.8	1.2	1.5	1.7
Capex / Sales	0.9%	0.4%	0.3%	0.2%	0.3%	0.3%	0.3%
FCF	- 1.3	- 4.8	- 4.1	- 13.3	- 6.6	- 12.6	4.3
FCF/Sales	-1.0%	-2.5%	-1.6%	-3.9%	-1.5%	-2.3%	0.6%
Net (Debt) / Cash	- 0.7	- 4.6	1.0	7.4	1.0	11.7	7.4
Net Debt/EBITDA	0.9x	1.2x	0.1x	4.0x	-0.3x	1.3x	0.5x
Lease Adj Net Debt/EBITDA							
ROCE	1.8%	16.3%	-26.9%	-7.8%	4.6%	16.4%	27.3%
Lease Adj ROCE							
Fixed Charge Cover	1.3x	14.5x	-8.3x	-37.7x	9.1x	19.9x	35.7x

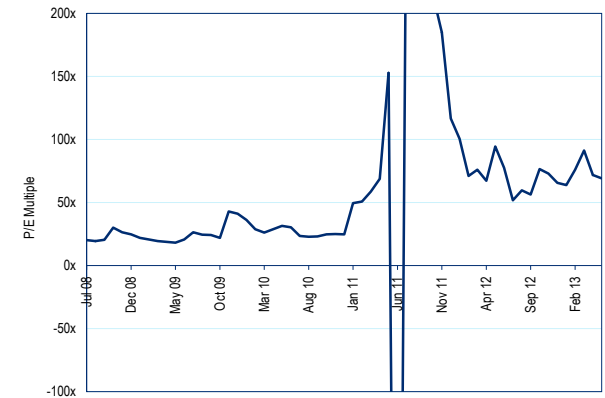
Source: Company Reports and Citi Research Estimates

Figure 315. Zooplus – Statistical Abstract

Yr to Feb	Sales	EBIT (€m)	PBT (€m)	Tax Rate (%)	EPS (p)	PE	Net Div (p)	Div Yld (%)	EV/ Sales	EV/EBIT	EV/ EBITDA
2010A	194	3.3	3.1	-36%	0.38	110.8	0.0	0.0%	1.34	78.4	66.6
2011A	257	(7.6)	(8.5)	-29%	-1.07	(39.5)	0.0	0.0%	1.03	(35.1)	(39.1)
2012A	336	(2.6)	(2.6)	-17%	-0.35	(121.4)	0.0	0.0%	0.77	(101.0)	(140.4)
2013E	429	2.2	2.0	-10%	0.30	143.0	0.0	0.0%	0.57	113.9	86.0
2014E	539	8.1	7.7	-17%	1.05	40.2	0.0	0.0%	0.46	30.8	28.0
2015E	669	14.6	14.2	-18%	1.90	22.3	0.0	0.0%	0.39	17.7	16.7
									YTD	1M	3M
MV	258		Shares	610					Abs %	24.1	-
EV	257								Rel %	9.0	-

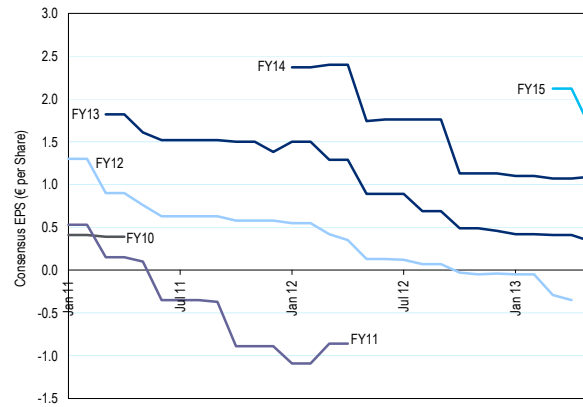
Source: Company Reports and Citi Research Estimates

Figure 316. Zooplus – P/E Valuation



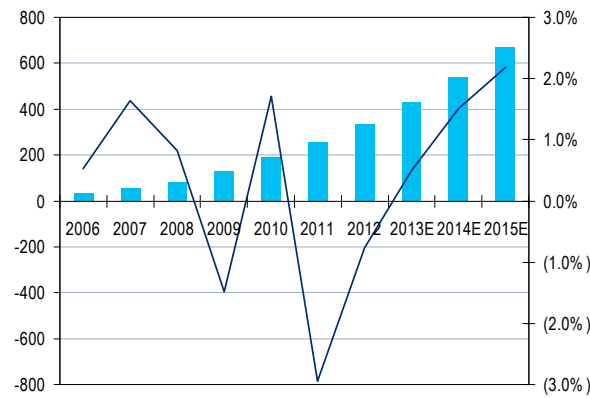
Source: DataStream and Citi Research

Figure 317. Zooplus – Consensus EPS



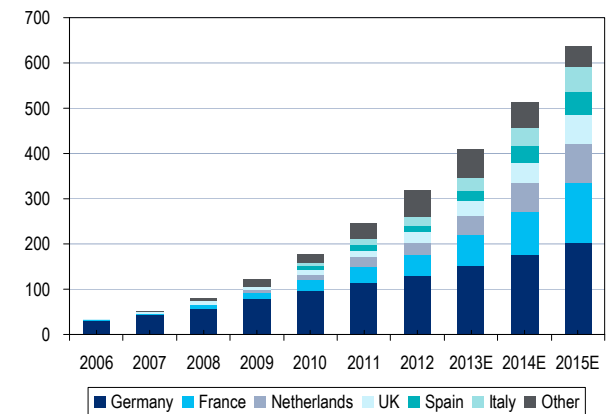
Source: DataStream and Citi Research

Figure 318. Zooplus – Sales and EBIT Margin (€ms)



Source: Company Reports and Citi Research Estimates

Figure 319. Zooplus – Sales by Geography (€ms)



Source: Company Reports and Citi Research Estimates



This page is intentionally left blank

Company Section Sell-Rated Stocks

Darty PLC (DRTY.L) - Sell (3) Rating, Target Price 39p (from 32p)

- Macro dominates despite strategic plan** — With the recent announcement of an exit from Spain we now see little optionality left from exiting loss-making businesses and the group is becoming more dependent on an improvement in macro conditions. In addition, there remains uncertainty as to whether management will be successful in executing its strategy under new CEO Regis Schulz, who starts in May 2013. We expect the trading environment to remain difficult and see potential for cost savings being absorbed by further earnings risk if macro conditions continue to be volatile. We maintain our Sell rating.
- Strategic Review** — Darty announced the results of its strategic review 'Nouvelle Confiance' in December 2012. The main emphasis is to refocus on core markets with 1. new commercial initiatives, 2. efficiency savings and 3. future growth opportunities. Darty plans to eliminate losses over the medium term in non-core markets and has identified annual net cost savings of €20m pa. within three years. Subsequent to this, Darty announced its exit from Italy in November 2012 and Spain in April 2013.
- April 2013E PBT €25.0m (EPS 2.2c, 1.8p)** — This predominantly reflects the ongoing promotional environment and softening in trends seen through the end of Q3. This is predicated on Darty France LFL of -1.1% in Q4 with gross margins down 70bp. For Established we forecast Q4 LFLs -3% with gross margins down 200bp and for Developing LFL -13% with gross margins -100bp. Combined this drives April 2013E PBT of €25m (excluding Italy) and EPS of 2.2c, down 64% yoy.
- April 2014E PBT increased to €40m (EPS 4.5c, 3.8p)** — We have increased our April 2014 PBT forecast to €40m from €32m to reflect the closure of the loss-making Spanish operations. Cash closure costs have been guided as €30m incurred in April 2014. Our remaining divisional forecasts assume Darty France LFL -1.0% with a gross margin -30bp and Established LFL +0.5% with a flat gross margin. This drives overall PBT of €40m (EPS 4.5c).
- Sell rating, 39p price target (from 32p)** — We value Darty on 7.5x EV/EBIT for April 2014e, broadly in line with high ticket discretionary peers. This drives our 39p target price (raised from 32p to reflect our increased forecasts).

Figure 320. Darty – Financial Summary, 2009-2015E

€ms	2009	2010	2011	2012	2013E	2014E	2015E
Sales	5,857.4	5,789.1	5,917.3	4,025.7	3,791.5	3,706.1	3,764.2
- growth	-9.4%	-1.2%	2.2%	-32.0%	-5.8%	-2.3%	1.6%
- LFL	-6.4%	-1.4%	-1.7%	-2.6%	-1.8%	-0.6%	1.0%
- Space	4.7%	2.9%	1.3%	0.8%	-0.2%	-0.6%	-0.6%
Gross Profit	1,628.4	1,609.4	1,645.0	1,262.0	1,163.5	1,137.0	1,149.4
- margin	27.8%	27.8%	27.8%	31.3%	30.7%	30.7%	30.5%
- delta	-30bps	0bps	0bps	135bps	-66bps	-1bps	-14bps
EBITDA	201.3	235.3	233.2	188.7	138.0	153.3	159.4
EBIT	88.0	110.0	107.0	70.1	38.0	53.3	59.4
- margin	1.5%	1.9%	1.8%	1.7%	1.0%	1.4%	1.6%
PBT	79.6	91.1	93.2	59.0	25.0	40.3	47.4
EPS (c)	9.6	10.7	10.9	6.2	2.2	4.5	5.3
- growth	-55.1%	10.8%	1.9%	-43.0%	-65.2%	109.0%	18.3%
Dividend	5.8	6.6	7.0	3.5	2.2	2.2	2.2
- growth	-70.2%	13.7%	6.1%	-50.0%	-37.1%	0.0%	0.0%
Working Capital/Sales	0.8%	1.8%	2.5%	3.2%	4.5%	4.7%	4.9%
Depreciation	113.3	125.3	126.2	118.6	100.0	100.0	100.0
Depreciation / Sales	1.9%	2.2%	2.1%	2.9%	2.6%	2.7%	2.7%
Capex	154.9	99.5	133.9	115.9	70.0	90.0	90.0
Capex / Sales	2.6%	1.7%	2.3%	2.9%	1.8%	2.4%	2.4%
FCF	101.8	111.5	64.2	43.2	6.4	35.8	28.6
FCF/Sales	1.7%	1.9%	1.1%	-1.1%	0.2%	-1.0%	0.8%
Net (Debt) / Cash	- 60.9	19.9	48.3	- 126.5	- 115.2	- 150.5	- 131.8
Net Debt/EBITDA	0.3x	na	na	0.7x	0.8x	1.0x	0.8x
Lease Adj Net Debt/EBITDA	3.5x	3.1x	3.1x	3.4x	4.0x	3.8x	3.7x
ROCE	28.3%	30.7%	25.2%	10.7%	8.1%	6.3%	6.7%
Lease Adj ROCE	12.4%	12.2%	10.8%	6.8%	6.1%	5.6%	5.7%
Fixed Charge Cover	2.1x	2.1x	2.0x	1.6x	1.5x	1.4x	1.4x

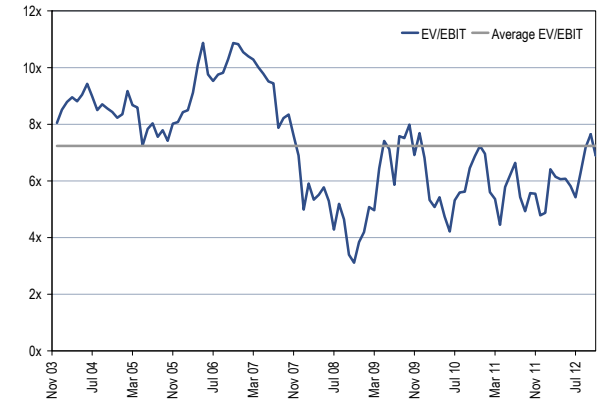
Source: Company Reports and Citi Research Estimates

Figure 321. Darty – Statistical Abstract

Yr to Apr	Sales (€m)	EBIT (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	EPS Old (c)	EPS (p)	P/E	Net Div (p)	Div Yld (%)	EV/ Sales	EV/ EBIT	EV/ EBITDA
2010A	5789	110.0	235	91.1	10.7	10.7	9.5	4.5	5.8	14.9	0.04	2.1	1.0
2011A	5917	107.0	233	93.2	10.9	10.9	9.2	4.4	6.0	15.3	0.03	1.9	0.9
2012A	4026	70.1	189	59.0	6.2	6.2	5.1	7.7	2.9	7.3	0.09	5.4	2.0
2013E	3791	38.0	138	25.0	2.2	2.2	1.8	22.1	1.8	4.6	0.10	9.7	2.7
2014E	3706	53.3	153	40.3	4.5	3.4	3.8	10.6	1.9	4.8	0.11	7.5	2.6
2015E	3764	59.4	159	47.4	5.3	5.2	4.5	8.9	1.9	4.8	0.10	6.5	2.4
										YTD	-1m	-3m	-12m
Gearing =	-108.1%	Shares =			527.9	Abs %			-12.7	-23.5	15.7	-39.3	
MV =	205.9	EV =			332.4	Rel %			-18.8	-26.3	4.0	-44.4	

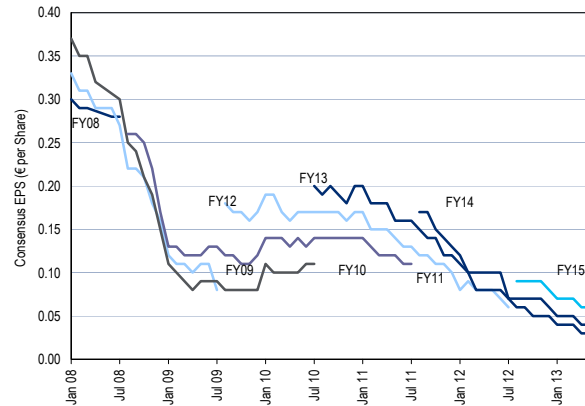
Source: Company Reports and Citi Research Estimates

Figure 322. Darty – Long Run EV/EBIT Valuation



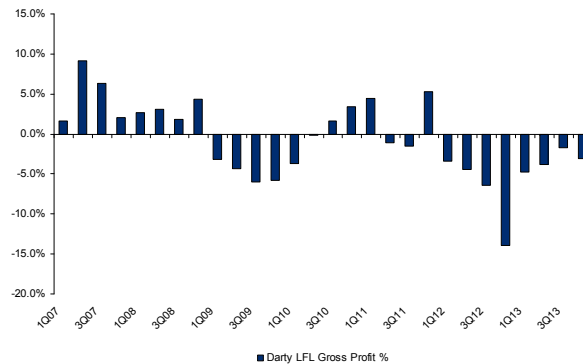
Source: DataStream and Citi Research

Figure 323. Darty – Consensus EPS



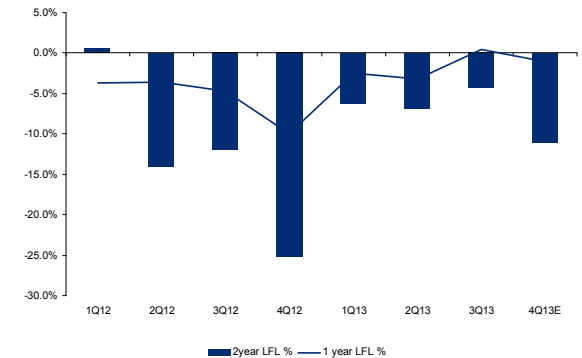
Source: DataStream and Citi Research

Figure 324. Darty LFL Gross Profit %



Source: Company Reports and Citi Research

Figure 325. Darty 1yr & 2yr LFLs %



Source: Company Reports and Citi Research Estimates

Home Retail Group (HOME.L) - Sell (3) Rating, Target Price 105p

■ **Premium valuation but not premium growth** — Whilst the FY 12/13 results were in line with our expectations there was little to suggest any material demand recovery with the main growth driver coming from strength of tablets and some benefit within consumer electricals from the demise of Comet. Our UK Household Available Cashflow analysis points to little material change in consumer cashflows in 2013. We therefore expect the underlying demand environment to remain volatile whilst Argos will also face tougher comparatives on tablets during the year despite some benefit from competitor capacity reduction.

■ **Ambitious plan for Argos** — Home's transformation plan calls for Argos to reinvent itself as a digital retailer through channel repositioning, greater product choice, and a leaner and more flexible cost base. Home is targeting Argos sales of £4.5bn (FY 13 Argos sales £3.9bn) and a mid-single-digit operating margin by FY 18 (FY 13 Argos EBIT margin 2.6%). This looks ambitious, in our view, requiring Argos to achieve c4% LFLs per annum over the FY 14–18 period (the last time Argos achieved this quantum of LFL was in FY 2004) and requires incremental capex of £100m p.a. over the first three years of the plan.

■ **February 2014 PBT E £94m (EPS 8.2p, +8.7%yoy)** — We forecast Argos LFL of +2.5%, gross margins down 50bp driving EBIT of £98m, down 2.4% yoy with an EBIT margin of 2.5%. For Homebase, we forecast LFL sales +1.5%, gross margins flat driving EBIT of £15m, +38% yoy. Factoring nil interest received (due to new credit facilities), a tax rate of 29% results in an EPS of 8.2p, +8.7% yoy.

■ **February 2015 PBT E £90.6m (EPS 7.9p, -4.3% yoy)** — Within this we forecast Argos LFL of +1.0% with gross margins down 30bp and EBIT of £94m (down 4% yoy). For Homebase we forecast LFL sales of +1.0% with flat gross margins and EBIT growth of 4% to £16m.

■ **Sell, 105p target price** — This is based on a c.7x EV/EBIT multiple for FY14E, in line with its long-run average and equates to c13x PE and a 2.9% dividend yield. We continue to believe the valuation at the current price looks excessive, with HOME trading on a Feb 2014E PE of 18x and EV/EBIT of 10.8x.

Figure 326. Home Retail Group – Financial Summary, 2010-2016E

£ms	2010	2011	2012	2013E	2014E	2015E	2016E
Sales	6,022.7	5,851.9	5,491.5	5,475.4	5,527.2	5,527.2	5,534.3
- growth	2.1%	-2.8%	-6.2%	-0.3%	0.9%	0.0%	0.1%
- LFL	-0.8%	-4.2%	-7.0%	0.2%	2.2%	1.0%	1.1%
- Space	2.9%	1.3%	0.8%	-0.5%	-1.3%	-1.0%	-1.0%
Gross Profit	2,265.5	2,167.1	2,023.1	1,992.0	1,986.9	1,974.9	1,978.6
- margin	37.6%	37.0%	36.8%	36.4%	35.9%	35.7%	35.8%
- delta	-210bps	-58bps	-19bps	-46bps	-43bps	-22bps	2bps
EBITDA	419.8	378.3	223.4	218.0	222.0	222.6	231.9
EBIT	289.7	250.8	97.7	93.3	94.0	90.6	99.9
- margin	4.8%	4.3%	1.8%	1.7%	1.7%	1.6%	1.8%
PBT	292.9	254.1	101.6	91.1	94.0	90.6	99.9
EPS	23.1	21.2	8.7	7.6	8.2	7.9	8.7
- growth	-9.6%	-8.0%	-59.2%	-12.9%	8.7%	-4.3%	10.3%
Dividend	14.7	14.7	4.7	3.0	3.0	3.0	3.0
- growth	0.0%	0.0%	-68.0%	-36.2%	0.0%	0.0%	0.0%
Working Capital/Sales	4.3%	9.9%	9.6%	8.4%	8.5%	8.5%	8.5%
Depreciation	130.1	127.5	125.7	124.7	128.0	132.0	132.0
Depreciation / Sales	2.2%	2.2%	2.3%	2.3%	2.3%	2.4%	2.4%
Capex	87.4	142.7	130.7	78.7	175.0	175.0	175.0
Capex / Sales	1.5%	2.4%	2.4%	1.4%	3.2%	3.2%	3.2%
FCF	273.5	126.8	77.6	219.0	57.3	41.1	34.6
FCF/Sales	4.5%	2.2%	1.4%	4.0%	-1.0%	-0.7%	-0.6%
Net (Debt) / Cash	414.0	260.0	194.3	396.0	293.7	226.6	166.0
Net Debt/EBITDA	na	na	na	na	na	na	na
Lease Adj Net Debt/EBITDA	3.1x	3.5x	4.6x	4.1x	4.2x	4.3x	4.3x
ROCE	30.7%	25.2%	10.7%	10.4%	10.3%	10.9%	13.0%
Lease Adj ROCE	12.2%	10.8%	6.8%	6.7%	6.7%	6.8%	7.2%
Fixed Charge Cover	2.1x	2.0x	1.6x	1.6x	1.6x	1.6x	1.7x

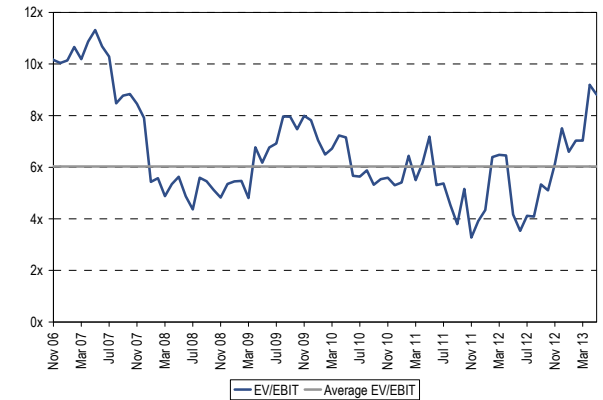
Source: Company Reports and Citi Research Estimates

Figure 327. Home Retail Group – Statistical Abstract

Yr to Feb	EBIT (£)	EV	PBT £m	Tax Rate %	EPS (p)	EPS Old (p)	PE	Net Div (p)	Div Yld (%)	EV/Sales	EV/EBIT	EV/EBITDA
2011A	378	251	254.1	30.5%	21.2	21.2	7.1	14.7	9.7	0.18	4.2	2.8
2012A	223	98	101.6	31.5%	8.7	8.7	17.4	4.7	3.1	0.20	11.4	5.0
2013E	218	93	91.1	30.6%	7.6	7.6	20.0	3.0	2.0	0.17	9.8	4.2
2014E	222	94	94.0	29.0%	8.2	8.2	18.4	3.0	2.0	0.18	10.8	4.6
2015E	223	91	90.6	29.5%	7.9	7.9	19.2	3.0	2.0	0.20	11.9	4.9
2016E	232	100	99.9	29.5%	8.7	na	17.4	3.0	2.0	0.21	11.4	4.9
									YTD	1M	3M	12M
Gearing	-9.5%		Shares		799		Abs %	16.8	-5.4	15.5	88.4	
MV	1,208						Rel %	2.7	-9.5	9.2	52.1	

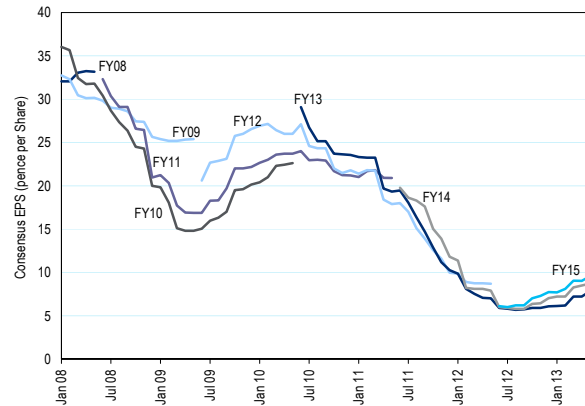
Source: Company Reports and Citi Research Estimates

Figure 328. Home Retail Group – Long Run EV/EBIT Valuation



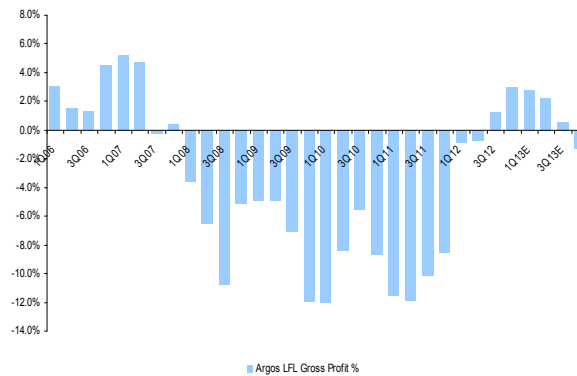
Source: DataStream and Citi Research

Figure 329. Home Retail Group – Consensus EPS



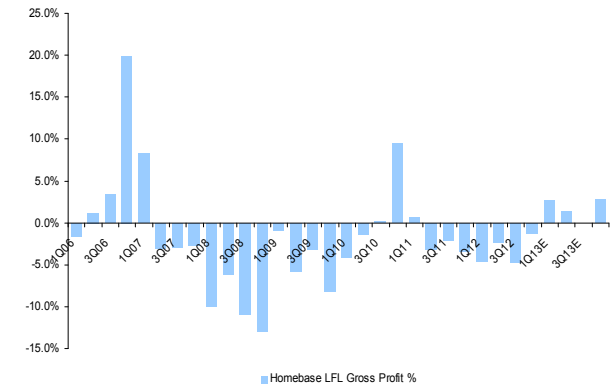
Source: DataStream and Citi Research

Figure 330. Argos – LFL Gross Profit, 2006-2013E



Source: Company Reports and Citi Research Estimates

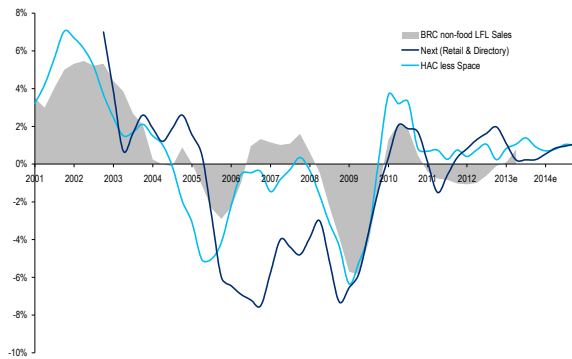
Figure 331. Homebase – LFL Gross Profit, 2006-2013E



Source: Company Reports and Citi Research Estimates

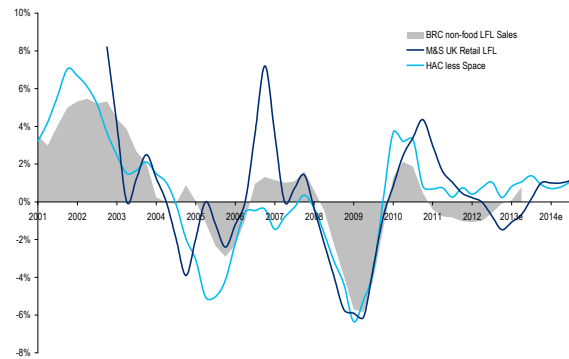
Appendix 1: UK LFL Sales compared to BRC data and Citi Research HAC Forecasts

Figure 332. Next LFL vs BRC non-food LFL Sales vs HAC less space



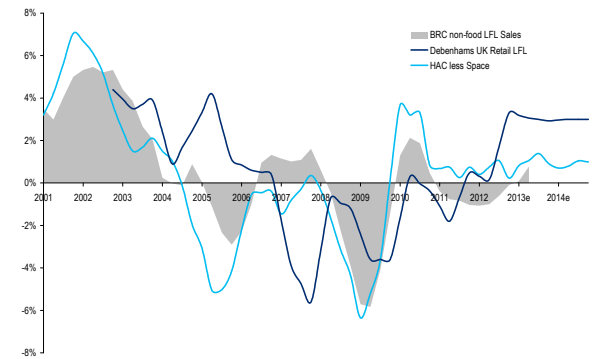
Source: Company Reports and Citi Research Estimates

Figure 333. M&S UK Retail LFL vs BRC non-food LFL Sales vs HAC less space



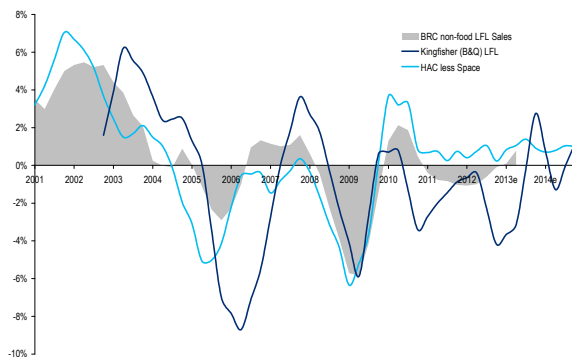
Source: Company Reports and Citi Research Estimates

Figure 334. Debenhams LFL vs BRC non-food LFL Sales vs HAC less space



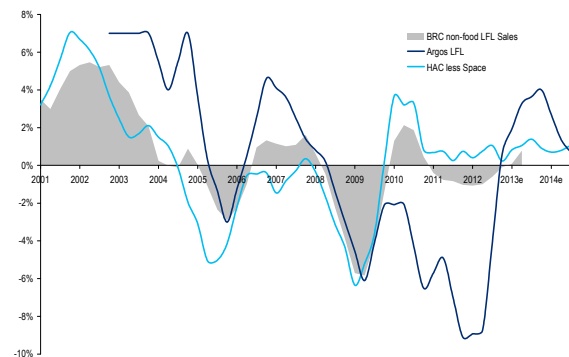
Source: Company Reports and Citi Research Estimates

Figure 335. Kingfisher (B&Q) LFL vs BRC non-food LFL Sales vs HAC less space



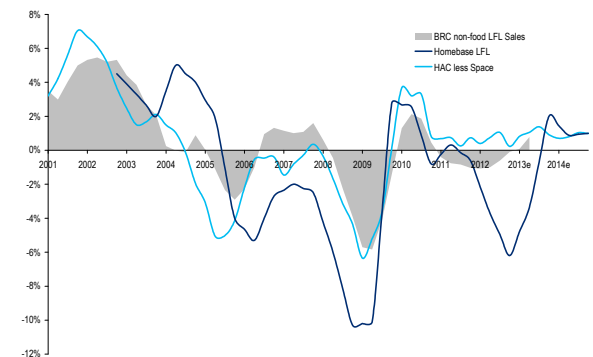
Source: Company Reports and Citi Research Estimates

Figure 336. Argos LFL vs BRC non-food LFL Sales vs HAC less space



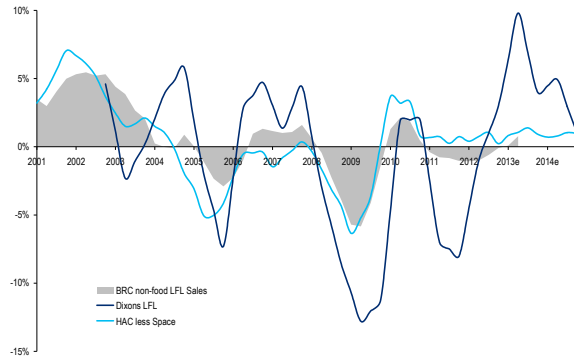
Source: Company Reports and Citi Research Estimates

Figure 337. Homebase LFL vs BRC non-food LFL Sales vs HAC less space



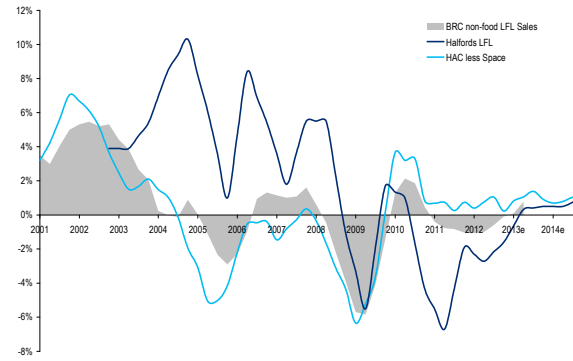
Source: Company Reports and Citi Research Estimates

Figure 338. Dixons LFL vs BRC Non-Food LFL Sales vs HAC Less Space



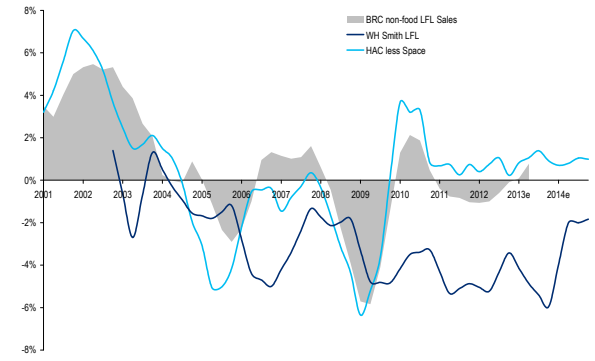
Source: Company Reports and Citi Research Estimates

Figure 339. Halfords Retail LFL vs BRC Non-Food LFL Sales vs HAC Less Space



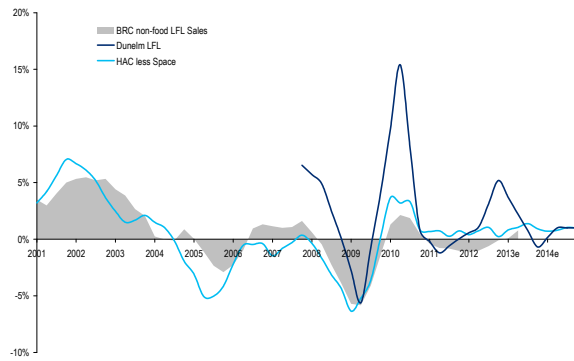
Source: Company Reports and Citi Research Estimates

Figure 340. WH Smith LFL vs BRC Non-Food LFL Sales vs HAC Less Space



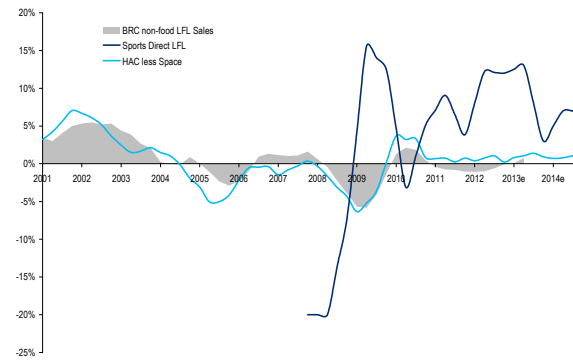
Source: Company Reports and Citi Research Estimates

Figure 341. Dunelm LFL vs BRC Non-Food LFL Sales vs HAC Less Space



Source: Company Reports and Citi Research Estimates

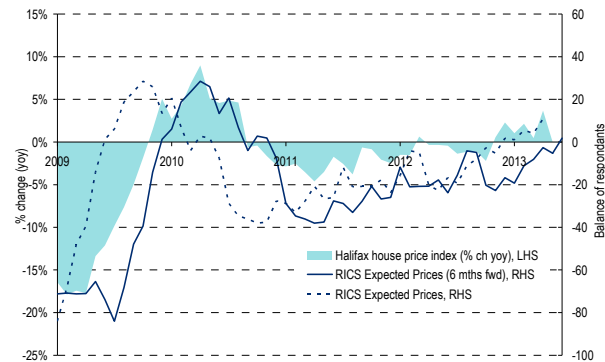
Figure 342. Sports Direct LFL vs BRC Non-Food LFL Sales vs HAC Less Space



Source: Company Reports and Citi Research Estimates

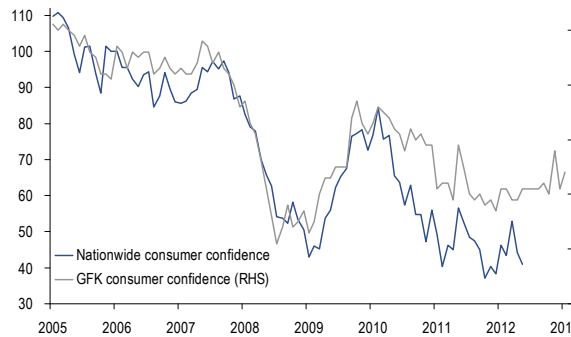
Appendix 2: Macro Drivers

Figure 343. House Prices vs RICS Price Expectations (6m fwd)



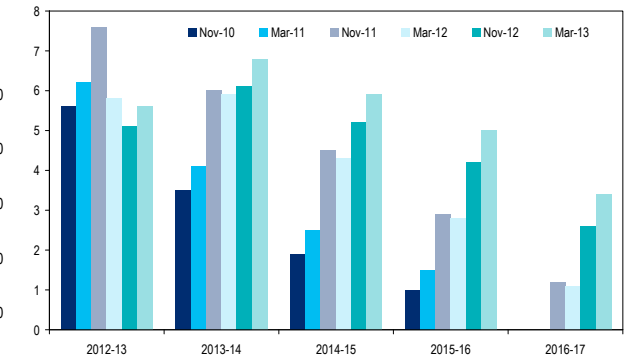
Source: Citi Research, RICS, Halifax

Figure 344. UK Consumer Confidence



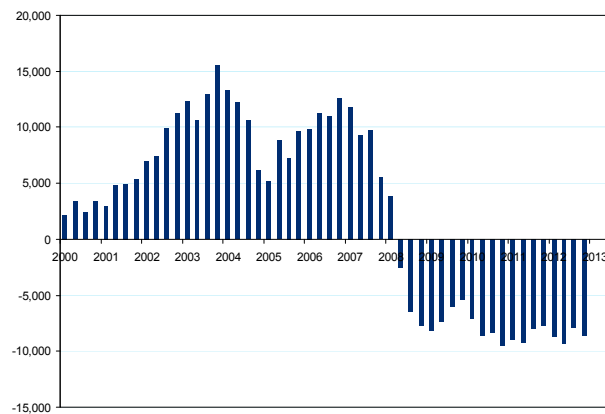
Source: DG ECFIN

Figure 345. UK Public Sector Net Borrowing (as % of GDP)



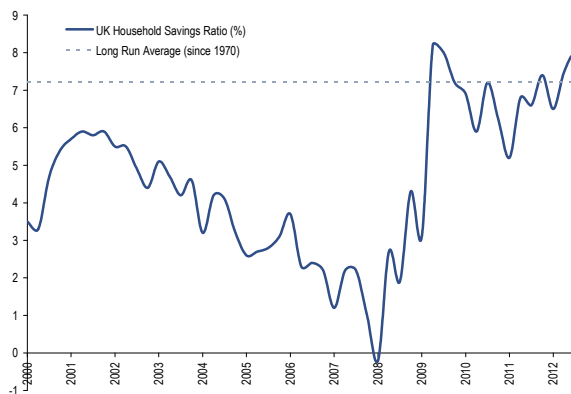
Source: Office for Budget Responsibility Forecasts

Figure 346. Housing Equity Withdrawal (£bn, quarterly)



Source: Bank Of England, Citi Research

Figure 347. UK Household Savings Ratio



Source: ONS, Citi Research



Notes

Citi Research

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Nike Inc

An employee of Citigroup Global Markets or its affiliates is a Sales Consultant of Next Retail Ltd.

Citigroup is acting as Bookrunner in relation to Dixons Retail plc's announced offering of sterling - denominated fixed rate guaranteed notes with expected maturity 2017. Citigroup is also acting as Dealer Manager in the announced Tender Offer for existing notes.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Nike Inc, Dixons Retail PLC.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Debenhams Plc, Nike Inc, Steinhoff International Holdings Ltd, adidas Group, Dixons Retail PLC, Marks and Spencer Group PLC.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Inditex, Hennes & Mauritz AB, Halfords Group Plc, Debenhams Plc, ASOS Plc, Nike Inc, Steinhoff International Holdings Ltd, Inchcape PLC, adidas Group, Next Group PLC, Dixons Retail PLC, Marks and Spencer Group PLC, Home Retail Group in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Debenhams Plc, Marks and Spencer Group PLC, Nike Inc, Steinhoff International Holdings Ltd, adidas Group, Dixons Retail PLC.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Inditex, Hennes & Mauritz AB, Halfords Group Plc, Debenhams Plc, ASOS Plc, Nike Inc, Steinhoff International Holdings Ltd, Inchcape PLC, adidas Group, Darty Plc, Dixons Retail PLC, Marks and Spencer Group PLC, Home Retail Group.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: Inditex, Hennes & Mauritz AB, Halfords Group Plc, Debenhams Plc, ASOS Plc, Nike Inc, Steinhoff International Holdings Ltd, Inchcape PLC, adidas Group, Next Group PLC, Dixons Retail PLC, Marks and Spencer Group PLC, Home Retail Group.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

The Firm is a market maker in the publicly traded equity securities of Hennes & Mauritz AB, Debenhams Plc, Kingfisher PLC, adidas Group, Dixons Retail PLC, Marks and Spencer Group PLC.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Research Equity Ratings Distribution

Data current as of 31 Mar 2013	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	48%	39%	12%	7%	87%	7%
% of companies in each rating category that are investment banking clients	53%	49%	43%	65%	49%	51%

Guide to Citi Research Fundamental Research Investment Ratings:

Citi Research stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.

Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

Investment Ratings: Citi Research investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Citi Research management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Relative three-month ratings: Citi Research may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Ltd

Richard Edwards; Assad M Malic; Dan F Homan

Citigroup Global Markets Inc

Kate McShane, CFA

OTHER DISCLOSURES

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Inditex, Nike Inc, Steinhoff International Holdings Ltd, adidas Group, Dixons Retail PLC. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citi-velocity.com.)

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Citigroup Global Markets Inc. or its affiliates acts as a corporate broker to Debenhams Plc, Dixons Retail PLC, Marks and Spencer Group PLC.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Research research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to Citi Research research reports. Important disclosure regarding the relationship between the companies that are the subject of this Citi Research research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Wealth Management disclosure website at www.morganstanley.com/online/researchdisclosures. For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. This Citi Research research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of Citi Research. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citi Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer

of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A., Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E.**, these materials (the "Materials") are communicated by Citigroup Global

Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs) and other product that is made available through other distribution channels only to certain categories of clients to satisfy legal or regulatory requirements, Citi Research concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual Citi Research analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. Citi Research simultaneously distributes product that is limited to QIBs only through email distribution.

The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints.

Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters and Datastream.

© 2013 Citigroup Global Markets Inc. Citi Research is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST