

Samsonite International (1910 HK) : BUY

Mkt. Cap: US\$6,325m | 3m Avg. Daily Val: US\$10.7m

Last Traded Price (9 Jan 2018): HK\$34.80

Price Target 12-mth: HK\$39.29 (13% upside)

Analyst

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Decent 4Q sales momentum

- 4Q17 sales should come slightly ahead of expectations, supporting good confidence for the outlook in 2018
- Latest US tax cut should also be somewhat beneficial
- We maintain our estimates and TP of HK\$39.29 and reiterate BUY

Forecasts and Valuation

FY Dec (US\$ m)	2016A	2017E	2018F	2019F
Turnover	2,810	3,422	3,705	3,961
EBITDA	423	566	613	674
Pre-tax Profit	273	347	409	458
Net Profit	256	230	282	318
Core profit	258	260	287	323
Core Profit Gth (%)	18.9	0.9	10.4	12.4
EPS (HK\$)	1.42	1.28	1.56	1.76
EPS (US\$)	0.18	0.16	0.20	0.23
Core EPS (HK\$)	1.43	1.44	1.59	1.79
EPS Gth (%)	29.3	(9.9)	22.6	12.6
Core EPS Gth (%)	19.3	0.9	10.4	12.4
DPS (HK\$)	0.54	0.48	0.59	0.67
BV Per Share (HK\$)	8.12	9.09	10.09	11.21
PE (X)	24.6	27.3	22.2	19.8
Core PE (X)	24.3	24.1	21.9	19.4
P/Cash Flow (X)	24.1	24.6	17.9	15.5
P/Free CF (X)	32.8	35.2	23.5	20.2
EV/EBITDA (X)	18.5	13.7	12.4	11.1
Net Div Yield (%)	1.5	1.4	1.7	1.9
P/Book Value (X)	4.3	3.8	3.5	3.1
Net Debt/Equity (X)	1.0	0.8	0.7	0.6
ROAE (%)	18.1	14.8	16.3	16.5
Earnings Rev (%):		Nil	Nil	Nil
Consensus EPS (US\$)		0.18	0.22	0.26
Other Broker Recs:		B: 11	S: 1	H: 3

Source: Company, DBS Vickers, Thomson Reuters

What's New

An encouraging 4Q17

Samsonite's organic sales performance (i.e. ex-"Tumi" and "eBags") for 4Q17 should post a slightly better momentum on constant currencies, as compared to 3Q17's 4.9% y-o-y growth.

In terms of operations by markets, we believe the US should register a mid single-digit organic revenue growth (3Q17: +3.1%), driven by the steady performance of "Samsonite", an expanding "American Tourister", plus particularly strong momentum of "Speck" along with the launch of iPhone X during the quarter. Europe should stage a high single-digit growth (3Q17: +6.8%), as Germany started to recover, Russia sustained strong sales performance, and other countries in the region maintained stable growth except for the UK (given its high base from Brexit that caused significant currency depreciation and boosted tourist consumption in 4Q16). Asia should also see a relatively better 4Q17 (3Q17: +3.3%; or +8.3% excluding HK, S. Korea and India), given sustained momentum in China and Japan, and recovering India and HK (returned to positive growth) since Nov 2017. Latin America slowed slightly vs. 3Q17's 22.4% growth amid seasonality impacts; however the region's contribution stayed small (<5% of group sales).

As for "Tumi" in 4Q17, we should see a high single-digit growth in the US on normalizing trend, and altogether a teens growth in Europe and Asia, in line with expectations.

Outlook intact

For 2018, we believe Samsonite has been targeting at mid single-digit organic revenue growth (ex-“Tumi” and “eBags”) on constant currencies. In view of the more solid performance during 4Q17, especially citing a strengthening US market and encouraging recoveries in Germany, HK and India, the company could become slightly more optimistic now and aim at mid to high single-digit organic growth. The group also continues to point to a low-teens revenue growth for “Tumi” in 2018.

In terms of costs, Samsonite still plans for a slight increase in advertising & promotional expenses for this year to 6-6.5% of group revenue (2017E: 6%), as well as additional distribution expenses from swift e-commerce expansion. Nevertheless, potential increment of gross margin by c.1ppt along with good pricing power and rising economies of scale should help to enhance its core EBITDA margin by c.0.5ppt at most (based on constant currencies).

US Tax impacts should remain broadly positive

While there was a US\$57m one-off tax benefit from its US pension fund liquidation in 4Q16, we also expect some one-off deferred tax credits for 4Q17 now, on the back of the latest US tax reform being signed into law on 22 Dec 17. With corporate tax rate to drop by 9ppt to 21% in the US, the new tax should be adopted to calculate tax provision thus reducing the original deferred tax liabilities.

Looking into 2018 and onwards, some in the market anticipate positive impacts on group earnings by 4-5% post-US tax reform. Yet, Samsonite’s US division has long been enjoying a relatively lower effective tax rate, given its registration in Luxembourg to enjoy transfer pricing arrangements via effectively shifting some taxable US profits into Luxembourg that has a lower corporate tax rate (2017: 19%; 2018 and ahead: 18%). The new US tax reform could also increase restrictions on tax treatment for interest expenses, and Samsonite is currently awaiting more concrete policy details. All-in, there should certainly be some positive earnings impacts from the US tax cut, while the net effect could be less than 4-5% of group profit.

Valuation

On the whole, we believe Samsonite could take some time to finalise the actual tax impacts for 2017 and beyond. While we currently maintain our estimates, any effects from the latest US tax reform should remain broadly positive to the company’s earnings trend.

We maintain our target price of HK\$39.29 based on 22x FY19 PE. This is a slight premium to selected global brand players, given Samsonite’s strong medium-term outlook from its multi-brand, multi-category and multi-channel strategies that are well in place. BUY

Target Price & Ratings History



Note : Share price and Target price are adjusted for corporate actions.

Source: DBSVHK

Analyst: Mavis HUI

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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