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Pandora: 2Q14 results beat expectations

Pandora released 2Q14 results on Tuesday (12 August 2014), which saw the Danish fashion jeweller beating analyst expectations. Its 2Q revenue came in at DKK2.54bn ($447.8mn), up 32% YoY, with the Americas segment contributing DKK1.097bn out of the total, followed by Europe with DKK1.064bn. While revenue in Europe rocketed 65% YoY it only increased 5% YoY in the Americas. Pandora's 2Q14 EBITDA rose 69% YoY to DKK893mn ($160.2mn), outperforming analysts' forecast of DKK786mn and up from the DKK530mn in the same period last year. Net profit jumped 54% YoY to DKK662mn vs DKK431mn a year ago.

On Tuesday Pandora also unveiled a deal with the Walt Disney Company (Disney) that would give it a brand presence in US Disney resorts. The company will be creating, in collaboration with Disney Consumer Products, an original collection of Disney-themed jewellery launching at retail locations in the US in November. This new collection of hand finished sterling silver and 14K gold charms will feature inspirations from some of Disney's most loved characters. The initial launch will include 25 different styles with an additional 16 styles to be sold at Disney merchandise locations, including the Walt Disney World Resort and Disneyland Resort.

Pandora also said it would buy 27 stores from US jeweller Hannoush for $29mn to start operations in late 3Q14 to early 4Q. This transaction, it said, would not impact full-year guidance, with initial in-store remodelling costs estimated at $6mn, bringing the total investment to $35mn. Following the transaction, Pandora said it intends to re-sell five of the concept stores located outside the Northeast region to existing franchisee partners. CEO Allan Leighton noted that all its "... regions in the US are achieving good mid-single digit like-for-like (LfL) sales-out growth or more, apart from the Northeast,". He added that the region was "… our oldest in the US and we need to refresh the network. This process has started, and will be accelerated by the transaction with Hannoush, which is our biggest franchisee in the Northeast region, representing around 25% of the sales-out in the region".

Looking ahead, the company raised its full-year revenue outlook and it now sees FY14 revenue totalling more than DKK11bn from an earlier estimate of DKK10.5bn, with EBITDA at c. 35% of revenue. It also expects to open 275 stores this year, up from its previous target of 225.

We believe it is likely that Pandora's guidance will prove conservative – the company talks about expecting more than DKK11bn of revenue, but the low end of this range would imply only 16% revenue growth for 2H, i.e. a significant slowdown from the group's 30%-odd recent rates of growth. In addition, we view the group's EBITDA margin guidance of c. 35% as likely being too light - especially considering the 70% gross margin at 2Q would have been 73% were it not for the lagged impact on commodity input prices from Pandora's hedging policy (the company offers this info in the result). Therefore, we would expect margins to continue ticking higher and we think margins will be well ahead of 35% for the full-year. We currently forecast EPS of DKK25 for FY14 and DKK30 for FY15. Taking into account the likely growth into FY15 (we think 20% should be achievable driven by: i) 15% sales growth; ii) margin benefits of its hedging policy flowing through; and iii) the addition of a little bit [1% or so] of growth from share buy backs), this should place the stock at a 12-month rolling forward P/E of c. 14.5x after yesterday's 8.3% rally when the share closed at DKR413.00.

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Global Ideas is a newsletter published three times a week (Monday, Wednesday and Friday) and available only to clients of Investor Campus and Anchor Capital. The key objective of this newsletter is to provide ideas for investment in the global investment universe.

We scan the globe looking for good opportunities. We provide our model portfolios, as well as news and views on our watch-list, which is continually reviewed and updated.

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