

Pandora: FY14 results shine

As expected, Pandora reported a superb set of FY14 results on Tuesday (17 February 2015), with EPS coming in 44% higher YoY and 1% ahead of consensus estimates at DKK24.7/share. Net profit rose to DKK1.01bn (\$154mn) vs DK739mn in FY13 (\$1=DKK0.15). Our forecasts were very similar to consensus.

Key features of these results included:

- 33% revenue growth with strength across all its geographies. The Americas rose 19.3% YoY (+20.6% in local currency), Europe increased 41.1% YoY (+38.8% in local currency) and Asia Pacific rocketed by 53.5% YoY (+58.1% in local currency). Revenue from its concept stores accounted for 56.4% of total revenue and increased 51.4% YoY.
- A gross profit (GP) margin expansion of 400bps to 70.5% (FY13: 66.6%).
- Shares in issue declined 3% YoY (by 4mn shares) due to the company's share buyback programme.
- FY14 EBITDA increased 49.0% to DKK4,294mn, corresponding to an EBITDA margin of 36.0%, vs 32.0% in FY13.
- Net profit increased 39.5% YoY to DKK3,098mn vs DKK2,220mn in FY13.
- The annual dividend was increased by 38% YoY to a dividend of DKK9.0/share.

What we had been concerned about was a potential reversing of the upward margin trajectory experienced recently but encouragingly, the Group provided the following guidance in its results: ***"excluding hedging and time lag of inventories, the underlying gross margin would have been 73% based on the average gold price of \$1,266/oz and \$19.08/oz for silver"***. Thus we note that the gold price remains very similar, while silver is currently lower and therefore, we could expect to see GP margins drifting further upward toward 73%.

The Group has also guided to expecting an EBITDA margin of 37% in FY15, which we believe is conservative as it implies a margin squeeze below the GP level (the company has guided to revenue of >DKK14bn and growth of 20% [of which c. 15% is probably constant currency revenue growth – the rest is US dollar strength vs Danish Kroner]).

In addition, Pandora has announced a new share buyback programme to spend DKK3.9bn by the end of December 2015 – at current prices, this would equate to a further 7.5mn shares, or **6% of current diluted shares in issue**. The Group is generating so much cash despite increased capex (capex of DKK800mn in FY15 vs DKK455mn in FY14) that we expect free cash flows to amount to DKK3.3bn (net of capex, tax and interest) in FY15. The dividend should absorb c. DKK1.1bn of this, so the buyback programme is already funded to the tune of DKK2.2bn before additional gearing comes onto the balance sheet. Added to that, the balance sheet as at 31 December had net cash of ~DKK1bn. So, this buyback will be very earnings accretive given the low interest rate environment, in our view.

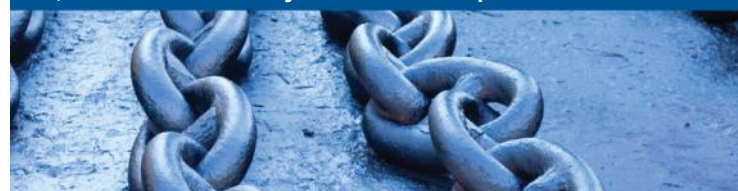
Pandora also announced the signing of a joint distribution deal with its existing Chinese distributor, Oracle Investment Hong Kong, to jointly distribute Pandora jewellery in China. The agreement covers the period from 1 July 2015-31 December 2018, after which Pandora will take over full distribution of jewellery in China. Pandora, through this new deal plans to accelerate its store roll-out, enhance its retail focus and make significant marketing investments in China.

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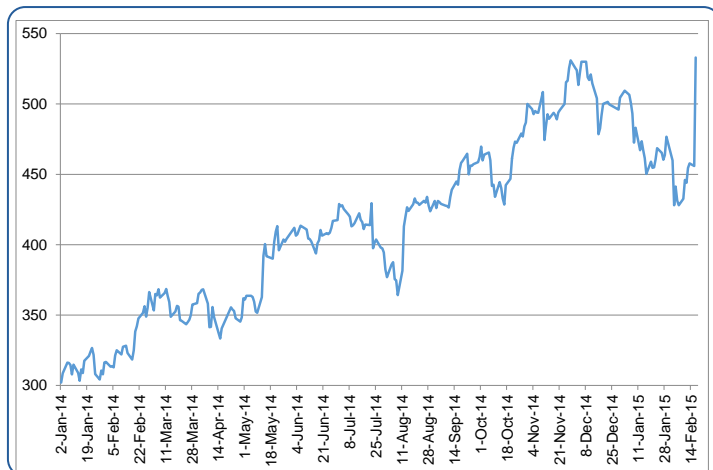
Pandora CEO Allan Leighton, who took the helm in 2013, noted that China "is a huge opportunity for Pandora. It is the largest Jewellery market in the world, and our business there today is tiny. With this new collaboration with Oracle we gain direct access to and control over this highly attractive market, which will enable us to ramp up our presence there significantly over the next few years".

sus FY15 estimates so we expect upgrades over time. The stock trades at a 15x P/E to our December 2015 numbers which we believe is good value if the company can sustain its strong growth momentum beyond 2015.

We remain buyers of the share – the company appears to have a very solid operational momentum across its geographies, and the new China agreement could add a nice kicker in time. Pandora's share price closed at DKK455.9, up c. 17% on the day.

Sean Ashton

Pandora's share price performance, January 2014 to date (DKK):



Source: Bloomberg, Anchor Capital

Below we include what we believe Pandora's income statement will look like in FY15:

Pandora income statement forecasts, FY15:

DKK'm	FY14A	% ch	FY15e	% ch
Revenue	11 942	33%	14 330	20%
COGS	-3 519	17%	-3 869	10%
Gross profit	8 423	40%	10 461	24%
GP margin %	70.5%		73.0%	
Operating costs	-4 129	32%	-4 955	20%
EBITDA	4 294	49%	5 506	28%
EBITDA margin	36.0%		38.4%	
Depreciation / amort	-222	11%	-240	8%
EBIT	4 072	52%	5 266	29%
margin %	34.1%		36.7%	
Net finance	-200		-200	
PBT	3 872	41%	5 066	31%
Taxation	-774	48%	-1 013	31%
effective tax rate	20.0%		20.0%	
PAT	3 098	40%	4 053	31%
# of shares in issue (m)	125.4	-3%	119.4	-5%
EPS	24.7	44%	33.9	37%
DPS	9.0	38%	12.6	40%
Dividend cover	2.7		2.7	
Share price	526			
PE multiple	21.3		15.5	
Dividend yield	1.7%		2.4%	

Source: Company data, Anchor Capital

These numbers would be c. 6% ahead of current consen-



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