



PVH Corp

“Established Global Player in the Apparels Industry”

Bloomberg: PVH:US | Reuters: PVH.N | Stock Code: NYSE: PVH

Valuation / Recommendation

We have a **BUY** recommendation on PVH with target price of USD74.76 based on forward PE of 10x our FY23 EPS estimate of USD7.48. We think that a forward PE of 10x is fair, even with the expected challenges for the retail sector, due to PVH’s well-entrenched position in the apparels industry.

Investment Highlights

Attractive valuation for a major player in the apparels industry. PVH currently has a trailing twelve months PE ratio of 4.1x and a forward PE of 7.3x our FY23 EPS estimate of USD7.48. We opine that these are very attractive valuations for a company that owns the valuable Tommy Hilfiger and Calvin Klein apparel brands. Tommy Hilfiger and Calvin Klein contributed 50.5% and 42.2% respectively to revenue in 1H23.

Revenue expected to grow on a constant currency basis. In its 2Q23 results press release, management projects that FY23 revenue will increase 3% to 4% on a constant currency basis despite a 4% negative impact due to a reduction resulting from the Heritage Brands transaction and exit from the Heritage Brands Retail business as well as reduction resulting from the impact of the war in Ukraine.

Strong USD obscures strength of PVH’s international business. Tommy Hilfiger international revenue grew by 5% on a constant currency basis in 1H23, while Calvin Klein international revenue grew by 11% on a constant currency basis. In FY20 (pre-pandemic), Tommy Hilfiger international saw revenue hit USD3.1 bn registering 20% growth on a constant currency basis with comparable store sales increasing by 9%. Calvin Klein international revenue increased to USD2.0 bn in FY20 rising 7% on a constant currency basis with comparable store sales decreasing by 1%.

Inventories at manageable levels. PVH’s inventories stood at USD1.7 bn as at 31 July 2022 which is more or less in line with inventory levels in the corresponding quarters in FY20-FY22 of USD1.4 bn - USD1.9 bn. Barring a significant decline in revenue we think that inventories are at manageable levels, hence we do not expect deep discounting that would lead to a significant negative impact on margins.

Committed to buying back shares. The Board of Directors has authorized over time since 2015 an aggregate USD3.0 bn stock repurchase program through 3 June 2026. As at 31 July 2022, PVH could spend approximately USD998.5m to repurchase shares under the program. During the twenty-six weeks ended 31 July 2022, PVH purchased 3.2 million shares of its common stock under the program in open market transactions for USD224m. PVH had weighted average common shares outstanding of 66.6 million in 2Q23.

Risk factors. A global economic recession or slowdown is likely to negatively impact PVH’s sales and profitability. Deterioration in the desirability for PVH’s brands could put downward pressure on margins and sales.

NYSE
CONSUMER DISCRETIONARY
BUY
TP: USD74.76
Price: USD54.41

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Business Overview

PVH is one of the largest global apparel companies in the world with operations in more than 40 countries. PVH’s portfolio of fashion brands includes Tommy Hilfiger, Calvin Klein, Warner’s, Olga and True&Co.

Stock Return Information

S&P 500 (pts)	3,873.33
Expected Capital Gains (%)	37.4
Expected Gross Dividend Yield (%)	0.3
Expected Total Gross Return (%)	37.7

Price Performance

	1M	3M	12M
Absolute (%)	(23.3)	(7.4)	(50.5)
Relative to Index (%)	(13.3)	(13.1)	(37.1)

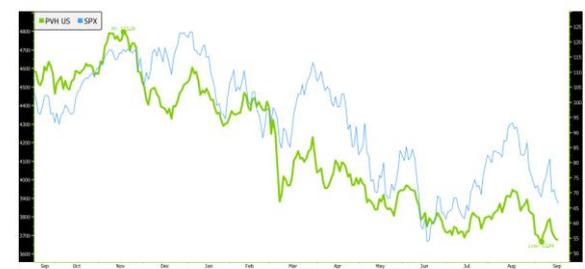
Share Information

Market Cap (USD bn)	3.6
Issued Shares (m)	66.6
52W High (USD)	125.42
52W Low (USD)	53.03
Estimated Free Float (%)	98.6
Adjusted Beta vs S&P 500	1.4
65-Day Average Vol. ('000)	1,462

Top 3 Shareholders

	%
Pzena Investment Management LLC	12.17
The Vanguard Group Inc	11.63
FMR LLC	8.44

Bloomberg



Sources: Mercury Securities, Company, Bloomberg, Wall Street Journal

INVESTMENT STATISTICS	FY20	FY21	FY22	FY23F	FY24F
Revenue (USD m)	9,909.0	7,132.6	9,154.7	8,788.5	9,227.9
Gross Profit (USD m)	5,388.4	3,776.8	5,324.1	4,921.6	4,983.1
Operating Profit (USD m)	558.7	(1,071.7)	1,076.9	741.0	779.3
EBITDA (excl. impairment) (USD m)	992.4	269.5	1,437.2	1,095.0	1,083.3
Profit Before Tax (USD m)	444.0	(1,193.0)	972.7	656.0	694.3
PATMI (USD m)	417.3	(1,136.1)	952.3	498.5	499.9
Basic Earnings Per Share (USD)	5.63	(15.96)	13.5	7.48	7.90
Diluted Earnings Per Share (USD)	5.60	(15.96)	13.3	7.41	7.82
Gross Margin (%)	54.4	53.0	58.2	56.0	54.0
Operating Margin (%)	5.6	(15.0)	11.8	8.4	8.4
ROE (%)	7.2	(24.0)	18.0	9.2	8.7
ROA (%)	3.1	(8.5)	7.7	4.0	3.9
Net gearing (%)*	38.8	40.2	21.2	22.6	11.6
Price/Diluted EPS Ratio (x)**	15.5	n.a.	4.1	7.3	7.0

Sources: Mercury Securities, Company

* Net gearing is calculated as: (Total debt & borrowings - cash and cash equivalents)/shareholder's equity

** Price/Diluted EPS for FY20-21 are based on the closing share price of the last trading day of FY20-21

	Share Price	Mkt Cap	Revenue (USD bn)		Expected Revenue Growth (%)		Diluted EPS (USD)		Expected EPS Growth (%)		Price/Diluted EPS (x)	
	(USD)	(USD bn)	FY23F*	FY24F*	FY23F	FY24F	FY23F*	FY24F*	FY23F	FY24F	FY23	FY24
PVH Corp.	54.41	3.6	8.8	9.2	(4.0)	5.0	7.41	7.82	(44.9)	5.6	7.3	7.0
Guess?, Inc.	16.13	0.9	2.6	2.8	1.5	5.1	2.83	3.21	10.1	13.3	5.7	5.0
Capri Holdings Limited	44.49	6.1	5.9	6.2	3.6	6.5	6.90	7.45	28.0	8.0	6.4	6.0

Sources: Mercury Securities, Bloomberg

*Revenue and diluted EPS forecasts for Guess? and Capri is taken from the Bloomberg consensus estimates

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Published and printed by:

MERCURY SECURITIES SDN BHD

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