

20 May 2024



HENDERSON

We initiate coverage of Henderson (HNFG) **with target price of 1020 RUB per share (36% upside and 43% Total return) and BUY recommendation.**

Henderson is a market leader in Russia's highly fragmented men's clothing and footwear market. The company increased its market share from 1.1% in 2019 to 2.7% in 2023 (in terms of revenue; based on INFOnline's market size estimates).

Henderson was one of the beneficiaries of the exit of foreign retailers from Russia in 2022. Now the company is focused on updating the format and reopening stores in prime locations as well as developing online sales channels. This strategy has already translated into strong financial results. Revenues increased 31% in 2022 and 35% in 2023, while EBITDA margin (IFRS 16) climbed to 39% thanks to economies of scale and higher efficiency of updated format stores.

In our view, Henderson will continue to expand its market share and demonstrate good results in mid-terms. We project its market share growth to 4.1% by 2028 with the revenue to increase from RUB 16.8 bn in 2023 to RUB 39.0 bn in 2028 (what implies 23.5% CAGR). We also believe that the company is likely to maintain profitability levels in mid-terms.

Dividend policy - payments of at least 50% of net profit twice a year if Net Debt/EBITDA (IFRS 16) is below 2.5x. For 2023, the company has declared dividends of RUB 30 per share (record date: 3 June 2024, payment date: 10 June 2024). We expect the dividend payout ratio for 2024 to remain at 50% of net profit, with a potential increase to at least 70% starting in 2026 after peak investments are completed.

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HNFG

Mcap, RUB bn	30.2
12-mo TP per share, RUB	1020
Last close price, RUB	747.9
Upside to TP, %	36%
DPS 12-mo forward, RUB	49.3
Dividend yield	7%
Total return	43%

Current multipliers

	2024F	2025F
EV/EBITDA	4.7x	4.0x
P/E	9.7x	8.0x

Data as of 17.05.2024

Henderson financial results, RUB bn

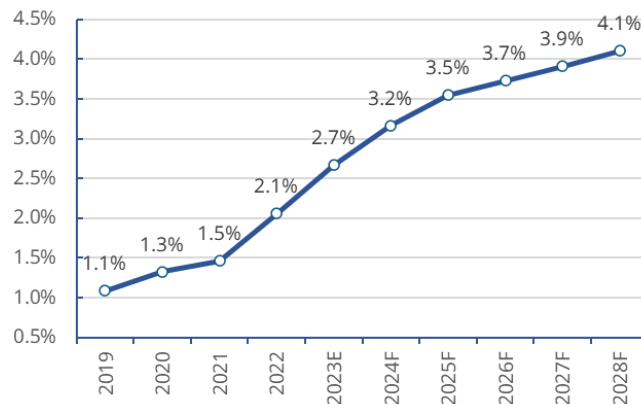
	2023	2024F	2025F
Revenue	16.8	21.6	26.9
Revenue growth, YoY	34.8%	29.0%	24.3%
EBITDA (IFRS16)	6.6	8.2	10.1
EBITDA mgn (IFRS16)	39.2%	38.1%	37.6%
EBITDA (IAS 17)	4.5	5.6	6.9
EBITDA mgn (IAS 17)	26.9%	26.1%	25.6%
Net income (IFRS 16)	2.4	3.1	3.8
Capex	1.4	1.9	2.3
FCF	3.2	3.5	4.4
ND/EBITDA (IFRS 16)	1.1	1.1	1.0
DPS		49.3	51.0

Source: company data, Sirius Capital forecasts

Henderson holds a leading position in Russia's highly fragmented men's clothing market. Despite the challenges posed by the pandemic, geopolitical factors, and macroeconomic conditions, the company has consistently increased its market share in recent years, rising from 1.1% in 2019 to 2.7% in 2023, according to INFOline's estimates of men's clothing and footwear market size.

Over its 30-year history, the company has transformed from a distributor of clothing and children's toys to a leading men's fashion brand with its own design bureau, and the owner of the largest network of branded retail chain in Russia with omnichannel approach. As of 1Q24, the company operates 160 stores, including stores located in all federal districts in Russia, and 2 stores in Armenia under international franchise.

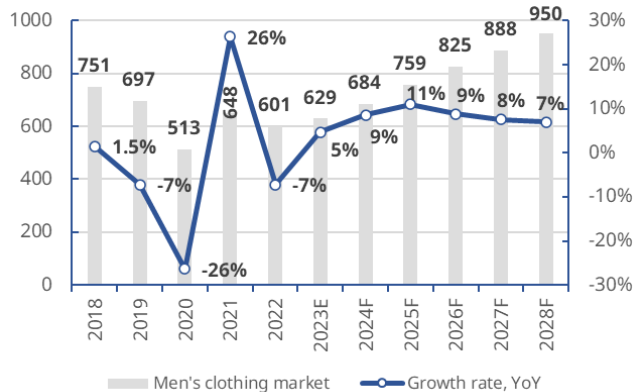
Henderson market share (in terms of revenue)



Source: company data, Sirius Capital forecasts

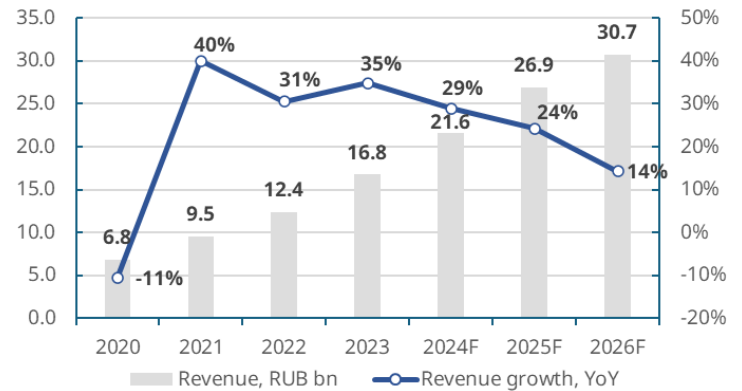
The exit from the Russian market of foreign retailers in 2022 opened substantial growth opportunities for local brands offering competitive products. The market share of foreign retailers in the men's clothing segment decreased dramatically, falling from 42% in 2021 to 20% in 2022. Henderson was one of the beneficiaries of the changes in the competitive landscape. The company revenue increased by 31% in 2022, despite a 7% overall market decline. And its growth continued in 2023, with a 35% increase, surpassing the market's 5% YoY growth. Looking forward, we expect Henderson will continue to expand its market share in the men's clothing and footwear sector in Russia. We project that its market share will rise to 4.1% by 2028, up from 2.7% in 2023. We anticipate that Henderson's revenue will grow from RUB 16.8 bn in 2023 to RUB 39.1 bn in 2028 (what implies 23.5% CAGR).

Men's clothing and footwear market dynamics, RUB bn (ex VAT)



Source: INFOLine, Sirius Capital forecasts

Henderson revenue dynamics



Source: company data, Sirius Capital forecasts

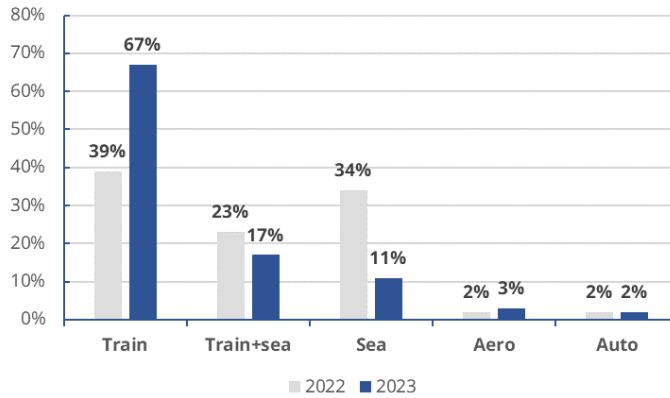
Business description

Henderson operates within the mid, premium and affordable luxury segments of the men's clothing market in Russia and Armenia. Previously the company was primarily focused on business-style attire, however, it has since expanded its range to include smart business, casual and activewear segments. The ready-to-wear assortment includes clothing, shoes, accessories, perfumes, and cosmetics. All-season products make up 55% of the collection, what helps mitigate seasonal fluctuations in sales and enhances product turnover.

Companies in the mid and premium segments, like Henderson, have longer product creation cycles compared to the fast fashion industry. It typically takes up to 10 months to develop a collection, and the sales season itself lasts for up to 6 months. Henderson's production process starts with creating a collection in its design bureau, followed by selection and purchase of fabrics and accessories from leading manufacturers. To minimize risks, the company maintains multiple suppliers for each product category.

Most sewing operations take place in Asian factories that also produce clothing for global brands. Deliveries from factories are mainly conducted through railroad and combination of sea and railroad transport. In 2023, the company managed to reduce the average transportation duration to 45-55 days, down from 60-75 days in 2021-2022.

Distribution of logistics costs across different modes of transport



Source: company data

The company’s distribution centers (DCs) and all Henderson stores in Russia are under direct management, what gives the company an advantage in terms of operational control. The company currently operates 3 DCs, which are located in Moscow region, and the duration of goods delivery to the stores typically ranges from 1 to 10 days. However, the capacity of current DCs is almost fully utilized and Henderson’s active expansion requires expanding its distribution capacities. The company plans to launch a new DC spanning 22,000 m² in the beginning of 2026, facilitating a significant increase in throughput as well as operational efficiency. Henderson estimates that the capacity of the new DC will suffice to meet its needs in the midterm. The construction cost is estimated at up to RUB 2 bn, inclusive of equipment expenses.

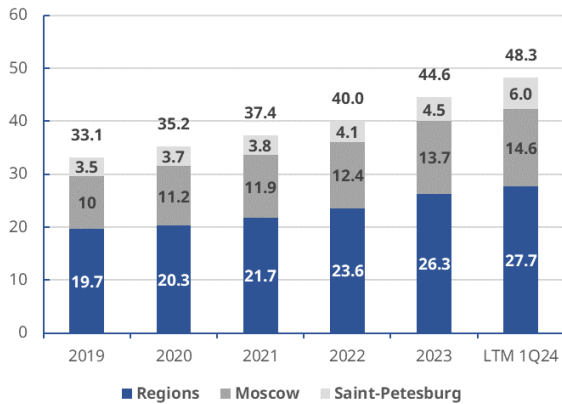
Strategy

The company’s growth strategy is based on updating the format and reopening its stores in prime locations as well as developing online sales channels.

The new-format stores feature larger spaces (350-700 m² compared to 150-250 m² in old-format stores), updated designs, and a wider product range (1500-1600 SKUs vs 300-400 SKUs in old-format stores). Additionally, these new stores offer Henderson Su Misura service (personal tailoring experience) and custom fitting services for ready-to-wear collection, what is important as fit is a key factor in the segment of formal wear (jackets, trousers, suits, shirts). According to the company, the new stores yield higher average purchases as

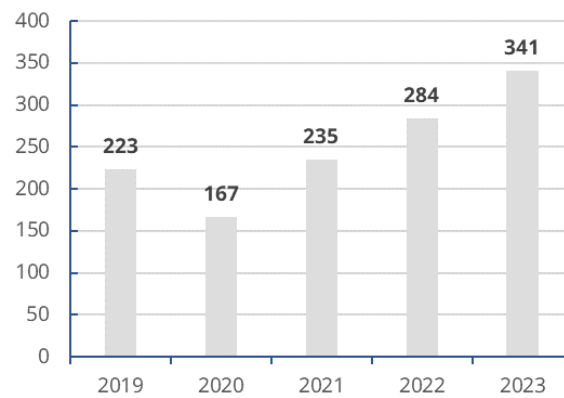
customers buy additional items, and revenue per m² remains consistent. The payback period for the new store is 10 months, compared to 15 months in the old format. Henderson has been opening the stores in the new format since 2019 and as of 1Q24, the proportion of reopened stores stood at 47%. By 2028, the company plans to expand its store count to 180, with more than 90% of them featuring the updated format. This year Henderson plans to reopen stores on up to 15 thousand m² (vs 13.6 thousand m² in 2023). By 2028, the company plans to increase its retail space to 80-90 thousand m² (vs 48.8 thousand m² as of the end of 2023).

Expansion of the average retail space, '000 m²



Source: company data

Revenue per m², RUB '000

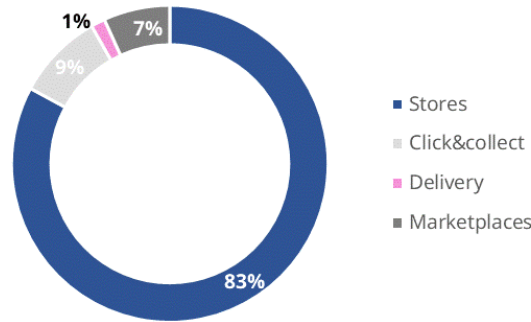


Source: company data

Online sales share in revenue is gradually increasing from 7% in 2019 to 17% in 2023 thanks to growing adoption of online retail formats in Russia. In 2023, 60% of online revenues came from sales through the company own website, including click-and-collect option, while marketplaces (Ozon, Wildberries, and Lamoda) contributed 40%. In 1Q24 online revenues' share reached 20.4% (vs 18.1% in 1Q23).

While the company's primary focus is currently on expanding its business in Russia, its strategy also involves entering new markets in the CIS and Near East through the development of international franchise. Henderson already has 2 salons in Armenia and plans to open another one this year. Kazakhstan is likely to be the next market to enter. We anticipate the company to be more proactive in its international expansion efforts in the medium term after leveraging growth opportunities in the domestic market and the launch of the new distribution center.

Revenue breakdown, 2023

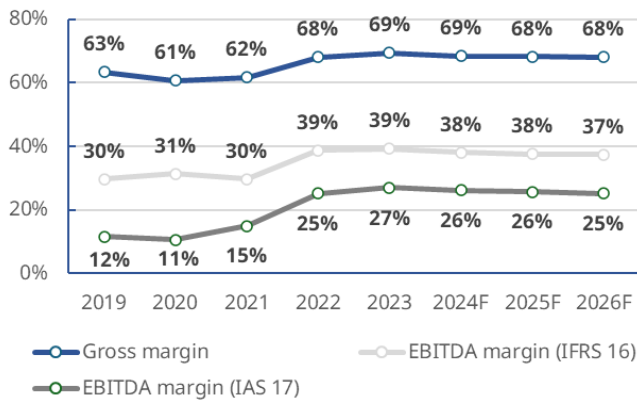


Source: company data

Financial overview

In 2023 Henderson’s revenue increased 35% YoY to RUB 16.8 bn, keeping the high performance the company demonstrated since 2021. Average retail space expanded by 12% YoY with revenues per m² adding 20% YoY. LFL revenues increased 27% YoY. EBITDA margin (IFRS 16) increased to 39.2% on the back of record gross margin (69.4%) and decrease of share of SG&A to 43.2% of revenues. We see economies of scale and higher efficiency of updated format stores to be the main drivers of profitability increase.

Profitability dynamics

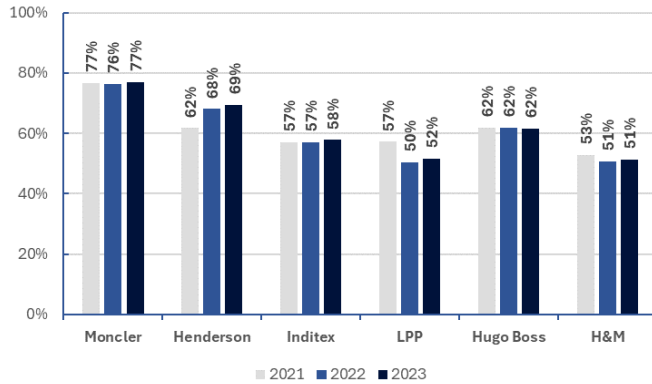


Source: company data, Sirius Capital forecasts

Henderson’s gross margin and EBITDA margin notably exceed the average levels demonstrated by global peers. We believe this is likely due

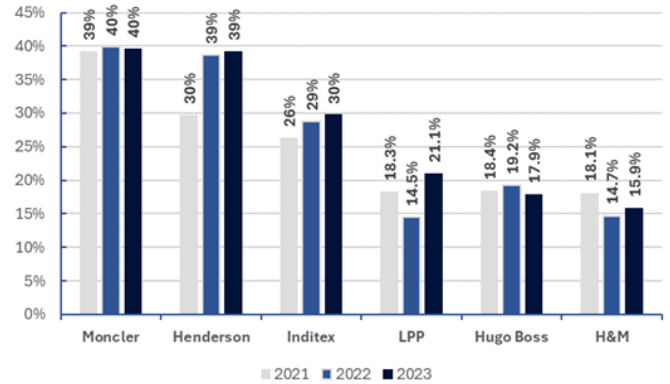
to tight control over the cost of goods at each production stage and the optimization of SG&A costs, including relatively low marketing expenses.

Henderson vs peers: gross margin



Source: company data

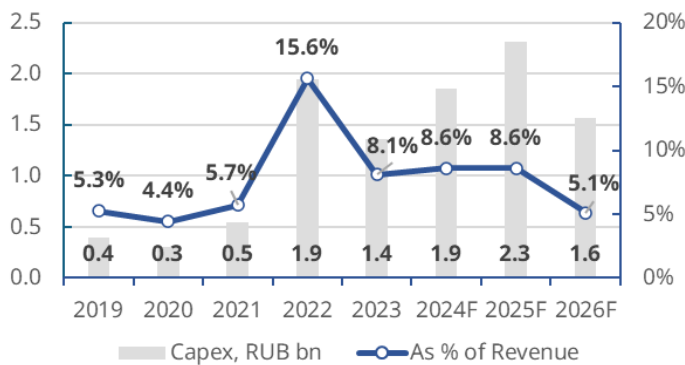
Henderson vs peers: EBITDA margin (IFRS 16)



Source: company data

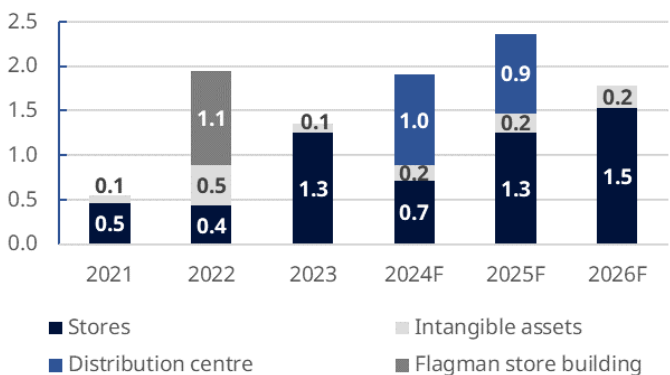
Historically, Henderson's capex was primarily allocated to opening new stores and did not exceed 6% of revenue in 2019-2021. In 2022, there was a significant increase in spending, mainly due to the purchase of a building for a flagship store in the center of Moscow. The company intends to invest approximately RUB 1 bn annually in retail network development until 2028. Additionally, up to RUB 2 bn is planned for the construction of a new distribution center. The company plans to finance it with RUB 1 bn from IPO proceeds, with the remaining amount to be raised through bond placement or loans. We anticipate that capex spending will amount to 8.6% of revenue in 2024-2025, followed by a decrease to around 5.0% in subsequent periods.

Henderson capex dynamics



Source: company data, Sirius Capital forecasts

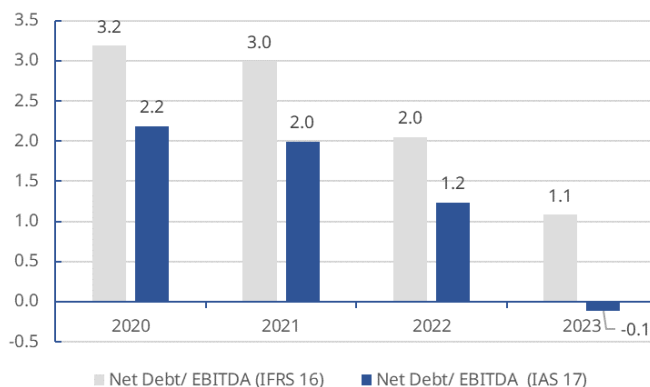
Henderson capex breakdown, RUB bn



Source: company data

The company maintains a moderate financial policy. From 2019 to 2023, its net debt/EBITDA ratio (under IAS 17) did not surpass 2.2x. In 2023, this ratio turned negative due to several factors: the company utilized RUB 2 bn from IPO proceeds (totaling RUB 3 bn) to repay its debts, and it also built up a substantial cash cushion of RUB 2.6 bn, bolstered by robust free cash flow (FCF) generation and the remaining part of IPO proceeds. Under IFRS 16, which includes lease obligations, the net debt/EBITDA was recorded at 1.1x in 2023. The company aims to keep this indicator below 2.5x.

Henderson leverage



Source: company data, Sirius Capital estimates

Dividend policy

The company's dividend policy implies payments of at least 50% of net profit twice a year if Net Debt/EBITDA (IFRS 16) does not exceed 2.5x. For 2023, the company has declared dividends of RUB 30 per share (record date is set at 3 June 2024, payment expected on 10 June 2024).

We anticipate that the dividend payout ratio for 2024 will remain at 50% of net profit. This expectation is due to the company's significant capex planned for 2024-2025 and its conservative debt policy. However, once the peak investments have passed, Henderson might increase the dividends payout ratio to at least 70% of net profit, in our view.

Risks

We see the company's main risks to be related to the following factors:

- **GDP trends and fluctuations in disposable income.** Given that clothing is not a daily purchase negative macro trends may lead to weaker

revenue and profitability dynamics. At the same time, the upper segments of clothing markets of the clothing market typically show greater resilience to economic downturns.

- **Foreign-exchange risks.** The company's COGS are mainly nominated in foreign currencies, what makes it exposed to FX fluctuations. However, given the long cost formation cycle Henderson can manage the impact through optimization of assortment and gradual transfer of inflation in prices. Also, the company uses currency hedging instruments. Historically, the company demonstrated the ability to achieve a moderate impact on gross margin in situations of significant ruble devaluation. During 2014-2016 the average USDRUB rate steadily depreciated from 38.6 to 66.8, what led to a drop of gross margin from 64.7% to 60.4%. At the same time, the milder ruble devaluation (USDRUB falling from 68.3 to 85.8) in 2022-2023 did not negatively impact profitability.
- **Influence of geopolitical factors on logistics and payments.** In 2022, Hendersons experienced a sharp increase in logistics costs in 1H22 but was able to change the delivery routes and reduce the costs by the end of the year. Also, the company had to pay off a significant amount of accounts payable because using letters of credit for international settlements with suppliers became unfeasible. New issues in logistics and international payments may have a negative impact on trends in working capital and profitability. Given Henderson's good access to funds (as of the end of 2023 the company had RUB 5.6 bn of unused loans and RUB 1.2 bn of bank guaranties and letters of credit), we consider liquidity risk to be low.
- **Increase in competition.** We do not anticipate a significant shift in the competitive landscape in the mid-term. The likelihood of global players who have exited the market returning is low. At the same time an increase in the activity of existing or the emergence of new players in the men's clothing market may lead to higher competition.

Henderson financial results

Income statement, RUB mn	2021	2022	2023	2024F	2025F	2026F
Revenue	9,522	12,433	16,762	21,615	26,863	30,707
Cost of sales	-3,645	-3,967	-5,132	-6,809	-8,516	-9,796
Gross profit	5,877	8,466	11,630	14,806	18,348	20,911
Gross margin	61.7%	68.1%	69.4%	68.5%	68.3%	68.1%
SG&A	-4,676	-5,488	-7,236	-9,439	-11,812	-13,502
Other income /expenses	8	51	164	14	18	21
Operating profit	1,209	3,029	4,557	5,382	6,554	7,430
Other income/costs	-628	-731	-1,540	-1,433	-1,795	-1,888
Profit before tax	581	2,298	3,017	3,948	4,759	5,542
Income tax expense	-125	-466	-665	-829	-999	-1,164
Net income	456	1,832	2,352	3,119	3,760	4,378
Balance sheet, RUB mn						
PPE and Intangible assets	1,073	4,849	5,452	6,473	7,742	8,117
Assets in the form of right-of-use	5,024	5,240	6,620	7,845	8,561	9,380
Other long-term assets	116	209	157	157	157	157
Total long-term assets	6,213	10,298	12,229	14,475	16,460	17,655
Inventory	2,551	3,019	4,718	5,539	6,475	7,326
Other short-term assets	677	540	556	713	881	1,056
Cash and cash equivalents	199	562	2,575	1,802	985	1,996
Total short-term assets	3,427	4,121	7,849	8,055	8,342	10,378
TOTAL ASSETS	9,640	14,419	20,078	22,530	24,802	28,032
Total equity	-1,013	2,957	7,808	8,934	10,630	12,567
Short-term debt	1,133	2,514	1,342	730	0	0
Payables	1,140	295	1,083	1,286	1,577	1,711
Other short-term liabilities	2,006	1,913	2,842	3,462	3,832	4,255
Total short-term liabilities	4,279	4,722	5,267	5,478	5,409	5,966
Long-term lease obligations	4,473	4,832	6,272	7,117	7,762	8,499
Long-term debt	1,900	1,907	730	1,000	1,000	1,000
Total long-term liabilities	6,373	6,739	7,002	8,117	8,762	9,499
TOTAL LIABILITIES AND CAPITAL	9,640	14,419	20,078	22,530	24,802	28,032

Cash flow statement, RUB mn	2021	2022	2023	2024F	2025F	2026F
Profit before tax	581	2,298	3,017	3,948	4,759	5,542
D&A	1,533	1,789	2,214	2,855	3,549	4,057
Other	716	749	1,338	1,433	1,795	1,888
OCF before changes in WC	2,830	4,835	6,569	8,237	10,103	11,487
Changes in WC	470	-1,593	-594	-608	-604	-652
OCF after changes in WC	3,300	3,242	5,975	7,629	9,499	10,835
Net interest paid	-600	-1,007	-1,108	-1,433	-1,795	-1,888
Income tax paid	-189	-556	-355	-829	-999	-1,164
Net cash flows from operating activities	2,511	1,679	4,512	5,367	6,705	7,782
Capex	-545	-1,945	-1,356	-1,859	-2,310	-1,566
Other	9	198	58	0	0	0
Net cash flows used in investing activities	-536	-1,747	-1,299	-1,859	-2,310	-1,566
Debt finance	1,275	1,537	-2,419	-342	-730	0
Dividends payment	-7	0	-164	-1,993	-2,064	-2,441
Payments of principal amounts on lease obligations	-1,005	-1,118	-1,235	-1,945	-2,418	-2,764
Other	-2,138	1	2,651	0	0	0
Net cash flows from/(used in) financing activities	-1,874	421	-1,167	-4,281	-5,212	-5,205
Net increase in cash and cash equivalents	101	352	2,045	-773	-817	1,011
Cash and cash equivalents at 1 January	96	199	562	2,575	1,802	985
Cash and cash equivalents at 31 December	199	562	2,575	1,802	985	1,996

Calculated metrics, RUB mn unless specified otherwise

EBITDA IFRS 16	2,830	4,818	6,569	8,237	10,103	11,487
EBITDA IFRS 16 margin	29.7%	38.8%	39.2%	38.1%	37.6%	37.4%
EBITDA IAS 17	1,424	3,117	4,513	5,643	6,879	7,710
EBITDA IAS 17 margin	15.0%	25.1%	26.9%	26.1%	25.6%	25.1%
Free cash flow	1,975	-68	3,213	3,508	4,394	6,216
Net Debt/EBITDA (IFRS 16)	3.0	2.0	1.1	1.1	1.0	0.8
Number of shares, mn			40.4	40.4	40.4	40.4
Net profit per share			58.2	77.1	93.0	108.2
Dividends per share				49.3	51.0	60.4

Valuation

Our valuation for 12-month forward price of Henderson shares (HNFG) is based on DCF model and multiples. The DCF method (WACC 18.6%, terminal growth rate 5%) indicated RUB 965 per share as a 12-month forward price. In multiples-based method we used as a benchmark the average of EV/EBITDA ratio of international clothing and footwear retailers. We applied 35% discount to adjust the indicator for the country risks as well as HNFG' smaller market capitalization and lower liquidity. The multiples method suggested a range of RUB 1025 to RUB 1126 per share, with an average of RUB 1076. We calculated the target price (RUB 1020) as the average of the results from these two methods. It implies 36% upside to current price of RUB 748 per share (17.05.2024). Coupled with 7% 12-month forward dividend yield, it indicates 43% total return.

DCF method

Target price calculation, RUB mn unless specified otherwise.

	2024F	2025F	2026F	2027F	2028F
EBIT IAS 17	4,805	5,837	6,519	7,282	8,116
Tax on EBIT	-1,009	-1,167	-1,304	-1,456	-1,623
Depreciation & amortisation	838	1,042	1,191	1,343	1,511
Changes in working capital	-608	-604	-652	-629	-572
Capex	-1,859	-2,310	-1,566	-1,662	-1,753
Free cash flow	2,167	2,798	4,188	4,877	5,678
Discount rate	18.6%				
Discount period	0.62	1.62	2.62	3.62	4.62
Discount factor	0.90	0.76	0.64	0.54	0.46
Discounted cash flow	1,951	2,125	2,682	2,635	2,587
Discounted value, 2024-28F	11,981				
Terminal growth rate	5%				
Terminal value	20,035				
Fair EV, RUB mn	32,016				
Net debt (net cash)	-502				
Fair equity value, RUB mn	32,518				
Number of shares, mn	40.4				
Fair value per share, RUB	804				
RROE	20%				
12-mo TP per share, RUB	965				

Source: Sirius Capital Forecasts

WACC decomposition

Risk-free	12%
Emerging market equity risk p	8%
Beta	1.0
Required return on equity	20%
Share of equity	80%
After-tax cost of debt	13%
Share of debt	20%

WACC 18.6%

Sensitivity of Target Price on WACC and Terminal growth rate

	16.6%	17.6%	18.6%	19.6%	20.6%
4.0%	1,075	991	919	856	801
4.5%	1,107	1,018	941	875	817
5.0%	1,142	1,046	965	895	834
5.5%	1,180	1,077	991	916	852
6.0%	1,221	1,111	1,018	940	872

Multiples-based valuation

Multipliers levels of the peers

Company name	Mcap, USD bn	20D ADTV, USD mn	EV/EBITDA		P/E		Revenue CAGR 2023-2025, %	EBITDA margin, %		
			2024F	2025F	2024F	2025F		2023	2024F	2025F
Henderson	0.3	0.7	4.7x	4.0x	9.7x	8.0x	27%	39%	38%	38%
Inditex	147.0	166.3	11.6x	10.8x	23.0x	21.2x	8%	27%	28%	27%
H&M	27.5	32.6	7.9x	7.0x	18.7x	15.5x	23%	21%	19%	20%
Next	15.2	21.5	10.5x	9.7x	15.4x	14.3x	2%	15%	18%	19%
LPP	8.4	13.5	8.3x	7.2x	15.0x	13.6x	6%	18%	19%	20%
Hugo Boss	3.9	24.5	4.9x	4.1x	12.3x	10.0x	6%	18%	20%	21%
Moncler	19.0	43.1	13.2x	11.7x	26.0x	23.3x	9%	40%	40%	40%
Average (peers)			9.4x	8.4x	18.4x	16.3x				
Median (peers)			9.4x	8.4x	17.1x	14.9x				

Dara as of 17.05.2024

Source: Bloomberg, Sirius Capital Forecasts

Henderson valuation based on EV/EBITDA of peers, RUB mn, unless otherwise stated

	2024F	2025F
Average EV/EBITDA for global peers	9.4x	8.4x
Discount	35%	35%
Adjusted EV/EBITDA	6.1x	5.5x
Henderson EBITDA	8,237	10,103
Enterprise value	50,286	55,269
Net debt	8,825	9,718
Equity Value	41,461	45,551
Number of shares, mn	40.4	40.4
Share price, RUB	1025	1126

Source: Bloomberg, Sirius Capital Forecasts

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