

Investment ideas. Stocks.

Farfetch Ltd. (FTCH US) is a U.K. online retailer. Its main business is sales of brand apparel via the Internet. Along with that, the company also maintains several offline stores. Fundamentally, this stock will be of some interest.

Company	FARFETCH
Sector	Online retail
Ticker	FTCH US
Capitalization, \$ million	21,621
EV, \$ million	21,649
Dividend yield	-
Entry level, \$	59.8
Current price, \$	63.5
Result	6%

Source: Bloomberg

Key investment attractiveness factors:

1) Impressive revenue growth in Q3 2020 and positive EBITDA in 2021.

According to FY 2020 Q3 results, Farfetch Ltd.'s revenue grew by 71.3% year-on-year to \$438 million. However, company's profit indicators remain in the negative zone as yet. Nonetheless, it is not unlikely that Farfetch Ltd.'s EBITDA will be positive already in 2021. This indicator may reach \$50 million according to Bloomberg's projection.

2) Online retail sector will most probably continue to grow post-pandemic. Farfetch has become one of the biggest beneficiaries of the pandemic. People still buy fancy clothes, but now they do this online. The company succeeded to fit organically into current economic situation and outrun the competition. Its revenue growth between January and September 2021 shows this clearly. At the same time, in our view, growth trend in the sector remains. Effects of the pandemic may continue for a long time, at least in people's minds. With this in mind, we expect clients to continue to prefer online shopping.

3) Farfetch integration with JD.com. Farfetch successfully develops China market using JD.com. The share of sales to China in the company's revenue has grown to 40% during the year. Chinese consumers are widely known to generate high demand for products from premium brands. Unable to purchase such goods at offline stores in Europe and the USA, middle-class buyers of the People's Republic switched to online platforms, including Farfetch.

Key risks. Consider two interrelated risks: stock prices have grown almost 10 times above the minimum price of March 2020. Accordingly, the stock looks substantially overbought with reference to market multipliers; P/S ratio is around 10x — even Alibaba's is less. This may lead to a share price slump at some point. On the positive side, this will be a good opportunity to buy into an interesting asset.

Financial highlights, \$ million	2019	2020P*	2021P*	Change, %
Revenue	1,021	1,661	2,198	32%
Gross profit	460	773	1,047	35%
EBITDA	-237	-71	50	-170%
Net profit	-355	-1,021	-431	-58%
EPS	-1.11	-1.77	-0.84	-53%
<i>Gross margin</i>	45%	47%	48%	1%
<i>EBITDA margin</i>	-23%	-4%	2%	7%
<i>Net margin</i>	-35%	-61%	-20%	42%
Debt burden, \$ million	2018	2019	2020P*	Change, %
Gross debt	0	119	621	-
Cash	1,048	322	758	135%
Net debt	-1,048	-203	-137	-
Net debt/EBITDA	-	-	-	-
Benchmarking against similar companies	Country	P/S	EV/EBITDA	P/E
ALIBABA	China	8.2	26.9	32.1
ZALANDO	Germany	1.6	30.4	75.0
BOOHOO	UK	3.6	26.9	71.5
ZOZO	UK	1.0	18.8	40.0
<i>Weighted average</i>		3.6	25.8	54.7
FARFETCH	UK	9.8	432.7	-
<i>Discount/(premium)</i>		-63%	-	-

*P – Projection

Source: Bloomberg

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