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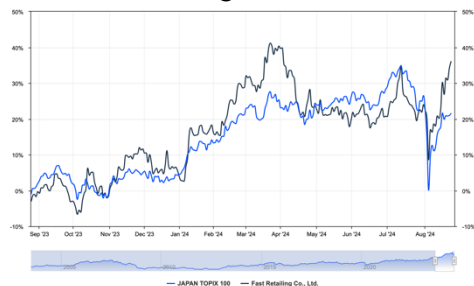
FAST RETAILING
BUY

BASIC INFORMATION

Last closed Price: ¥45,690
12M Target Price: ¥53,126
GICS Sector: Consumer Discretionary
GICS Sub-Industry: Apparel Retail

PERFORMANCE

1Y Performance against TOPIX 100



(Fig 1) Source: MarketScreener

FINANCIALS

Market Cap: ¥14.54T
Outstanding Shares: 318 mn
52-Wk High-Low: ¥31,140 - ¥48,040
Ave Volume: 1.64 mn
P/E Ratio: 37.86
Dividend yield: 0.74%

EXECUTIVE SUMMARY

This report recommends a long position in Fast Retailing with a **BUY** rating and a **¥53,126** price target. According to its 3Q 2024 report earnings, it has achieved large revenue growths from its UNIQLO segment and improved cost efficiencies and gross profit margin. It faced a decline in its sales in the Greater China Region, in contrast with growth in other key regions like Japan, Southeast Asia, and Europe. It is expected to continue maintaining its high gross margin and increase in sales revenue in its Uniqlo International and Uniqlo Japan segments.

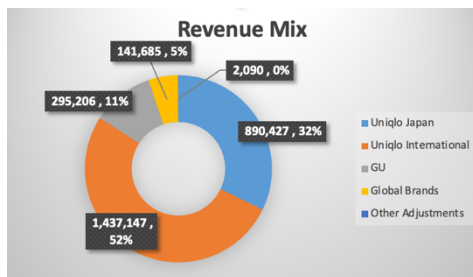
KEY HIGHLIGHTS

- Significant increase in revenue due to notable performances from most of its key revenue drivers, with a 10.4% YoY increase in revenue for UNIQLO Japan, 17.8% YoY increase for UNIQLO International, 5.4% YoY increase for GU and 2.5% YoY decline for Global brands.
- Increase in e-commerce sales by ¥34.5B in 3Q 2024 (+12.1% y/y, 14.6% of total sales)
- Gross profit margin in 3Q 2024 was 54.5%, up 4.1p YoY due to a reduction in cost of sales
- Plans to increase annual dividend by ¥110, to reach ¥400 per share by end of FY2024.

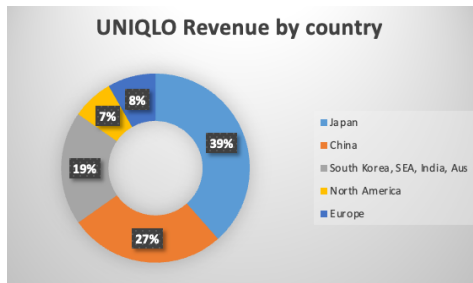
BUSINESS OVERVIEW

Fast retailing Co. Ltd, headquartered in Japan, is a dominant player in the global apparel market, operating several well-known brands. Its key revenue drivers include sales from UNIQLO Japan, UNIQLO International, GU, and other global brands. It is recognized for its high-quality yet affordable clothing.

In its revenue mix, Uniqlo International and Uniqlo Japan accounts for majority of its revenue while among Uniqlo Stores, Japan and China are the major revenue contributors.



(Fig 2.1) Source: Company data



(Fig 2.2) Source: Company Data

Its business strategy revolves around innovation, efficiency and sustainability. The company's unique SPA Model (Specialty Store retailer of private retail apparel), which allows the firm to control every aspect of its operations from raw material procurement to retailing, gives the firm

INVESTMENT THESIS

- **Greater focus on digital strategies to increase e-commerce sales and customer experience**

Fast retailing's e-commerce sector has been growing steadily, especially in markets like China where e-commerce contributes to 20-30% of total sales. Fast retailing has increased emphasis on its e-commerce expansion following its substantial increase driven by COVID-19 pandemic, which accelerated online shopping trends globally. In FY2023, online sales accounted for approximately 15% of total sales, with a split by country of 15% increase in Japan, 20% increase in Greater China region, South Korea, North America and approximately 10% in Southeast Asia India and Australia.

E-commerce segment of fashion market is expected to continue rising significantly, with a high CAGR of 10% from 2023 to 2026, reaching over \$8 trillion (McKinsey & Company). Uniqlo will be able to ride on the wave of rising e-commerce market in the fashion industry due to its strong focus in blending its physical and digital shopping experiences. In fact, it spent an estimated 26.6Bn Yen on computer systems for e-commerce, compared to only 14.7Bn spent on its domestic chain. For instance, it rolled out "price tag scanner" and same-day Click & Collect services from late 2023 into 2024, making customer purchasing experience much more seamless and convenient.

Its digital initiatives also enhance consumer engagement greatly, which is an important aspect of retaining customers and sustaining growth. The Uniqlo Magic Mirror, which leverages virtual reality to allow customers try on clothes virtually is also an engaging, interactive and immersive experience that is unique to Uniqlo. It has also received the Shorty Award for best in retail and e-commerce in social media (IIDE The digital School, May 2024) which shows that Uniqlo's marketing strategies are well received and very effective.

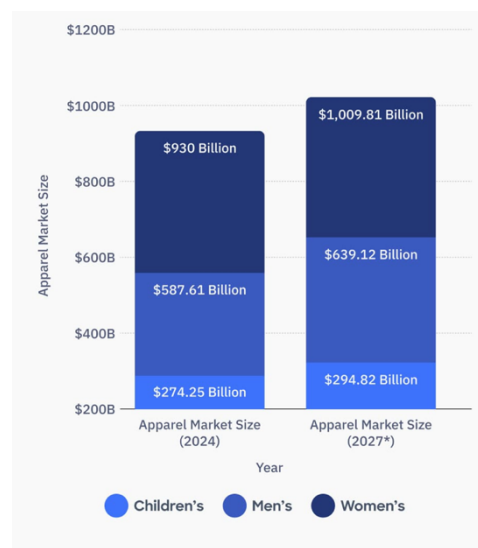
Hence, Uniqlo's strong focus and adaptation to the retail landscape will allow it to enjoy revenue growths due to e-

a competitive edge in responding to market trends and building a sustainable social business unlike other fast fashion companies.

INDUSTRY OUTLOOK

Global fashion industry market size is estimated at USD1.79T in 2024 and is expected to grow at a CAGR rate of 2 - 4% from 2024 to 2040. The modest and steady growth reflects the current subdued economic environment and varying consumer sentiments.

The US Apparel Market has the largest apparel market size of \$358.7B, followed by the China market of \$313.8B. Women's Apparel Market is valued at almost half of the total apparel market size, and the biggest demographic group for apparel consumption are young adults.



(Fig 3) Apparel market size by category
(Source: Uniform Market)

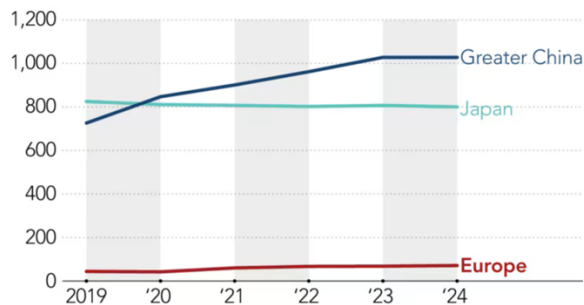
commerce, as well as physical stores with its innovation and initiatives to enhance customer experience.

• UNIQLO International expansion into Europe

In 2024, Uniqlo has been set onto expanding its European business, with new flagship stores opened in UK, Italy and France, following 'outstanding' growth rates in the European market of 38.4% YoY increase in sales. While the European market is dominated by fashion giants like Zara and H&M, Uniqlo is steadily improving its brand recognition in Europe.

Uniqlo stores in Europe, Japan and China

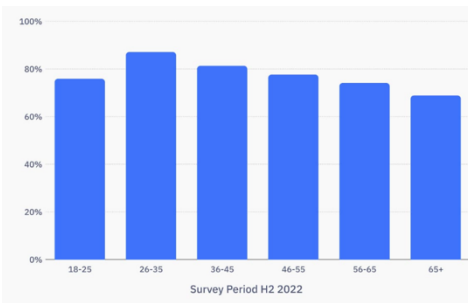
(Number of stores, as of February of each year)



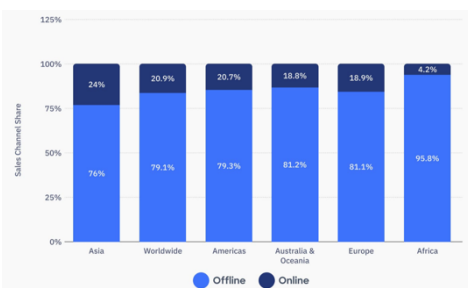
(Fig 6) Source: Nikkei Asia

Uniqlo's concept of 'life wear', referring to high quality but basic and affordable designs have been accepted in Europe and not taken to be fast fashion. Furthermore, Uniqlo's eco-friendly collection and sustainability nature would likely resonate with European customers, who are generally more conscious of environmental impact. With Uniqlo's SPA model, it can also effectively tailor product lines to suit European climates, fashion preferences and collaborations with local designers to create more attractive products.

Thus, I believe that Uniqlo is well positioned to strengthen its presence in Europe with the increase in flagship stores, alignment in fashion values with European market and its flexible production lines. Since Uniqlo's revenue per store in Europe is 2.8Bn Yen in FY2023, which is marginally higher than that in Japan of 1.1Bn Yen, it is likely that the international segment for Uniqlo will be a strong contributor to Fast Retailing's revenue growth in coming years.



(Fig 4) Apparel market size by demographics (Source: Uniform market)



(Fig 5): Apparel market by platform (Source: Uniform market)

COMPETITOR ANALYSIS

	P/E Ratio	EV/EBITDA	Operating Margin
Fast retailing (Uniqlo)	32	20	14%
Inditex (Zara)	35	10	19%
H&M Group	22	7	10%
Gap Inc.	16	7	4%
Average Market	20-25	8x-10x	8-12%

(Fig 7) Source: Online reports

SWOT ANALYSIS

Strengths:

- **Global brand recognition** allows it to maintain market share
- **Vertical Integration** business model helps UNIQLO ensure quality and cost efficiency
- **Innovation** such as HeatTech and Airism differentiates it from competitors

Weaknesses:

CATALYSTS

Mobile Shopping Growth

The increasing use of smartphones among the younger generation is a significant driver for e-commerce growth that will benefit Uniqlo's sales revenue. Mobile commerce is fast becoming consumers' preferred shopping channel, with the mobile commerce market in Japan almost tripling over the last decade and around 6.7T Yen in 2023. The expected CAGR 2024-2029 for the eCommerce market in Japan is 9.23% (Statistica), and the CAGR 2024-2030 for China is estimated to be 16.3% (Grand View Research)

This likely suggests that proportion of revenue due to ecommerce will be on an upwards trend for Uniqlo stores in the coming years.

Greater sustainability trends

The global market for sustainable fashion is expected to grow at a CAGR of 20.9% from 2024 to 2032 (Fortune Business Insights), signally a shift in market preference to sustainable products, which Uniqlo is well-positioned to capitalize on.

Uniqlo has always maintained sustainable practices, such as the clothing recycling program where it has collected over 50 million of clothing to be donated by 2023. It is also committed to reducing its greenhouse gas emissions by 30% by 2030 across its supply chain that it has full control over, which aligns well with global sustainability goals. This resonates with environmentally conscious consumers and would likely contribute to a steady rise in brand presence and loyalty.

Most of Uniqlo's competitors are fast fashion companies, such as Shein which may not place environmental sustainability at their forefront. Hence, it has a competitive edge and would be able to appeal to more consumers given the rising trend in sustainable fashion.

- **Overdependence on Asia Markets**, especially China market

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Opportunities:

- Greater **market penetration** into western countries

- **Digital Transformation** to expand in e-commerce market

Threats:

- **Economic Uncertainty**

VALUATION – P/E

Current share price	45,690
Valuation by P/E	
2025 EPS	1,660
P/E (from market)	32
Share price	53,126

INVESTMENT RISKS

Worsening sales in Greater China Region and international markets

Uniqlo's growth in greater China Region has been slower than expected due to unfavorable macroeconomic conditions. With a large component of revenue due to sales in China, this might affect the company's revenue growth if conditions turn worse.

It is likely that consumer spending will decrease due to the sluggish GDP growth, rising unemployment and job insecurity. The cost of living rise by 0.3% in 2024 and 0.2% rise in unemployment could indicate a continued economy downturn that affects Uniqlo's performance in China.

Competition from rising fashion industries eating into Uniqlo's market share

Increasing demand for fast fashion might have led to growth of companies like Zara and Shein, which attracts shoppers looking for low-cost, trendy clothing. In fact, Shein's revenue is estimated to increase by 55% from 2023 to 2024 (Coresight Research), posing as a strong component against Uniqlo.

MODEL PROJECTIONS

Main assumptions for projections:

Number of stores – Due to forecasted expansion into the European market, assume percentage growth of number of stores to be slowly increases from 5% to 7% per year for Uniqlo International stores.

Revenue from stores – Revenue will continue to increase steadily following previous years, and eventually reach 5% by end of 2027

Valuation

Using the projected earnings, we use 2025's EPS to deduce the share price based on current P/E value of 32 for Fast Retailing. Hence, the stock is undervalued and we expect the share price to rise.

RECOMMENDATION - SELL

Despite the positive earnings report in 3Q 2024, Fast Retailing is expected to face declining sales in China, impacting its overall growth. The current market pricing of Fast retailing is at a fair value and rather high p/e of 32x. However, the growth for fast retailing is unlikely to exceed beyond expectations to make it an attractive buy for investors at the current time period. Thus, it is not an attractive buy for investors due to its potential downside.

INVESTMENT THESIS

Projected revenue decline due to economy decline

Fast Retailing's heavy dependence on the Asia market, in particular Japan and the Greater China, might face potential large declines due to an economic downturn in China. Uniqlo International, mainly China, contributes to 54.4% of its total revenue, and any changes would cause a huge impact on the company's revenue streams.

China's GDP Growth has slowed to around 4.7% in Q2 2024 from 5.3% in Q1 2024. This is caused by a persistent property turndown, falling yuan and trade frictions with the West. The growth is projected to continue decelerating to 3.3% by 2029, indicating a general bearish market. This directly impacts the sales for Fast Retailing's stores in China, since consumer spending is declining rapidly as compared to previous years.

Strong competitive pressures from local and global brands

Fast retailing faces strong competitors in the fashion industry which might erode its market share. In China and Asian markets, local brands like Shein and Peacebird are rapidly gaining popularity for its low cost and trendy products that caters to the young generation. They also have a strong online presence, advertising their products on social media platforms like Tiktok and Instagram. Shein's estimated revenue for 2023 was around \$30B, obtaining around 15-20% market share in the global fast fashion industry, compared to Uniqlo which only has 8-10%. Its app is also one of the most downloaded shopping apps globally, with a strong presence in US, Europe and China.

While Uniqlo is trying to adapt to changing market trends, its focus on basic and everyday wear might be of lower appeal to consumers, especially young adults or teenagers, and be regarded as 'basic'. Thus, in markets like fast fashion, Uniqlo might lose out to its competitors in terms of designs and keeping up to the Gen Z style.

CATALYST

Shifting fashion preferences for unique fashion trends

The younger demographic, especially Gen Z, and women are increasingly driving fashion trends towards bold, expressive styles such as streetwear and Y2K, which are more design heavy in nature. This contrasts with uniqlo's simple and everyday theme. In particular, Y2K fashion saw a 250% increase in searches in 2023, and 70% Gen Z consumers also reflected that they prefer fashion that allows them to express their

individuality. This shows that Uniqlo might lose the competitive edge amongst this group of demographics, which contributes to a large portion of their revenue.

Increasing interest rates in Japan

Japan's Central bank has raised interest rate for the second time in 17 years, leading to higher costs of borrowing. This means a stronger Yen which could negatively affect Fast Retailing's products as it becomes more expensive for overseas consumers and reduces the company's international sales. Domestic consumption might also decrease due to inflation to dampen the sales in Japan. Rising interest rates also increases cost of borrowing for financing, leading to higher operational costs. Fast retailing might face increased expenses that reduces its profit margins.

In terms of stock valuation, market might reduce the valuations due to a higher discount rate, making the current pricing an overvaluation of the company given the expected trends.

INVESTMENT RISKS

Potential recovery in the Chinese market

Despite unfavorable economic conditions in China in 2Q 2024, there is potential for recovery if government provides stimulus measures, boosting domestic demand and stabilize the economy. This could help revive consumer confidence and spending, including the fashion industry for Fast Retailing to rebound its revenue growth.

Continued success in other international markets

Fast retailing is able to increase market penetration in international markets, in particular Europe as it opens flagship stores in these regions.