

The Investment Case for Inditex in an Age of Chinese E-Commerce Disruption

Inditex is a name that may be unfamiliar to most, while its flagship brand, Zara, is more well-known. The Spanish fashion retailer has built a global empire around fast, trend-led fashion, with Zara contributing the majority of group profits. Despite the rise of ultra-fast-fashion Chinese e-commerce disruptors such as Shein and Temu, Inditex continues to grow and strengthen its competitive position. This article explores what makes Inditex so resilient, how it continues to outperform emerging challengers, and why we believe it remains a wonderful long-term investment case.



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I would not be surprised if many readers have never heard of Inditex. To be honest, before starting my career as a research analyst, I hadn't either. Then again, I am probably not the person my friends would turn to for fashion advice. The name Zara, however, is familiar even to a fashion novice like me.

In my previous article, I highlighted the importance of protecting margins in an environment where consumers face rising debt-servicing costs, persistent inflationary pressures and growing financial strain. While that discussion focused on South African retailers, the same principle applies globally. One company that demonstrates the value of margin protection exceptionally well is Inditex, the Spanish retail giant behind Zara, Zara Home, Bershka, Pull&Bear and several other fashion brands. Although Zara's sales growth has moderated in recent periods, Inditex continues to generate industry-leading profitability, proving that strong operational execution can be just as important as top-line growth.

What makes Inditex particularly interesting is how it has managed to maintain both high margins and strong cash generation despite facing intense competition from ultra-fast-fashion disruptors such as Shein and Temu.

Operational Excellence Remains Inditex's Greatest Competitive Advantage

The secret behind Inditex's success is not just the fashion. It is operational excellence. While most apparel retailers place orders months in advance and hope they correctly predict customer demand, Inditex operates very differently. Zara can take a design from concept to store shelf in as little as two weeks, allowing the company to react to trends as

SPEED READ

- Operational excellence is Inditex's moat, enabling rapid inventory turnover, lower markdowns and industry-leading margins.
- The company competes on speed and relevance rather than price, differentiating itself from ultra-fast-fashion disruptors such as Shein and Temu.
- Strong cash generation and capital discipline have translated into superior earnings growth, dividend growth and shareholder returns.
- While Inditex's superior margins, balance sheet strength and global scale help justify its premium valuation relative to Mr Price, the comparison also highlights the resilience of South African retailers, which continue to generate attractive returns despite operating in a far more challenging environment.

they emerge rather than attempting to forecast them far in advance.

The model is supported by a proximity sourcing strategy, with a significant portion of production located near its core European markets in Spain, Portugal, Morocco and Turkey. This allows the group to replenish popular products quickly, reduce excess inventory and limit markdown activity.

The financial benefits are substantial. Faster inventory turnover reduces fashion risk, lowers stock obsolescence and helps preserve gross margins. Instead of heavily discounting slow-moving merchandise, Inditex continuously refreshes its assortment based on real-time consumer demand. This agility has become even more valuable as competition from Chinese e-commerce platforms intensifies.

Why Speed Has Become Essential

The rise of Shein and Temu has fundamentally changed the competitive landscape for apparel retailers.

Both businesses have demonstrated extraordinary growth across Europe. Recent market research shows Temu's sales growth in major European markets exceeding 60% year-on-year in 2025, with France approaching 100% growth, while Shein continues to gain market share across the continent.

The scale of these businesses is staggering. PDD Holdings, Temu's parent company, has become one of the world's largest e-commerce players, while Shein has emerged as one of the dominant online fashion retailers across Europe.

Traditional retailers can no longer compete purely on price. Chinese e-commerce platforms benefit from enormous scale, highly efficient sourcing networks and aggressive pricing strategies.

This is where Inditex differentiates itself. Rather than trying to be the cheapest retailer, Inditex competes on speed, fashion relevance and customer experience. A customer may wait several days or weeks for a cross-border purchase from an online marketplace, but Zara's model allows customers to see the latest trends almost immediately, both online and in-store. In other words, speed to shelf has become just as important as price. The retailer that can rapidly identify a trend, manufacture product and place it in front of customers before competitors arrive stands the best chance of preserving both market share and profitability.

Moving Upmarket Without Losing Relevance

Another reason investors continue to reward Inditex is the company's success in positioning Zara slightly above traditional fast fashion. Zara has steadily moved toward a more premium image through collaborations, elevated store formats and stronger brand positioning. The objective is not to become a luxury retailer, but to occupy the attractive space between budget fashion and luxury brands. This creates an important advantage. A stronger brand allows a retailer to maintain pricing power during difficult trading conditions. Customers become less price-sensitive when they perceive a product as fashionable, desirable or exclusive.

Combined with its highly efficient supply chain, this positioning helps Inditex generate gross margins approaching 60%, among the highest in global apparel retail. Technology also plays an increasingly important role. Radio-frequency identification or "soft tag technology" inventory tracking, integrated online and store fulfilment capabilities, AI-powered shopping tools and advanced logistics systems allow the company to operate a genuinely omnichannel ecosystem that rivals struggle to replicate.



Shein may have the economies of scale and China's massive market behind it, but increasingly, it can't compete with the likes of Inditex purely on price.

Comparing Inditex with Mr Price

A comparison between Inditex and Mr Price highlights why global investors are willing to assign a premium valuation to the Spanish retailer. Inditex currently generates gross margins of approximately 58% compared with roughly 44% for Mr Price. While some of this difference reflects product positioning, it is also a direct outcome of superior supply chain flexibility and greater pricing power.

However, it is important to recognise that this comparison is not entirely like-for-like. To be fair, comparing Inditex to Mr Price is somewhat like comparing a heavyweight to a middleweight. With a market capitalisation of roughly €163 billion versus €2.3 billion for Mr Price, the two businesses operate on vastly different scales.

Inditex runs from a position of financial strength, holding a substantial net cash balance and funding expansion largely through internally generated cash flows. Mr Price, by contrast, has recently utilised debt to support the acquisition of German apparel retailer NKD and its expansion initiatives into the European market. In addition, Mr Price operates in a

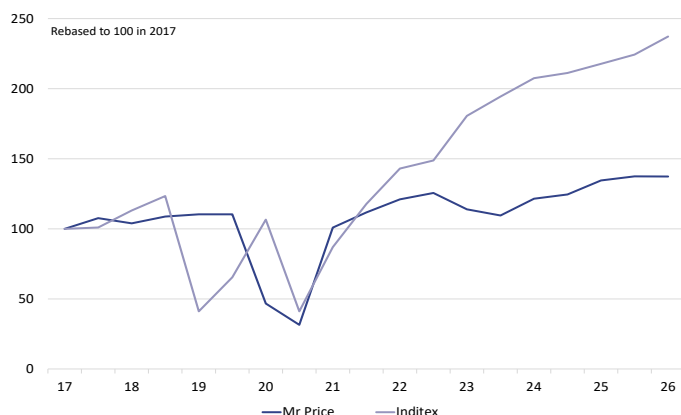
far more challenging macroeconomic environment. South African retailers have spent years navigating electricity shortages, logistics bottlenecks, currency volatility, weak consumer confidence, and higher interest rates. These challenges increase operating risk and justify part of the valuation gap between the two businesses. Yet they also highlight Mr Price's resilience.

Despite these headwinds, the company continues to generate attractive returns, maintain healthy margins within its value-focused positioning and deliver solid cash generation. The

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fact that South African retailers remain profitable despite operating in such a demanding environment speaks to the quality of their management teams and business models.

GROWING DIVIDENDS THROUGH GROWING EARNINGS



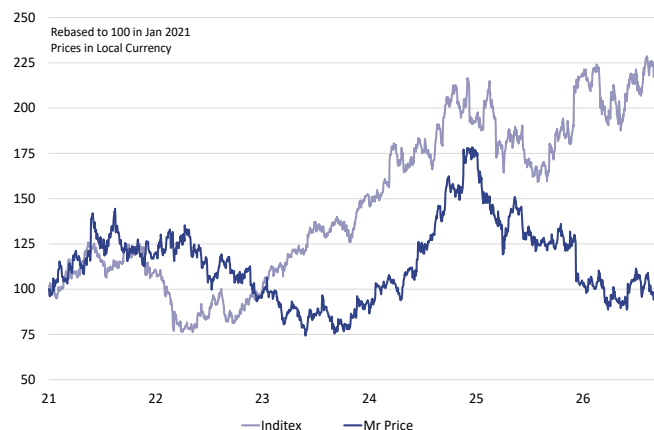
Rebased to 2017, Inditex's dividend per share growth has materially outperformed over the period. This superior dividend growth has been driven by exceptional earnings growth, rather than a more generous payout policy, as both companies have consistently distributed approximately 60% to 63% of earnings per share as dividends.

The investment case for Inditex is ultimately about much more than fashion. Inditex's success highlights an important investing principle: exceptional businesses rarely compete on a single factor. While competitors can replicate products, marketing campaigns or pricing strategies, it is far more difficult to replicate a business model built on decades of

operational know-how, disciplined capital allocation and continuous execution.

For investors, the takeaway is clear: the most durable retail businesses are often those that combine brand strength with operational excellence. Inditex remains a compelling example of how scale, execution and financial discipline can compound shareholder value over the long term.

RELATIVE SHARE PRICE PERFORMANCE



The market's preference for Inditex is evident in the relative share price performance. Investors continue to reward the group's superior margins, global diversification and industry-leading supply chain capabilities. However, the valuation gap should also be viewed through the lens of risk. Mr Price operates in a significantly more challenging environment, where infrastructure constraints, consumer pressure and sovereign risk are daily realities. Rather than diminishing Mr Price's achievements, this context arguably highlights the resilience of the South African retailer.



ZARA's speed to market is a competitive asset, allowing consumers to see trends quickly.



Our next seminar series will be held in November, when we traditionally review the past year and cast our eyes forward to the new year. We will do some with some trepidation, as we try to unpack whether 2027 will bring clam or chaos.



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Topic:

Outlook for 2027 – a more normal year?

Natal Midlands

Date:	3rd of December, 2026
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	24th of November, 2026
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	26th of November, 2026
Venue:	J&J Belmont Square, Belmont Road, Rondebosch
Time:	7.30am
Venue:	Helderberg Village Lifestyle Estate, 63 Bakkerskloof Rd, Helderberg Village, Cape Town
Time:	5.30pm for 6pm



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