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Monnari – Retailer Posts In-Line 2017 Q4 Results

Rating: overweight | current price: PLN 9.41

MON PW; MONP.WA | Retail, Poland

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Monnari reported 2017 Q4 EBIT and EBITDA figures in line with market expectations, with net profit registering a 40% beat thanks to a one-time upward value adjustment to the tune of PLN 7.5m on an investment property. Relative to our forecasts, the quarterly operating profits showed a miss of ca. 10% after higher-than-expected one-time charges.

Monnari experienced 6.2% y/y contraction in per-square-meter sales in Q4 2017, but at the same time it reduced per-sqm inventory by 29.8% from the year-ago level, most likely by optimizing in-store stocking levels during the 2017 autumn/winter season.

By shifting focus to profitability, supported by low dollar costs of merchandise thanks to a favorable USDPLN exchange rate, Monnari grew the Q4 2017

sales margin by 3.8ppt y/y to 60.8%. With per-sqm SG&A cut by 6.5% y/y thanks to tight cost discipline, the EBITDA margin posted year-over-year growth of 2.9ppt to 20.8%. Adjusted for a PLN 7.5m one-time property gain, the quarterly pre-tax profit was up 11% y/y to PLN 13.7m.

Operating cash flow in Q4 2017 amounted to PLN 27.8m vs. PLN 32m in Q4 2016.

We expect Monnari to continue to report expanding profit margins in the first half of 2018, supported by rigorous cost management and low dollar costs of the 2018 spring-summer fashion lines with the dollar still low versus the zloty at the time of purchase. Accordingly, we remain bullish on MON stock, with a reiterated overweight rating.

Q4 2017 actuals vs. expectations

| (PLN m) | Q4'17 | Q4'16 | change | Q4'17E | differ. | consensus | differ. | 2017 | 2016 | change |
|----------------|-------|-------|--------|--------|---------|-----------|----------|-------|-------|----------|
| Revenue | 77.8 | 75.3 | 3.3% | 82.8 | -6.1% | 78.8 | -1.3% | 247.4 | 231.8 | 6.8% |
| EBITDA | 16.1 | 13.5 | 19.6% | 17.7 | -8.8% | 16.0 | 0.9% | 25.8 | 25.4 | 1.5% |
| EBITDA margin | 20.8% | 17.9% | - | 18.8% | - | 20.3% | 0.5 p.p. | 10.4% | 10.9% | -0.5p.p. |
| EBIT | 15.0 | 12.1 | 23.7% | 16.9 | -11.2% | 14.9 | 0.7% | 21.2 | 21.3 | -0.7% |
| Pre-tax profit | 21.2 | 26.4 | -19.9% | 16.9 | - | - | - | 27.0 | 38.4 | -29.7% |
| Net profit | 17.2 | 23.9 | -28.0% | 14.1 | - | 12.3 | 40.0% | 21.8 | 35.5 | -38.8% |

Source: Monnari, E - estimates by Dom Maklerski mBanku; Consensus estimates provided by PAP

List of abbreviations and ratios contained in the report.

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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