

Thursday, April 26, 2018 | special comment

## Jeronimo Martins – 2018 Q1 Results Match Expectations

Rating: accumulate | target price: EUR 16.40 | current price: EUR 14.34

**JMT.PL; JMT.LS | Retail, Portugal**

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**The 2018 first-quarter financials of Jeronimo Martins fulfilled expectations, with positive like-for-like growth achieved across all operating segments. This helped to mitigate the cost pressures experienced in Poland, reflected in a stable EBITDA margin, as well as curbing profit falls in Portugal. We expect a rebound in JMT stock today on the solid profits after the falls logged over the recent months.**

First-quarter **revenue** posted a y/y increase of 14.2% to EUR 4,200m. Supported by the Easter effect, like-for-like sales in Poland increased 8.6%, and in Portugal Pingo Doce reported positive lfl growth of 5.8% and Recheio grew same-store sales by 3.6%.

The **gross profit margin** widened by 0.23pp year over year to 21.38% thanks to a better sales mix.

The **SG&A/Sales** ratio edged up by 0.3pp to 18.36% after pay rises in Poland and Portugal, combined with expenses on development of Ara stores in Colombia.

The **EBITDA margin** narrowed by 0.18pp to 5% as flat growth to 6.8% in Poland was offset by a 0.5pp decline in Portugal due to higher payroll costs.

Segmental **EBITDA** was up 15.7% y/y at EUR 198m in Poland, but in Portugal it decreased 3.5% to EUR 49m. The first-quarter EBITDA loss generated by Ara in Columbia and the Polish drugstore chain Hebe expanded to EUR 24m from EUR 23m in Q1 2017.

On a higher profit and lower tax, the 2018 Q1 **operating cash flow** came out strong at EUR 184m vs. EUR 129m in Q1 2017. FCF for the quarter amounted to EUR -83m vs. EUR -200m a year ago.

### 2018 Q1 actuals vs. expectations

(EUR m)	Q1'18	Q1'17	change	Q1'18E	differ.	Consensus (median)	differ.	2018E	2017	change
Revenue	4,200.0	3,678.7	14.2%	4,089.7	2.7%	4,140.0	1.4%	17,972.3	16,276.0	10.4%
EBITDA	211.5	192.0	10.2%	213.2	-0.8%	212.5	-0.5%	1,049.6	920.5	14.0%
EBITDA margin	5.0%	5.2%	-0.18p.p.	5.2%	0.2p.p.	5.1%	-0.1p.p.	5.8%	5.7%	0.2p.p.
EBIT	124.0	112.2	10.6%	125.6	-1.3%	122.8	1.0%	673.8	577.0	16.8%
Pre-tax income	119.0	112.1	6.1%	122.6	-2.9%	120.0	-0.8%	673.7	565.0	19.2%
Net income	85.0	77.6	9.6%	85.1	-0.1%	82.4	3.2%	465.3	386.0	20.6%

Source: Jeronimo Martins, 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  
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**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**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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