



Thursday, May 17, 2018 | special comment

TXM – Profits Flat in Q1 2018

Rating: buy | target price: PLN 5.44 | current price: PLN 2.00

TXM PW; TXM.WA | Retail, Poland

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TXM reported lower-than-expected earnings figures for the first quarter of 2018, but this does not change our overall bullish view on the Company. The slow sales in the period were due to cold weather, and the sales margin increased from the year-ago comparable level thanks to measures taken by the management, which also resulted in a decrease in per-square-meter SG&A expenses for the first time since Q4 2015. EBIT was flat on flat sales, but both are set to improve in the second quarter. With the weak financials already priced in, we see upside potential in TXM as its profits gather momentum in the coming months.

Sales **revenue** showed a 1.3% rise year on year to PLN 73.4m, with revenue per square meter down 2.6% at PLN 376.

The **gross profit margin** expanded by 0.7pp to 39.1%.

Streamlining efforts reduced **per-sqm SG&A** by 2.6% y/y to PLN 130.6 in spite of higher marketing expenses. We expect further declines in costs in the future.

Other operating activity produced a one-time gain of PLN 0.1m in Q1 2018 vs. PLN 0.3m in Q1 2017.

Operating cash flow was PLN -16.8m vs. PLN -19.2m a year ago. Inventory per square meter was reduced by 4.1% y/y to PLN 310.

Q1 2018 actuals vs. expectations

(PLN m)	Q1'18	Q1'17	change	Q1'18E	differ.	2018E	2017	change
Revenue	73.4	72.4	1.3%	73.0	0.5%	463.0	388.1	19.3%
EBITDA	-10.5	-10.7	-	-9.0	-	15.8	-24.5	-
EBITDA margin	-14.3%	-14.8%	-	-12.3%	-	3.4%	-6.3%	-
EBIT	-12.9	-12.9	-	-11.9	-	8.6	-30.5	-
Pre-tax profit	-13.0	-13.4	-	-12.3	-	7.4	-34.3	-
Net profit	-13.0	-11.4	-	-10.3	-	6.0	-36.2	-

Source: TXM, E - estimates by Dom Maklerski mBanku

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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