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Monnari – Retailer Tops Expectations in Q1 2018

Rating: overweight | current price: PLN 6.54

MON PW; MONP.WA | Retail, Poland

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Monnari generated better-than-expected financial results in Q1 2018, reporting a positive EBITDA figure contrary to expectations of an operating loss, alongside lower-than-forecast EBIT and net losses. The positive surprise relative to our expectations was owed to a 3pp higher gross margin which at 54.5% showed a year-over-year rebound of 6.5pp, fueled by lower merchandise costs combined with a more profit-driven sales policy which should allow for further expansion in Q2. Operating cash flow remained negative in Q1 2018, increasing to PLN -22.5m from PLN -9.4m a year ago on the back of a higher inventory, coupled with lower payables. We expect MON stock to rebound today after the recent pullback on the better-than-expected Q1 results.

- Monnari reported a 10.2% y/y drop to PLN 48.4m in the **sales** revenue for Q1 2018, and after a 5% expansion in the sales area this would imply 14.9% contraction in the quarterly sales per square meter, underpinned by cold weather and a shift in the sales strategy toward maximizing profitability.
- The **gross profit margin** grew by 6.5pp to 54.5% in Q1, supported by improved terms of merchandise purchases (favorable USDPLN, shorter payment terms) and a more effective sales policy.
- **SG&A expenses** amounted to PLN 28.1m in Q1 after rising 3.5% year over year, but thanks to successful rent negotiations the quarterly costs per square meter were reduced by 1.9%.
- **Operating cash flow** remained negative in Q1 2018, increasing to PLN -22.5m from PLN -9.4m a year ago on the back of higher inventory coupled with lower payables.

Q1 2018 actuals vs. expectations

(PLN m)	Q1'18	Q1'17	change	Q1'18E	differ.	consensus	differ.	2018E	2017	change
Revenue	48.4	53.9	-10.2%	48.6	-0.4%	48.2	0.5%	279.4	247.4	12.9%
EBITDA	0.1	0.0	-	-1.7	-	-1.5	-	32.9	25.8	27.7%
EBITDA margin	0.2%	-0.1%	-	-3.5%		-3.1%		11.8%	10.4%	1.4p.p.
EBIT	-1.0	-1.2	-	-2.9	-	-2.7	-	29.3	21.2	38.3%
Pre-tax profit	-0.7	-0.6	-	-3.0	-	-	-	29.3	27.0	8.4%
Net profit	-0.9	-0.6	-	-3.0	-	-2.1	-	24.3	21.8	11.5%

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

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NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
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