

Friday, August 24, 2018 | periodic publication

## Monthly Retail Insight: August 2018

### Retail, Poland

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### Clothing & Footwear Retailers

- Sales results from July 2018:** July being the month of clearance pricing has little bearing on annual profits. **We assess** the results published by BTM (improved LFL sales and return on sales YoY), **VST** (increased sales in jewellery channel YoY) as **positive**. **We assess** the results published by **CCC** (a big rise in sales YoY mainly due to the consolidation of Voegele; drop in sales per square metre YoY in the brick-and-mortar chain of CCC mainly due to a high-base effect) as **neutral**. **We assess** the results of **MON** (drop in sales YoY and a stabilised base) and **TXM** (high drop in sales YoY, partially attributable to the base effect) as **negative**.
- Q2 2018:** Initial sales results were published by **CCC** (clean EBITDA remained flat YoY, very good operating cash flows) and **LLP** (EBIT improved by 49% YoY, LFL sales continue to improve). We expect better results in Q2 2018 YoY in **BTM** (improvement in LFL sales, expected EBITDA +20% YoY) and **MON** (+6% EBITDA, mainly due to increased return on sales and more effective cost discipline), similar results YoY in **VST** (expected temporary increase in marketing costs) and drop in **TXM** results (drop in sales YoY and cost pressure).
- Outlook for the following months:** We expect that the **positive trend** in LFL sales and return on sales will continue in **LPP**, **VST** and **BTM**. A **high base effect** in **CCC** (sales +43% YoY in August 2017) should be noted. At the same time, the consolidation of Voegele's results will impact on the sales growth in **CCC** YoY (as in July 2018). We expect weak sales results in **MON** (+13% YoY in July 2018). This negative trend in **TXM's** sales should slow down YoY.
- Purchase of Simple CP by MON:** Simple CP was bought for PLN 31.9 million (assuming net debt at PLN 19.9 million), which is below the initially defined price range of PLN 46-50.5 million. **In our opinion, the acquisition will negatively impact on MON's results in the short term, and it will take some time before Simple CP improves its performance.**
- The merger of VST and BTM: the Office of Competition and Consumer Protection (UOKiK) grants its approval. The swap parity of BTM's share to VST's share as at 23 August 2018 totalled 0.68x, 6.3% below the midpoint set at 0.72x.** The parity has gone up by 14.6% since the last monthly financial statement. At present both companies are waiting for the approval of the information memorandum by the KNF and shareholders' consent to the merger (3/4 majority of votes for VST and 2/3 majority of votes for BTM). **In our opinion, BTM demonstrates higher growth potential, and the merger alone should positively affect the prices of the companies' shares in the mid term.**
- TXM acquired PLN 31.9 million from the issue of shares/bonds, above the expected minimum amount of PLN 25 million (assumed minimum exposure of the main shareholders). Increasing the company's working capital with the funds from the issue should translate into a substantial improvement of sales and company's net income from the sales of the autumn-winter collection.**
- The P/E 12M FWD index for commercial companies approached a standard deviation from the 3-year average value of the ratio since the publication of the last report (an increase from the 5-year average value reported in July 2018).**
- TOP PICKS: OVERWEIGHT** – CCC, LPP, VST, BTM

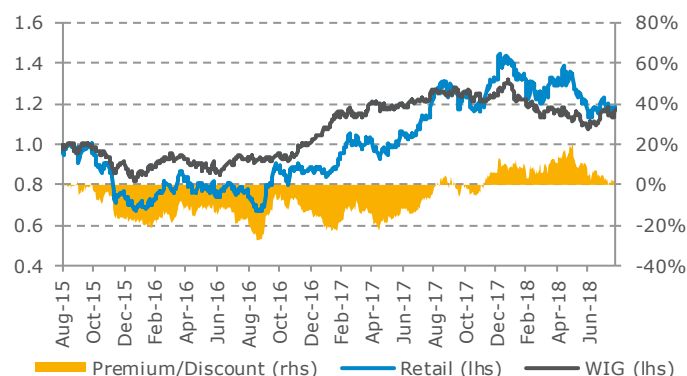
### Performance

Poland	1M*	YTD
Bytom	+12.6%	+11%
CCC	+7.4%	-23%
Redan	+4.1%	-6%
Monnari	+1.8%	-19%
LPP	-0.9%	+1%
Vistula	-3.4%	-2%
Wojas	-6.5%	+5%
Gino Rossi	-7.7%	-45%
TextilMarket	-8.5%	-38%
Próchnik	-60.0%	-96%
WIG-clothing	+1.7%	-9%
WIG	+6.0%	-6%
World	1M*	YTD
Crocs	+22.5%	+64%
Caleres	+17.0%	+15%
Adidas	+14.4%	+29%
Nike	+7.2%	+33%
IC Group	+3.2%	+12%
FootLocker	+2.5%	+13%
YOOX	+0.0%	+30%
ABC Mart	-2.3%	-7%
Marks & Spen	-2.5%	+1%
Inditex	-3.8%	-2%
Geox	-4.7%	-21%
KappAhl	-4.9%	-11%
Gerry Weber	-5.3%	-48%
Zalando	-5.8%	+4%
H&M	-7.0%	-23%
Hugo Boss	-8.5%	+3%
Next	-10.2%	+23%
Boohoo.com	-15.1%	-9%
EU Textiles**	+2.2%	+15%
World Txt.**	+3.8%	+19%
World Ind	1M*	YTD
EMEA Text.	-1.0%	-11%
World Text.	-4.3%	-25%
MSCI EM	-2.1%	-10%
EU Equity	-1.3%	-5%

\*Jul. 12 - Aug. 23

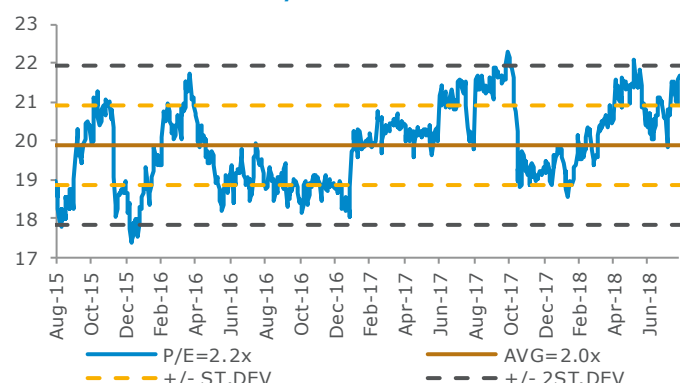
\*\*MSCI EU/World Textiles

### Retail Stocks vs. WIG Index



Source: Bloomberg, Dom Maklerski mBanku

### Median 12M Forward P/E for Retail Stocks



# 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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**HOLD** – we expect that the rate of return from an investment will range from –5% to +5%  
**REDUCE** – we expect that the rate of return from an investment will range from –5% to –15%  
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**DCF** – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**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.

mBank issued the following investment recommendations for the companies in the 12 months prior to this publication

#### Bytom

Rating	overweight	overweight	neutral	overweight
Rating date	2018-05-23	2017-11-28	2017-09-13	2017-08-25
Target price (PLN)	-	-	-	-
Price on rating day	2.92	2.50	2.67	2.37

#### CCC

Rating	buy	accumulate	buy	buy	hold	hold	buy	accumulate	accumulate
Rating date	2018-06-06	2018-05-09	2018-04-06	2018-03-05	2018-02-02	2018-01-05	2017-12-01	2017-10-02	2017-09-01
Target price (PLN)	295.00	295.00	295.00	286.00	295.00	292.00	292.00	308.00	294.00
Price on rating day	242.80	255.60	257.40	243.00	281.00	293.00	239.85	276.00	262.20

#### Gino Rossi

Rating	suspended	neutral	overweight
Rating date	2018-05-23	2017-11-28	2017-08-25
Target price (PLN)	-	-	-
Price on rating day	0.63	1.29	1.78

#### LPP

Rating	accumulate	hold	accumulate	accumulate	hold	hold	hold	hold	hold
Rating date	2018-06-18	2018-05-09	2018-04-06	2018-03-05	2018-02-02	2018-01-05	2017-12-01	2017-10-02	2017-09-01
Target price (PLN)	10200.00	9500.00	9500.00	9500.00	9400.00	9900.00	8200.00	8400.00	8800.00
Price on rating day	9,025.00	9,260.00	8,900.00	8,620.00	9,790.00	9,990.00	8,173.95	8,172.05	8,696.65

#### Monnari

Rating	neutral	overweight	overweight	overweight	neutral
Rating date	2018-07-13	2018-05-23	2017-11-28	2017-09-13	2017-08-25
Target price (PLN)	-	-	-	-	-
Price on rating day	6.60	7.19	8.21	8.93	7.89

#### TXM

Rating	buy	buy	buy	buy	buy	buy
Rating date	2018-07-04	2018-05-09	2018-02-02	2017-12-01	2017-11-03	2017-09-01
Target price (PLN)	3.48	5.44	5.41	5.74	5.77	6.10
Price on rating day	1.28	2.10	2.36	2.02	1.99	2.97

#### Vistula

Rating	overweight	neutral	overweight	neutral	overweight	overweight
Rating date	2018-05-23	2018-02-02	2018-01-19	2017-12-13	2017-11-28	2017-08-25
Target price (PLN)	-	-	-	-	-	-
Price on rating day	4.79	5.16	4.34	4.36	3.88	3.26

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