Tuesday, August 28, 2018 | special comment

Monnari – Retailer Posts Lackluster 2018 Q2 Results

Rating: neutral | current price: PLN 6.93

MON PW; MONP.WA | Retail, Poland

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- **Monnari's higher-than-expected Q2 2018 financials were owed largely to a one-time gain of PLN 0.5m generated from other operating activity.**
- Sales revenue for the quarter was down 0.7% y/y to PLN 61.1m, and with the store area in the period expanded by 4.4%, this implies 3.6% contraction to PLN 619 in revenue per square meter, resulting in an **8% rise to PLN 1,497 in per-sqm inventory.**
- The gross profit margin in Q2 posted an increase of 3.7pp to 60.9% driven by low costs of fashion collections, underpinned by positive base effects.
- SG&A expenses as a percentage of sales were up by 2.5pp at 49.3%, but SG&A per square meter decreased 0.2% y/y to PLN 299, and with a higher sales margin this brought the quarterly EBITDA margin 2pp higher than in the comparable year-ago period at 14.3%.
- Operating cash flow in Q2 2018 amounted to PLN 10.6m after a drop from the year-ago OCF of PLN 19.4m, led by a PLN 6.7m increase in receivables.
- **We have a neutral view on Monnari's 2018 Q2 performance, with the higher-than-expected profits achieved thanks to a one-time boost. In future quarters, Monnari faces higher costs related to post-merger integration after the upcoming acquisition of the women's fashion retailer Simple CP. This, combined with less favorable base effects and flat growth in revenues per square meter, indicates weaker quarterly profits going forward. Monnari achieved 31% of our 2018 FY EBITDA forecast and 25% of the net profit target in the first half of the year - results consistent with seasonal patterns.**

2018 Q2 actuals vs. expectations

(PLN m)	Q2'18	Q2'17	change	Q2'18E	differ.	consensus (median)	differ.	2018E	2017	change
Revenue	61.1	61.5	-0.7%	62.1	-1.7%	61.2	-0.2%	247.8	247.4	0.1%
EBITDA	8.7	7.6	15.1%	8.0	9.3%	8.1	7.9%	28.7	25.8	11.4%
EBITDA margin	14.3%	12.3%	2pp	12.9%		13.2%	1.1pp	11.8%	10.4%	1.4pp
EBIT	7.6	6.5	17.9%	7.0	9.2%	7.0	9.2%	24.4	21.2	15.3%
Pre-tax profit	8.1	5.5	48.1%	7.0	15.4%	-	-	24.7	27.0	-8.5%
Net profit	6.0	4.5	32.6%	5.8	3.3%	5.8	3.3%	20.1	21.8	-7.6%

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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