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Monnari – Retailer Posts Weak 2018 Q3 Results

Rating: neutral | current price: PLN 4.73

MON PW; MONP.WA | Retail, Poland

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- Monnari's 2018 Q3 **EBIT and EBITDA losses came in line with market expectations**, but turned out lower than anticipated by us, owing to a **stronger-than-expected sales margin** (56% vs. 54.2%) and a **one-time gain** of PLN 0.4m from other operating activity.
- **Total revenue** for the quarter was down 6.1% from the year-ago period at PLN 50.9m, and on a 4.5% larger sales area the unit revenue per square meter was down an estimated 10% at PLN 502. Consequently, **the per-sqm ending inventory posted a 36% surge to the highest level in history** at PLN 2,194.
- The gross margin showed a y/y rebound of 3.3pp at 56.1%, supported by reduced merchandise costs and favorable base effects.
- SG&A expenses as a percentage of sales were up by 8.2pp at 58.6%, and SG&A per square meter decreased 4.4% y/y to PLN 298, but with much lower unit revenue the quarterly EBITDA margin showed a y/y fall by 4.4pp to -0.6%.
- Operating cash flow was negative at PLN -25.6m in Q3’18 vs. PLN -3.7m in Q3 2017, a result of a PLN 24m inventory boost.
- **Even though the third-quarter operating losses turned out lower than we had forecast, we are disappointed with Monnari's third-quarter performance, especially the weak cash flow and the record-high inventory level. The Company did improve the sales margin in the period, but this was due mainly to weaker sales per square meter. Monnari will probably mark the leftover merchandise heavily down in the coming months in order to shift it, and with per-sqm SG&A on the rise this is bound to put a squeeze on the future profits.**

2018 Q3 actuals vs. expectations

(PLN m)	Q3’18	Q3’17	YoY pct. change	YoY nominal change	Q3'18E	differ.	consensus (median)	2018E	2017	change
Revenue	50.9	54.2	-6.1%	0.4	49.9	2.0%	50.5	247.8	247.4	0.1%
EBITDA	-0.3	2.0	-115.0%	-0.1	-1.1	72.2%	-0.2	28.7	25.8	11.4%
EBITDA margin	-0.6%	3.8%	-4.4pp	-0.2pp	-2.2%		-0.4%	11.8%	10.4%	1.4pp
EBIT	-1.3	0.9	-244.8%	0.0	-2.2	39.9%	-1.3	24.4	21.2	15.3%
Pre-tax income	-1.7	1.0	-268.8%	-	-2.2	22.4%	-	24.7	27.0	-8.5%
Net income	-1.7	0.7	-367.8%	-0.9	-1.8	2.8%	-0.8	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

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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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