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# Bytom – 2018 Q3 Figures Narrowly Miss Estimates

Rating: overweight | current price: PLN 2.71

**BTM PW; BTM.WA | Retail, Poland**

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- Bytom reported worse-than-expected 2018 Q3 financials after SG&A expenses exceeded the expected amount by PLN 0.1m, coupled with a PLN 0.2m lower-than-forecast one-time loss on other operating activity and a PLN 0.2m higher gain from financing activity.
- At PLN 46.4m, the quarterly revenue showed a rebound of 9.7% from the same period last year, and it exceeded the sum of the monthly sales reported during the period (PLN 45.5m). With the sales area expanded by 13.7% to 15,000 square meters, this implies a 2.6% year-on-year drop to PLN 1,042 in the average sales per square meter for the quarter.
- The gross margin increased by 2.4pp to 51.6% in Q3, led probably by improved trade terms and lower marketing expenses.
- SG&A expenses jumped 19.5% y/y to PLN 22.1m, rising faster than sales and showing acceleration compared to the previous quarters. Consequently, SG&A/sqm were up 6.2% y/y at PLN 497, a result mainly of rising pay pressures.
- Financing activity produced a loss of PLN 0.2m in Q3'18 vs. PLN 0.4m incurred in Q3'17. Tax for the quarter amounted to PLN 0.4m vs. PLN 0.1m in the year-ago period.
- Operating cash flow increased to PLN 4.7m in Q3 from PLN 1.4m last year, driven by a surge in accounts payable beyond the corresponding rise in inventories. The ending per-square-meter inventory at 30 September was 33% higher than in September 2017 at PLN 7,300, a high level which might generate a need to mark prices down more heavily than normal during winter clearance sales.

**In absolute terms, the 2018 Q3 EBITDA shortfall relative to consensus is low at just about PLN 0.4m, with the net profit miss even less pronounced at PLN 0.1m. Bytom might have to cut prices significantly during winter clearance season looking at the inventory left over at the end of September, however with fourth-quarter seasonality we are fairly confident the Company can achieve our FY2018 forecasts (YTD revenue and EBITDA figures are equivalent to 71% and 61%, respectively, of our targets). With all that said, the single biggest factor that shapes BTM performance at the moment is its upcoming merger with Vistula.**

**2018 Q3 actuals vs. expectations**

| (PLN m) | Q3'18 | Q3'17 | change | Q3'18E | differ. | Consensus (median) | differ. | 2018E | 2017 | YTD/ 2018E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 46.4 | 42.3 | 9.7% | 46.2 | 0.6% | 46.3 | 0.3% | 204.7 | 185.6 | 71.0% |
| EBITDA | 3.3 | 3.8 | -12.4% | 3.4 | -3.9% | 3.7 | -10.6% | 21.6 | 19.3 | 60.6% |
| margin | 7.1% | 8.9% | -1.8 p.p. | 7.5% | | 8.0% | -0.9 p.p. | 11.8% | 10.4% | |
| EBIT | 1.8 | 2.5 | -25.7% | 2.0 | -8.2% | 2.3 | -19.8% | 15.9 | 14.2 | 55.0% |
| Pre-tax income | 2.0 | 2.1 | -2.4% | 1.8 | 11.4% | - | - | 13.8 | 14.5 | 53.1% |
| Net income | 1.6 | 2.0 | -18.1% | 1.5 | 6.1% | 1.7 | -5.8% | 11.2 | 11.1 | 52.8% |

Source: Bytom, 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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