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# VRG – Menswear Brand Posts Small 2019 Q2 Beat

Rating: buy | current price: PLN 4.30 | target price: PLN 5.20

**VST PW; VSTP.WA | Retail, Poland**

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- VRG **exceeded market expectations slightly** with the **reported 2019 Q2 EBITDA and net profit results**, but **narrowly missed our forecasts** due to higher-than-expected one-time costs and SG&A expenses.
- The quarterly sales revenue was up 40.1% year over year at PLN 270.2m. **Revenue per square meter declined at most fashion stores** except those operating under 'Wólczanka' and 'Deni Cler' labels, but it grew 4.7% at the W.Kruk jewelry stores.
- **Gross margin expanded by 1.4pp to 53.5% in Q2'19**, driven by improvement in the fashion segment (+0.9pp) as well as the jewelry segment (+2pp), where sales margins were boosted by a higher share in sales of silver pieces.
- Total quarterly SG&A expenses showed a 43% y/y surge at PLN 115.5m, however **SG&A per square meter were down 10% on the year,** owing to the consolidation of the more cost-efficient acquisition, Bytom.
- EBIT before IFRS 16 effects increased 49.7% to PLN 28.7m, driven by a **71% rebound to PLN 18.7m in the fashion segment** and a 22% increase in to PLN 10m in the operating profit of the jewelry segment.
- **Operating cash flow ex. IFRS 16 amounted to PLN 27.5m in Q2 2019** vs. PLN 21.4m in Q2 2018, rising on higher earnings, lower advances, and increasing use of reverse factoring. Inventory as of 30 June was 2.7% higher per square meter than in June 2018 at PLN 9,501.
- **Summing up, on an ex-IFRS 1t6 basis, VRG delivered 2019 Q2 results consistent with analysts' expectations. The synergy-driven improvement in sales margins observed in the period is likely to continue boosting profits in the quarters ahead, and rising prices of gold and silver bode well for the near -term profits of VRG's jewelry stores, potentially driving the FY2019 sales margin above the current target.**

**2019 Q2 actuals vs. expectations**

| (PLN m) | Q2'19 (ex IFRS16) | Q2'18 | change | Q2'19 (IFRS16) | Q2'19E | differ. | consensus (median) | differ. | 2019E | 2018 | change |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 270.2 | 192.9 | 40.1% | 270.2 | 269.0 | 0.5% | 270.0 | 0.1% | 1,035.3 | 805.7 | 28.5% |
| EBITDA | 34.8 | 23.6 | 47.7% | 99.1 | 37.9 | -8.2% | 33.9 | 2.7% | 123.7 | 89.3 | 38.6% |
| margin | 12.9% | 12.2% | 0.66pp | 36.7% | 12.0% | 0.9pp | 12.6% | 0.3pp | 11.9% | 11.1% | 0.87pp |
| EBIT | 28.7 | 19.2 | 49.7% | 28.6 | 31.8 | -9.7% | 29.0 | | 101.4 | 71.9 | 41.0% |
| Pre-tax income | 27.4 | 17.6 | 55.4% | 29.3 | 29.0 | -5.6% | - | - | 90.2 | 65.7 | 37.2% |
| Net income | 22.0 | 14.1 | 56.0% | 23.9 | 23.5 | -6.4% | 21.2 | 3.8% | 73.9 | 53.6 | 37.9% |

Source: VRG. 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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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.

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