

Monday, April 19, 2021 | special comment

VRG: 2020 Q4 Earnings Conference Highlights

Rating: buy | target price: PLN 3.14 | current price: PLN 3.00

VRG PW; VRGP.WA | Retail, Poland

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- 2020 Q1 sales suffered under lockdown conditions but on the upside costs for the quarter were lower than in Q1 2020 with lower payroll and thanks to positive effects of earlier savings measures.
- VRG is aiming to restore its inventory cycle to the 2019 level of 373 days in 2021.
- The Company continues to optimize working capital 2021 by optimizing inventory and receivables combined with extension of payables terms and greater utilization of supply chain financing (PLN 28.3m in Q4'20 vs. PLN 24.9m in Q3'20). Net debt as a ratio of IAS 17 EBITDA was 2.3x as of 31 December 2020 vs. 0.8x the year before (VRG adds reverse factoring to debt).
- Online sales as a percentage of total sales grew to 24.3% in 2020 from 14.5% in 2019, which means they fell short of the 30% target. Of this, the Wólczanka label has the biggest share of online orders at 57.9% in Q4'20 vs. 37.6% in Q4'19, and the Bytom label registered the fastest growth in Web orders to 36.4% from 14.7%.
- VRG has struck deals to sell Vistula clothing on the Modivo platform, and to offer Deni Cler apparel on Zalando, while maintaining control over pricing and shipping. Both platforms are available to shoppers outside of Poland. If successful, VRG will consider listing more of its labels on there.
- VRG hopes that nonessential mall stores will be allowed to reopen in May and stay open for the rest of the year.
- VRG estimates its ytd burden under the new retail tax regime at PLN 250,000.
- VRG is not going to increase its total trading area in 2021; the plan is to grow jewelry stores by 7% and reduce the floor area of clothing stores by 2%. Capital expenditures in 2021 will approximate PLN 18m after PLN 1m for IT added to the initial CAPEX guidance.
- **VRG is set to deliver year-over-year improvement in sales and margins in Q1 2021 and subsequent months thanks to positive base effects. After achieving positive IAS 17 EBITDA in 2020, and with optimized working capital, we see better earnings and cash flow ahead in 2021.**

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%
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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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