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VRG: 2020 Q4 Final Results Fulfill Expectations

Rating: buy | target price: PLN 3.14 | current price: PLN 2.95

VRG PW; VRGP.WA | Retail, Poland

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- **VRG reported final results for Q4 2020 consistent with its own earlier estimates and with our initial forecasts**.
- Total revenue in Q4 2020 decreased by 30.2% y/y to PLN 232.0m, and **revenue per square meter fell 23%** to PLN 1,459 on a sales area of 53,000 square meters (-2% y/y). By segment, fashion stores suffered substantial revenue losses for the quarter (Vistula -47.1% y/y, Bytom -39.4%, Wólczanka -30.2%, Deni Cler -31.9%), and the pace of contraction for jewelry stores was less severe at -10.9% y/y.
- **Gross margin** came in at 51.2% after a y/y **decrease** of 2.5p.p., with flat growth achieved by the jewelry business while the sales margins on clothing dropped, driven in a large part by the Bytom and Wólczanka labels.
- VRG reduced operating costs by 8% y/y to PLN 121.9m, and it **cut per-square-meter SG&A** expenses by 5% from the same period a year earlier.
- As a result, the fashion segment registered an IAS 17 operating loss of PLN 8.6m (vs. +PLN 26.6m in 4Q'19), and the jewelry segment achieved positive EBIT of PLN 19.4m (-8% y/y).
- As we said in our note on preliminary 2020 Q4 results, VRG incurred a high loss on financing activity in the period due to IFRS 16 negative FX differences (-PLN 10.8m vs. a gain of PLN 7.3m posed in 4Q'19).
- Stripped of IFRS 16 effects, operating cash flow in Q4'20 decreased to PLN 41.3m from PLN 93.6m in 4Q'19 despite efforts to optimize working capital. VRG had per-square-meter inventory of PLN 9,531 in the period (-3% y/y). Compared to the end of 2019, total inventory as of 31 December 2020 was lower (-PLN 30m y/y), as were accounts receivable (-PLN 6.6m y/y), while payables increased (+PLN 7.5m y/y).
- FY2020 ending net debt stood at PLN 53.7m, implying an IAS17 net debt/EBITDA ratio of 2.3x.
- **Summing up, VRG fulfilled our expectations with its 2020 Q4 results. The Company continued to optimize working capital in the period, and it was able to keep its leverage ratio below the threshold set by loan covenants. In 2021 the main goal of VRG is to achieve material improvement in profits. The Company is working on an updated strategy plan for the years ahead. We expect a neutral market reaction today to the final Q4 announcement. Medium term we see upside potential in VRG depending on improvement in quarterly results.**

2020 Q4 actuals vs. expectations

(PLN m)	4Q'20	4Q'19	change	4Q'20E	differ.	2020	2019	change
Revenue	232.0	332.5	-30.2%	232.0	0.0%	853.7	1,068.3	-20.1%
Gross profit	118.9	178.5	-33.4%	118.9	0.0%	417.3	556.1	-25.0%
margin	51.2%	53.7%	-2.4p.p.	46.9%		48.9%	52.1%	-3.2p.p.
Operating expenses	121.9	132.1	-7.7%	121.9	0.0%	416.8	469.2	-11.2%
EBIT	-2.9	47.6		-2.9		-11.9	87.5	-113.6%
EBITDA	22.8	76.0	-70.0%	22.8	0.0%	98.4	198.5	-50.4%
Net income	-18.9	44.3		-18.9		-48.2	64.0	-175.3%

Source: VRG, E—mBank estimates

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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