

Friday, April 09, 2021 | Monthly Market Outlook, an excerpt

VRG buy (no change)

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VRG significantly underperformed comparable fashion retailers, CCC and LPP, in the period from December through March. The Company fulfilled our expectations with its preliminary 2020 fourth-quarter results, and the full-year FY2020 report, slated for April 16th, is expected to show continued improvement in the cash conversion cycle. In March 2021 VRG registered sales growth of an estimated 40.3% compared to March 2020, driven by the jewelry business, which generated revenue 30% above the figure achieved in the same month in 2019. The gross margin for the month also showed partial recovery relative to March 2019. Clothing sales last month did not increase as much as jewelry on a year-over-year basis, but we expect a more robust rate of growth once the current restrictions on social gatherings start to ease. VRG has taken measures over the past year to adapt to its new business reality, and we have confidence in its ability to bring sales around in the coming months.

Current Price	2.82 PLN	Upside
9M Target Price	3.14 PLN	+11.3%

	rating	target price	issued
unchanged	buy	3.14 PLN	2020-09-23

Key Metrics			VRG PW	vs. WIG
Ticker	VRG PW	1M Price Chng	+7.2%	+5.3%
ISIN	PLVSTLA00011	YTD Price Chng	+1.8%	-2.4%
Outst. Stock (m)	234.5	ADTV 1M		PLN 0.5m
MC (PLN m)	661.2	ADTV 6M		PLN 0.4m
EV (PLN m)	693.9	EV/EBITDA 12M fwd	5.0	-38.1%
Free Float	40.1%	EV/EBITDA 5Y avg	8.0	discount

Earnings Projections (adjusted for IFRS 16)

(PLN m)	2019	2020	2021P	2022P	2023P
Revenue	1,068	904	1,066	1,185	1,227
EBITDA adj.	111	39	67	94	105
EBITDA margin	10.4%	4.4%	6.3%	7.9%	8.6%
EBIT	87	19	48	74	85
Net income	66	8	29	53	66
P/E	10.0	82.9	22.7	12.4	10.0
P/B	0.8	0.8	0.7	0.7	0.7
EV/EBITDA adj.	6.5	18.6	10.3	7.1	6.0
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Forecast Update (% change)		2021P	2022P	2023P
EBITDA		0.0%	0.0%	0.0%
Net income		0.0%	0.0%	0.0%
B&M sales/sqm		0.0%	0.0%	0.0%
SG&A/sqm		0.0%	0.0%	0.0%
Floorspace		0.0%	0.0%	0.0%

Financial Highlights (adjusted for IFRS 16)

(PLN m)	2019	2020P	2021P	2022P	2023P
Fashion Sales	692	544	648	746	768
Fashion EBIT	43	-17	12	36	35
Jewelry Sales	376	360	418	439	459
Jewelry EBIT	44.5	35.7	42.6	45.0	50.2
Gross profit margin	52.1%	49.6%	50.7%	51.0%	51.6%
Operating cash flow	109	110	156	151	169
D&A	24	21	19	20	20
D&A (IFRS 16)	87	96	99	104	107
Working capital	-75	7	9	-25	-22
Investing cash flow	-17	-15	-20	-22	-22
Financing cash flow	-100	-73	-141	-132	-149
Credit/loans	-5	27	-42	-28	-42
FCF	-6	35	48	33	45
FCF/EBITDA	-6%	88%	71%	35%	43%
OCF/EBITDA	19%	35%	84%	51%	59%

Key Ratios (adj. for IFRS 16)

(PLN)	2019	2020P	2021P	2022P	2023P
Sales/sqm, Fashion	1,048	719	927	1,049	1,010
Sales/sqm, Jewelry	2,689	2,314	2,693	2,759	2,829
SG&A/sqm, Fashion	598	538	626	643	646
SG&A/sqm, Jewelry	1,216	1,140	1,304	1,368	1,381
Cash (PLN m)	25	47	42	40	39
Net debt (PLN m)	66	70	33	7	-34
Net debt/EBITDA (x)	0.6	1.8	0.5	0.1	-0.3

Relative Valuation Summary

	P/E			EV/EBITDA		
	2020P	2021P	2022P	2020P	2021P	2022P
Minimum	6.1	5.9	5.2	4.7	3.7	3.5
Maximum	174.6	53.4	28.2	22.0	23.9	15.2
Median	18.3	19.9	13.5	8.2	7.2	5.7
Weight	0%	25%	25%	0%	25%	25%

DCF Analysis (adj. for IFRS 16)

(PLN m)	20P	21P	22P	23P	24P	25P	26P	27P	28P	29P	+
Sales/sqm (PLN)	1,408	1,675	1,808	1,804	1,818	1,824	1,829	1,834	1,840	1,845	1,845
SG&A/sqm (PLN)	652	772	808	805	811	814	820	826	832	839	839
Sales area (ksqm)	53	53	56	57	59	59	60	61	62	62	62
Revenue	904	1,066	1,185	1,227	1,266	1,290	1,309	1,329	1,350	1,371	1,399
EBITDA	39	67	94	105	108	110	109	107	106	104	106
EBITDA margin	4.4%	6.3%	7.9%	8.6%	8.5%	8.5%	8.3%	8.1%	7.9%	7.6%	7.6%
EBIT	19	48	74	85	87	89	88	86	85	83	85
Tax	-3	9	14	16	17	17	17	16	16	16	16
CAPEX	15	20	22	22	22	21	21	20	20	20	21
Working capital	7	9	-25	-22	-8	-8	-8	-9	-9	-6	-6
FCF	35	48	33	45	62	64	63	62	60	61	62
PV FCF	34	43	27	34	43	41	38	34	31	29	
WACC	8.6%	8.7%	8.8%	8.5%	8.5%	8.4%	8.0%	8.0%	8.0%	8.0%	8.0%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	845
Net debt	66
Other adjustments	0
Value per share (PLN)	3.32

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	2.60
DCF Val.	50%	3.32
Implied Price		2.96
Cost of equity (9M)		6.4%
9M Target Price		3.14

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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BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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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.

mBank issued the following investment recommendations for the Company in the 12 months prior to this publication

VRG				
Rating	buy	accumulate	hold	hold
Rating date	2020-09-23	2020-07-02	2020-06-03	2020-04-06
Target price (PLN)	3.14	2.43	2.43	2.00
Price on rating day	2.51	2.33	2.40	1.94

Comparable Companies Used In Relative Valuation Models

VRG H&M, Inditex, Kappahl, Marks & Spencer, Next, Hugo Boss, CCC, LPP, Tiffany, Pandora, Lao Feng, Chow Sang, Luk Fook, Chow Tai Fook, Lao Fen Xiang

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