Wednesday, May 20, 2020 | special comment

VRG – Highlights from 2020 Q1 Earnings Conference Call

Rating: hold | target price: PLN 2.00 | current price: PLN 2.39

VRG PW; VRGP.WA | Retail, Poland

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- **VRG's current outlook for FY2020 assumes an unchanged 20% decrease in sales, a positive EBITDA result (under IAS17), a 25% share of e-commerce in total sales, raised from an earlier estimate of 20%, and trading area contraction at an annual rate of 5%, raised from an original forecast of 2%.**
- VRG registered year-on-year **sales** falls of 42% in March, 65% in April, and 40% in the first 18 days of May – a narrower pace than the Company was preparing for.
- At the same time, monthly **online sales** increased 82% in March, 169% in April, and 118% in the month to 18 May, prompting the upward revision to this year's e-commerce-to-sales forecast from 20% to 25%. VRG's main focus at the moment is on improving logistics and developing omnichannel services.
- **Curbed expansion:** VRG's updated plan for this year is to reduce the total trading area by 5% to 51,800 square meters versus an original plan to cut floor space by 2%. At the same time, the size of an average fashion store will decrease by 7% (vs. 3% resizing planned originally), while jewelry stores will be upsized by 3% (reiterated).
- **CAPEX** in 2020 will be reduced as planned to PLN 15m.
- **Rent:** VRG saved PLN 5.3m on rent during the rent-free period. The Company has agreed to extend rental contracts on most stores on modified terms adjusted to the current market reality. Loss-making stores have been earmarked for closure. In Q2 2020 rent savings are expected to reach PLN 10.7m.
- **Employment costs:** VRG has reduced working hours to four-fifths of the full-time equivalent until such time as sales reach 80% of pre-lockdown levels. The Company has received pay subsidies under the government's crisis program in the amount of PLN 9m.
- **Working capital:** VRG has scaled back orders for the 2020 spring/summer season by 20%, and reduced autumn/winter purchases by 30%. Orders for jewelry stores have also been cut by 20%. VRG is negotiating payment extensions with suppliers, and it wants to increase utilization of reverse factoring. By the end of the year, the Company hopes to reduce the clothing inventory by 15%, and bring the jewelry stock down by 5%.
- VRG reduced **net debt** by 13% y/y in Q1 2020, with the net debt/EBITDA ratio as of 31 March at 1.4x vs. 1.9x in December 2019.
- **Our key takeaways from today's call are that brick store sales during lockdown fell less than anticipated, while online sales increased faster than thought. We also appreciate the efforts to reduce employment costs and rent, and we were glad to hear that EBITDA should be in the positive territory this year. Based on this, VRG's FY2020 earnings outlook has come close to our best-case scenario as laid out in the last research update.**

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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