

Friday, October 18, 2019 | special comment

VRG – Forecast of 2019 Q3 Results

Rating: buy | target price: PLN 5.20 | current price: PLN 4.12

VST PW; VSTP.WA | Retail, Poland

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- VRG is slated to release its 2019 Q3 results before the market opens on 12 October.
- **Based on VRG's monthly sales updates**, we expect a 39% rebound in total sales revenue to PLN 249.6m, **and we assume a decrease in sales per square meter in the fashion segment** (led by the legacy Vistula stores and the Bytom stores acquired last year), alongside **an increase in the jewelry segment**.
- The quarterly **gross margin** implied by reported monthly figures likely **expanded by 0.8pp to 50.8%**, and based on this we anticipate a 41% rebound to PLN 126.8m in gross profit compared to the year-ago period.
- **Total SG&A expenses increased at an estimated annual rate of 46% to PLN 115.4m in Q3**, indicating a reduction in per-square-meter SG&A by 8.9% to PLN 714.
- After a negative one-time lease-payment adjustment, projected at PLN 5m, stemming from IFRS 16 impacts and the zloty's depreciation against the euro, net profit for Q3 2019 is likely to register a reduction to PLN 2.1m from PLN 6.9m in the same period in 2018.
- **VRG is set to report slower EBITDA growth in Q3 2019 than in previous quarters due to the weaker sales effectiveness of its fashion stores, but keep in mind that the third quarter is seasonally the least significant from the point of view of full-year earnings (the fourth quarter is typically the most profitable for VRG's jewelry business). Note also that the net profit fall expected in Q3 is due solely to the one-time downward lease adjustment to reflect the impact of IFRS 16. We expect VRG to fulfil 44% of our FY2019 EBITDA forecast (ex IFRS) in the year to 30 September 2019; in the corresponding period of 2018, the ratio was 49%.**

Summary of 2019 Q3 Estimates

(PLN m)	Q3'19E	Q3'18	Y/Y	2019E	YTD*
Revenue	249.6	180.1	39%	1035.3	71%
Gross profit	126.8	90.1	41%	537.7	70%
margin	50.8%	50.0%		51.9%	
EBITDA**	16.8	14.0	20%	123.7	46%
EBITDA margin	6.7%	7.8%		11.9%	
EBIT	11.4	10.0	13%	101.4	38%
Pre-tax income	3.7	8.8	-58%	90.2	32%
Net income	2.1	6.9	-70%	73.9	32%

Source: VRG, E – estimates by Dom Maklerski mBanku
*as a * of FY2019E; ** ex-IFRS 16 impacts

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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