



Friday, April 24, 2015 | research report

Jeronimo Martins: reduce (new)

JMT PL; JMT.LS | Retail, Portugal

Catching a Breath

After a ytd gain of 40% Jeronimo Martins (JMT) is currently trading at a 41% premium to peers on 2015E EV/EBITDA and a 20% premium to 2015E P/E - levels which we consider undeserved given the reduced pace at which the Company is planning to expand its Polish supermarket chain Biedronka (at 4.7% 2014-17E CAGR vs. 11.9% in 2010-14), accompanied by EBITDA contraction to 6.6% in 2015 and 6.7% in 2016 (vs. 7.8% and 6.8% in 2013 and 2014), combined with downward margin pressure stemming from the development of new businesses in Poland and Colombia. Our expectations as to JMT's EBITDA growth in the next three years assume a slowdown to an average annual growth rate of 7.9% in 2014-2017 from 15.7% achieved in 2010-2013. Looking at the reduced earnings momentum we believe JMT is overpriced at the current level. We are initiating coverage of Jeronimo Martins with a reduce rating and a price target of EUR 10.70 per share (indicating 8.4% downside risk).

Poised for stronger growth after 2017

The curbed store expansion plans for Biedronka, accompanied by more dynamic expansion targets set for the Polish drugstore chain Hebe and the Colombian supermarket chain Ara, are not expected to make meaningful contributions to JMT's consolidated earnings in the near term. In 2015-2017 we predict that the new businesses will put a dent in the Company's annual EBITDA to the tune of a combined EUR 56m. In addition the expenses that JMT plans to incur on growing the Hebe and Ara chains will cause a slowdown in net earnings to a projected average annual rate of 14.4% in 2014-2017 from 33.9% achieved in 2010-2013.

Improving productivity

The Biedronka supermarket chain is set for 2014-2017 revenue growth at a projected CAGR of 8.5% (vs. 17% in 2010-2013) thanks to planned store upgrades, a broadening sales mix, and an easing of deflationary pressures starting in Q3 2015. We believe the Polish retailer will come close but not quite hit its 2017 revenue target of EUR 11bn at a projected EUR 10.78bn. At the same time we expect Biedronka stores to steadily improve their productivity in the next three years, with average sales per square meter of retail space (in zlotys) increasing at a projected annual rate of 0.4% in 2015, 2.0% in 2016, and 1.5% in 2017.

Steep premium to peers

After a 40% ytd gain JMT's share price at the current level already fully reflects the expected improvement in the sales results of Biedronka. On 2015-2016 EV/EBITDA and P/E the Company is trading 0-8.6% and 2-7%, respectively, above its historical premiums to peers for the last three years. Moreover at 22.4x its 12M blended forward P/E has come close to the eight-year high achieved in mid-2013 (when Biedronka was expanding at a much faster rate than today). Summing up we consider JMT overpriced relative to its earnings outlook for the next three years.

(EUR m)	2013	2014	2015P	2016P	2017P
Revenue	11,829.3	12,680.0	13,745.9	14,689.5	15,485.9
EBITDA	777.0	732.0	774.3	846.1	945.1
EBITDA margin	6.6%	5.8%	5.6%	5.8%	6.1%
EBIT	525.0	448.5	479.4	542.9	628.1
Net profit	382.3	301.4	328.6	381.9	451.1
DPS	0.3	0.3	0.2	0.3	0.3
P/E	19.2	24.4	22.4	19.2	16.3
P/CE	11.6	12.6	11.8	10.7	9.6
P/BV	5.3	5.3	4.6	4.0	3.5
EV/EBITDA	10.2	10.8	10.1	9.2	8.1
DYield	2.9%	2.8%	2.1%	2.2%	2.6%

Current Price	EUR 11.68
Target Price	EUR 10.70
MCap	EUR 7,347m
Free Float	EUR 2,850m
ADTV (3M)	EUR 34.97m

Ownership

Sociedade Francisco Manuel dos Santos, SGPS, S.A.	57.73%
Aberdeen Asset Managers Limited	5.00%
Heerema Holding Company Inc.	5.00%
Others	32.27%

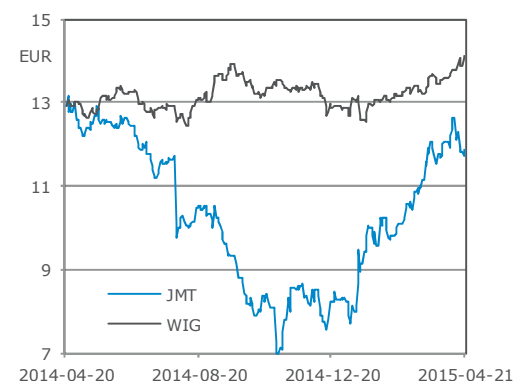
Sector Outlook

The earnings of Polish FMCG distributors have been under pressure from a marked deflation in food prices observed since the second half of 2014. To offset the pressure companies have been cutting prices, with further implications for profit margins. Once the price deflation reverses as expected in H2 2015, the sector should experience a recovery in profits.

Business Profile

Jeronimo Martins is a Portugal-based distributor of food and other consumer products with operations in Poland (where it is the leader in the grocery market through the discount supermarket chain Biedronka), Portugal (where it operates the Pingo Doce supermarket chain and the cash&carry chain Recheio), and Colombia (where it recently launched a new supermarket chain under the name Ara).

JMT vs. WIG



2014-04-20 2014-08-20 2014-12-20 2015-04-21

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List of abbreviations and ratios contained in the report:**EV** – net debt + market value**EBIT** – Earnings Before Interest and Taxes**EBITDA** – EBIT + Depreciation and Amortisation**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**Recommendations of Dom Maklerski mBanku:**

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Recommendations are updated at least once every nine months.

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Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Dom Maklerski mBanku S.A. did not issue any investment ratings for Jeronimo Martins in the last nine months.

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