

Thursday, July 30, 2015 | special comment

Jeronimo Martins – Q2 Earnings Conference Highlights

Rating: sell | target price: EUR 10.70 | current price: EUR 12.41

JMT PL; JMT.LS | Retail, Portugal

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Key Takeaways:

- The increase of 0.13ppt to 21.26% in the gross margin for Q2 2015 was led mainly by an improved merchandizing mix (with a higher share of high-margin products). The stronger margins allowed JMT to mitigate the impact of cost inflation and higher marketing expenses. Sales margins are expected to remain high throughout 2015.
- JMT observed an easing of deflationary pressures in Q2 however it does not expect a reversal of the downtrend this year.
- As far as the Recheio business JMT is seeing market stabilization after two challenging years. This combined with marketing strategies should help maintain positive like-for-like sales momentum in the remainder of the year.
- Ara and Hebe stores incurred start-up losses of a combined EUR 15m in Q2 (vs. EUR 14m in Q1), with Ara accounting for 70% of the total. The two businesses are expected to generate an annual loss of EUR 60-70m this year. JMT opened three new Ara locations in H1 2015, making for a total of 89 stores at the end of June. In H2 JMT is planning to open a new distribution center in Colombia which will facilitate expansion of the Ara chain in a new region where 50 locations set to be open by the end of the year.
- JMT's CAPEX will increase in H2 2015 due to the planned Biedronka and Pingo Doce store redesigns and the acceleration of expansion in Colombia. As a result FCF in the period will decrease.

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

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