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Friday, October 09, 2015 | update

LPP: sell (reiterated)

LPP PW; LPPP.WA | Retail, Poland

Profits Under Pressure

The persistent slowdown in monthly sales reported by LPP this year confirms the worsening efficiency of its Polish stores. After a continuing slump in September the Retailer may have to cut prices significantly during the rest of the year to clear the Autumn/Winter merchandise. This combined with a high USDPLN exchange rate may affect its near-term profitability. In 2016 LPP could recover about 2.1ppts of its gross margin (projected at 55.7%) by curtailing end-of -season price markdowns. The room for margin improvement through SG&A trimming will diminish next year after a 2015 reduction by an estimated 14.1% due to rising payroll pressures (higher sales bonuses driven by an expected increase in sales). LPP's weak earnings outlook is further exacerbated by a decelerating pace of store expansion which from an average annual rate of 24.9% in 2012-2015 is expected to fall to 13.9% in 2015-2018, indicating that the premium at which the Company is valued at the current price level is not fully justified. We maintain a sell rating for LPP with the price target reduced to PLN 6,300/share.

Store efficiency remains low

LPP posted a 3% drop in monthly sales in September despite a low year-ago base, reflecting challenging market conditions. The Company's stores generate low sales per square meter because some of them are based in locations with lower sales potential, some cannibalize each other's business, and due to intense competition, a shift toward online sales, and the changing preferences of Polish shoppers as their purchasing power rises. In the next two years we anticipate an 0.1% rise in sales per square meter in 2016 followed by a 2.1% rebound in 2017.

Gross margin set for narrow expansion in 2016

LPP is not likely to go back to generating gross margins at the high historical levels of 57-58% in the near term while the USDPLN exchange rate remains high. According our forecasts in 2016 the gross margin will edge up to 55.7% from 53.6% expected this year.

No more room for SG&A reductions

LPP cut its SG&A expenses this year to an estimated average monthly figure of PLN 234.7 per square meter from an average of PLN 279 in 2010-2014. After these cuts, next year per-sqm SG&A are likely to rise 4.9% to PLN 246.2.

Record market valuation

On 2015E and 2016 price-to-earnings ratios LPP is currently valued 53.7% and 37.9%, respectively, above its historical three-year average. The premiums on 2015E and 2016E EV/EBITDA reach respective levels of 16.9% and 29.6%.

(PLN m)	2013	2014	2015E	2016E	2017E
Revenue	4,116.3	4,769.3	5,116.7	5,948.1	6,937.3
EBITDA	764.1	802.8	721.9	864.1	979.1
EBITDA margin	18.6%	16.8%	14.1%	14.5%	14.1%
EBIT	615.9	609.1	504.7	629.3	717.4
Net profit	430.9	479.5	374.1	494.1	567.3
DPS	85.8	95.0	32.0	97.7	137.1
P/E	32.1	28.8	36.9	28.0	24.4
P/CE	23.9	20.5	23.4	19.0	16.7
P/BV	9.2	8.4	7.1	6.1	5.4
EV/EBITDA	18.4	17.7	19.8	16.4	14.5
DYield	1.1%	1.2%	0.4%	1.3%	1.8%

Current Price	PLN 7,634.10
Target Price	PLN 6,300.00
MCap	PLN 13,979m
Free Float	PLN 8,776m
ADTV (3M)	PLN 26.17m

Ownership

Monistor Limited	10.96%
Marek Piechocki	9.58%
Jerzy Lubianiec	9.55%
Others	69.91%

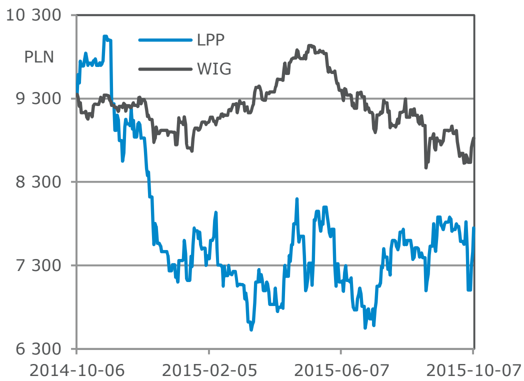
Sector Outlook

Retailers face a tough 2015 as price deflation continues in Poland and consumers become less inclined to shop. The pressure on companies with exposure to Russia and Ukraine is even stronger. In a tough market, we see the biggest chance of success for large, well-managed retailers who can use the unfavorable market forces to their advantage.

Business Profile

LPP is a fashion retailer encompassing five clothing brands sold in over 1500 stores located in Poland, Russia, Ukraine, and ten other countries in the CEE region.

LPP vs. WIG



Company	Target Price new	Target Price old	Rating new	Rating old
LPP	6,300	6,400	sell	sell

Company	Current Price	Target Price	Downside
LPP	7,634	6,300	-17.11%

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2015 Q2 Results

LPP delivered a positive surprise in the second quarter of 2015 with EBIT and EBITDA supported by a 16.1% reduction in SG&A costs per square meter of retail space, and net profit topping expectations thanks to higher-than-anticipated FX gains.

Q2 sales revenue showed 9% growth from the same period in 2014 at PLN 1,291m. **At the same time the gross margin shrunk by 10.2ppts to 52.1%** and EBIT fell 23.2% to PLN 136.8m despite the SG&A reductions. Financing activity amounted to PLN 21.5m in Q2 2015 vs. PLN 25.5m in Q2 2014. **After all this the quarterly net profit showed a year-on-year drop of 18.5% to PLN 136.6m.**

LPP generated operating cash flow of PLN 28.2m in H1 2015, marking a fall of PLN 150.2m from H1 2014 due to a lower net profit and higher working-capital needs driven by an expanding sales area.

Q2 201 actuals vs. expectations

(PLN m)	2Q'15	2Q'14	change	2Q'15E	differ.
Revenue	1,291.3	1,185.1	9.0%	1,291.0	0.0%
EBITDA	192.5	226.5	-15.0%	177.0	8.8%
margin	14.9%	19.1%	-4.2p.p.	13.7%	1.2p.p.
EBIT	136.8	178.1	-23.2%	124.6	9.8%
Pre-tax profit	158.3	203.5	-22.2%	137.6	15.0%
Net profit	136.6	167.7	-18.5%	114.8	19.0%

Source: LPP, E – estimates by Dom Maklerski mBanku

Forecast Update

We have revised our earnings outlook for LPP to reflect weak year-to-date sales and downward pressure on gross margin. **The revenue for the nine months through September 2015 was 5.7% higher than in the same period last year**. Looking at the falling sales efficiency of LPP's Polish stores and given the reduced rate of retail area expansion, we **have adjusted our 2015 revenue estimate downward to PLN 5,167m (+7.3% y/y), and we have downgraded our 2016E topline forecast to PLN 5,948m (+16.2% y/y).** LPP's current guidance assumes 2015 revenue growth at an annual rate of 10-11%.

Forecast adjustments

(PLN m)	old		new		change	
	2015E	2016E	2015E	2016E	2015E	2016E
Revenue	5,448.6	6,251.5	5,116.7	5,948.1	-6.1%	-4.9%
EBITDA	752.0	932.6	721.9	864.1	-4.0%	-7.3%
EBIT	531.1	659.6	504.7	629.3	-5.0%	-4.6%
Net profit	401.0	526.2	374.1	494.1	-6.7%	-6.1%

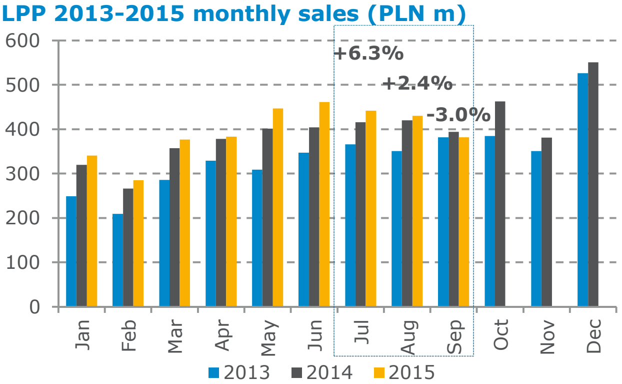
Source: LPP, E – estimates by Dom Maklerski mBanku

LPP's gross margin for H1 2015 suffered due to higher clearance sales combined with stiff competition and a high USDPLN exchange rate. In our view the Company will not be able to make up for the sales and margin slowdown in the rest of the year by cutting SG&A, **and consequently we have lowered our 2015 EBIT estimate to PLN 505m and downgraded the net profit estimate to PLN 374m.** For 2016 we have a revised EBIT projection of PLN 629m, with the net profit for the year expected to be additionally weighed down by increased debt.

Monthly sales on downward momentum in 2015

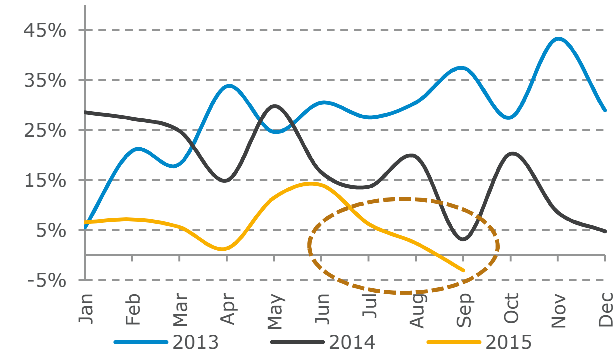
For the first time since April 2010 LPP reported an annual **contraction in monthly sales in September by 3% to PLN 382m even despite a low year-ago base (2014 September sales rose only 3.1% y/y)**. The reasons included a nonexistent "back to school" effect which failed to provide the usual boost to sales, indicating that LPP's autumn/winter fashion lines were not as successful as the Company might have hoped.

LPP 2013-2015 monthly sales (PLN m)



Source: LPP, Dom Maklerski mBanku

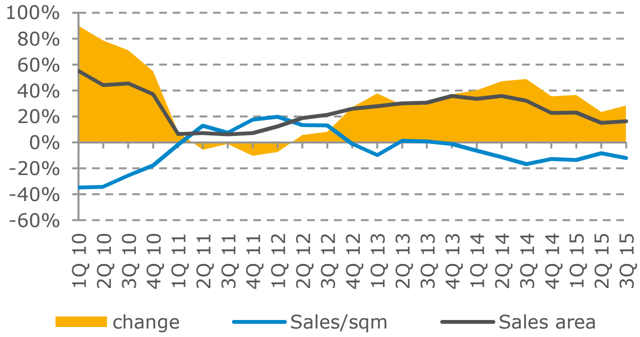
Annual pct. growth in 2013-2015 monthly sales



Source: LPP, Dom Maklerski mBanku

The driver behind the slower sales momentum experienced this year is the deteriorating efficiency of LPP's Polish stores which in H1 2015 accounted for 64% of total sales. The trends responsible for the fact that these stores generate less revenue per square meter include a downtrend in shopping mall visitor numbers combined with store openings in locations with less sales potential, a shift toward online shopping, intense competition, and the changing preferences of consumers.

Y/Y pct. change in LPP's quarterly per-sqm sales and sales area (2010-2015)



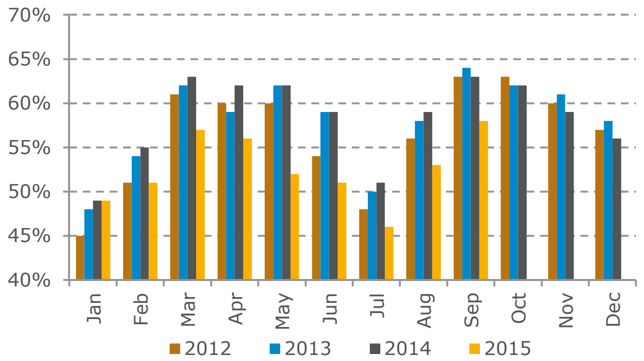
Source: LPP, Dom Maklerski mBanku

In Q2 2015 LPP managed to slow the rate of falling per-sqm sales from 13.6% to 8.3% by offering heavy markdowns, but in Q3 2015 the y/y downturn accelerated again to an estimated 12.2%. Looking at the slowdown observed in Poland as well as LPP's stores in Germany and Russia we estimate the drop in the 2015 annual average sales per square meter at 10.3%. **Accordingly our revised total annual revenue growth projections for LPP assume a 7.3% increase to PLN 5.117 billion in 2015 and a 16.2% increase to PLN 5.948 billion in 2016.**

Gross margin contracts

After summer closeout sales, LPP offers the new autumn-winter lines launching in stores in September at their regular prices for the full month. For this reason historically September has usually been the most profitable month of the year for the Company. Unfortunately this pattern was broken this year, and after a slow September LPP is forced to mark prices down in the following months, with implications for the gross margin.

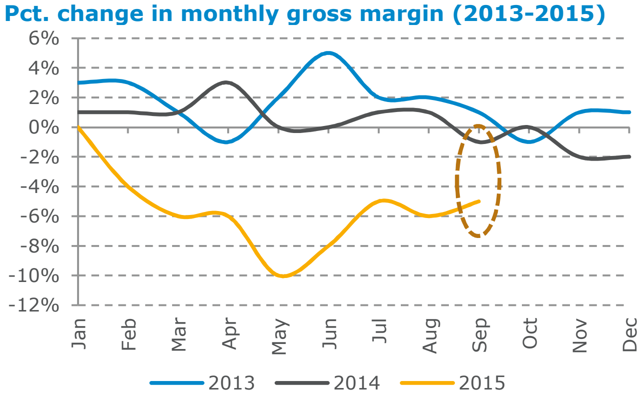
LPP monthly gross margin 2012-2015



Source: LPP, Dom Maklerski mBanku

In the nine months through September 2015 LPP experienced year-on-year gross margin shrinkage by 5.7ppts to 52.7%. In Q3 2015 after July closeout the gross profit margin continued to fall by 6ppt in August and in September it shrunk by a further 5ppts despite a low year-ago base.

Pct. change in monthly gross margin (2013-2015)



Source: LPP, Dom Maklerski mBanku

Relative to the already-low year-ago base, in Q4 2015 we expect LPP's gross margin to post a drop of 3.2ppts to 55.8%, **with the overall 2015 shrinkage estimated at 5ppts, resulting in an annual sales margin of 53.6%.**

In **2016** we anticipate a continued rise in merchandise costs due to high USDPLN, combined with intense competition which will prevent LPP from passing these costs onto end customers. At the same time by reducing the level of promotions we believe the Company can improve the gross margin for the year by **2.1ppts to 55.7%.** Our long-term sales margin forecast is in the range of 55.1% to 55.7%

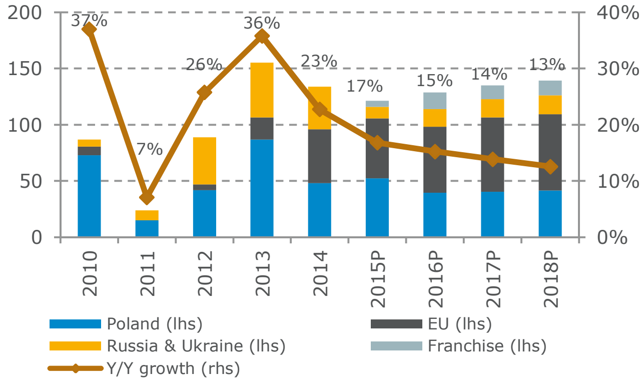
Franchising dilutes gross margin

LPP decided to expand its store franchise in the Middle East, and it is planning to start franchises in Belarus and Kazakhstan next year. As a result from an estimated PLN 800 in 2015 the average revenue per square meter generated by the LPP franchise is expected to drop to PLN 731, marking dilution led by the expansion into new markets. The gross margin provided by the franchise fees is estimated at 25%. As the franchise sales area expands, the margin will become diluted. In addition the contributions of the franchise business to LPP's EBIT margins will be offset by an expected increase in per-sqm SG&A.

2015-2018 store expansion CAGR cut to 13.9%

LPP has cuts its sales area expansion plans for 2015 from 152,000 (+21% y/y) to 121,500 square meters (+16.8% y/y), reducing the number of planned new openings in the EU, Russia, and Ukraine.

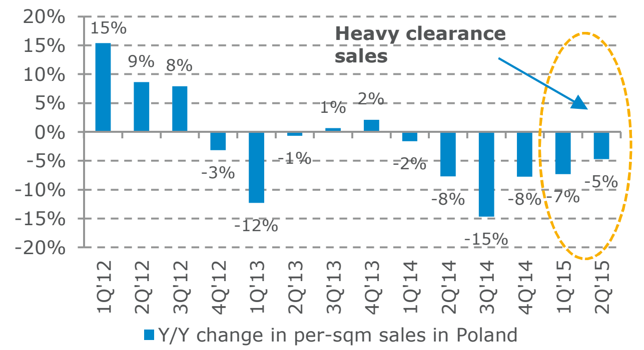
Y/Y pct. expansion in sales area (1000sqm) by geographic region (2010-2018P)



Source: LPP, Dom Maklerski mBanku

We expect LPP to shift part of the store openings originally planned in Poland to the EU region or the franchise, and given that the Polish stores have to date delivered the highest sales per square meter (even after the recent slowdown) this means that LPP's overall future sales productivity is set for a gradual deterioration. In our view the slowed expansion should take away part of LPP's valuation premium.

Y/Y pct. growth in quarterly store efficiency in Poland (2012-2015)



Source: LPP, Dom Maklerski mBanku

German expansion not yet producing noticeable results

LPP is expected to end 2015 with twelve stores in Germany followed by seven more openings in 2016. Being in early stages of development, the German stores are not expected to make meaningful contributions to earnings yet in 2016 or 2017. Moreover given that these stores generated only 58-77% of the per-square-meter sales of their Polish counterparts in the period from Q4 2014 to Q2 2015, we would not expect LPP to want to fast-track its German expansion plans (the Company expects the German business to break even in 4-5 years).

According to our own projections, LPP Germany will grow per-square-meter sales steadily from year to year going forward, with the target 2020 store productivity expected to reach PLN 1,400. Coupled with an expanding gross margin, this should be enough to offset high SG&A expenses driven by steeper high-street rental rates (EUR 80-160 per month vs. LPP's Q2 average of ca. EUR 22 in Q2 2015) and higher labor costs which according to the Company exceed the costs in Poland by 3-4 times. Thanks to a relatively small scale the net impact of SG&A on the German EBIT is expected to be neutral.

SG&A set for 2016 hike

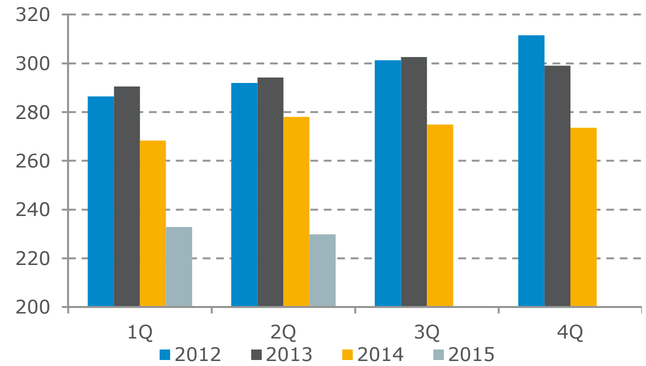
According to our calculations LPP reduced per-sqm SG&A by 17.4% to PLN 230 in Q2 2015 by cutting the operating costs of the Russian business and thanks to lower rent and sales bonuses paid due to lower sales, combined with payroll downsizing. With sales still weak, in Q3 the SG&A costs should remain low, but in Q4 they will edge up from a low year-ago base combined with salary pressures. On the whole **we expect to see a 14.1% reduction in LPP's 2015 annual SG&A costs per square meter.**

Sales per square meter by country as percentage of sales in Poland

(PLN m)	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15
Poland	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Estonia	86%	101%	97%	77%	83%	79%	94%	66%	66%	76%
Latvia	84%	96%	90%	79%	84%	85%	87%	69%	72%	84%
Czech Rep.	72%	72%	72%	85%	67%	67%	71%	74%	63%	72%
Hungary	64%	66%	64%	80%	74%	72%	77%	81%	79%	87%
Lithuania	71%	87%	85%	72%	79%	82%	94%	72%	76%	89%
Ukraine	97%	104%	107%	81%	79%	82%	87%	74%	73%	78%
Russia	112%	106%	116%	74%	89%	94%	103%	60%	72%	84%
Romania	95%	81%	96%	100%	107%	59%	60%	64%	55%	56%
Germany	n/a	n/a	n/a	n/a	n/a	n/a	38%	77%	58%	69%
Bulgaria	48%	52%	58%	61%	53%	51%	51%	48%	46%	48%
Slovakia	70%	81%	80%	95%	82%	123%	139%	90%	78%	82%
Total	98%	98%	100%	91%	93%	95%	98%	86%	87%	91%

Source: LPP, Dom Maklerski mBanku

Quarterly per-sqm SG&A costs (2012-2015) (PLN)



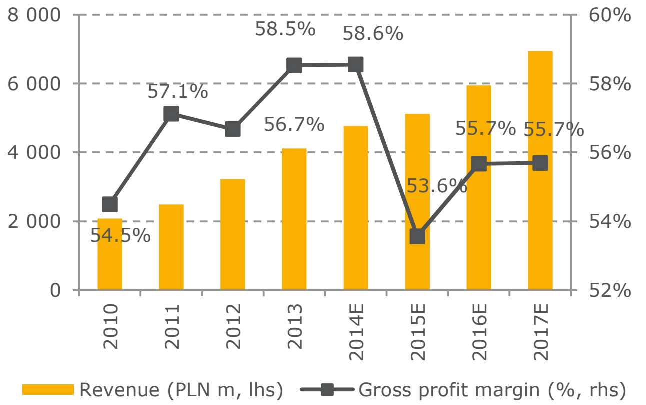
Source: LPP, Dom Maklerski mBanku

Due to increasing salary pressures, the costs of the German expansion, and an expected increase in sales bonuses driven by improving sales, **in 2016 we anticipate a 4.9% rebound in per-sqm SG&A**.

Earnings Forecast

We expect LPP to grow annual revenue by 7.3% in 2015 to PLN 5,117m followed by 16.2% growth to PLN 5,948m in 2016 thanks to 0.1% higher store efficiency. Through reduced promotions, the gross margin is likely to improve to 55.7% in 2016 from an estimated 53.6% in 2015. In subsequent years gross margins will be diluted by the franchise expansion.

Revenue and gross margin projection



Source: LPP, Dom Maklerski mBanku

After a 13.6% cut in H1 2015 and further reductions anticipated in H2 2015 on lower sales, **LPP's per-square-meter SG&A costs are expected to show a year-on-year drop of 14.1% in 2015** (the Company estimates the improvement at 10%). **In 2016 SG&A are likely to increase 4.9% due to higher costs and sales.** Based on this we have a 2015 EBIT estimate of PLN 504.7m (-17.1% y/y) and a 2016 EBIT forecast of PLN 629.3m.

2015-2017 earnings projection

(PLN m)	2013	2014	2015P	2016P	2017P
Revenue	4,116.3	4,769.3	5,116.7	5,948.1	6,937.3
Gross profit	2,409.2	2,792.5	2,740.8	3,311.6	3,863.9
Gross margin	58.5%	58.6%	53.6%	55.7%	55.7%
General expenses	1,759.1	2,148.3	2,198.4	2,646.0	3,104.6
Other gains/losses	-34.1	-35.0	-37.7	-36.2	-41.9
EBIT	615.9	609.1	504.7	629.3	717.4
EBITDA	764.1	802.8	721.9	864.1	979.1
Net financing gains/losses	-91.8	-149.2	-42.2	-17.9	-15.6
Net profit	430.9	479.5	374.1	494.1	567.3

Source: LPP, Dom Maklerski mBanku

LPP incurred a PLN 32m loss on financing activity in H1 2015 due to negative FX effects, and assuming no further foreign exchange losses in H2, after 19% tax, we expect the **Company will deliver a recurring net profit of PLN 374.1m in 2015,** with a possible extra boost provided by a deferred tax asset related to trademarks (PLN 106.9m in 2014). For 2016 our bottom-line projection for LPP is PLN 525.3m.

Our forecasts vs. consensus expectations

Compared to market expectations our 2015-2017 revenue forecasts for LPP are 3-4% lower. When it comes to EBIT and profit our projections we are even less optimistic than consensus based on lower expectations for gross margin growth and due to the fact that we do not account for potential tax breaks.

Risks

RUB & UAH appreciation

An appreciation in the Russian ruble or the Ukrainian hryvnia relative to the Polish zloty can affect LPP's sales in those markets.

USD depreciation

LPP pays for merchandise in US dollars and in 2015 after the dollar strengthened relative to the zloty its sales margins have suffered. LPP does not hedge its revenues against foreign-currency risks.

Economic risk

An economic slowdown in LPP's core markets (Poland, Russia) can affect consumer spending and hence LPP's sales. At the moment Russia and Ukraine both are experiencing economic stress caused by political factors.

Failure of German stores

LPP faces the challenging task of convincing German consumers to buy its clothes despite strong local competition. If the German stores fail to achieve our sales forecasts this will affect our valuation of LPP.

Russian sanctions

There is a very small risk that Russia will place restrictions on foreign businesses in retaliation for the economic sanctions imposed by the EU.

Our projections vs. consensus

(PLN m)	2015P			2016P			2017P		
	mDM	consensus	differ.	mDM	consensus	differ.	mDM	consensus	differ.
Revenue	5,116.7	5,355.8	-4%	5,948.1	6,197.5	-4%	6,937.3	7,117.9	-3%
EBIT	504.7	577.4	-13%	629.3	738.3	-15%	717.4	843.3	-15%
EBITDA	721.9	800.8	-10%	864.1	985.9	-12%	979.1	1,144.4	-14%
Net profit	374.1	422.6	-11%	494.1	572.8	-14%	567.3	718.0	-21%

Source: Bloomberg, Dom Maklerski mBanku

Valuation

We used DCF analysis and relative valuation to assess the value of LPP. The DCF model yielded a per-share valuation of PLN 5,800 and the value obtained with multiples comparison amounted to PLN 6,100, implying a 9-month price target of PLN 6,300 per share.

PLN	weight	price
Relative Valuation	50%	6,100
DCF Analysis	50%	5,800
	price	5,950
	9M target price	6,300

DCF Analysis

DCF Model Assumptions:

- Cash flows are discounted to their present value as of 9 October 2015. Equity value calculations factor in net debt as of 31 December 2014 adjusted for PLN 57.9m dividend.
- We assume a 5.0ppt drop in 2015 gross margin followed by recovery by 2.1ppts in 2016.
- Future growth in CAPEX per square meter will depend on the rate of store expansion in Germany where we project the average CAPEX will be PLN 3,700/sqm vs. PLN 2,900 in other countries.
- We expect to see annual losses on other operating activity at 0.6% of revenue, equivalent to the historical inventory losses reported by LPP.
- Except for Q4 2014 and FY2015, we do not expect foreign exchange trends to affect earnings in the forecast period.
- We assume the annual tax rate at the statutory 19% throughout the forecast period.
- Risk-free rate is 3.5%.
- We assume that FCF after FY2024 will grow at an annual rate of 2%.
- Beta=1.0.

Sales area expansion projection

(1000 sqm)	2010	2011	2012	2013	2014	2015P	2016P	2017P	2018P
Poland	72.9	15.0	42.0	86.8	48.0	52.4	39.6	40.5	41.5
EU	7.7	-0.9	4.9	19.7	47.9	53.4	58.7	66.1	67.8
Russia & Ukraine	6.3	8.8	41.9	48.6	38.0	10.2	15.6	16.3	16.9
Franchise	0.0	0.0	0.0	0.0	0.0	5.5	14.8	12.2	13.0

Source: LPP, Dom Maklerski mBanku

DCF Model

(PLN m)	2015P	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025+
Revenue	5 117	5 948	6 937	7 977	9 084	10 095	10 964	11 704	12 411	13 122	
change	7.3%	16.2%	16.6%	15.0%	13.9%	11.1%	8.6%	6.7%	6.0%	5.7%	
EBITDA	722	864	979	1 137	1 271	1 392	1 508	1 581	1 670	1 755	
EBITDA margin	14.1%	14.5%	14.1%	14.3%	14.0%	13.8%	13.8%	13.5%	13.5%	13.4%	
D&A	217.1	234.8	261.7	285.2	302.1	310.6	320.8	327.8	333.1	364.3	
EBIT	505	629	717	852	969	1 082	1 187	1 253	1 337	1 391	
EBIT margin	9.9%	10.6%	10.3%	10.7%	10.7%	10.7%	10.8%	10.7%	10.8%	10.6%	
Tax on EBIT	95.7	119.6	136.3	161.9	184.0	205.6	225.5	238.1	254.0	264.2	
NOPLAT	409	510	581	690	785	876	961	1 015	1 083	1 126	
CAPEX	-390.6	-378.2	-393.3	-406.0	-372.4	-373.4	-387.7	-376.7	-374.6	-364.3	
Working capital	-202.0	-70.2	-196.1	-181.5	-192.5	-191.9	-135.3	-129.6	-131.6	-126.4	
FCF	34	296	253	388	522	622	759	837	910	1 000	1 020
WACC	8.3%	8.4%	8.4%	8.4%	8.4%	8.5%	8.5%	8.5%	8.5%	8.5%	
Discount factor	98.2%	90.5%	83.5%	77.0%	71.1%	65.5%	60.5%	55.8%	51.4%	47.4%	
PV FCF	33.0	268.1	211.7	298.6	370.7	407.5	459.0	466.5	468.0	474.4	
WACC	8.3%	8.4%	8.4%	8.4%	8.4%	8.5%	8.5%	8.5%	8.5%	8.5%	
Cost of debt	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	
Credit risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
Net debt / EV	3.5%	2.7%	2.5%	2.4%	1.9%	1.0%	0.7%	0.7%	0.3%	0.2%	
Cost of equity	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	

FCF growth after the forecast period	2.00%
Terminal value	15,727
Present value of terminal value	7,462
Present value of FCF in the forecast period	3,457
Enterprise value	10,919
Net debt	457
Minority interests	0.8
Equity value	10,461
Number of shares (millions)	1.81
NAV per share (PLN)	5,781
9M cost of equity	6.4%
9M target price (PLN)	**6,100**
EV/EBITDA ('15) at target price	14.5
P/E ('15) at target price	16.4
TV / EV	68%

Sensitivity Analysis

	FCF growth after the forecast period				
	1.0%	1.5%	2.0%	2.5%	3,0%
WACC -1.0 p.p.	6,200	6,500	6,900	7,400	7,900
WACC -0.5 p.p.	5,700	6,000	6,400	6,800	7,300
WACC	5,500	5,800	**6,100**	6,500	7 000
WACC +0.5 p.p.	5,300	5,600	5,900	6,300	6,700
WACC +1.0 p.p.	4,900	5,200	5,500	5,800	6,200

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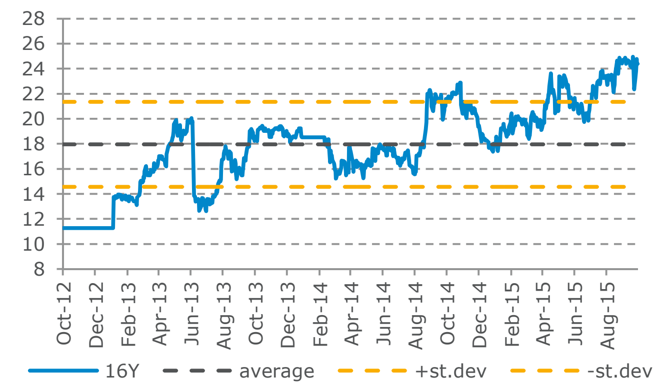
Relative Valuation

The relative valuation model uses forward P/E and EV/EBITDA ratios as projected for 2015-2017, each assigned an equal weight. The peer group comprises H&M, Inditex, and CCC, three footwear and/or fashion retailers with business profiles similar to LPP's. Further, a comparison using the price/earnings to growth (PEG) ratio shows that LPP is set for slower growth than its industry peers going forward (historically LPP showed a discount on the PEG multiple).

Multiples Comparison

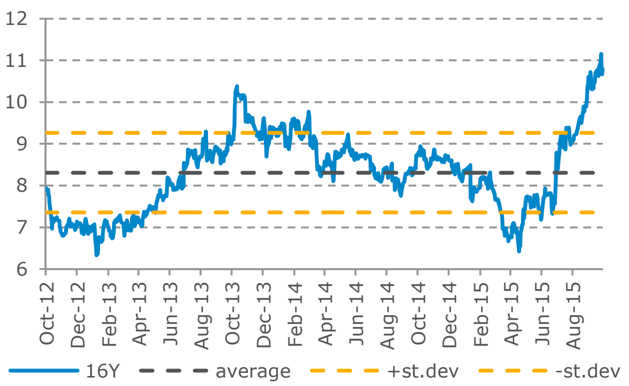
		PEG			P/E			EV/EBITDA		
	Price	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**
Other Retailers										
IC COMPANYS	193	-8.7	0.5	1.4	19.8	15.3	13.9	13.5	9.8	9.0
KAPPAHL	25	-1.3	0.4	0.6	16.7	12.8	10.8	6.8	6.0	5.4
MARKS & SPENCER	491.9	24.4	1.9	1.6	15.0	14.0	12.9	7.6	7.2	6.9
NEXT	7,690	1.9	1.9	2.8	19.1	17.5	16.5	13.3	12.5	11.9
HUGO BOSS	106.05	1.9	1.8	1.6	19.8	18.0	16.4	12.2	11.2	10.2
TOM TAILOR	6.354	0.2	0.2	0.2	13.9	8.9	6.4	4.9	4.3	3.9
GERRY WEBBER	15.299	-0.5	0.4	0.7	14.3	11.3	9.8	8.2	6.9	6.1
Peer Group										
HENNES & MAURITZ	308.5	3.0	2.7	1.7	23.7	21.9	19.6	14.8	13.5	12.1
INDITEX	31.2	8.0	2.0	2.4	39.0	33.3	29.6	22.6	19.5	17.4
CCC	161.6	-0.6	0.6	0.9	24.8	18.9	16.0	17.2	13.9	11.8
Minimum		-0.6	0.6	0.9	23.7	18.9	16.0	14.8	13.5	11.8
Maximum		8.0	2.7	2.4	39.0	33.3	29.6	22.6	19.5	17.4
Median		3.0	2.0	1.7	24.8	21.9	19.6	17.2	13.9	12.1
LPP		7.92	6.00	5.22	36.94	27.97	24.36	19.85	16.43	14.48
(premium / discount)		168%	206%	205%	49%	28%	24%	16%	18%	20%
Implied valuation										
Median		3.0	2.0	1.7	24.8	21.9	19.6	17.2	13.9	12.1
Multiple weight						50%			50%	
Year weight					33%	33%	33%	33%	33%	33%
Equity value per share (PLN)					**6,100**					

Historical 2016E P/E estimates



Source: Bloomberg, Dom Maklerski mBanku

Historical 2016E EV/EBITDA estimates



Source: Bloomberg, Dom Maklerski mBanku

Income statement

(PLN m)	2012	2013	2014	2015P	2016P	2017P	2018P
Revenue	3,223.8	4,116.3	4,769.3	5,116.7	5,948.1	6,937.3	7,977.0
change	29.3%	27.7%	15.9%	7.3%	16.2%	16.6%	15.0%
COGS	1,396.7	1,707.1	1,976.8	2,375.9	2,636.6	3,073.4	3,549.2
Gross profit	1,827.1	2,409.2	2,792.5	2,740.8	3,311.6	3,863.9	4,427.8
gross profit margin	56.7%	58.5%	58.6%	53.6%	55.7%	55.7%	55.5%
Selling expenses	-1,228.5	-1,604.8	-1,942.9	-2,020.9	-2,453.1	-2,881.7	-3,274.4
General expenses	-132.3	-154.3	-205.4	-177.5	-192.9	-222.9	-253.8
Other net operating gains/losses	-11.9	-34.1	-35.0	-37.7	-36.2	-41.9	-47.7
EBIT	454.4	615.9	609.1	504.7	629.3	717.4	851.9
change	32.4%	35.5%	-1.1%	-17.1%	24.7%	14.0%	18.7%
EBIT margin	14.1%	15.0%	12.8%	9.9%	10.6%	10.3%	10.7%
Financing gains / losses	-30.3	-91.8	-149.2	-42.2	-17.9	-15.6	-15.1
Pre-tax profit	424.1	524.2	459.9	462.6	611.4	701.8	836.8
Tax	-70.2	-91.4	22.0	-87.7	-116.2	-133.3	-159.0
Minority interests	-0.9	-1.9	-2.3	-0.8	-1.2	-1.2	-1.2
Net profit	353.1	430.9	479.5	374.1	494.1	567.3	676.7
change	31.4%	22.0%	11.3%	-22.0%	32.1%	14.8%	19.3%
margin	11.0%	10.5%	10.1%	7.3%	8.3%	8.2%	8.5%
D&A	109.0	148.2	193.7	217.1	234.8	261.7	285.2
EBITDA	563.4	764.1	802.8	721.9	864.1	979.1	1 137.1
change	28.5%	35.6%	5.1%	-10.1%	19.7%	13.3%	16.1%
EBITDA margin	17.5%	18.6%	16.8%	14.1%	14.5%	14.1%	14.3%
Shares at year-end (millions)	1.8	1.8	1.8	1.8	1.8	1.8	1.8
EPS	195.1	238.1	264.9	206.7	273.0	313.4	373.8
ROA	19.9%	19.5%	17.7%	11.7%	13.8%	14.5%	15.8%
ROE	33.3%	31.8%	30.6%	20.9%	23.5%	23.4%	24.9%

Balance Sheet

(PLN m)	2012	2013	2014	2015P	2016P	2017P	2018P
ASSETS	1,932.2	2,491.6	2,933.7	3,479.6	3,691.7	4,120.6	4,442.7
Fixed assets	909.9	1,231.9	1,516.4	1,688.7	1,832.1	1,963.7	2,084.5
Property, plant and equipment	598.5	896.8	1,038.8	1,179.5	1,322.9	1,454.5	1,575.4
Goodwill	183.6	183.6	209.6	209.6	209.6	209.6	209.6
Deferred tax assets	22.8	29.9	143.5	130.0	130.0	130.0	130.0
Other	104.9	121.6	124.5	169.5	169.5	169.5	169.5
Current assets	1,022.4	1,259.7	1,417.3	1,790.9	1,859.6	2,156.9	2,358.1
Inventory	656.1	805.0	979.3	1,171.4	1,299.9	1,515.3	1,749.9
Receivables	190.4	260.0	223.2	282.7	330.3	383.1	433.3
Cash and cash equivalents	159.4	149.4	183.5	278.1	170.7	199.9	116.3
Other	16.5	45.3	31.2	58.6	58.6	58.6	58.6

(PLN m)	2012	2013	2014	2015P	2016P	2017P	2018P
EQUITY AND LIABILITIES	1,932.2	2,491.6	2,933.7	3,479.6	3,691.7	4,120.6	4,442.7
Equity	1,211.0	1,496.5	1,638.4	1,942.2	2,259.5	2,578.6	2,860.2
Long-term liabilities	131.0	192.3	210.7	416.2	94.7	73.5	57.5
Loans	125.1	184.3	204.5	409.3	87.7	66.6	50.5
Other	5.9	8.0	6.3	7.0	7.0	7.0	7.0
Current liabilities	590.2	802.7	1,084.6	1,121.1	1,337.5	1,468.4	1,525.0
Loans	61.0	173.6	378.3	376.7	462.3	491.4	413.6
Trade creditors	477.8	547.6	618.6	678.6	809.4	911.2	1 045.6
Other	51.3	81.5	87.7	65.8	65.8	65.8	65.8
Debt	186.2	357.9	582.8	785.9	550.0	558.0	464.1
Net debt	26.8	208.5	399.3	507.8	379.3	358.1	347.7
(Net debt / Equity)	2.2%	13.9%	24.4%	26.1%	16.8%	13.9%	12.2%
(Net debt / EBITDA)	0.0	0.3	0.5	0.7	0.4	0.4	0.3
BVPS	669.2	826.9	905.2	1,073.0	1,248.3	1,424.6	1,580.1

Cash Flows

(PLN m)	2012	2013	2014	2015P	2016P	2017P	2018P
Cash flow from operating activities	481.3	536.3	492.9	322.9	683.6	662.6	811.5
Pre-tax profit	424.1	524.2	459.9	462.6	611.4	701.8	836.8
Taxed paid	-56.4	-92.5	-91.1	-131.3	-116.2	-133.3	-159.0
D&A	109.0	148.2	193.7	217.1	234.8	261.7	285.2
Working capital	-327.4	-95.7	-118.4	-210.0	-45.3	-166.4	-150.3
Other	332.0	52.1	48.8	-15.4	-1.2	-1.2	-1.2
Cash flow from investing activities	-260.7	-518.2	-476.0	-352.0	-378.2	-393.3	-406.0
CAPEX	-288.4	-541.9	-550.6	-390.6	-378.2	-393.3	-406.0
Other	27.6	23.6	74.6	38.6	0.0	0.0	0.0
Cash flow from financing activities	-178.1	-0.6	17.2	123.6	-412.8	-240.1	-489.1
Loans	4.3	219.5	204.0	190.5	-235.9	8.0	-93.9
Dividends	-141.7	-155.3	-171.9	-57.9	-176.8	-248.1	-395.1
Other	-40.7	-64.9	-14.9	-8.9	0.0	0.0	0.0
Change in cash (eop)	42.4	17.5	34.2	94.6	-107.4	29.2	-83.6
Cash at period-end	159.4	149.4	183.5	278.1	170.7	199.9	116.3
DPS (PLN)	78.3	85.8	95.0	32.0	97.7	137.1	218.3
FCF	184.7	-59.3	158.8	33.6	296.1	253.5	387.6
(CAPEX/Sales)	8.9%	13.2%	11.5%	7.6%	6.4%	5.7%	5.1%

Trading Multiples

	2012	2013	2014	2015P	2016P	2017P	2018P
P/E	39.1	32.1	28.8	36.9	28.0	24.4	20.4
P/CE	29.9	23.9	20.5	23.4	19.0	16.7	14.4
P/BV	11.4	9.2	8.4	7.1	6.1	5.4	4.8
P/S	4.3	3.4	2.9	2.7	2.3	2.0	1.7
FCF/EV	1.3%	-0.4%	1.1%	0.2%	2.1%	1.8%	2.7%
EV/EBITDA	24.6	18.4	17.7	19.8	16.4	14.5	12.5
EV/EBIT	30.5	22.8	23.3	28.4	22.6	19.8	16.6
EV/S	4.3	3.4	3.0	2.8	2.4	2.0	1.8
DYield	1.0%	1.1%	1.2%	0.4%	1.3%	1.8%	2.9%
Price (PLN)	7,634.1						
Shares at year-end (millions)	1.8	1.8	1.8	1.8	1.8	1.8	1.8
MC (PLN m)	13,816	13,816	13,818	13,818	13,818	13,818	13,818
Minority interests (PLN m)	2.5	3.2	3.2	0.0	0.0	0.0	0.0
EV (PLN m)	13,845	14,027	14,221	14,326	14,198	14,176	14,166

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

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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%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
Recommendations are updated at least once every nine months.

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Previous ratings issued for LPP

rating	Sell
rating day	2015-01-26
price on rating day	7716.00
WIG on rating day	51680.12

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