mBank Dom Maklerski

mBank.pl

Wednesday, April 04, 2018 | research report

Dino: buy (reiterated)

DNP PW; DNPP.WA | Retail, Poland

A Compelling Growth Story

Dino shares have gained 4% since our previous rating update on January 18th, outperforming the broad WIG benchmark which lost 12%. Dino's 2017 fourth-quarter results exceeded our estimates and market expectations, with a business model facilitating sustained growth in like-for-like sales and profit margins. Dino improved its cash conversion cycle by 5.4 days to -52 days in 2017, but it has potential to improve the cycle further by 1.5 days per year in 2018-2021. Based on the fast-paced expansion achieved in 2017, we are raising our 2018 growth forecast for per-square-meter sales from 5.9% to 6.5%. This is expected to be accompanied by improving operating margins, supported by economies of scale and decreasing SG&A expenses, with our 2018 EBITDA margin forecast revised upward by 0.2pp to 9.1%. As a result, we expect Dino to generate FY2018 annual EBITDA of PLN 541.9m, indicating an increase of 35% from the adjusted year-ago figure, with an expected 2017-2021E CAGR of 21.4% unequaled by any peer. On our updated estimates, DNP is currently trading at 26x 2018E P/E and 0.57x EV/EBITDA Growth – multiples which make it a compelling growth story. We maintain a buy rating for Dino, with the 9-month price target set at PLN 103.5 per share.

Room for margin growth

As it grows its presence in the Polish grocery market, Dino achieves increasing sales margins from year to year, rising from 22.6% in 2015 to 22.9% in 2016 and 23% in 2017, with potential to expand further in the years ahead. At the same time, the Company has been able to deliver improving EBITDA margins by using cost-efficient logistics solutions, implementing cost savings, and reducing general and administrative expenses.

Huge land bank

Dino added 495 locations to its store land bank during 2017, with the land reserve as of 31 December comprised of 1,250 future store sites. At this rate, we believe the Company will beat its own expectations as to the rate of 2018-2020 store expansion (15.7% CAGR) with a projected CAGR of 21%.

Improving cash conversion cycle

Dino improved its cash conversion cycle by 5.4 days to a negative 52 days as of 31 December 2016, far exceeding its own 1-2-days-a-year target. By optimizing working capital as earnings continue to rise, the Company achieved an OCF/CAPEX ratio of 101% in 2017, expected to decline to 91% in 2018 and 114% in 2019.

(PLN m)	2016	2017	2018E	2019E	2020E
Revenue	3,369.5	4,515.9	5,944.2	7,575.8	9,267.9
EBITDA	280.8	389.1	541.9	697.9	855.4
EBITDA margin	8.3%	8.6%	9.1%	9.2%	9.2%
EBIT	215.6	303.2	429.1	557.2	684.8
Net income	151.2	213.6	319.2	426.6	532.3
P/E	55.2	39.1	26.1	19.6	15.7
P/CE	38.6	27.9	19.3	14.7	11.9
P/BV	12.2	9.2	6.8	5.1	3.8
EV/EBITDA	31.5	22.7	16.4	12.6	10.0
DPS	0.0	0.0	0.0	0.0	0.0
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Current Price	PLN 85.10
Target Price	PLN 103.50
MCap	PLN 8,343m
Free Float	PLN 4,080m
ADTV (3M)	PLN 30.17m

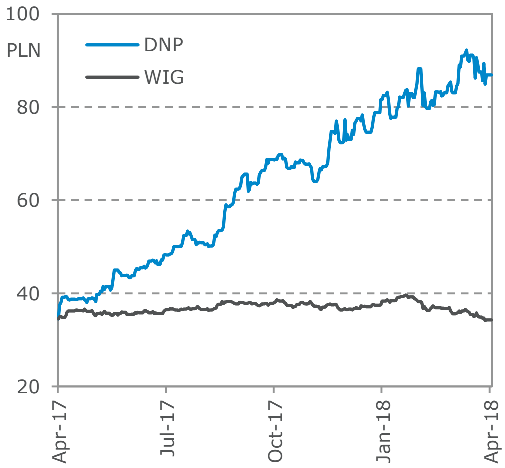
Ownership

Tomasz Biernacki	51.10%
Others	48.90%

Business Profile

Dino is a retail chain operator managing 775 stores at the end of 2017 after expanding at an average annual rate of 37.8% between 2010 and 2017. By 2020 Dino wants to increase the store count to a target 1,200 locations.

DNP vs. WIG



Company	9MTP new	9MTP old	Rating new	Rating old
Dino	103.50	95.40	buy	buy

Company	Current Price	Target Price	Upside
Dino	85.10	103.50	+21.6%

Forecast change since last update	2018E	2019E	2020E
Revenue	+0.6%	+2.7%	+2.8%
EBITDA	+5.1%	+8.2%	+8.7%
Net Profit	+7.6%	+10.6%	+10.3%

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Forecast Update

We have **revised upward** our **2018 and 2019 topline forecasts** for Dino to reflect higher expected annual growth in average **revenue per square meter** (raised to 6.5% and 4.2%, respectively). Our predictions as to the rate of store expansion in the next two years remain intact. Further, we have **raised our 2018 EBITDA margin estimate** by 0.4pp to **9.2%** based on the margin achieved in 2017, and with the assumption of gross margin growth supported by Dino's increasing bargaining power. **As a result, our 2018 and 2019 EBITDA margin forecasts are adjusted upward by 5.1% and 8.2%, respectively.**

Changes to 2018-2019 earnings forecasts

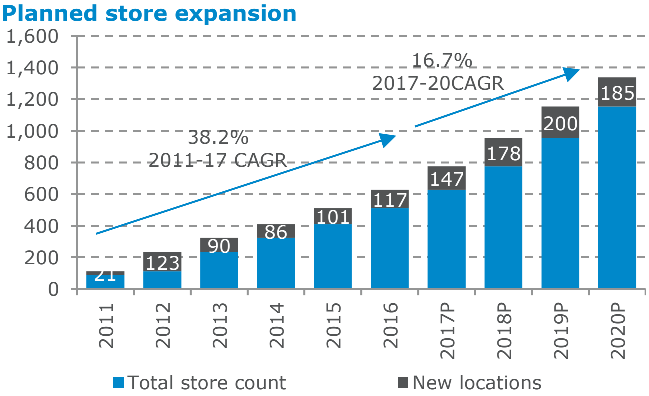
(PLN m)	2018P			2019P		
	old	new	change	old	new	change
Revenue	5,906.9	5,944.2	0.6%	7,375.3	7,575.8	2.7%
Gross margin	23.0%	23.1%	0.1pp	23.1%	23.2%	0.1pp
EBITDA	515.4	541.9	5.1%	645.2	697.9	8.2%
margin	8.7%	9.1%	0.4pp	8.7%	9.2%	0.5pp
EBIT	407.8	429.1	5.2%	513.1	557.2	8.6%
Pretax income	366.4	394.1	7.6%	475.9	526.6	10.6%
Net income	296.7	319.2	7.6%	385.5	426.6	10.6%

Source: Dino, P – projections by Dom Maklerski mBanku

Expansion

Between 2010 and 2017, Dino grew its sales network from 111 to 755 stores, representing a compound annual growth rate of 37.8%. With the addition of an expected 178 new locations in 2018, per our estimates the annual growth rate this year is set to be 23%. **By 2020, Dino plans to increase the number of stores to at least 1,200 (our forecast is for 1,338 locations), implying a 2016-2020 CAGR of 20.8%.**

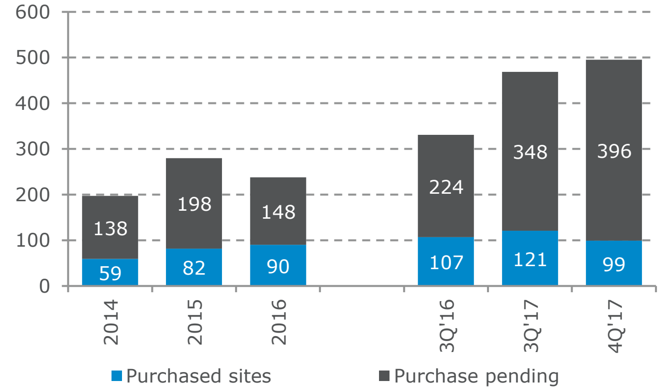
Planned store expansion



Source: Dino, Dom Maklerski mBanku

As of 31 December 2017, Dino had 99 finalized store sites in its land bank (9 more than in December 2016), and it had signed preliminary purchase agreements for a further 396 land lots (+148 or 59.7% y/y), making for a total of **496 sites**, representing a larger number than the 450 new stores the Company plans to open by 2020. Dino continues to build its land reserves, with purchases reported every quarter. **At this rate, we believe Dino will beat its own expectations as to the rate of 2018-2020 store expansion (15.7% CAGR) by approximately 10% with a projected CAGR of 21%.**

2014-2017 land bank evolution (# of future store sites)

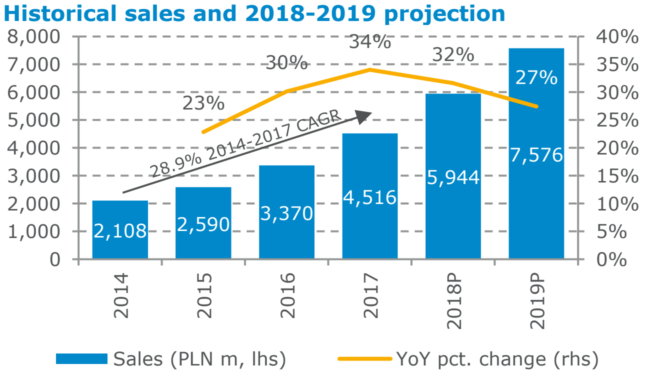


Source: Dino, Dom Maklerski mBanku

Economies of Scale

Dino increased sales revenues at an average annual rate of 28.9% in 2014-2017, with 2016-2017 CAGR at a staggering 34% as sales accelerated from year to year. **With increasing economies of scale, Dino can count on improving trade terms with suppliers, and it can optimize fixed costs and improve the cash conversion cycle.**

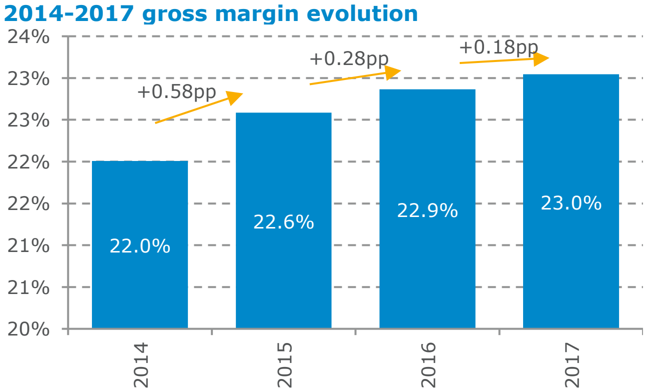
Historical sales and 2018-2019 projection



Source: Dino, P – projections by Dom Maklerski mBanku

Economies of scale are already starting to influence Dino's sales margins, **showing consistent growth from year to year, fueled by the Company's increasing bargaining power, coupled with efforts to optimize internal costs.** From 2014 to 2017, the annual gross margin increased by 1.04pp to 23%, **and it is expected to expand further in the coming years, in line with a growing sales network.**

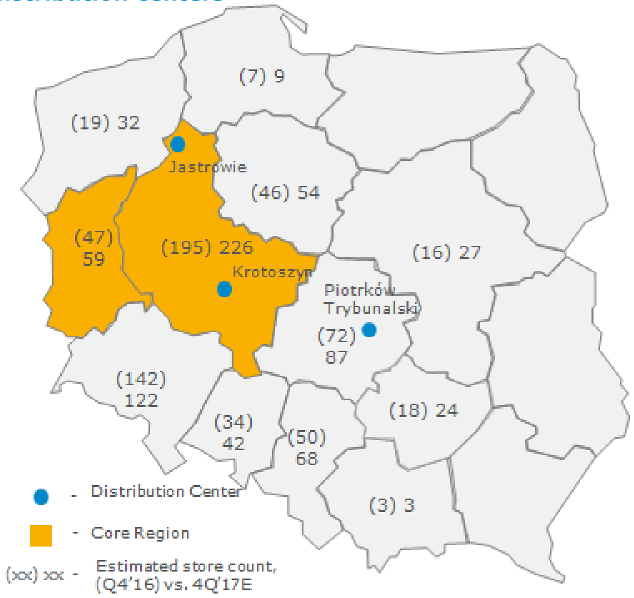
2014-2017 gross margin evolution



Source: Dino, Dom Maklerski mBanku

Dino is able to reduce logistics costs as its sales network becomes denser. The distribution center in the north-western town of Jastrowie generates decreasing costs as it caters to an increasing number of stores. In 2018, Dino is going to move the warehouse in Piotrków Trybunalski in central Poland from rented to owned spaces, further lowering costs. The Company plans to build a new distribution facility in southern Poland in the future to serve the local stores.

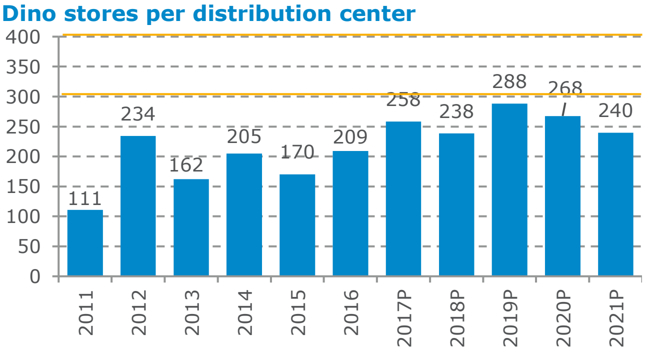
Dino store count by region and locations of distribution centers



Source: Dino, Dom Maklerski mBanku

The average number of stores served by each of Dino's existing distribution centers increased from 205 at the end of 2014 to 258 at the end of 2017, and it is set to edge up further in the medium term. **As a result, in 2017 the Company estimates it reduced fuel costs per PLN 1m revenue by 9%.**

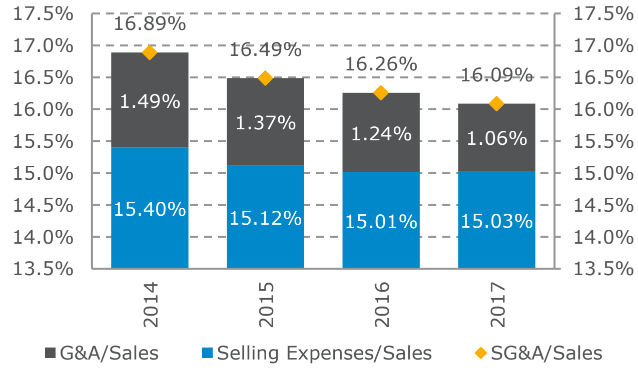
Dino stores per distribution center



Source: Dino, Dom Maklerski mBanku

Economies of scale also drive a reduction in general and administrative expenses as a percentage of sales, with the ratio reduced by 0.43 to 1.06% between 2014 and 2017. This was accompanied by a decrease in the ratio of selling expenses to sales, led by declining costs of logistics and expenses per store.

2014-2017 SG&A/Sales ratios



Source: Dino, Dom Maklerski mBanku

Against this backdrop, we predict Dino will **grow the EBITDA margin by 0.23pp to 9.1% in 2018** after a projected 0.1pp rise in the sales margin and further dilution of SG&A expenses (with the SG&A/sales ratio expected to decrease by 0.16pp). This will be followed by a slight contraction by 0.10pp to 9.2% in 2019, and further declines in subsequent years to a target 8.8% in 2026 (with the projected 2019-2027 average EBITDA margin at 9.0%).

Factors shaping Dino's EBITDA margins

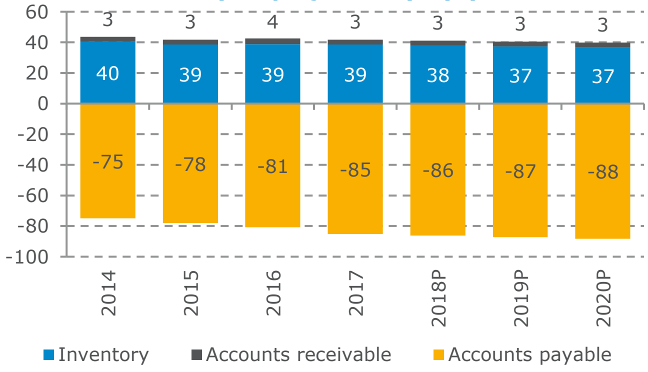
(%)	2015	2016	2017	2018P	2019P
Gross margin	22.6%	22.9%	23.0%	23.1%	23.2%
SG&A/Sales	-16.5%	-16.3%	-16.1%	-15.9%	-15.8%
One-offs	0.1%	0.0%	0.0%	0.0%	0.0%
EBIT margin	6.2%	6.6%	7.0%	7.2%	7.4%
D&A	1.9%	1.9%	1.9%	1.9%	1.9%
EBITDA margin	8.1%	8.6%	8.9%	9.1%	9.2%
YoY change (percentage points)					
Gross margin	0.58	0.28	0.18	0.10	0.05
SG&A/Sales	0.40	0.23	0.17	0.16	0.08
One-offs	0.18	-0.07	0.02	-0.03	0.00
EBIT margin	1.16	0.44	0.37	0.23	0.14
D&A	-0.05	0.00	-0.03	0.00	-0.04
EBITDA margin	1.11	0.44	0.33	0.23	0.10

Source: Dino, P – projections by Dom Maklerski mBanku

Improving Cash Cycle

Dino improved the cash conversion cycle by 5.3 days to -52.4 days during 2017. Of this, 4.5-days' worth was owed to extended payment terms for trade payables. Dino wants to continue improving CCC at an annual rate of 1-2 days in the years ahead. **For the purposes of our forecasts, we assume average improvement by 1.5 days per year through 2021, with the cash conversion cycle as of 31 December 2017 at a projected -59.9 days** (7.5 more than in 2017).

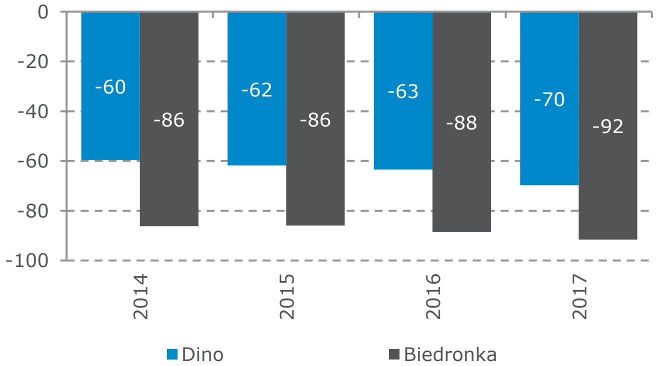
Cash conversion cycle projection (days)



Source: Dino, P – projections by Dom Maklerski mBanku

Not including amounts due to construction companies hired to build new stores, **Dino achieves longer payment terms in contracts with suppliers than Poland's biggest supermarket chain, Biedronka (owned by the WSE-listed Portuguese retailer Jeronimo Martins), and it is expected to extend the payables days further in the years ahead.**

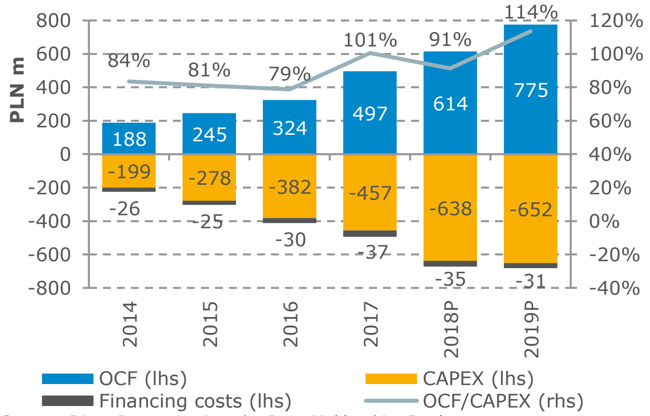
2014-2017 accounts payable days, Dino vs. Biedronka



Source: Dino, Dom Maklerski mBanku

Strong earnings growth, coupled with an improving cash conversion cycle, means Dino can fund its capital expenditures with increasing operating cash flow. **The Company's OCF/CAPEX ratio was 101% in 2017, and in 2018 it is expected to be 91%** (with Dino's guidance at 80%-100%) due to higher capital investment in logistics and in-house meat production capacity. **This will be followed by a rebound to 114% in 2019.**

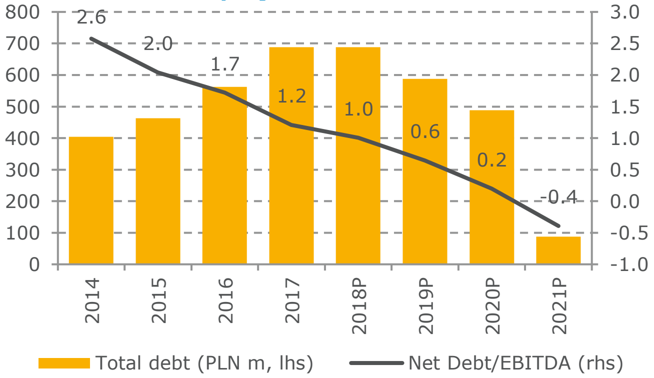
CAPEX & OCF projection



Source: Dino, P – projections by Dom Maklerski mBanku

In 2017, thanks to strong cash flow and increasing EBITDA (up 38.6% year over year), Dino reduced its net debt/EBITDA ratio (adjusted for IPO costs) by 0.6x to 1.2x. **In 2018, in spite of higher CAPEX, we expect further reduction in the debt ratio to 1.0x at the end of the year.**

Net Debt/EBITDA projection



Source: Dino, P – projections by Dom Maklerski mBanku

Risk Factors

Market Risk

The business of retail grocery sales relies heavily on consumer demand, and any shifts in factors shaping consumer spending, such as economic growth, price inflation, unemployment, employee compensation, and investment, can negatively impact the sales and profits of grocery retailers like Dino.

Curbed Rate Of Expansion

Due to its policy of owning store sites, Dino faces a slowdown in the planned expansion rate in the event of restricted access to new land. In addition, the Company could incur additional costs if it were to employ professional real-estate advisors. Finally, delays in the acquisition of the requisite building and zoning permits for each new store can also affect the pace of expansion.

Competition Risk

Poland has a highly competitive grocery market which, according to Dino, is set to become even more competitive going forward. Dino estimates there are up to five rival stores within a 5-kilometer radius of 47.5% of its supermarkets, and more than five establishments within a 5km distance of 23.4% of Dino stores. By transforming formats into proximity supermarkets, the competition could force Dino to scale back its expansion plans.

Aggressive pricing can affect the profitability of grocery retail. Dino is expected to mitigate price risks in the future as its bargaining power increases with scale.

Relationship With the Controlling Shareholder

Dino uses construction firms controlled by its majority shareholder, Mr. Tomasz Biernacki, to build new stores. Between 2014 and 2016 these companies were responsible for 276 out of the 279 new locations completed in the period. The reliance on a small group of related-party contractors gives rise to risk of contract cancelation, unfavorable change of terms, a deterioration in the quality of services, etc. In 2016 Dino signed a framework construction agreement with Krot-Invest with an effective term through June 2020.

Increase In Operating Costs

Notwithstanding merchandise costs, Dino's biggest expense line items as a percentage of sales in 2017 were payroll (10.3%), materials and utilities (9.8%), and services (3.7%). Of these, payroll is the main source of cost risk considering the rising minimum wage in Poland (raised to PLN 2,250 per month in 2018), and the pay pressures observed over the past year, which forced many chain retailers to offer raises to their sales staff during 2017. A slowdown in like-for-like sales growth can negatively affect Dino's profitability.

Interest Rate Hikes

Dino's interest-bearing debt increased from PLN 404m to PLN 563m between 2014 and 2016. Since all of the credit facilities carried variable rates, the reductions in central bank interest rates conducted in the period did not affect Company's annual financing costs, maintained at PLN 38m in 2017 vs. PLN 27m in 2014 despite the rising debt. Financing costs could, however, increase significantly after any future hikes in market interest rates since Dino does not hedge against interest rate risk.

Disruptions in Meat Supplies

Dino's subsidiary meat producer Agro-Rydzyna is also its sole supplier of fresh meat and the primary supplier of cured meats. Any disruptions in deliveries from Agro Rydzyna due, for example, to health and safety violations, can cause Dino to lose a portion of its sales revenues.

Our Forecasts vs. Analysts' Consensus

Our expectations as to Dino's sales **revenues** in the years 2017-2019 exceed the corresponding market forecasts by **3-7%**, which we attribute to our greater optimism as regards the store expansion rate and like-for-like growth. Accordingly, we also have higher expectations for Dino's earnings and EBITDA margins in the three-year period.

Earnings projections for Dino, Dom Maklerski mBanku vs. Market Consensus

(PLN m)	2018P			2019P			2020P		
	mDM	cCnsensus	differ.	mDM	Consensus	differ.	mDM	Consensus	differ.
Revenue	5,944.2	5,782.7	+3%	7,575.8	7,143.6	+6%	9,267.9	8,696.4	+7%
EBIT	429.1	396.4	+8%	557.2	497.8	+12%	684.8	602.1	+14%
EBITDA	541.9	506.1	+7%	697.9	631.8	+10%	855.4	778.7	+10%
Net profit	319.2	287.9	+11%	426.6	366.0	+17%	532.3	441.6	+21%

Source: Bloomberg, Dom Maklerski mBanku

Valuation

We used discounted cash flow analysis and relative valuation to assess the value of Dino. The DCF model yielded a per-share valuation of PLN 108.2 per share, and the per-share value obtained with multiples comparison amounted to PLN 86.4.

(PLN)	weight	price
Relative Valuation	50%	86.4
DCF Analysis	50%	108.2
	price	97.3
	9M target price	**103.5**

DCF Valuation

Assumptions:

- Cash flows are discounted to their present value as of the end of March 2018. Equity value calculations factor in net debt as of 31 December 2017.
- We assume EBITDA margin growth by 0.2pp to 9.1% in 2018, followed by stabilization at an average 9.0% in 2019-2027.
- Average annual CAPEX per store in the forecast period raised from PLN 2.5m to PLN 2.8m, store revamp costs at PLN 0.15m every five years, CAPEX per distribution center at PLN 60m, investment in Agro Rydzyna meat processing at PLN 178m total between 2018 and 2027.
- 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 FY2026 will grow at an annual rate of 2.5%.
- Beta = 1.0.

Operating Assumptions:

	2014	2015	2016	2017	2018P	2019P	2020P	2021P
Store count	410	511	628	775	953	1,153	1,338	1,438
y/y change		24.6%	22.9%	23.4%	23.0%	21.0%	16.0%	7.5%
Total store area (1,000 square meters)	151	192	238	295	364	442	515	555
y/y change		27.2%	24.2%	23.8%	23.4%	21.4%	16.4%	7.8%
Avg. store area (sqm)	368	376	380	381	382	383	385	386
y/y change		2.0%	1.0%	0.3%	0.3%	0.3%	0.3%	0.3%
Monthly sales/sqm (PLN)	1,301	1,258	1,305	1,410	1,502	1,565	1,614	1,639
y/y change		-3.3%	3.7%	8.1%	6.5%	4.2%	3.1%	1.6%
Gross profit margin	22.01%	22.59%	22.87%	23.04%	23.14%	23.20%	23.24%	23.23%
y/y change		0.58pp	0.28pp	0.18pp	0.10pp	0.05pp	0.04pp	-0.01pp
SG&A/Sales	16.89%	16.49%	16.48%	16.36%	15.92%	15.84%	15.85%	15.87%
y/y change		-0.40pp	-0.01pp	-0.12pp	-0.43pp	-0.08pp	0.01pp	0.02pp
EBITDA margin	7.01%	8.12%	8.33%	8.62%	9.12%	9.21%	9.23%	9.22%
y/y change		1.11pp	0.21pp	0.28pp	0.50pp	0.10pp	0.02pp	-0.01pp
Total CAPEX (PLN m), of which:	207	266	374	424	638	652	614	429
Stores	186	238	287	361	477	553	532	298
Distribution centers	8	19	71	42	96	30	60	60
Agro-Rydzyna meat processing plant	8	6	14	15	50	52	4	52
Other	5	3	1	7	15	17	18	19

DCF Model

(PLN m)	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2027+
Revenue	5,944	7,576	9,268	10,523	11,480	12,285	13,095	13,911	14,731	15,557	
pct. change	76.4%	67.8%	55.9%	38.9%	23.9%	16.7%	14.1%	13.2%	12.5%	11.8%	
EBITDA	542	698	855	970	1,053	1,106	1,173	1,227	1,291	1,355	
EBITDA margin	9.1%	9.2%	9.2%	9.2%	9.2%	9.0%	9.0%	8.8%	8.8%	8.7%	
D&A	112.7	140.8	170.6	195.2	207.3	214.3	222.5	231.1	236.7	241.5	
EBIT	429	557	685	775	845	892	951	996	1,055	1,114	
EBIT margin	7.2%	7.4%	7.4%	7.4%	7.4%	7.3%	7.3%	7.2%	7.2%	7.2%	
Tax on EBIT	81.5	105.9	130.1	147.2	160.6	169.5	180.7	189.2	200.4	211.6	
NOPLAT	348	451	555	628	685	723	770	807	854	902	
CAPEX	638.0	651.9	614.0	428.6	325.1	329.8	393.1	330.7	318.1	318.1	
Working capital	-147.4	-177.0	-194.1	-161.8	-138.7	-85.8	-86.4	-86.9	-87.5	-88.1	
FCF	951	1,067	1,145	1,090	1,078	1,181	1,299	1,282	1,321	1,374	1,355
WACC	8.1%	8.2%	8.2%	8.4%	8.4%	8.3%	8.3%	8.3%	8.4%	8.4%	
Discount factor	98.1%	90.7%	83.8%	77.3%	71.4%	65.9%	60.8%	56.2%	51.8%	47.8%	
PV FCF	-29.7	106.3	256.0	430.1	503.6	456.6	417.3	446.0	445.9	436.9	

WACC	8.1%	8.2%	8.2%	8.4%	8.4%	8.3%	8.3%	8.3%	8.4%	8.4%
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	7.7%	6.7%	5.7%	2.7%	3.0%	3.3%	3.7%	4.3%	2.6%	2.6%
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	2.50%
Terminal value	15,943
Present value of terminal value	7,625
Present value of FCF in the forecast period	3,469
Enterprise value	11,094
Net debt	485
Minority interests	0.0
Equity Value	10,608
Number of shares (millions)	98.04
Equity value per share (PLN)	108.2
9M cost of equity	6.4%
9M target price (PLN)	**115.1**

EV/EBITDA ('18) at target price	19.6
P/E ('18) at target price	33.2
TV / EV	69%

Sensitivity Analysis

	FCF growth after the forecast period				
	1.5%	2.0%	2.5%	3.0%	3.5%
WACC -1.0 pp	137.5	148.6	162.3	179.4	201.8
WACC -0.5 pp	112.2	119.4	127.9	138.1	150.8
WACC	102.3	108.2	115.1	123.3	133.2
WACC +0.5 pp	93.9	98.8	104.4	111.1	119.0
WACC +1.0 pp	80.0	83.5	87.5	92.0	97.3

Relative Valuation

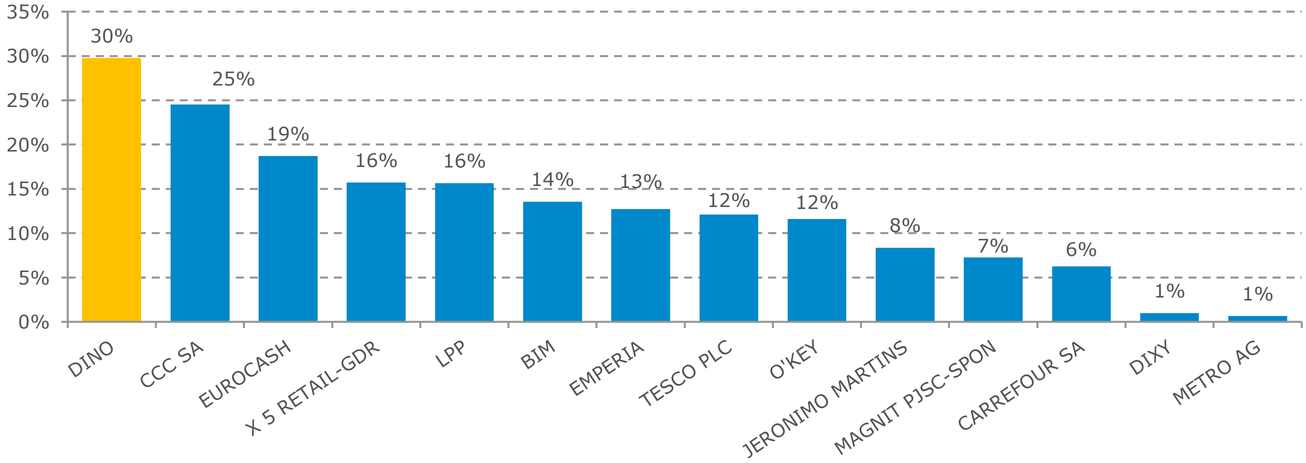
We compared Dino to a peer group of eight international chain retailers using the price-to-earnings ratio, the EV/EBITDA multiple, and the EV/EBITDA Growth ratio, given respective weights of 40%, and 40%, and 20%. The peer group consists of Tesco, Carrefour, X5, Metro, O'Key, Magnit, Eurocash, and Jeronimo Martins. Based on EV/EBITDA Growth, Dino demonstrates potential to grow much faster than the competition in the coming years,and as such we believe the Company should be traded at a premium to the peer group on P/E and EV/EBITDA.

Multiples Comparison

	Share Price	EV/EBITDA Growth 2018E	2019E	2020E	P/E 2018E	2019E	2020E	EV/EBITDA 2018E	2019E	2020E
TESCO PLC	203.5	0.7	0.6	0.6	19.0	15.2	12.5	8.5	7.4	6.8
CARREFOUR SA	16.7	1.0	0.9	0.9	14.9	12.6	11.5	6.6	6.1	5.6
X 5 RETAIL-GDR	33.6	0.4	0.4	0.3	12.9	10.2	8.9	6.1	5.3	4.8
METRO AG	14.5	7.0	6.8	6.7	11.2	10.5	10.0	4.6	4.5	4.4
O'KEY	2.0	0.4	0.4	0.3	20.7	12.9	7.3	6.2	5.5	4.7
MAGNIT PJSC-SPON	18.3	1.0	0.9	0.9	14.6	12.5	12.4	6.5	5.9	5.5
EUROCASH	24.4	0.5	0.4	0.4	21.1	16.9	14.8	8.4	7.6	6.8
JERONIMO MARTINS	14.6	1.1	1.0	0.9	20.3	18.2	16.7	9.2	8.4	7.8
Minimum		0.4	0.4	0.3	11.2	10.2	7.3	4.6	4.5	4.4
Maximum		7.0	6.8	6.7	21.1	18.2	16.7	9.2	8.4	7.8
Median		0.9	0.8	0.7	17.0	12.8	12.0	6.6	6.0	5.5
DINO		0.6	0.4	0.3	26.1	19.6	15.7	16.4	12.6	10.0
(premium / discount)		-33%	-43%	-51%	54%	53%	31%	149%	111%	80%
Implied Valuation										
Median		0.9	0.8	0.7	17.0	12.8	12.0	6.6	6.0	5.5
Multiple weight			20%			40%			40%	
Year weight		7%	7%	7%	13%	13%	13%	13%	13%	13%
Premium/discount	0%									
Value per share (PLN)	**86.4**									

Our 2017-2020 EBITDA CAGR projection for Dino is 30%, and within the peer group weaker growth potential is displayed by Metro AG and X5 Retail (which, however, trades at lower P/E and EV/EBITDA ratios than Dino due to higher political risk), while the Polish fashion retailers CCC and LPP are poised for slower expansion. We believe Dino deserves premium valuation relative to other grocery retailers owing to its successful expansion model, stable economic conditions, and strong earnings growth.

2017-2020 EBITDA CAGR projection, Dino versus Peers



Source: Bloomberg, Dom Maklerski mBanku

Income Statement

(PLN m)	2014	2015	2016	2017	2018P	2019P	2020P	2021P
Revenue	2,108.0	2,589.6	3,369.5	4,515.9	5,944.2	7,575.8	9,267.9	10,522.9
pct. change		22.8%	30.1%	34.0%	31.6%	27.4%	22.3%	13.5%
COGS	-1,644.1	-2,004.7	-2,599.0	-3,475.3	-4,568.5	-5,818.5	-7,114.0	-8,078.3
Gross profit	463.9	584.9	770.5	1,040.6	1,375.7	1,757.3	2,153.8	2,444.6
Gross profit margin	22.0%	22.6%	22.9%	23.0%	23.1%	23.2%	23.2%	23.2%
Selling expenses	-324.6	-391.6	-505.9	-678.7	-893.2	-1,138.2	-1,393.2	-1,583.5
General and administrative expenses	-31.3	-35.4	-49.4	-60.0	-53.3	-61.9	-75.8	-86.2
Other operating gains/losses	-2.1	2.1	0.4	1.3	0.0	0.0	0.0	0.0
EBIT	105.8	160.1	215.6	303.2	429.1	557.2	684.8	774.8
pct. change		51.3%	34.7%	40.7%	41.5%	29.8%	22.9%	13.2%
EBIT margin	5.0%	6.2%	6.4%	6.7%	7.2%	7.4%	7.4%	7.4%
Financing gains / losses	-26.5	-24.8	-29.1	-37.2	-35.0	-30.6	-27.6	-10.6
Pre-tax income	79.3	135.2	186.5	266.0	394.1	526.6	657.2	764.3
Tax	-13.2	-13.1	-35.2	-52.4	-74.9	-100.1	-124.9	-145.2
Net income	66.1	122.2	151.2	213.6	319.2	426.6	532.3	619.1
pct. change		84.7%	23.8%	41.3%	49.5%	33.6%	24.8%	16.3%
margin	3.1%	4.7%	4.5%	4.7%	5.4%	5.6%	5.7%	5.9%
D&A	41.9	50.2	65.2	85.9	112.7	140.8	170.6	195.2
EBITDA	147.7	210.2	280.8	389.1	541.9	697.9	855.4	970.1
pct. change		42.4%	33.6%	38.6%	39.3%	28.8%	22.6%	13.4%
EBITDA margin	7.0%	8.1%	8.3%	8.6%	9.1%	9.2%	9.2%	9.2%
EBITDA (adjusted)	147.7	210.2	288.3	401.4	541.9	697.9	855.4	970.1
EBITDA margin (adjusted)	7.0%	8.1%	8.6%	8.9%	9.1%	9.2%	9.2%	9.2%
Shares at year-end (millions)	98.0	98.0	98.0	98.0	98.0	98.0	98.0	98.0
EPS	0.7	1.2	1.5	2.2	3.3	4.4	5.4	6.3
ROA	5.7%	9.4%	9.2%	9.9%	11.6%	12.7%	13.1%	13.1%
ROE	16.1%	25.9%	24.9%	26.9%	30.0%	29.7%	27.8%	24.8%

Balance Sheet

(PLN m)	2014	2015	2016	2017	2018P	2019P	2020P	2021P
ASSETS	1,167.0	1,439.4	1,856.8	2,451.3	3,038.3	3,676.0	4,437.4	5,041.0
Fixed assets	928.6	1,150.8	1,457.1	1,808.0	2,333.2	2,844.3	3,287.7	3,521.1
Property, plant and equipment	798.9	1,024.2	1,337.2	1,697.6	2,222.8	2,733.9	3,177.4	3,410.7
Equity Value	90.7	92.3	93.1	92.8	92.8	92.8	92.8	92.8
Deferred tax assets	37.0	34.3	26.9	17.6	17.6	17.6	17.6	17.6
Other	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	238.4	288.6	399.7	643.4	705.1	831.7	1,149.7	1,519.9
Inventory	182.3	212.1	276.5	368.3	476.6	597.0	717.7	800.5
Accounts receivable	18.8	21.7	33.7	38.0	50.0	63.7	78.0	88.5
Cash and cash equivalents	23.7	33.9	66.4	202.6	144.0	136.5	319.5	596.5
Other	13.6	20.8	23.1	34.5	34.5	34.5	34.5	34.5

(PLN m)	2014	2015	2016	2017	2018P	2019P	2020P	2021P
EQUITY AND LIABILITIES	1,167.0	1,439.4	1,856.8	2,451.3	3,038.3	3,676.0	4,437.4	5,041.0
Equity	410.1	532.2	683.5	904.5	1,223.7	1,650.3	2,182.6	2,801.7
Noncurrent liabilities	288.1	363.2	459.4	575.9	575.9	475.9	375.9	105.3
Loans	286.0	361.8	452.4	470.6	470.6	370.6	270.6	0.0
Bonds	0.0	0.0	0.0	99.7	99.7	99.7	99.7	99.7
Other	2.2	1.4	7.0	5.5	5.5	5.5	5.5	5.5
Current liabilities	468.8	543.9	714.0	971.0	1,238.7	1,549.9	1,878.9	2,134.1
Loans	118.2	101.5	110.2	117.1	117.1	117.1	117.1	117.1
Trade creditors	337.6	429.2	574.4	811.3	1,079.0	1,390.2	1,719.3	1,974.4
Bonds	0.0	0.0	0.0	0.7	0.7	0.7	0.7	0.7
Other	12.9	13.2	29.4	41.9	41.9	41.9	41.9	41.9
Debt	404.1	463.3	562.6	688.1	688.1	588.1	488.1	217.5
Net debt	380.4	429.4	496.1	485.4	544.0	451.6	168.5	-379.0
(Net debt / Equity)	92.8%	80.7%	72.6%	53.7%	44.5%	27.4%	7.7%	-13.5%
(Net debt / EBITDA)	2.6	2.0	1.7	1.2	1.0	0.6	0.2	-0.4
BVPS	4.2	5.4	7.0	9.2	12.5	16.8	22.3	28.6

Cash Flow

(PLN m)	2014	2015	2016	2017	2018P	2019P	2020P	2021P
Cash flow from operating activities	188.5	245.4	324.3	497.2	614.4	774.9	924.7	986.7
Pre-tax income	79.3	135.2	186.5	266.0	394.1	526.6	657.2	764.3
Taxes paid	-1.6	-12.6	-16.5	-34.1	-74.9	-100.1	-124.9	-145.2
D&A	41.9	50.2	65.2	85.9	112.7	140.8	170.6	195.2
Working capital	39.0	43.5	47.2	131.2	147.4	177.0	194.1	161.8
Interest	26.3	24.9	29.2	37.6	35.0	30.6	27.6	10.6
Other	3.6	4.2	12.7	10.6	0.0	0.0	0.0	0.0
Cash flow from investing activities	-170.2	-242.5	-310.2	-402.1	-638.0	-651.9	-614.0	-428.6
CAPEX	-170.7	-243.5	-311.7	-410.6	-638.0	-651.9	-614.0	-428.6
Other	0.5	1.0	1.6	8.5	0.0	0.0	0.0	0.0
Cash flow from financing activities	-12.1	7.3	18.4	41.1	-35.0	-130.6	-127.6	-281.2
Loans	38.9	62.3	91.9	30.5	0.0	-100.0	-100.0	-270.6
Bonds	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0
Financial leases	-24.5	-30.0	-43.9	-51.9	0.0	0.0	0.0	0.0
Interest	-26.5	-25.0	-29.7	-37.4	-35.0	-30.6	-27.6	-10.6
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash	6.2	10.2	32.5	136.2	-58.6	-7.5	183.0	276.9
Cash at period-end	23.7	33.9	66.4	202.6	144.0	136.5	319.5	596.5
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	-1.6	-5.2	-24.5	49.9	-30.2	117.2	305.4	556.1
(CAPEX/Sales)	8.1%	9.4%	9.3%	9.1%	10.7%	8.6%	6.6%	4.1%

Trading Multiples

	2014	2015	2016	2017	2018P	2019P	2020P	2021P
P/E	126.2	68.3	55.2	39.1	26.1	19.6	15.7	13.5
P/CE	77.2	48.4	38.6	27.9	19.3	14.7	11.9	10.2
P/B	20.3	15.7	12.2	9.2	6.8	5.1	3.8	3.0
P/S	4.0	3.2	2.5	1.8	1.4	1.1	0.9	0.8
FCF/EV	0.0%	-0.1%	-0.3%	0.6%	-0.3%	1.3%	3.6%	7.0%
EV/EBITDA	59.1	41.7	31.5	22.7	16.4	12.6	10.0	8.2
EV/EBIT	82.5	54.8	41.0	29.1	20.7	15.8	12.4	10.3
EV/S	4.1	3.4	2.6	2.0	1.5	1.2	0.9	0.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	85.1	85.1	85.1	85.1	85.1	85.1	85.1	85.1
Shares at year-end (millions)	98.0	98.0	98.0	98.0	98.0	98.0	98.0	98.0
MC (PLN m)	8,343	8,343	8,343	8,343	8,343	8,343	8,343	8,343
Minority interests (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	8,724	8,773	8,839	8,829	8,887	8,795	8,512	7,964

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

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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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%
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The production of this recommendation was completed on April 4, 2018, 8:32 AM.
This recommendation was first disseminated on April 4, 2018, 8:32 AM.

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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 better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.
Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.
Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.
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.

mBank issued the following recommendations for Dino in the 12 months prior to this publication:

Rating	buy	buy
Rating date	2018-02-02	2018-01-18
Target price (PLN)	95.40	95.40
Price on rating day	85.00	80.00

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