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# Monthly Retail Insight: May 2019

## Retail, Poland

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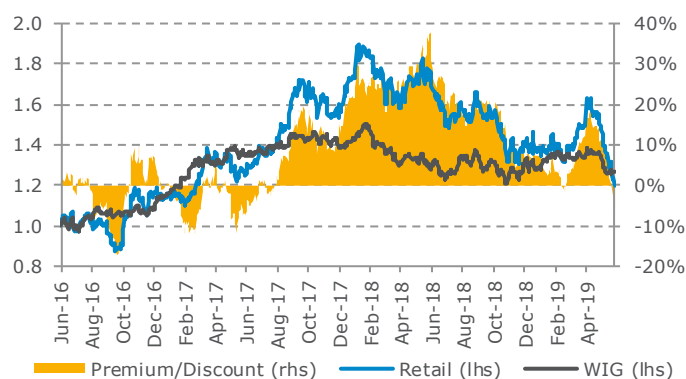
### Clothing & Footwear Retailers

- Monthly sales results:** unfavorable weather conditions in May should negatively impact the sales results of the retailers.
- Low sales dynamics & disappointment after the Q1 2019 results publication resulted in a deep correction on CCC shares (buy) in IV'19.** During the Q1 2019 conference, the company indicated that unfavorable weather conditions in May would impact a sales dynamics y/y. **Considering the low sales dynamics in April-May, pressure on the gross margin on sales** (unfavorable USD/PLN rate, increase in the share of branded products, increase of e-obuwie's share in sales) **and high cost base** (KVAG consolidation, Gino Rossi, DeeZee and increased marketing expenditures) **we expect a low Q2 2019 result.**
- VRG (overweight):** We evaluate the sales results published by VRG in April positively, pointing to the reversal of the negative trend in comparable sales in the clothing segment and further improvement in sales performance y/y in the jewelry segment. A slight deterioration in Q1 figures was mainly the result of the consolidation of Bytom's results (seasonally weak quarter in apparel). In Q1 2019, the company reported an improvement in the gross margin on sales, which confirms the effectiveness of the modified pricing policy. **We slightly revise our forecasts by adopting more conservative estimates for the jewelry segment in H2 2019 (high base effect), which results in lower EBITDA/net profit estimates by 3%/6%, respectively. Taking into account the company's attractive prospects for Q2 2019 and H2 2019, we maintain our positioning for the company.**
- LPP (hold) has published results for Q1 2019, reporting a slight improvement in EBIT y/y.** The gross margin on sales of the company decreased by 1.7 pp. y/y in Q1 2019, which was affected by intense sell-offs (the company reduced its inventory per sqm ratio by 10% y/y at the end of Q1 2019) and the high USD/PLN FX rate for the purchase of the spring-summer'19 collection. **The Company maintained the gross margin target at 54-55% for 2019 and set 53-54% for 13-months reporting period ending January 2020.** In line with our expectations, the company's share price reacted negatively by discounting the slowdown in Q2 2019 results dynamics due to (1) high base effect (+20% y/y increase in sales in Q2 2018) and (2) pressure on gross margin on sales. Considering the significant correction on the company's stock price, **we believe that the slowdown in earnings growth in Q2 2019 is already discounted.**
- Monnari (underweight) stock price decreased by 8% m/m.** We expect weak results of the company in Q1 2019 due to (1) deterioration in sales per sqm y/y in Monnari stores in March (seasonally the most important month in Q1), (2) consolidation of the Famestage Eva Minge result (negative impact also in subsequent quarters) and (3) pressure on the gross margin on sales. **In Q2 2019, we expect a slowdown in sales dynamics y/y, which, combined with lowering gross margin on sales and growing costs of SG&A per-square-meter, should result in the decline in y/y results in this period.**
- The 12-month forward P/E ratio for retail stocks decreased to -1 standard deviation to the historical average for the last three years since the previous month. After very good performance of observed companies in March, a significant correction is visible in April (unfavorable weather conditions in April-May period and slowdown in sales dynamics).**

### TOP PICKS

**OVERWEIGHT: VRG, UNDERWEIGHT: MON**

### Retail Stocks vs. WIG Index



Source: Bloomberg, Dom Maklerski mBanku

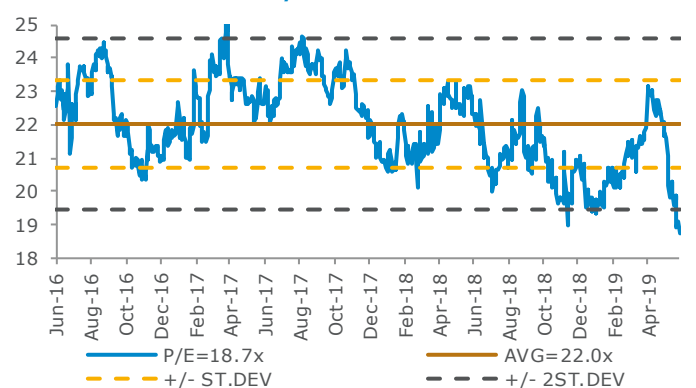
### Performance

Poland	1M*	YTD
Wojas	+8.2%	+39%
Gino Rossi	+3.6%	+0%
VRG	-1.8%	-3%
Monnari	-8.8%	+28%
Redan	-9.5%	-28%
LPP	-17.8%	-9%
CCC	-28.2%	-23%
WIG-clothing	-20.2%	-13%
WIG	-6.5%	-1%
World	1M*	YTD
Adidas	+17.2%	+47%
Under Armour	+2.9%	+33%
Next	+0.7%	+47%
KappAhl	-0.3%	-2%
ABC Mart	-0.9%	+13%
Assoc BF	-2.1%	+23%
Lululemon	-2.2%	+43%
Boohoo.com	-4.0%	+46%
Inditex	-5.1%	+12%
Hugo Boss	-7.0%	+8%
Nike	-8.0%	+10%
H&M	-8.7%	+21%
Asos	-11.4%	+56%
Marks & Spen	-12.3%	+1%
Zalando	-12.6%	+66%
Caleres	-22.3%	-26%
Geox	-24.1%	+9%
Gerry Weber	-26.1%	-86%
FootLocker	-27.5%	-20%
Crocs	-28.9%	-23%
EU Textiles**	-1.2%	+21%
World Txt.**	-3.9%	+18%
World Ind	1M*	YTD
EMEA Text.	-7.4%	-2%
World Text.	-3.9%	+11%
MSCI EM	-8.7%	+2%
EU Equity	-4.0%	+9%

\*Apr. 29 - May 28

\*\*MSCI EU/World Textiles

### Median 12M Forward P/E for Retail Stocks



**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%  
**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%  
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**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 investment recommendations for the companies in the 12 months prior to this publication

**CCC**

Rating	buy	buy	buy	buy	buy	accumulate
Rating date	2019-04-02	2019-02-04	2018-12-05	2018-11-05	2018-06-06	2018-05-09
Target price (PLN)	275.00	291.00	288.00	272.00	295.00	295.00
Price on rating day	217.00	178.80	204.60	173.60	242.80	255.60

**LPP**

Rating	hold	buy	accumulate	buy	buy	accumulate	hold
Rating date	2019-04-02	2019-03-05	2019-02-04	2018-12-05	2018-10-01	2018-06-18	2018-05-09
Target price (PLN)	8400.00	9300.00	9300.00	9300.00	10200.00	10200.00	9500.00
Price on rating day	8,405.00	7,990.00	8,370.00	7,730.00	8,625.00	9,025.00	9,260.00

**Monnari**

Rating	underweight	neutral	overweight
Rating date	2018-12-05	2018-07-13	2018-05-23
Target price (PLN)	-	-	-
Price on rating day	4.75	6.60	7.19

**TXM**

Rating	suspended	buy	buy
Rating date	2018-10-16	2018-07-04	2018-05-09
Target price (PLN)	-	3.48	5.44
Price on rating day	0.59	1.28	2.10

**VRG**

Rating	overweight	overweight	overweight	overweight	overweight
Rating date	2019-05-29	2019-03-28	2018-12-05	2018-11-08	2018-05-23
Target price (PLN)	-	-	-	-	-
Price on rating day	3.90	4.29	3.83	4.06	4.79

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