mBank Dom Maklerski

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Thursday, June 06, 2019 | update

CCC: hold (downgraded)

CCC PW; CCCP.WA | Retail, Poland

A bumpy road in 2019

Current Price	153.80 PLN
Target Price	161.00 PLN
Market Cap	6.2 mld PLN
Free Float	3.3 mld PLN
ADTV (3M)	52.1 mln PLN

Ownership

ULTRO S.A. (Dariusz Miłek indirectly)	26.86%
Leszek Gaczorek	4.86%
Aviva OFE	7.23%
NN OFE	8.33%
Others	52.72%

The company surprised in a very high dynamics of costs in Q1, worsening the EBITDA result y/y despite the very high sales growth y/y (sales in March +86% y/y). In April-May period, CCC reported low sales dynamics of the Group, recording significant declines in sales per sqm. in the CCC stationary network. We believe that the problem of low sales is the slow increase in the product offer, which did not keep up with the expanding average floorspace of the company's stores as well as the further downward trend in shopping mall visits. The negative impact on sales was compounded by unfavorable weather conditions. Adding foreign brands and a growing share of e-commerce should limit the growth rate of gross margin on sales y/y in 2019. The cost base is affected by (1) consolidation of KVAG, Gino Rossi & DeeZee and (2) additional costs related to marketing and sponsoring of the CCC cycling Team. The high cost base should be maintained in the following quarters, and the processes of business integration and further development of the product offer should last at least until the end of 2019. We expect potential improvement in earnings y/y and synergy effects in H2 2019. Taking into account the expected deterioration of the company's result in H1 2019, we are revising our EBITDA forecast (excl. IFRS 16) from PLN 764m to PLN 421m in 2019 and from PLN 910m to PLN 627m in 2020. Considering the above, we are downgrading our rating to hold with a target price of PLN 161.

Deteriorating sales per sqm

Considering the last 17 months (from the beginning of 2018), CCC has improved sales per sqm in the retail sales network y/y in only 4 periods. In our opinion, the deterioration in the ratio is due to the lack of an adequate offer keeping up with growing stores area, the introduction of trade ban on Sundays, declining shopping mall visits and unfavorable weather conditions. The process of expanding the offer by the company is in progress (acquisition of GRI, DeeZee, distribution of foreign brands), however, we would expect positive effects of these activities in 2020.

The cost base is a burden for the results

The G&A costs increased by almost 100% y/y to PLN 72m in Q1 2019. We estimate that the company has partly settled the costs of consultancy, but the majority of costs were added along with KVAG consolidation. In our opinion, the cost restructuring of the Swiss business will last at least until 2020. The selling costs were burdened with consolidation of Gino Rossi (business for restructuring), consolidation of DeeZee (temporary loss due to expenditures on marketing) and sponsoring of the CCC Team (we estimate the annual cost of PLN 60m).

Weak Q2 2019 earnings

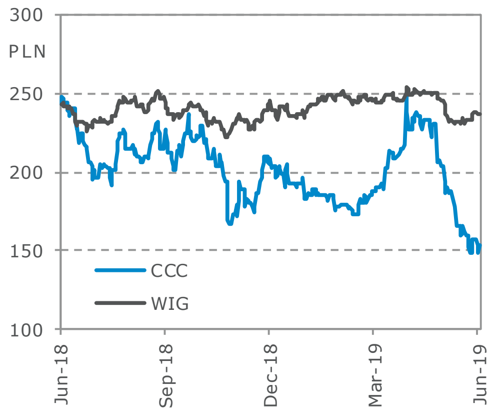
Considering the very poor sales results of the company in April-May, high base on gross margin on sales and high cost base, we initially expect sales @PLN 1,575m and a drop in adjusted EBIT from PLN 167m in Q2 2018 to PLN 119m in Q2 2019.

(PLN m)	2017	2018	2019E	2020E	2021E
Revenue	4,194.0	4,725.8	5,969.2	6,914.3	8,020.2
EBITDA	499.1	422.9	420.8	623.0	626.9
EBITDA margin	11.9%	8.9%	7.1%	9.0%	7.8%
EBIT	404.5	372.3	259.2	444.9	442.2
Net profit	286.9	225.9	122.8	266.9	302.1
P/E	22.0	28.0	51.5	23.7	20.9
P/CE	16.7	17.6	21.3	14.2	13.0
P/BV	5.7	6.2	5.7	4.9	4.6
EV/EBITDA	13.6	16.8	17.8	12.0	12.0
DPS	2.5	2.3	0.5	2.0	2.0
DYield	1.60%	1.50%	0.31%	1.30%	1.30%

Business profile

CCC is the largest producer and distributor of footwear in Poland, CEE, Western Europe and the Middle East. The company's products are sold in around 1150 own stores and around 30 franchise outlets. CCC has been active on the M&A market in recent years by acquiring eobuwie.pl (2016), KVAG (2018), DeeZee (2018) and Gino Rossi (2019). After unsuccessful international expansion, CCC sold CCC Germany (2019) in exchange for approx. 31% of shares in the HR Group.

CCC vs. WIG



Company	Target Price		Rating	
	new	old	new	old
CCC	161.00	275.00	hold	buy

Company	Current Price	Target Price	Upside/ Downside
CCC	153.80	161.00	+4.7%

Forecast revision since last update	2019E	2020E	2021E
Revenue	-0.5%	-0.3%	-14.4%
EBITDA	-44.9%	-31.5%	-40.4%
EBITDA adj.	-44.9%	-31.5%	-25.0%
Net profit	-73.6%	-52.4%	-55.4%

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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

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%
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SELL – we expect that an investment will bear a loss greater than 15%
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DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.
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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 Company in the 12 months prior to this publication

CCC

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

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