

Monday, July 15, 2019 | special comment

Jerónimo Martins – Forecast of 2019 Q2 Results

Rating: hold | target price: EUR 14.30 | current price: EUR 14.66

JMT.PL; JMT.LS | Retail, Portugal

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- Jerónimo Martins is scheduled to release its 2019 second-quarter earnings on July 25th, 2019, after market close.
- We expect to see improvement in Q2 euro-denominated sales effectiveness, supported by positive base and calendar effects, combined with accelerating inflation. Consequently, we anticipate growth in sales per square meter at annual rates of 5.6% in zlotys and 5.2% in euros at the Biedronka stores in Poland, alongside respective increases of 2% and 3% at Pingo Doce and Recheio in Portugal.
- Underpinned by intense marketing activity and base effects, the sales margin for Q2 might post year-over-year contraction of 0.1pp to 21.5%.
- At the same time, per-sqm SG&A expenses as a percentage of sales are set to decrease by 0.06pp compared to Q2 2018 at 18.22%.
- A slight decline by an estimated 1pp in the segmental EBITDA margin in Poland will probably be offset by a rebound of 0.2pp registered in Portugal. The total quarterly EBITDA will reflect additional costs of management incentives, but on the plus side the start-ups Ara and Hebe are set to reduce their combined Q2 operating loss by an estimated EUR 5.4m to EUR -16m.
- After financing costs of roughly EUR 8m (vs. EUR 8m in Q2'19), and after tax at an effective rate of 26% (vs. 23.86% in Q2 2018), net profit for Q2 2019 is expected to come in at EUR 100.5m – an increase of 5.8% year-over-year.
- After Q2 sales growth, supported by calendar effects and lower SG&A, the 2019 H1 EBITDA of Jerónimo Martins will fulfill 44% of our FY forecast as compared to a ratio of 45.5% on average achieved in comparable periods in 2016-2018. Nevertheless we believe the Company will improve operating profits in H2 thanks to sustained like-for-like growth, a continued rise in sales margins, and decreasing operating losses generated by Ara and Hebe.**

Quarterly results of Jerónimo Martins (IFRS 16 consolidated figures)

(EUR m)	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	YoY change
Revenue	4,225	4,375	4,536	4,247	4,586	8.5%
Biedronka	2,839	2,871	3,059	2,897	3,118	9.8%
Pingo Doce	936	1,011	1,006	905	972	3.9%
Recheio	248	281	241	214	252	1.4%
Other	202	212	230	231	244	20.9%
Gross profit	913	958	991	927	1,008	10.4%
margin	21.61%	21.90%	21.85%	21.83%	21.99%	
SG&A expenses	-772	-786	-834	-810	-858	
SG&A/Sales	18.27%	17.97%	18.39%	19.07%	18.72%	
EBIT	139.0	170.0	155.0	116.0	149.9	7.9%
margin	3.29%	3.89%	3.42%	2.73%	3.27%	
EBITDA	231.0	263.0	251.0	214.0	249.3	7.9%
Poland	210.3	212.5	228.5	194.1	227.9	8.3%
Portugal	50.1	79.1	62.4	50.4	53.7	7.1%
Other	-29.5	-28.6	-39.9	-30.5	-32.3	
EBITDA margin	5.47%	6.01%	5.53%	5.04%	5.44%	
Net financing costs	-9.0	-6.0	-6.0	-4.6	-9.3	
Tax	31.0	40.0	30.0	30.0	36.9	
Minority interests	4.0	12.0	10.0	6.0	4.5	
Net income	95.0	112.0	109.0	72.0	100.5	5.8%

Source: Jerónimo Martins, Dom Maklerski mBanku

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%
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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.

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