

Wednesday, July 17, 2019 | periodic publication

# Monthly Retail Insight: July 2019

## Retail, Poland

Analyst: Piotr Bogusz +48 22 438 24 08

### Clothing & Footwear Retailers (overweight)

- Sales update:** With sales on summer collections in full swing, July is a negligible contributor to the full-year profits of fashion retailers.
- After a jump in late June spurred by strong sales figures for the month, CCC stock (neutral) has been on a downward slide since the beginning of July, reflecting expectations of weak 2019 Q2 results.** The market is pricing a slowdown based on slow sales growth reported in April and May, signs of year-over-year contraction in sales margins, and persistently high costs. Sentiment might change with the publication of 2019 first-half results in August which will allow investors to look ahead to the second half of the year, when CCC should be able to demonstrate growth with support from positive base effects. Note that CCC no longer shares its monthly sales results since June 2019. The Retailer will release earnings for Q3 2019 at the beginning of October.
- Vistula Retail Group (VRG, overweight) delivered healthy sales figures for Q2 2019.** In June, overall sales slowed due to weaker performance of jewelry stores, but at the same time the gross margin for the month increased by 3.9pp compared to the same year-ago period, driven by an improved sales mix and pricing. In spite this, the total second-quarter sales revenue was up 40% on the year, with the gross profit registering a 44% rebound alongside an estimated upturn of approximately 60% in operating profit. The strong momentum observed in Q2 is likely to continue into the second half of the year, making VRG an interesting proposition for the coming weeks.
- LPP (accumulate) reported slight improvement in the operating profit for Q2 2019** relative to the year-ago figure, achieved despite unfavorable base effects which made for subdued growth in sales and margins. In spite of additional pressure from negative USDPLN exchange-rate trends, resulting in higher dollar costs of summer collections, LPP managed to curtail the pace of gross margin contraction to an annual rate of 0.5pp at 59.2%, owing probably to an absence of inventory write-offs. LPP is poised for continued improvement in the second half of the year thanks to more favorable exchange rates applied to autumn/winter orders combined with less adverse base effects.
- Monnari stock (MON, neutral) is down 11% since our last Retail Recap, released on 28 May.** The Retailer published weak numbers for June, with overall sales down 1.7% year on year, and sales under the 'Monnari' label registering a fall of 7.5%. We believe this is a result of heightened emphasis on margins at the expense of revenues. Total sales for Q2 2019 were up 7.2%, but with the store area in the period expanded by 12% this indicates a reduction in per-square-meter revenues. **Consequently, we expect to see weaker profits for the second quarter, underpinned by higher dollar costs of spring/summer collections, additional expenses on the post-merger integration of the Centro unit, which generates lower margins than the parent company, and high SG&A per square meter. Nevertheless we upgrade MON from underweight to neutral after the recent downturn in share price.**
- The 12-month forward P/E ratio for retail stocks** has held about one standard deviation below from the historical 3Y average in the time since the 28 May Retail Recap. **Fashion stocks which logged substantial gains in the period include H&M, Inditex, Lululemon, Under Armour, and Zalando, with Poland's LPP also getting a lift from the rally.**
- TOP PICKS – OVERWEIGHT:** LPP, VRG

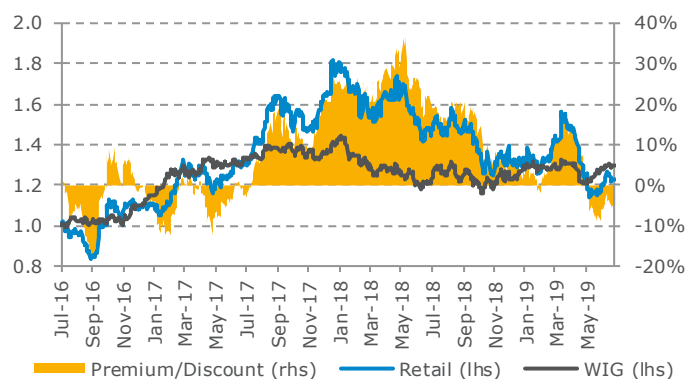
### Performance

Poland	1M*	YTD
LPP	+10.6%	+1%
VRG	+6.9%	+3%
Gino Rossi	+5.4%	+5%
CCC	+3.9%	-20%
Wojas	-4.5%	+33%
Monnari	-13.4%	+11%
Redan	-25.3%	-46%
WIG-clothing	+8.1%	-6%
WIG	+6.1%	+5%
World	1M*	YTD
Under Armour	+16.3%	+55%
Crocs	+13.2%	-13%
Zalando	+13.2%	+87%
H&M	+11.8%	+35%
Geox	+9.9%	+20%
Inditex	+9.7%	+23%
Lululemon	+9.6%	+56%
Nike	+9.4%	+20%
Adidas	+6.3%	+57%
Hugo Boss	+3.5%	+12%
ABC Mart	-2.6%	+10%
FootLocker	-3.4%	-23%
Next	-5.3%	+41%
Caleres	-5.5%	-30%
Assoc BF	-7.4%	+14%
Boohoo.com	-8.7%	+33%
Marks & Spen	-10.6%	-9%
KappAhl	-17.0%	-18%
Asos	-22.1%	+21%
Gerry Weber	-69.7%	-96%
EU Textiles**	+10.8%	+34%
World Txt.**	+9.5%	+29%
World Ind	1M*	YTD
EMEA Text.	+4.9%	+3%
World Text.	-0.1%	+11%
MSCI EM	+7.3%	+10%
EU Equity	+3.9%	+13%

\*May 28 - Jul. 16

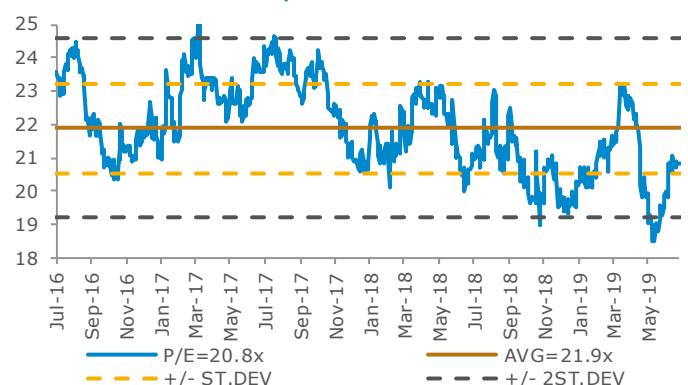
\*\*MSCI EU/World Textiles

### Retail Stocks vs. WIG Index



Source: Bloomberg, Dom Maklerski mBanku

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



**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

**Recommendations of Dom Maklerski mBanku:**

A recommendation is valid for a period of 9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

**BUY** – we expect that the rate of return from an investment will be at least 15%  
**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.

mBank S.A. with its registered office in Warsaw at Senatorska 18 renders brokerage services in the form of derived organisational unit – Brokerage Office which uses name Dom Maklerski mBanku.

mBank S.A. as part of the Exchange's Analytical Coverage Support Programme ("Programme", [https://www.gpw.pl/all-news?ph\\_main\\_01\\_start=show&ph\\_main\\_01\\_cm\\_n\\_id=108141](https://www.gpw.pl/all-news?ph_main_01_start=show&ph_main_01_cm_n_id=108141)) prepares analytical reports for the following companies: Cognor Holding, Comarch, VRG. These documents are prepared at the request of Gielda Papierów Wartościowych w Warszawie S.A. ("WSE"), which is entitled to copyrights to these materials. mBank S.A. receives remuneration from the WSE for the preparation of the reports. All documents prepared for the Programme are available at: [https://www.mdm.pl/ui-pub/site/market\\_and\\_analysis/analysis\\_and\\_recommendations/analytical\\_coverage\\_support\\_programme](https://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/analytical_coverage_support_programme)

This document has been created and published by Dom Maklerski mBanku. The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Dom Maklerski mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Dom Maklerski mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute investment, legal, accounting or other advice, and mBank is not liable for damages resulting from or related to the use of data provided in the documents. This document may not be copied, duplicated and/or be directly or indirectly distributed in the United States, Canada, Australia or Japan, nor transferred to citizens or residents of a state where its distribution may be legally restricted, which does not limit the possibility of publishing materials prepared for the Programme on Cognor Holding, Comarch, VRG, mBank or WSE websites. Persons who disseminate this document should be aware of the need to comply with such restrictions.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information about any conflicts of interest that may arise in connection with the issuance of recommendations (should such a conflict exist) is provided below, and it is valid as of the date of the most recent Monthly Report published by Dom Maklerski mBanku or as of the date of the most recent recommendation issued for an Issuer, as applicable.

The present publication was not transferred to issuers prior to publication.

The production of new recommendations was completed on July 17, 2019, 08:30 AM.  
 New recommendations were first disseminated on July 17, 2019, 08:30 AM.

mBank S.A. may have received compensation from the following companies in the last 12 months: ABC Data, Alchemia, Alior Bank, Ambra, Amica, Bank Handlowy, Bank Millennium, Bank Pekao, BGŻ BNP Paribas, BoomBIT, Boryszew, Capital Park, CD Projekt, CI Games, Echo Investment, Elemental Holding, Elzab, Enea, Energoaparatura, Erbud, Ergis, Erste Bank, Famur, Ferrum, GetBack, Getin Holding, Getin Noble Bank, Groclin, Impexmetal, INDATA, ING BSK, Kopex, Kruk, LW Bogdanka, Mangata, Mennica Polska, Mostostal Warszawa, Netia, Neuca, Oponeo.pl, Orbis, OTP Bank, PA Nova, PBKM, PEKABEX, PGE, PGNiG, PKO BP, Polenergia, Polimex-Mostostal, Polnord, Polwax, Prime Car Management, Primetech, Prochem, Projrzem, PZU, Raiffeisen Bank International, Rawplug, Santander Bank Polska, Seco/Warwick, Skarbiac Holding, Solar Company, Stelmet, Sygnity, Tarczyński, TOYA, Trakcja, Unibep, Uniwheels, Vistal Gdynia, YOLO, Zastal, ZUE.

In the last 12 months mBank S.A. has acted as dealer-manager for tender or exchange offers for the shares of: ABC Data, BoomBIT, Centrum Nowoczesnych Technologii, CI Games, Globalworth Poland, Orbis, Polenergia, Prime Car Management, Primetech.

Assec Poland provides IT services to mBank S.A.

mBank S.A. has a cash service agreement in place with Pekao and a phone subscription agreement in place with Orange Polska S.A.

mBank S.A., its shareholders and employees may hold long or short positions in the issuers' shares or other financial instruments related to the issuers' shares. mBank, its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report.

This document is an extract from a recommendation produced by Dom Maklerski mBanku.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written consent of mBank S.A.

Recommendations are addressed to all Clients of Dom Maklerski mBanku.

All investment recommendations and strategies issued by mBank S.A. over the last 12 months are available at: [http://www.mdm.pl/ui-pub/site/market\\_and\\_analysis/analysis\\_and\\_recommendations/fundamental\\_analysis/recommendations?recent\\_filter\\_active=true&lang=en](http://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/fundamental_analysis/recommendations?recent_filter_active=true&lang=en)

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Dom Maklerski mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of the present recommendations.

This publication constitutes investment research within the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Dom Maklerski mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

**For U.S. persons only:** This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

**Strong and weak points of valuation methods used in recommendations:**

**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.

**Comparative** – 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 investment recommendations for rated companies in the 12 months prior to this publication

**CCC**

Rating	hold	buy	buy	buy	buy
Rating date	2019-06-06	2019-04-02	2019-02-04	2018-12-05	2018-11-05
Target price (PLN)	161.00	275.00	291.00	288.00	272.00
Price on rating day	153.80	217.00	178.80	204.60	173.60

**LPP**

Rating	accumulate	accumulate	hold	buy	accumulate	buy	buy
Rating date	2019-07-03	2019-06-03	2019-04-02	2019-03-05	2019-02-04	2018-12-05	2018-10-01
Target price (PLN)	8500.00	8300.00	8400.00	9300.00	9300.00	9300.00	10200.00
Price on rating day	7,745.00	7,335.00	8,405.00	7,990.00	8,370.00	7,730.00	8,625.00

**Monnari**

Rating	neutral	underweight	neutral
Rating date	2019-07-17	2018-12-05	2018-07-13
Target price (PLN)	-	-	-
Price on rating day	4.66	4.75	6.60

**TXM**

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

**VRG**

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

## Dom Maklerski mBanku

Senatorska 18  
00-082 Warszawa  
<http://www.mbank.pl/>

### Research Department

**Kamil Kliszc**  
director  
+48 22 438 24 02  
[kamil.kliscz@mbank.pl](mailto:kamil.kliscz@mbank.pl)  
energy, power generation

**Jakub Szkopek**  
+48 22 438 24 03  
[jakub.szkopek@mbank.pl](mailto:jakub.szkopek@mbank.pl)  
industrials, chemicals, metals

**Aleksandra Szklarczyk**  
+48 22 438 24 04  
[aleksandra.szklarczyk@mbank.pl](mailto:aleksandra.szklarczyk@mbank.pl)  
construction, real-estate development

**Michał Marczak**  
+48 22 438 24 01  
[michal.marczak@mbank.pl](mailto:michal.marczak@mbank.pl)  
strategy

**Paweł Szpigiel**  
+48 22 438 24 06  
[pawel.szpigiel@mbank.pl](mailto:pawel.szpigiel@mbank.pl)  
media, IT, telco

**Piotr Poniatowski**  
+48 22 438 24 09  
[piotr.poniatowski@mbank.pl](mailto:piotr.poniatowski@mbank.pl)  
industrials

**Michał Konarski**  
+48 22 438 24 05  
[michal.konarski@mbank.pl](mailto:michal.konarski@mbank.pl)  
banks, financials

**Piotr Bogusz**  
+48 22 438 24 08  
[piotr.bogusz@mbank.pl](mailto:piotr.bogusz@mbank.pl)  
retail, gaming

**Mikołaj Lemańczyk**  
+48 22 438 24 07  
[mikolaj.lemanczyk@mbank.pl](mailto:mikolaj.lemanczyk@mbank.pl)  
financials

### Sales and Trading

#### Traders

**Piotr Gawron**  
director  
+48 22 697 48 95  
[piotr.gawron@mbank.pl](mailto:piotr.gawron@mbank.pl)

**Jędrzej Łukomski**  
+48 22 697 49 85  
[jedrzej.lukomski@mbank.pl](mailto:jedrzej.lukomski@mbank.pl)

**Tomasz Galanciak**  
+48 22 697 49 68  
[tomasz.galanciak@mbank.pl](mailto:tomasz.galanciak@mbank.pl)

**Krzysztof Bodek**  
+48 22 697 48 89  
[krzysztof.bodek@mbank.pl](mailto:krzysztof.bodek@mbank.pl)

**Adam Prokop**  
+48 22 697 47 90  
[adam.prokop@mbank.pl](mailto:adam.prokop@mbank.pl)

**Magdalena Bernacik**  
+48 22 697 47 35  
[magdalena.bernacik@mbank.pl](mailto:magdalena.bernacik@mbank.pl)

**Tomasz Jakubiec**  
+48 22 697 47 31  
[tomasz.jakubiec@mbank.pl](mailto:tomasz.jakubiec@mbank.pl)

**Andrzej Sychowski**  
+48 22 697 48 46  
[andrzej.sychowski@mbank.pl](mailto:andrzej.sychowski@mbank.pl)

### Sales, Foreign Markets

**Marzena Łempicka-Wilim**  
deputy director  
+48 22 697 48 82  
[marzena.lempicka@mbank.pl](mailto:marzena.lempicka@mbank.pl)

**Bartosz Orzechowski**  
+48 22 697 48 47  
[bartosz.orzechowski@mbank.pl](mailto:bartosz.orzechowski@mbank.pl)

### Private Client Sales

**Kamil Szymański**  
director  
+48 22 697 47 06  
[kamil.szymanski@mbank.pl](mailto:kamil.szymanski@mbank.pl)

**Jarosław Banasiak**  
deputy director  
+48 22 697 48 70  
[jaroslaw.banasiak@mbank.pl](mailto:jaroslaw.banasiak@mbank.pl)