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Monnari – Weak Q2’19 results, low cash level

Rating: neutral | current price: PLN 4.15

MON PW; MONP.WA | Retail, Poland

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In terms of EBITDA/EBIT/net profit, the company’s results are below market expectations and our forecasts. The main reason for such discrepancy in relation to our projections were lower sales (lack of the projected additional sale of services) and higher SG&A costs. The company’s results are unsatisfactory: net of the IFRS 16 effect, EBIDTA decreased by 46% y/y in Q2 2019. We would like to draw your attention to low operating cash flows, primarily due to an increase in inventories to PLN 78m as at the end of Q2 2019 (vs. PLN 50m in the same period last year) and an increase in receivables to PLN 33m as at the end of Q2 2019 (vs. PLN 30.2m in Q2 2018). As a result, the company’s operating cash flows (net of the IFRS 16 effect) amounted to -PLN 4.8m (vs. PLN 10.6m at the end of Q2 2018). We believe that the high inventory level can be only partially justified by earlier delivery of merchandise (prior to the 2018 fall/winter season, the company’s inventories as at the end of Q3 2018 stood at PLN 74m). Yet, in our opinion it was largely driven by poor sales of the current collection. At the end of Q2 2019, the company had PLN 10.9m in cash (vs. PLN 50.4m at the end of Q2 2018).

- The company’s sales went up by 5.9% y/y to PLN 64.7m in Q2 2019. Floor space increased by 9.3% y/y to 36,600 sq. m; sales/sq. m dropped by 5.2% y/y to PLN 577. **Inventories/sq. m rose by 39.4% y/y to PLN 2,087**. The high ratio in the previous quarters was partially attributable to an early stocking of the new collection. In our opinion, it was also down to low sales of the previous collection.
- Gross sales margin went down by 0.7 pp y/y to 60.3% in Q2 2019. The decrease was driven by the base effect and an unfavourable USD/PLN exchange rate at which the company bought its spring/summer 2019 collection.
- SG&A/sales increased by 6.7 pp y/y (!) to 55.95%. SG&A/sq. m went up by 7.6% y/y to PLN 323 at the end of Q2 2019. This coupled with the decrease in gross sales margin pushed down EBITDA margin by 7 pp y/y to 7.3% in Q2 2019 (EBITDA excl. IFRS 16). Additional depreciation related to IFRS 16 stood at PLN 4m in Q2 2019.
- Operating cash flows amounted to -PLN 4.8m in Q2 2019 (net of IFRS 16) compared with PLN 10.6m in Q2 2018. The weaker OCF were down mainly to a y/y decrease in result, and a substantial increase in inventories and receivables.
- **We consider the results negative. The results are below market expectations and our forecasts. The company reported very poor cash flows. Cash dropped to PLN 11m at the end of Q2 2019 (vs. PLN 50m at the end of Q2 2018). Taking into account the low result and the increasingly worse cash position we see potential for a downward revision of our FY’19 forecasts. In view of the above, we expect a negative reaction from the company’s share price.**

2019 Q2 actuals vs. expectations

(PLN m)	Q2’19*	Q2’18	change	Q2’19**	Q2'19E	differ.	consensus	differ.	2019E	2018	change
Revenue	64.7	61.1	5.9%	64.7	66.0	-2.0%	65.4	-1.1%	247.7	246.3	0.6%
EBITDA	4.7	8.7	-46.2%	8.7	5.6	-15.9%	4.9	-3.9%	16.8	24.9	-32.5%
margin	7.3%	14.3%	-7p.p.	13.4%	14.4%	-7.1p.p.	7.5%	-0.2p.p.	6.8%	10.1%	-3.3p.p.
EBIT	3.3	7.6	-56.2%	3.2	4.4	-24.7%	3.7	-10%	12.6	20.7	-39.2%
Pre-tax profit	3.1	8.2	-62.4%	3.2	4.9	-37.7%	-	-	18.6	36.6	-49.1%
Net profit	2.5	6.1	-58.3%	2.5	3.8	-33.3%	3.2	-21%	15.4	17.3	-11.0%

Source: Monnari, E - estimates by Dom Maklerski mBanku; Consensus estimates provided by PAP; *without IFRS16 (our estimate); **with IFRS16

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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