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Monthly Retail Insight: January 2020

Retail, Poland

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Clothing & Footwear Retailers (overweight)

- CCC stock (buy) hit its lowest level since 2013 following the release of weaker-than-expected preliminary 2019 Q4 results on 8 January, only to rebound three weeks later with the publication of an updated strategy plan for 2020-2022.
- Like-for-like sales fell 9% in the fourth quarter from a low year-ago base (when same-store sales also registered a 9% slump), driven by unseasonably warm weather and still sub-optimal inventory levels. At the same time, the ongoing efforts to optimize the sales mix resulted in a higher gross margin and allowed the Company to contain the rise in SG&A to the same pace as it grows its store area even as e-commerce continued its fast expansion in the period.
- CCC said in its new strategy that it was aiming for a target EBIT margin range of 8.5%-9.5% in 2022 - an ambitious goal in our view. The main downside risk that we see is the assumed increase in sales expected to be achieved through sales mix changes, but we also see upside potential in the fast-paced growth of e-commerce.
- CCC denied plans to raise capital during the strategy meeting, and it is guiding for a leverage ratio at 3.2x-3.3x of EBITDA as of 31 March 2020.
- The sales outlook for Q1 2020 is affected by negative base effects and risk of unfavorable weather in March, when CCC stores will be launching spring-summer collections. Nevertheless we expect to see higher sales and profits this quarter, and we see upside risk in the market forecasts for FY2020 from the current level.
- VRG (accumulate) is expected to report a slower earnings momentum in Q4 2019 after weak revenue growth in December, caused in part by negative base effects affecting the jewelry stores. Base effects might also curb growth in January and February.
- VRG parted ways with former CFO Mateusz Żmijewski at the end of 2019, and with the current Management Board's term ending on 31 March we might see more executive reshuffling in the coming months.
- VRG's main challenge at the moment is to improve sales effectiveness in the fashion segment, and maintain like-for-like growth in the jewelry segment in the single digits.
- LPP (buy) reported a miss on the preliminary results for the fourth quarter of calendar 2019 relative to market expectations and our estimates, which assumed lower operating expenses.
- The estimated results for the fourth reporting quarter of fiscal 2019, which has been extended by one month to end on 31 January 2020, are slated for a release on 3 February.
- In the year ahead, we expect VRG to continue improving like-for-like growth while maintaining tight cost discipline to deliver double-digit earnings growth supported by a normalized effective tax rate.
- The 12-month forward P/E ratio for retail stocks has declined below its historical 3Y average in the time since our last Retail Recap in October 2019, led by a downward correction amid worsened market conditions underpinned by growing concerns over the extent of the coronavirus outbreak.
- TOP PICKS: OVERWEIGHT CCC, LPP, VRG**

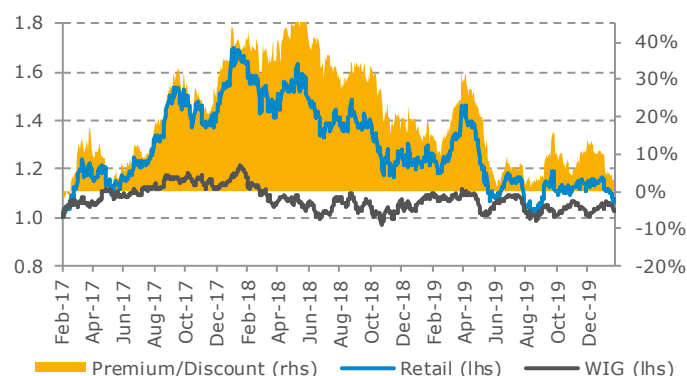
Performance

Poland	1M*	YTD
Redan	+22.7%	+23%
Wojas	+9.8%	+10%
Gino Rossi	+0.0%	+0%
LPP	-2.8%	-3%
VRG	-3.5%	-3%
Monnari	-8.4%	-8%
CCC	-9.1%	-9%
WIG-clothing	-4.1%	-4%
WIG	-1.6%	-2%
World	1M*	YTD
H&M	+9.0%	+9%
Lululemon	+5.6%	+5%
Boohoo.com	+2.1%	+1%
Adidas	+1.1%	+1%
Assoc BF	+0.7%	+1%
KappAhl	+0.0%	+0%
FootLocker	-0.1%	+0%
Hugo Boss	-0.2%	-0%
Next	-1.4%	+0%
Under Armour	-2.0%	-3%
Nike	-2.6%	-3%
Inditex	-2.6%	-2%
Zalando	-3.2%	-3%
Crocs	-5.4%	-6%
ABC Mart	-6.3%	-6%
Geox	-8.1%	-8%
Asos	-10.7%	-12%
Marks & Spen	-16.4%	-15%
Caleres	-26.3%	-25%
EU Textiles**	-2.2%	-2%
World Txt.**	-2.9%	-3%
World Ind	1M*	YTD
EMEA Text.	-0.8%	-1%
World Text.	-1.6%	-2%
MSCI EM	-4.1%	-4%
EU Equity	-1.8%	-2%

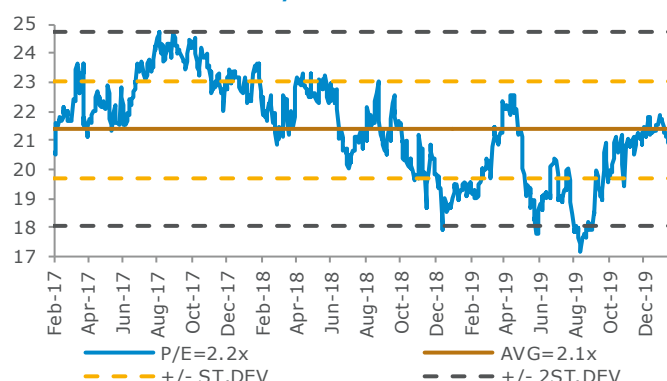
*Dec. 30 - Jan. 30

**MSCI EU/World Textiles

Retail Stocks vs. WIG Index



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

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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%
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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 rated companies in the 12 months prior to this publication

CCC

Rating	buy	buy	buy	hold	buy	buy
Rating date	2019-12-05	2019-11-06	2019-09-05	2019-06-06	2019-04-02	2019-02-04
Target price (PLN)	157.00	160.00	161.00	161.00	275.00	291.00
Price on rating day	108.10	112.20	131.90	153.80	217.00	178.80

LPP

Rating	buy	hold	buy	accumulate	accumulate	hold	buy	accumulate
Rating date	2019-12-05	2019-10-07	2019-09-05	2019-07-03	2019-06-03	2019-04-02	2019-03-05	2019-02-04
Target price (PLN)	10,100.00	8,500.00	8,500.00	8,500.00	8,300.00	8,400.00	9,300.00	9,300.00
Price on rating day	8,575.00	7,950.00	7,280.00	7,745.00	7,335.00	8,405.00	7,990.00	8,370.00

VRG

Rating	accumulate	buy	overweight	overweight
Rating date	2019-12-02	2019-07-26	2019-05-29	2019-03-28
Target price (PLN)	4.50	5.20	-	-
Price on rating day	3.94	4.20	3.90	4.29

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