

Friday, February 21, 2020 | update

CCC: buy (reiterated)

CCC PW; CCCP.WA | Retail, Poland

Turning the Corner Toward Profits

CCC delivered disappointing earnings for 2019 due to a combination of various factors, of which some were rooted in the fundamentals (oversized stores, unattractive product mix), some were temporary setbacks (inventory sell-off, IT investment, post-merger restructuring, one-time events), and some could be blamed on the weather. Looking ahead, after revisions to incorporate more conservative assumptions as to future growth, our current EBIT margin forecast for 2022 is lower than the target set by CCC in its 'GO.22' strategy plan (at 7.2% vs. 8-9%), but it is higher than the current consensus of 5.9%. Similarly, in 2020 we expect 13% higher EBIT than the average estimate of market analysts, and we see an annual EBIT margin of 5.0% vs. 4.3% forecast by the market – a discrepancy which indicates potential for upward revisions to CCC's earnings expectations in the coming quarters. Our upbeat view on 2020 profits factors in the expected positive effects of the various growth initiatives that CCC successfully completed last year. These included the implementation of innovative sales solutions, inventory optimization, a revamp of the product mix, and cost reductions. As a result, we believe CCC can stem earnings declines in Q1 2020 and start delivering growth from the second quarter. At the same time, the Company will most likely reduce CAPEX to PLN 222m this year from PLN 727m in 2019, when it was investing in technology and growth, with positive effects on free cash flow. CCC's net debt/EBITDA ratio reached 2.9x at the end of 2019, and it will most likely rise further to an estimated 3.3x by the end of March 2020, only to decrease in subsequent quarters. We see CCC as undervalued at the current level relative to its short-term prospects, and so we maintain our buy recommendation with a target price of PLN 135 per share.

Reaping rewards of 2019 investment

With the expansion of the sales mix to include new brands, styles, and categories, combined with innovative sales technologies and the increasing role of omni-channel retailing, CCC is ready to see increasing sales and margins in 2020. The profit expansion will be supported by reduced employment and logistics costs at the subsidiary Swiss shoe chain KVAG, a streamlined Gino Rossi business (fewer stores, scaled-back G&A), and tight cost management at CCC.

Fast-paced growth in e-commerce

CCC increased e-commerce sales by 49% in 2019, and this year we expect continued expansion at an annual rate of 35%, accompanied by a recovery in gross margin by an estimated 1.6pp to 9.2% after a temporary decline last year caused by intensified marketing activity. Costs of order fulfillment will most likely go down this year thanks to the recent launch of a new distribution center. Last but not least, CCC continues to develop the Modivo app, launched in Q2 2019, which by Q4 achieved quarterly sales of PLN 38m.

(PLN m)	2017	2018	2019E	2020E	2021E
Revenue	3,938.1	4,725.7	5,843.8	6,933.4	7,893.1
EBITDA*	507.7	525.5	291.2	526.9	706.9
EBITDA margin	12.9%	11.1%	5.0%	7.6%	9.0%
EBIT	462.9	279.4	124.8	343.7	525.1
Net profit	346.8	133.0	-5.4	186.0	327.7
P/E	11.1	29.1	-714.8	20.8	11.8
P/CE	8.8	11.2	24.8	10.5	7.6
P/BV	3.3	3.4	3.6	3.3	2.7
EV/EBITDA	8.5	8.8	16.8	9.5	7.0
DPS	2.5	2.3	0.48	2.0	2.0
DYield	2.62%	2.45%	0.51%	2.13%	2.13%

*ex. IFRS 16

Current Price	PLN 94.00
Target Price	PLN 135.00
Market Cap	PLN 3.9bn
Free Float	PLN 2.1bn
ADTV (3M)	PLN 35.7m

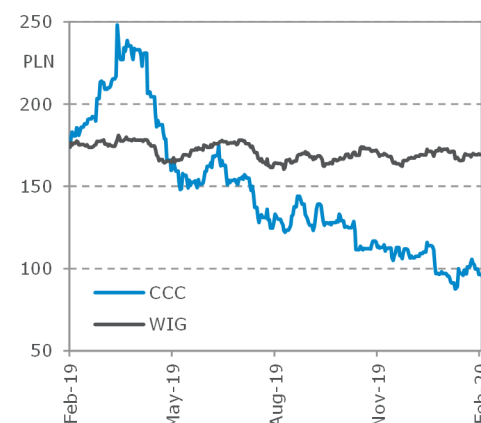
Ownership

ULTRO S.A. (a company controlled by Dariusz Milek)	27.33%
NN OFE	7.51%
Aviva OFE	7.43%
Leszek Gaczorek	4.86%
Others	52.87%

Business Profile

CCC is the largest producer and distributor of footwear in Poland, CEE, Western Europe and the Middle East. The Company operates through 1,240 own stores. 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). In 2019, the Company swapped its loss-making German business in exchange for approx. 31% of shares in the HR Group.

CCC vs. WIG



Company	Target Price		Rating	
	new	old	new	old
CCC	135.00	157.00	buy	buy

Company	Current Price	Target Price	Upside
CCC	94.00	135.00	43.6%

Forecast Update	2019E	2020E	2021E
Revenue	-2.9%	-3.0%	-2.3%
EBITDA (adj.)	-21.0%	-13.9%	-5.9%
Net profit	-	-5.1%	10.9%

Analyst:

Piotr Bogusz
+48 22 438 24 08
piotr.bogusz@mbank.pl

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 Biuro maklerskie 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 Biuro maklerskie mBanku.

mBank S.A. as part of the Exchange's Analytical Coverage Support Programme ("Programme"), <https://www.gpw.pl/eacsp> prepares analytical reports for the following companies: Cognor Holding, Comarch, VRG. These documents are prepared at the request of Giełda 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

This document has been created and published by Biuro maklerskie 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 Biuro maklerskie mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Biuro maklerskie 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 concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located below.

Nothing in this Publication is intended as a comment on any report, opinion, or view expressed by media outlets as regards an apparent intention on the part of Bank Pekao S.A. to approach Commerzbank with a preliminary offer to buy shares in mBank (the "Alleged Transaction"). Furthermore, nothing in this Publication shall be construed as an attempt to measure the impact of such an Alleged Transaction on the valuation or the financial results of Bank Pekao S.A. Any recommendations made herein, and all financial forecasts, reflect the present status of Bank Pekao S.A. as of this date and represent our expectations as to Bank Pekao S.A.'s growth on an organic basis. Similarly, nothing in this Publication shall be construed as a comment on how the Alleged Transaction could impact PZU S.A., which is part of our coverage universe and which holds interest in Bank Pekao S.A.

The present report was not transferred to the issuer prior to its publication.

The production of this recommendation was completed on February 21, 2020, 8:35 AM.
This recommendation was first disseminated on February 21, 2020, 8:35 AM.

This document is an extract from a recommendation produced by Biuro maklerskie mBanku.

mBank S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares.

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 Biuro maklerskie 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

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 Biuro maklerskie 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 Biuro maklerskie 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.

Relative – 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 CCC in the 12 months prior to this publication

CCC

recommendation	buy	buy	buy	hold	buy	buy
issued on	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 at date issued	108.10	112.20	131.90	153.80	217.00	178.80

mBank S.A.

Senatorska 18
00-950 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszczyk
director
+48 22 438 24 02
kamil.kliscz@mbank.pl
energy, power generation

Jakub Szkopek
+48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Aleksandra Szklarczyk
+48 22 438 24 04
aleksandra.szklarczyk@mbank.pl
construction, real-estate development

Michał Marczak
+48 22 438 24 01
michal.marczak@mbank.pl
strategy

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl
media, IT, telco

Piotr Poniąkowski
+48 22 438 24 09
piotr.poniakowski@mbank.pl
industrials

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl
banks, financials

Piotr Bogusz
+48 22 438 24 08
piotr.bogusz@mbank.pl
retail, gaming

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl
banks, financials

Sales and Trading**Traders**

Piotr Gawron
director
+48 22 697 48 95
piotr.gawron@mbank.pl

Adam Prokop
+48 22 697 47 90
adam.prokop@mbank.pl

Krzysztof Bodek
+48 22 697 48 89
krzysztof.bodek@mbank.pl

Magdalena Bernacik
+48 22 697 47 35
magdalena.bernacik@mbank.pl

Tomasz Jakubiec
+48 22 697 47 31
tomasz.jakubiec@mbank.pl

Andrzej Sychowski
+48 22 697 48 46
andrzej.sychowski@mbank.pl

Sales, Foreign Markets

Bartosz Orzechowski
+48 22 697 48 47
bartosz.orzechowski@mbank.pl

Jędrzej Łukomski
+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Private Client Sales

Kamil Szymański
director
+48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
+48 22 697 48 70
jaroslaw.banasiak@mbank.pl