

Thursday, May 14, 2020 | special comment

## Jeronimo Martins – 2020 Q1 Earnings Call Highlights

Rating: hold | target price: EUR 16.30 | current price: EUR 13.82

**JMT.PL; JMT.LS | Retail, Portugal**

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- **Poland:** The chain supermarket operator Biedronka grew its market share by 1.4pp in Q1 2020 compared to the same period a year earlier. The average basket spend in the period increased at a slower rate than the rate of food price inflation. JMT wants to keep Biedronka's EBITDA margin stable in 2020. In Q1, profits were weighed down by one-time charges including an EUR 11m charitable grant given to the Biedronka Foundation and additional expenses incurred on adapting stores to more stringent health and safety requirements, representing a major part of the total of EUR 15.5m coronavirus-related costs incurred by JMT in the period. JMT estimates its monthly Covid-19-related costs at EUR 7-8m during the time the safety restrictions remain in place.
- **Gross margin** expanded in Q1 2020 thanks to improved performance in Colombia and a more profitable sales mix offered in Poland and Portugal. In the periods ahead, JMT's main focus will be on maintaining attractive prices for customers.
- **Portugal:** Portugal is currently registering the lowest consumer confidence levels in the whole EU, and the reduced willingness to spend is part of the reason behind the weak sales generated by Pingo Doce and Recheio stores. In April, Pingo Doce supermarkets registered 16.4% lower sales than in the same month in 2019. At Recheio Cash&Carry, reduced orders from the hospitality industry were not offset by walk-in sales.
- **Ara:** 30% of the Colombian grocery chain is affected by weekend trading restrictions. JMT intends to make all possible efforts to have Ara break even by 2021 as was originally intended.
- **COVID-19:** JMT has decided to withdraw its FY2020 guidance in light of the uncertainty around the coronavirus pandemic. The Company has also resolved to curb the rate of store expansion and reduce the dividend payout ratio from 50% to 30% of annual profits.
- **The 2020 first-quarter results of Jeronimo Martins fell short of expectations over the additional costs necessitated by the coronavirus pandemic, combined with the epidemic's negative impact on the performance of the Portuguese business and the Polish 'Hebe' drugstores. In Q2 2020, earnings growth will most likely be stunted by lower consumer spending over the Easter 2020 holidays compared to last year, combined with a continued rise in costs.**

### 2020 Q1 results vs. prior periods\*

(EUR m)		Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	YoY
Revenue		4,247	4,661	4,754	4,977	4,714	11.0%
	Biedronka	2,897	3,167	3,172	3,385	3,262	12.6%
	Pingo Doce	905	988	1,019	1,033	936	3.4%
	Recheio	214	253	290	250	214	0.0%
	Other	231	253	273	309	302	30.7%
Gross profit		927	1,005	1,059	1,085	1,041	12.3%
margin		21.83%	21.56%	22.28%	21.80%	22.08%	
SG&A expenses		-810	-846	-872	-900	-936	
SG&A/Sales		19.07%	18.15%	18.34%	18.08%	19.86%	
EBIT		116.0	156.0	183.0	177.0	100.0	-13.8%
margin		2.73%	3.35%	3.85%	3.56%	2.12%	
EBITDA		214.0	257.0	286.0	288.0	208.0	-2.8%
	Poland	195.0	233.0	237.0	253.0	208.0	6.7%
	Portugal	51.0	58.0	80.0	66.0	45.0	-11.8%
	Other	-32.0	-34.0	-31.0	-31.0	-45.0	
EBITDA margin		5.04%	5.51%	6.02%	5.79%	4.41%	
Net financing costs		-8.0	-8.0	-8.0	-5.0	-9.0	
Tax		30.0	33.0	43.0	31.0	27.0	
Minority interests		6.0	6.0	13.0	9.0	-3.0	
Net income		72.0	109.0	121.0	132.0	67.0	-6.9%

Source: Jeronimo Martins, mBank; \*Figures ex-IFRS 16 effects

## 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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**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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