Thursday, June 25, 2020 | special comment

LPP – Highlights from FY2020 Q1 Earnings Conference Call

Rating: hold | target price: PLN 6,900.00 | current price: PLN 6,490.00

LPP PW; LPPP.WA | Retail, Poland

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- LPP expects **online sales** in the quarters ahead to **continue growing at a triple-digit rate**, the Company said at today's first-quarter earnings call, with total sales for the year generated by the Web stores likely to top PLN 2 billion.
- The **e-commerce** segment achieved monthly **operating margins of approximately 15%** in May and June after an improvement compared to year-ago levels observed in previous months.
- LPP is in the process of **re-negotiating rental rates** with retail property owners, and it hopes to **finalize the talks by the end of July.** The majority of brick and mortar stores should re-open for business in a matter of weeks.
- There are **no plans for a massive "fire sale" on spring -summer collections at the shops;** rather, LPP's main focus in the coming months will be on rebuilding sales margins through smart clearance strategies and better price management. Sales margins generated in May and June were lower than in the corresponding year-ago periods. The zloty's low exchange rate vis-à-vis the dollar is adding to the downward pressure.
- LPP sees **this year's sales declines** compared to 2019 at **no more than 20%.**
- Profits in the **second quarter** might be **weighed down by costs of German store closures of up to PLN 200m** (LPP is currently negotiating rent relief with German landlords).
- At the same time, LPP expects to be able to recognize about **PLN 50m in coronavirus relief in the period,** alongside positive rent adjustments.
- **As a reminder, LPP's financial results for the three months ended 30 April 2020 came out weak due to the coronavirus. Looking ahead, the Retailer sees continued growth in online sales combined with increasing sales profits, driven by scale and logistics cost savings. As brick-and-mortar shops slowly recover from lockdown, their performance in the periods ahead depends largely on successful rent reductions.**

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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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%
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