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Allegro: 2020 Q3 Earnings Highlights

Rating: sell | target price: PLN 54.00 | current price: PLN 76.95

ALE PW; ALEW.WA | e-Commerce, Poland

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Allegro reported strong financial results for the third quarter of 2020 that reflect its leading position in the Polish market and show the general acceleration of e-commerce since the outbreak of the coronavirus pandemic. At the same time it is hard not to notice the huge increase in costs of deliveries and marketing – the main reason why the adjusted third-quarter EBITDA fell by 8pp compared to the same period a year earlier. Unlike most, we believe Allegro is going to continue incurring high costs in the future. Note also that Allegro's guidance for the fourth quarter implies slower EBITDA growth than the 28% annual growth rate registered in the first three quarters of 2020.

- Allegro reported continued strong growth in gross merchandise value (GMV) at 48.7% vs. 54.5% in the first half of the year.
- The take rate charged by the Online Retailer increased to 9.40% in the third quarter from 9.29% in the same year-ago period and 9.1% in H1 2020, resulting in higher revenue of PLN 928.7m, representing a 49.7% y/y rebound. Of this, marketplace revenue increased by 50.2% to PLN 771.5m.
- On the downside, costs in Q3 2020 also increased at a substantial rate, with OPEX ex. D&A and one-time charges coming in at PLN 520.2m after soaring 74.7% from the year-ago OPEX of PLN 297.8m.
- Net costs of delivery climbed by a staggering PLN 107.3m or 160.8% from Q3 2019, driven by a larger volume of orders from subscribers to the SMART! loyalty program. Unfortunately, Allegro did not disclose its current SMART! subscriber numbers in today's report, although it did reveal that the net delivery cost per order dropped by 17.4%. The increase in overall delivery costs is huge considering the introduction of cost financing by SMART! merchants.

Comparison of Allegro's 2020 and 2019 Q3 costs

(PLN m)	3Q'20	3Q'19	Y/Y
Net costs of deliveries	174.1	66.7	160.8%
vs. gross merchandise value	2.1%	1.2%	0.9%
vs. revenue	18.7%	10.8%	8.0%
Marketing expenses	122.5	75.5	62.3%
vs. gross merchandise value	1.5%	1.4%	0.1%
vs. revenue	13.2%	12.2%	1.0%

Source: Allegro, mBank

- Marketing expenses increased by PLN 47.0m or 62.3% in Q3 2020 compared to the same year-ago period. The main drivers included a 73.9% surge in pay-per-click ads combined with brand investment.
- Allegro has revised upwards if FY2020 earnings guidance, with GMV seen as increasing by +50% and EBITDA growth in the mid-20s. Allegro has room to grow this fast thanks to its dominant position in the Polish e-commerce market. Were are surprised to see that the Company is apparently anticipating a slowdown in adjusted EBITDA in the fourth quarter, though this might be the Management's way of reining in expectations and setting the market up for a positive surprise.
- Allegro incurred one-time expenses of PLN 123.7m in Q3 2020, including PLN 60.8m associated with the IPO.
- Operating cash flow for the year to 30 September totaled PLN 1.16bn, an increase from PLN 0.90bn generated in the same period a year ago.

2020 Q3 Results

(PLN m)	3Q'20	3Q'19	Y/Y
GMV	8,253.1	5,551.3	48.7%
Revenue	928.7	620.2	49.7%
EBITDA (adj.)	408.5	322.4	26.7%
EBITDA margin (adj.)	44.0%	52.0%	-
EBITDA	284.724	319.787	-11.0%
EBITDA margin	30.7%	51.6%	-
EBIT	167.8	210.6	-20.3%
Pre-tax profit	-84.7	100.4	-
Net profit	-131.7	73.4	-

Source: Allegro, mBank

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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