

Monday, 20 September 2021 | update

# Allegro: sell (reiterated)

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

## Bracing for Market Share Loss

Allegro stock has registered a decline of nearly 6% since our last update in November 2020, which means it underperformed the broad market by a staggering 32%. Nevertheless we stand by our contrarian bearish view on the e-Commerce marketplace, which in our view is poised to lose its dominant position in the Polish market. There is no question that Allegro will benefit from the rise in e-Commerce in the coming years, but its sales growth is not likely to top industry averages because of its structure, and because of increasingly stiff competition.

Our negative view sets us apart from most market analysts, who are currently predicting a rise in Allegro's market share despite the fact that, in Q2 2021, an 11% rebound in the gross merchandise volume sold via the allegro.pl marketplace put it 7pp behind the average for the market.

Going forward, in its determination to retain market share as Amazon makes increasingly bold moves in Poland (amazon.pl has just cut the minimum order value for free deliver by more than half), Allegro will probably also lower the thresholds of its 'SMART!' loyalty program – with implications for EBITDA.

After updating our models to factor in the Covid boost and favorable market conditions, on the one hand, and lower expectations for future revenues and margins, on the other hand, our revised EBITDA forecast for Allegros sits 9% below the Bloomberg consensus. We also set a new price target for ALE stock at PLN 52.40, implying a sell recommendation.

On our updated 2022 estimates, currently ALE stock is trading at 27.7x EV/EBITDA, showing a big premium to the peer group (+137% vs. Alibaba, +42% vs. Amazon) which we consider undeserved.

## Slow-Rising Merchandise Categories Account For Most of GMV

Polish e-commerce is forecast by PWC to grow at an average annual rate of about 12% in the 2020-26 period, and within this the Home & Garden category might increase by 9.7% a year, and the rise in sales of Electronics & Media could average 7.1%. These two categories accounted for upwards of 53% of Allegro's LTM GMV in Q2 2020, and as the year went on we suspect Home & Garden products gained even more weight. Based on these proportions, we do not see Allegro as keeping pace with the expected growth in the Polish e-commerce market in the coming years, much less exceeding it.

## Competition Gets Tougher

The world's three biggest online marketplaces, Amazon, Alibaba, and Shopee, have either already established a foothold in Poland, or expressed a desire to do so. Most recently, amazon.pl has cut the minimum order value for free delivery to 40 zloty, or around 9 euros, and soon enough Polish shoppers should also be given a chance to become Amazon Prime members. In October, the Singapore-based Shopee is opening its marketplace to Polish shoppers with an offer of free delivery on all orders for six months, along with a free commission program for the merchants.

(PLN m)	2019	2020	2021E	2022E	2023E
revenue	2,592.3	3,997.8	5,328.6	6,329.6	7,553.9
EBITDA (adj.)	1,338.1	1,750.0	2,144.3	2,456.2	2,859.8
margin	51.6%	43.8%	40.2%	38.8%	37.9%
EBIT	886.1	1,122.9	1,613.4	1,850.7	2,209.0
net profit	393.1	418.5	1,118.5	1,341.1	1,661.7
P/E	167.2	157.1	58.8	49.0	39.6
P/S	25.4	16.4	12.3	10.4	8.7
P/B	9.9	8.1	7.1	6.2	5.3
EV/EBITDA (adj.)	53.6	40.0	32.2	27.7	23.3
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

current price	PLN 64.25
target price	PLN 52.40
mCap	PLN 65.7bn
free float	PLN 24.7bn
ADTV (3M)	PLN 162.9m

## Shareholders

Cidinan S.à r.l.	28.0%
Permira VI Investment Platform Ltd	28.0%
Mepinan S.à r.l.	6.2%
Others	37.7%

## About

Allegro is the owner of Poland's biggest e-commerce platform, Allegro.pl, and it runs the country's leading price comparison site, Ceneo.pl. As of July 2021, Allegro had the sixth biggest online presence in Poland with 20.6 million real users and a reach of 71.3%. Allegro's 2021 Q2 LTM revenue amounted to PLN 4.7 billion, and of this 81.4% was provided by the allegro.pl platform, 8.7% came from advertising, and 4.0% was generated by ceneo.pl.

## ALE vs. WIG



	Target price		Recommendation	
	new	old	new	old
Allegro	52.40	54.00	sell	sell
Current Price Target Price Downside				
Allegro	64.25	52.40	-18.4%	
Forecast Revision				
revenue		+14.3%	+9.6%	+6.7%
EBITDA (adj.)		+5.4%	+2.2%	+0.5%
net profit		+3.7%	+0.1%	-2.1%

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## Key Questions

### Why Is Allegro's GMV Growing Slower Than the Market?

In 2020, Allegro's gross merchandise value (GMV) growth outpaced that of Poland's overall e-commerce market by 19pp. The four main factors identified as responsible for this rise were:

- A combination of a wide range of deals for consumers, a well-run fulfillment strategy, and convenience, which the Company was able to capitalize on successfully when Covid-19 hit,
- The SMART! loyalty program for shoppers, which includes free shipping over a certain order value – a big draw for many consumers,
- Allegro's strong presence in the Home & Garden marketplace, which accounted for more than 30% of the LTM 2020 H1 GMV thanks to the Covid boost effect, and
- Larger paid traffic.

By the first quarter of 2021, GMV growth slowed to the industry average, and in Q2 2021 its pace dropped 7pp below the average at 11% year over year.

Note that our calculations of Polish e-commerce growth use official data published by Statistics Poland which, importantly, did not factor in purchases made by Poles via the amazon.de Website in 2020, but that do factor in purchases on amazon.pl in 2021 – a variation that causes the 2021 growth rates to read higher than they otherwise would. What is more, another potentially distorting factor is that Statistics Poland sources its data from answers to surveys among retailers employing more than nine people.

In July of 2021, Allegro's GMV seems to have bounced back according to preliminary guidance, but its recovery was still behind the average for the industry.

#### YoY growth in GMV f Allegro vs. industry average

	2020	1Q'21	2Q'21	July '21
average	35%	51%	18%	25%
Allegro	54%	46%	11%	15%

\*2020 market GMV figures are PWC data, and figures for 1Q'21, 2Q'21 and July 2021 are mBank calculations based on Statistics Poland reports

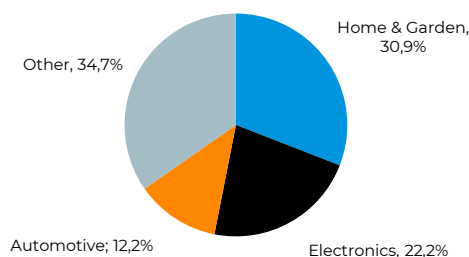
There are two major reasons that we can see why Allegro has suffered GMV contraction this year:

- (1) A dissipation of the positive base effects provided by the SMART! program, already noticeable in Q2 2021, and
- (2) a substantial reduction in "Home & Garden" purchases.

### The Importance of the Home & Garden Category

The Home & Garden department of allegro.pl generated the biggest sales of all categories in Q2 2020, with the GMV reaching an LTM value of PLN 8.78bn or 30.9% of total. The #2 and #3 categories by GMV were Electronics and Automotive.

#### Breakdown of 2020 Q2 GMV of Allegro

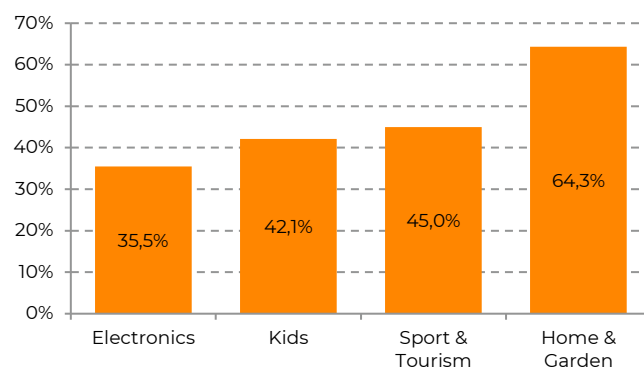


Source: Allegro, mBank

Allegro maintains a big presence in Poland's overall digital Home & Garden marketplace with an estimated market share of approximately 64% as of mid-2020; at the same time, the Home & Garden category accounted for about 19% of e-commerce sales as a whole.

Other categories of merchandise where Allegro controls a significant portion of the market include Kids, Sport, and Electronics.

#### Estimated market share of Allegro in the online sales of selected categories of products

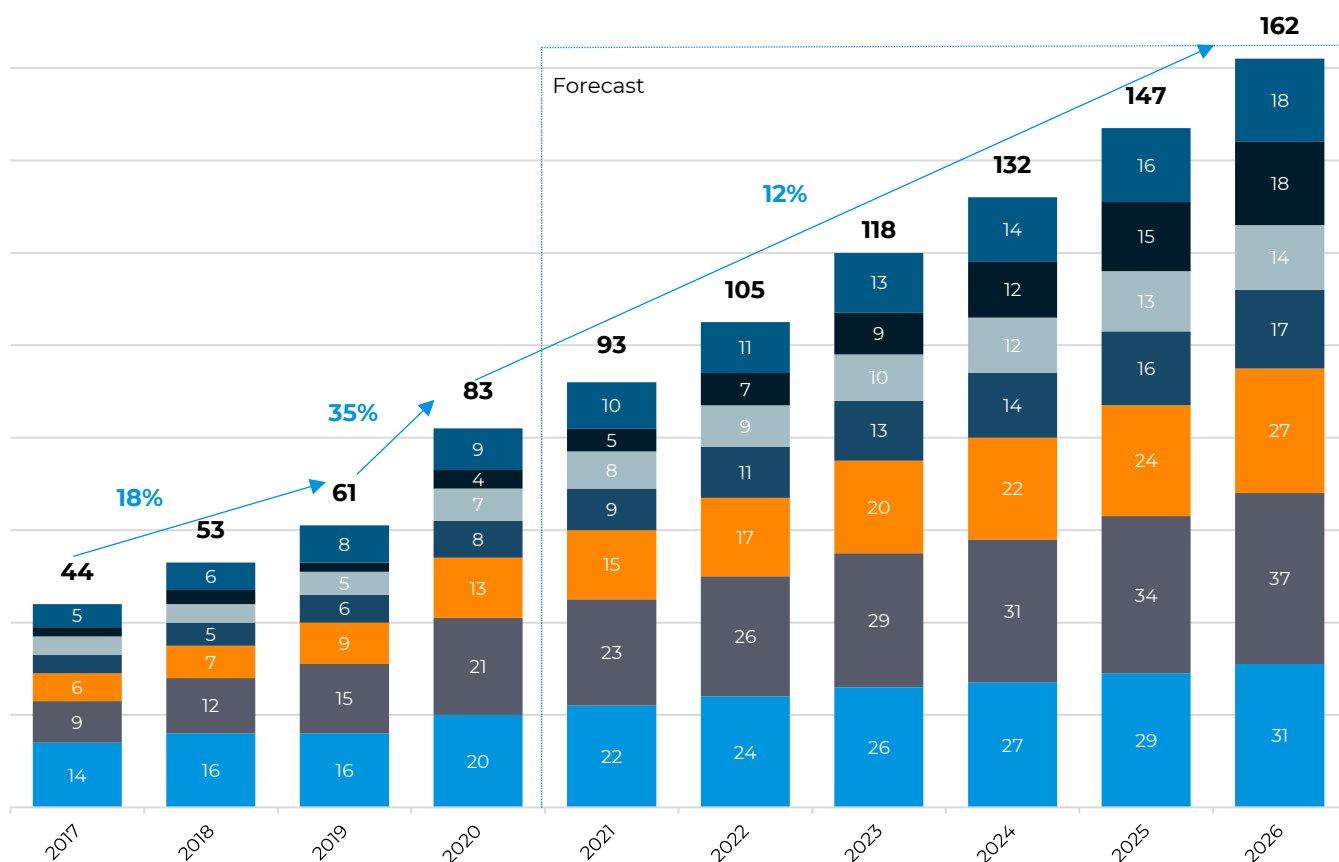


Source: Allegro, mBank

### Is Allegro Going to Lose Its Market Share? Exhibit 1:

We have had a change of heart and we are currently convinced that Allegro is poised to lose market share in the coming years. Whereas previously we had anticipated stable flat market share in the next six years, today we see as more likely a 5pp contraction from >41% in 2020 to 36% in 2026, based on the fact that the product **categories where Allegro currently dominates have been growing at the slowest rates.**

## Growth in total gross merchandise value (PLN bn) achieved by Polish online marketplaces, 2017-2026E



Source: PWC, mBank

CAGR [%]	2017-2019	2019-2020	2020-2026
Automotive & Other	17.6	15.7	12.2
Food	15.2	57.5	28.7
Health & Beauty	15.0	38.2	12.5
Toys & Kids	18.3	39.4	14.0
Clothing & Footwear	25.0	46.1	12.3
Home & Garden	26.3	42.6	9.7
Electronics	9.1	24.3	7.1

Source: PWC, mBank

The Polish e-commerce market as a whole is forecast by PWC to grow at an average annual rate of about 12% in the 2020-26 period, and within this the Home & Garden category might increase by 9.7% and the rise in sales of Electronics & Media could average 7.1% per year. These two categories accounted for upwards of 53% of Allegro's LTM GMV in Q2 2020, and as the year went on we suspect the Home & Garden category gained even more weight. Based on these proportions, we do not see Allegro as keeping pace with the expected growth in the Polish e-commerce market in the coming years, much less exceeding it.

### Is Allegro Going to Lose Its Market Share? Exhibit 2:

The second reason why we believe Allegro will lose its market share in the long term is **increasing competition from global players**. The world's three biggest online marketplaces, Amazon, Alibaba, and Shopee, have either

already established a foothold in Poland, or expressed a desire to do so. In our opinion, these experienced international players have the resources and the capabilities (most notably when it comes to the speed and costs of order fulfillment) to win the hearts of Polish consumers.

### Amazon

Amazon launched its Polish-language Website in January 2021 (previously, the only way Poles could shop Amazon was via the company's German-language Website). The launch did not garner much interest at first, with potential customers turned off from the Website by bad machine translation and a limited offer. Moving forward, however, Amazon's regional director for CEE operations, Marian Sepesi, in an interview earlier this month said Amazon was planning to continue investing in growing its presence in Poland's highly promising e-commerce market.

## Alibaba

Alibaba has expressed a desire to improve its Polish supply chain to leverage the potential of one of its major markets. One of the ways to do this will be to offer 15-day delivery from China to Poland for orders above \$5.

## Shopee

Shopee has a different strategy to Amazon when it comes to conquering the Polish market; instead of taking baby steps, the Singapore-based platform will hit the ground running by offering free commissions to sellers and giving potential shoppes a variety of perks, including free shipping for all orders, for the first six months. Shopee has already inked deals with the local parcel delivery companies, InPost and DPD.

## Comarch

The Polish tech Comarch is yet another newcomer with plans to break into e-commerce with its own digital platform in early 2022. Comarch is already hiring a dedicated team of developers for the platform, and it is talking with delivery companies. Comarch is hoping to leverage its ERP customer base of approximately 100,000 businesses by offering them a natural progression to becoming sellers on the future Comarch marketplace. Planned incentives range from zero commissions to unlimited listings to help reach the critical mass needed to turn the venture into a profitable business within five years.

## Is Amazon a threat to Allegro?

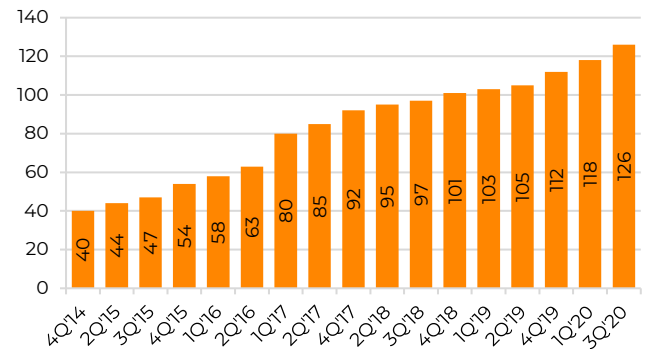
Amazon's baby-steps approach to the Polish expansion came as somewhat of a surprise to the market. According to Mindshare, this is a deliberate strategy founded on slow and methodical market research to deliver the ultimate user experience to Polish consumers.

Amazon.pl launched in March 2021, but it did not unlock its famously cheap delivery to Poles until September, and Amazon Prime loyalty programs are still not available here.

In September 2021, the minimum order to qualify for free delivery was slashed from 100zł to 40zł, or just under 9 euro – a floor that can be reached by purchasing a single item. At this level, Amazon beats Allegro's current SMART! order requirements.

Looking at the example of the U.S. market, we recognize the importance of loyalty schemes in e-commerce. The Amazon Prime member penetration rate of the whole U.S. user base is more than 65%, and member numbers have increased significantly,

## Amazon Prime U.S. membership (million members)



Source: Consumer Intelligence Research Partners, mBank

It is important to note that, while the primary benefit of Allegro SMART! is the possibility of saving on delivery costs, Amazon Prime is a much broader loyalty program with a long list of benefits that include:

- free overnight delivery,
- access to promotional offers,
- Prime Video, and
- Prime Music.

## What Can Allegro Do To Defend Market Share?

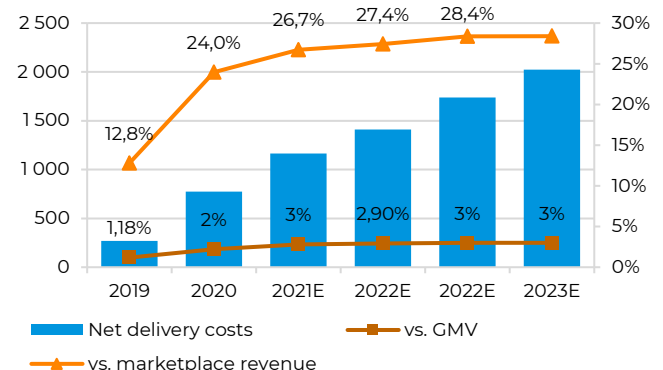
**Maintaining market share and keeping revenue growth high is a crucial task for Allegro.**

We believe Allegro is capable of sacrificing EBITDA margin to retain market share. The SMART! program has proved an effective tool for attracting customers, and we believe Allegro will continue to expand it even if this requires larger subsidies; in Q2 2021, the program's LTM cost reached PLN 985m, an equivalent of 25.5% of the total marketplace revenue for the period.

Whether or not Amazon, Alibaba, Shopee, and Comarch succeed on the Polish market, cheap delivery that rewards loyal customers is the only way for Allegro to sustain a competitive advantage. This means the Company faces having to shoulder increasing costs and giving up more of its profits (though due to their current scale we assume that their growth vs. GMV and vs. revenues will be lower than in recent quarters).

At this point, we assume that Allegro will try to find a balance between protecting market share and protecting profit. **However if market share trumps profit net delivery costs could increase beyond the current estimates.**

## Net delivery costs of Allegro



Source: Allegro, E – mBank estimate

## Updating Our Forecasts

As the Covid-19 pandemic continues into 2021, we have revised upwards our outlook on the 2021-25 growth prospects of the Polish e-commerce market. When it comes to Allegro's position in that market, however, **we currently expect market share to decrease** by approximately 5pp.

### 2021-2025 revenue forecast revision

	2021E	2022E	2023E	2024E	2025E
old	4.66	5.78	7.08	8.63	10.39
new	5.33	6.33	7.55	8.81	10.12
change	14.3%	9.6%	6.7%	2.1%	-2.6%

Source: mBank

### 2021-2025 EBITDA forecast revision (adj. figures)

	2021E	2022E	2023E	2024E	2025E
old	2.04	2.41	2.86	3.46	4.20
new	2.14	2.46	2.86	3.31	3.77
change	5.3%	1.7%	0.2%	-4.4%	-10.2%

Source: mBank

### Revision to 2021-2025 EBITDA margin forecast

	2021E	2022E	2023E	2024E	2025E
old	43.7%	41.8%	40.3%	40.1%	40.5%
new	40.2%	38.8%	37.9%	37.6%	37.3%
change	-3.4%	-3.0%	-2.5%	-2.5%	-3.2%

Source: mBank

## Are Allegro's Current Valuation Multiples Too High?

On our FY2022 estimates, at today's price level ALE stock is trading at 10.4x price-to-sales, 27.7x EV/EBITDA, and 49.0x price to earnings.

We compared Allegro with Amazon and Alibaba, the world's two most valuable e-commerce brands that use cutting-edge technology and that have so much larger storage and fulfillment capacities than their Polish counterpart, as well as offering a wider array of incentives and rewards. **As such, we do not see any reason why Allegro should be valued higher than its global rivals**, especially if we take into consideration downside risks like low market entry barriers, dependence on transport providers, modest loyalty incentives, and an inability to offer access to global marketplaces.

### Comparison of ALE valuation vs. AMZN and BABA

	2022E P/S	2022E EV/ EBITDA	2022E P/E	'20-23E Sales CAGR	'20-23E EBITDA CAGR
<b>Allegro</b>	<b>10.4</b>	<b>27.7</b>	<b>49.0</b>	<b>23.6%</b>	<b>17.8%</b>
Alibaba	3.0	11.7	16.3	30.5%	17.0%
discount to Allegro	-71.2%	-57.8%	-66.7%		
Amazon	3.1	19.5	42.4	20.2%	27.2%
discount to Allegro	-70.2%	-29.6%	-13.5%		

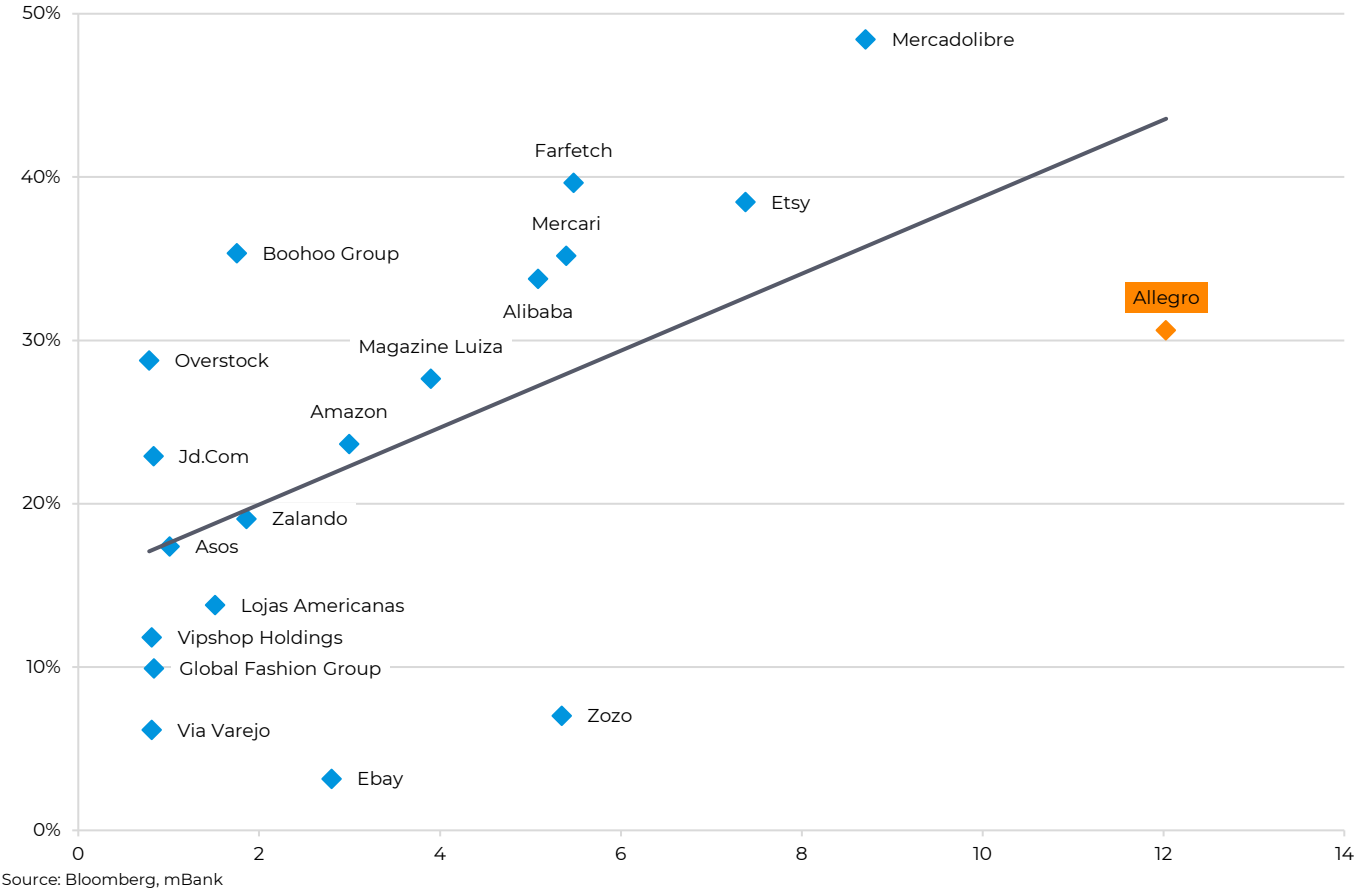
Source: mBank, Bloomberg

The scatter plot displays the relationship between the number of employees (x-axis, 0 to 60) and the percentage of sales from international markets (y-axis, 0% to 60%). A positive linear trend line is shown. Most companies are represented by blue diamonds, but Allegro is highlighted with an orange diamond.

Company	Employees (x)	% Sales from International Markets (y)
Ebay	8	5%
Lojas Americanas	10	15%
Vipshop Holdings	8	25%
Via Varejo	12	20%
Alibaba	16	30%
Boohoo Group	17	35%
Asos	14	43%
Jd.Com	19	44%
Zozo	17	14%
Amazon	18	27%
Zalando	24	29%
Etsy	24	53%
Allegro	29	22%
Magazine Luiza	53	27%

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2022E Price/Sales vs. 2020-2023E Sales CAGR





## Valuation

We used discounted cash flow analysis and relative valuation to assess the value of Allegro, and we arrived at a 9-month target price of PLN 52.40.

### Valuation summary

(PLN)	weight	price
relative valuation	50%	43.67
discounted cash flow	50%	54.80
valuation		49.26
<b>9M target price</b>		<b>52.40</b>

Source: mBank

## Multiples Comparison

We compared the forward P/E and EV/EBITDA multiples of Allegro with the multiples of peer companies as projected for fiscal 2021 through 2023. Each forecast year has an equal weight. The net earnings and EBITDA estimates used in multiples calculations are adjusted figures.

### Multiples Comparison

	EV/EBITDA			P/E		
	2021E	2022E	2023E	2021E	2022E	2023E
ALIBABA GROUP	11.7	11.7	9.5	15.4	16.3	13.9
AMAZON.COM	24.2	19.5	15.7	50.8	42.4	31.9
EBAY	12.7	11.9	11.3	19.1	16.7	15.2
MERCADOLIBRE	172.6	118.1	70.3	990.2	321.1	156.3
JD.COM	45.3	24.4	15.4	58.4	37.5	24.5
VIPSHOP HOLDINGS	4.8	4.2	3.7	8.3	7.4	6.5
ZOZO	29.7	25.7	23.0	44.7	37.8	33.8
BOOHOO GROUP	17.6	14.6	11.3	30.2	24.3	19.5
ASOS	10.0	8.9	7.4	20.2	19.8	16.2
ZALANDO	34.5	29.5	23.7	91.1	78.7	59.5
GLOBAL FASHION GROUP	160.8	45.2	25.7	-	-	-
ETSY	44.7	36.2	28.0	61.1	55.8	44.7
OVERSTOCK.COM	18.4	14.8	14.1	30.3	25.3	28.7
MAGAZINE LUIZA	51.6	38.1	27.1	154.4	101.7	68.8
LOJAS AMERICANAS	8.2	5.5	4.9	23.5	21.5	27.4
VIA VAREJO	-	-	-	-	-	-
maximum	172.6	118.1	70.3	990.2	321.1	156.3
minimum	4.8	4.2	3.7	8.3	7.4	6.5
<b>median</b>	<b>24.2</b>	<b>19.5</b>	<b>15.4</b>	<b>37.5</b>	<b>31.4</b>	<b>28.0</b>
Allegro	31.4	27.0	22.7	57.3	47.7	38.5
premium / discount	29.9%	38.4%	47.0%	52.6%	52.2%	37.4%

### Implied valuation of Allegro

median	24.2	19.5	15.4	37.5	31.4	28.0
multiple weight		50%			50%	
year weight	33%	33%	33%	33%	33%	33%
<b>equity value per share (PLN)</b>	<b>43.7</b>					

Source: mBank



## DCF Valuation

### Assumptions:

- The DCF model uses free cash flow forecasts for the 2021-2030 period.
- Cash flow is discounted as of the end of September 2021. Equity value calculations factor in net debt as of 31 December 2020 including IFRS16 leases (PLN 58m).

- 2030E D&A expenses are equal to CAPEX.
- We assume that FCF after FY2030 will grow at an annual rate of 4.0%.
- The risk-free rate is 3.5% and beta is 1.0x.

### DCF Model

(PLN m)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2030+
<b>revenue</b>	<b>5,329</b>	<b>6,330</b>	<b>7,554</b>	<b>8,807</b>	<b>10,119</b>	<b>11,410</b>	<b>12,781</b>	<b>14,103</b>	<b>15,363</b>	<b>16,669</b>	
change	33.3%	18.8%	19.3%	16.6%	14.9%	12.8%	12.0%	10.3%	8.9%	8.5%	
<b>EBIT</b>	<b>1,613</b>	<b>1,851</b>	<b>2,209</b>	<b>2,609</b>	<b>3,065</b>	<b>3,471</b>	<b>3,874</b>	<b>4,245</b>	<b>4,566</b>	<b>4,837</b>	
EBIT margin	30.3%	29.2%	29.2%	29.6%	30.3%	30.4%	30.3%	30.1%	29.7%	29.0%	
tax on EBIT	307	352	420	496	582	659	736	807	868	919	
effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
<b>NOPLAT</b>	<b>1,307</b>	<b>1,499</b>	<b>1,789</b>	<b>2,113</b>	<b>2,482</b>	<b>2,811</b>	<b>3,138</b>	<b>3,438</b>	<b>3,698</b>	<b>3,918</b>	
D&A	491	506	551	601	609	675	799	922	1,042	1,213	
CAPEX	-500	-800	-900	-572	-658	-742	-831	-917	-999	-1,083	
working capital	-52	-13	-30	-27	-21	-17	-16	-9	-3	1	
<b>FCF</b>	<b>1,246</b>	<b>1,192</b>	<b>1,410</b>	<b>2,116</b>	<b>2,412</b>	<b>2,728</b>	<b>3,090</b>	<b>3,434</b>	<b>3,739</b>	<b>4,049</b>	<b>4,211</b>
WACC	8.30%	8.34%	8.43%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	
discount factor	0.98	0.91	0.84	0.77	0.71	0.65	0.60	0.56	0.51	0.47	
PV FCF	1,224	1,080	1,179	1,630	1,713	1,785	1,864	1,909	1,916	1,912	
<b>WACC</b>	<b>8.3%</b>	<b>8.3%</b>	<b>8.4%</b>	<b>8.5%</b>	<b>8.5%</b>	<b>8.5%</b>	<b>8.5%</b>	<b>8.5%</b>	<b>8.5%</b>	<b>8.5%</b>	<b>8.5%</b>
cost of debt	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
net debt / EV	4.9%	3.3%	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
cost of equity	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast period	4.0%
terminal value	93,579
present value of terminal value	44,193
present value of FCF in the forecast period	16,211
enterprise value	60,404
net debt (2020 eop)	4,326
other noncore assets	0
minority interest	0
goodwill	56,078
billion shares outstanding	1.02
<b>equity value per share (PLN)</b>	<b>54.80</b>
9M cost of equity	6.38%
<b>target price (PLN)</b>	<b>58.30</b>

EV/EBITDA ('21) at target price	27.9
P/E('21) at target price	48.6
TV / EV	72.8%

Source: mBank

### Sensitivity Analysis

	FCF growth in perpetuity				
	3.0%	3.5%	4.0%	4.5%	5.0%
WACC +1.0 p.p.	40.80	43.38	46.44	50.10	54.57
WACC +0.5 p.p.	44.82	47.98	51.77	56.40	62.19
WACC	49.58	53.50	58.30	64.29	71.99
WACC -0.5 p.p.	55.30	60.27	66.47	74.44	85.07
WACC -1.0 p.p.	62.31	68.73	76.98	87.99	103.39

**P&L**

(PLN m)	2019	2020	2021E	2022E	2023E
<b>revenue</b>	<b>2,592.3</b>	<b>3,997.8</b>	<b>5,328.6</b>	<b>6,329.6</b>	<b>7,553.9</b>
y/y	31.1%	54.2%	33.3%	18.8%	19.3%
Marketplace	2,099.7	3,231.0	4,355.2	5,139.4	6,119.9
Advertising	207.1	337.8	470.6	576.5	697.5
Price Comparison	145.8	190.0	193.8	218.2	247.4
Retail	115.2	216.6	285.9	371.7	464.6
other	24.5	22.4	23.1	23.8	24.5
EBITDA	1,325.4	1,586.7	2,104.3	2,356.2	2,759.8
<b>EBITDA (adj.)</b>	<b>1,338.1</b>	<b>1,750.0</b>	<b>2,144.3</b>	<b>2,456.2</b>	<b>2,859.8</b>
<b>margin</b>	<b>51.6%</b>	<b>43.8%</b>	<b>40.2%</b>	<b>38.8%</b>	<b>37.9%</b>
EBIT	886.1	1,122.9	1,613.4	1,850.7	2,209.0
pre-tax profit	513.1	616.6	1,398.1	1,676.4	2,077.1
tax	-120.0	-198.1	-279.6	-335.3	-415.4
<b>net profit</b>	<b>393.1</b>	<b>418.5</b>	<b>1,118.5</b>	<b>1,341.1</b>	<b>1,661.7</b>

**Balance Sheet**

(PLN m)	2019	2020	2021E	2022E	2023E
<b>fixed assets</b>	<b>13,425.5</b>	<b>13,202.5</b>	<b>13,258.7</b>	<b>13,595.7</b>	<b>13,987.9</b>
goodwill	8,631.3	8,639.2	8,639.2	8,639.2	8,639.2
other	4,794.2	4,563.2	4,619.4	4,956.5	5,348.7
<b>current assets</b>	<b>852.5</b>	<b>1,945.4</b>	<b>2,309.8</b>	<b>2,543.0</b>	<b>3,071.8</b>
accounts receivable	396.8	646.4	877.2	1,025.6	1,221.8
cash	403.9	1,185.1	1,310.5	1,389.0	1,714.1
other	51.8	114.0	122.2	128.3	135.9
<b>equity</b>	<b>6,670.2</b>	<b>8,089.6</b>	<b>9,231.8</b>	<b>10,656.4</b>	<b>12,401.3</b>
minority interest	13.4	0.0	0.0	0.0	0.0
<b>noncurrent liab.</b>	<b>6,785.0</b>	<b>6,168.2</b>	<b>5,230.4</b>	<b>4,230.4</b>	<b>3,230.4</b>
loans	6,001.2	5,437.2	4,499.4	3,499.4	2,499.4
other	783.8	731.0	731.0	731.0	731.0
<b>current liabilities</b>	<b>809.4</b>	<b>890.1</b>	<b>1,106.2</b>	<b>1,251.9</b>	<b>1,427.9</b>
trade payables	349.2	557.6	744.7	886.4	1,060.0
other	460.2	332.4	361.5	365.5	368.0
<b>net debt</b>	<b>6,018.6</b>	<b>4,326.0</b>	<b>3,291.9</b>	<b>2,217.3</b>	<b>894.7</b>
EBITDA, AI Systems	4.5	2.5	1.5	0.9	0.3

Source: mBank

**Cash Flow**

(PLN m)	2019	2020	2021E	2022E	2023E
<b>operating CF</b>	<b>1,246.5</b>	<b>1,509.9</b>	<b>1,812.9</b>	<b>2,108.0</b>	<b>2,414.3</b>
working capital	72.3	17.0	-51.8	-13.0	-30.1
<b>investing CF</b>	<b>-203.1</b>	<b>-218.2</b>	<b>-500.0</b>	<b>-800.0</b>	<b>-900.0</b>
CAPEX	-143.0	-230.5	-500.0	-800.0	-900.0
<b>financing CF</b>	<b>-1,433.8</b>	<b>-510.5</b>	<b>-1,199.8</b>	<b>-1,222.8</b>	<b>-1,181.5</b>
dividend	0.0	0.0	0.0	0.0	0.0
<b>CF</b>	<b>-390.4</b>	<b>781.2</b>	<b>113.1</b>	<b>85.1</b>	<b>332.7</b>
OCF/EBITDA	94%	95%	86%	89%	87%
FCFF	1,103.5	1,279.3	1,312.9	1,308.0	1,514.3
<b>FCFF/EV</b>	<b>1.6%</b>	<b>1.9%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.3%</b>
FCFE	707.1	1,003.5	1,097.6	1,133.7	1,382.4
<b>FCFE/MCAP</b>	<b>1.1%</b>	<b>1.6%</b>	<b>1.7%</b>	<b>1.8%</b>	<b>2.2%</b>
ROIC	5.7%	7.2%	10.5%	11.8%	13.7%
ROCE	6.6%	8.1%	11.2%	12.6%	14.5%
DPS	0.00	0.00	0.00	0.00	0.00
divid. payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
<b>dividend yield</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>

**Key Ratios**

	2019	2020	2021E	2022E	2023E
P/E	167.2	157.1	58.8	49.0	39.6
<b>EV/EBITDA (adj.)</b>	<b>53.6</b>	<b>40.0</b>	<b>32.2</b>	<b>27.7</b>	<b>23.3</b>
P/S	25.4	16.4	12.3	10.4	8.7
P/B	9.9	8.1	7.1	6.2	5.3
P/CF	79.0	74.5	40.8	35.6	29.7
P/FCFE	93.0	65.5	59.9	58.0	47.6
<b>EBITDA margin</b>	<b>51.1%</b>	<b>39.7%</b>	<b>39.5%</b>	<b>37.2%</b>	<b>36.5%</b>
y/y % EBITDA change	20.7%	19.7%	32.6%	12.0%	17.1%
net margin	15.2%	10.5%	21.0%	21.2%	22.0%
<b>y/y % EPS change</b>	<b>44.5%</b>	<b>6.5%</b>	<b>167.3%</b>	<b>19.9%</b>	<b>23.9%</b>
price (PLN)	64.25	64.25	64.25	64.25	64.25
shares outst. (millions)	1.02	1.02	1.02	1.02	1.02
mCap	65.7	65.7	65.7	65.7	65.7
EV	71.8	70.1	69.0	68.0	66.6

List of abbreviations and ratios used by mBank:

**EV** (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases) - Lease Payments  
**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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mBank issued the following recommendations for Allegro in the 12 months prior to this publication:

Allegro	
recommendation	sell
date issued	2020-11-18
target price (PLN)	54.00
price on rating day	67.89



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