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Friday, July 21, 2023 | update

CCC: buy (resumed)

CCC PW; CCCP.WA | Retail, Poland

The Worst Is Behind CCC

Since our last recommendation, CCC has announced a cost-cutting program and the zloty has strengthened significantly against the US dollar. We believe an improved gross margin, together with savings on marketing and labor, will lead to a c.3pp y/y increase in EBITDA margin in 2023. The improved earnings, together with PLN 0.5bn raised via an equity issue, will help the CCC ex Modivo to deal with its debt issues. With this in mind, we believe the worst is now behind CCC.

We see an attractive risk/reward profile for CCC as the market underestimates the 2023 margin growth prospects in H2'23, and Modivo's potential destocking could result in positive surprises in 2024. CCC is currently trading at 25%/35% discounts to peers on EV/EBITDA'24/25 that are unjustified in our view given that the Group will almost triple its EBITDA in three years.

We resume coverage of CCC with a target price of PLN 63.90 and a buy recommendation.

Improving Consumer Confidence and Fiscal Stimulus

Consumer sentiment seems to us to be bottoming out. With nominal wage growth still high, as inflation eases, real disposable income in Poland is about go up and boost retail spend in H2'23. The effect is expected to be even more pronounced in 2024, when real wage growth picks up on the back of a high minimum wage hike. In addition, in 2024 Polish consumer demand will receive another push from increased spending on welfare programs and a possible extension of mortgage loan holidays.

Margin Growth Fueled by Less Volatility in Commodity Markets, Weak USD and Cost Discipline

2023 is seeing a normalization in commodity prices, and sea freight rates have dropped below pre-pandemic levels. Added to this is low PPI in China and dollar's sharp decline vs. the PLN – all factors that will positively influence gross margin growth in 2023/24. For CCC Group's CCC business, we predict gross margin expansion by 2.5ppts y/y in 2023. After marketing and payroll cutbacks, this will have a positive impact on the year's EBITDA margin.

Improving Debt Ratios Lower the Risk Premium

A capital raise and negotiations with lenders have helped CCC (to the exclusion of the Modivo business) to successfully prevent covenant violations. For its part, Modivo has been able to get its banks to agree to exclude debt owed to Softbank from covenant calculations, coming closer to meeting the covenants. We expect CCC Group to bring its net debt/IAS 17 EBITDA ratio below 3x by the end of 2024, at which point investors should be prompted to reduce the risk premium they currently demand of CCC.

Potential Re-Rating Based on Modivo's IPO

Once market sentiment improves, CCC Group may pursue a public listing for its Modivo business. This would provide CCC with a cash injection that would allow it to simultaneously implement HalfPrice's ambitious investment plans, and pay dividends that drive a re-rating of its valuation.

(PLN m)	2021	2022	2023E	2024E	2025E
revenue	7,541.7	9,123.2	10,127.4	12,039.4	13,878.5
EBITDA	581.4	533.2	878.5	1,189.6	1,479.7
margin	7.7%	5.8%	8.7%	9.9%	10.7%
EBIT	4.1	-51.3	185.4	436.1	664.4
net profit	-223.4	-417.6	-106.8	129.9	315.6
P/E	-	-	-	23.8	9.8
P/S	0.3	0.3	0.3	0.3	0.2
P/B	2.5	5.9	3.8	3.4	2.6
EV/EBITDA	10.2	12.3	7.8	5.9	4.8
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 44.99
target price	PLN 63.90
mCap	PLN 3.1bn
free float	PLN 2.2bn
ADTV (3M)	PLN 9.1m

*Price as of July 20, 2023, 5:00 PM

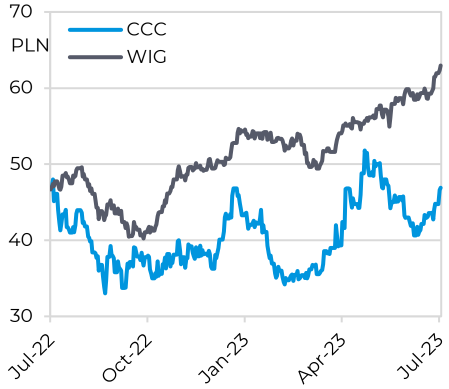
Shareholders

Ultro S.à r.l.	33.3%
AVIVA OFE	7.3%
NN PTE Funds	6.2%
Others	53.2%

About CCC

The CCC Group is the leader in footwear sales in the CEE region with a market share of approx. 20%. The Group owns CCC brick and mortar stores – selling mainly footwear, and HalfPrice – operating in the off-price segment. It also operates the online stores: ccc.eu, eobuwie.pl, Modivo, DeeZee, and halfprice.eu. In Q1'23LTM, the Group generated revenues of PLN 9.3bn, the largest part of which was generated from CCC (44%). eobuwie.pl was also a major revenue generator (33%) alongside Modivo (10%) and HalfPrice (10%).

CCC vs. WIG



	target price		recommendation	
	new	old	new	old
CCC	63.90	-	buy	-

	current price	target price	upside
CCC	44.99	63.90	+42.0%

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Forecast of Q2 FY2023 Results

Q2 of fiscal 2023, ended 31 July 2023, may mark another quarter of downward pressure on gross margins for CCC, mainly stemming from high inventory levels at Modivo Group. The CCC segment is expected to show fairly resilient margin performance despite deterioration in revenues, with improved gross margin and cost optimization. On the other hand, Modivo Group's performance still lacks positive momentum. According to our calculations, CCC ex. Modivo will meet the debt covenant of 7.3x net debt / EBITDA. Modivo Group will most likely fall short of covenant requirements as of the end of Q3'23 (30 October), but its covenants at the end of July 2023 will not be reviewed.

CCC is due to release the full Q2'23 results for the quarter ending 31 July 2023 on 11 October 2023, however, the Company typically releases preliminary results in the early days of the new quarter.

The **CCC segment** is expected to sport ca. PLN 1.06bn sales, a decrease of 8% y/y as offline sales momentum deteriorated q/q (we expect offline sales of the CCC brand to decrease by nearly 17% y/y). The weak offline performance may be partially mitigated by continued organic growth in CCC online (we estimate the growth at 27% y/y after 37% growth in Q1). On the margin side, we anticipate CCC will improve gross margin by 1.7pp y/y. This, together with cost optimization stemming from labor and marketing spend cuts, is expected to improve EBITDA margin, resulting in EBITDA of ca. PLN 187m.

Modivo Group (Eobuwie+Modivo segments). We expect Modivo to sport PLN 1.05bn sales (+7% y/y, a slight uptick from the 4% y/y recorded in Q1'23) and a 2.4p.p. y/y erosion in gross margin due to a still highly competitive environment and high inventory levels. Due to still quite low topline growth, we do not anticipate any improvement in the SG&A/sales ratio thus EBITDA is expected to come in at ca. PLN 10m.

HalfPrice. We expect HalfPrice to open eight new stores in Q2'23, leaving a total store area of 183.4 thousand sqm (+43% y/y) at end-July 2023. With still high sales/sqm growth (we expect ~26% y/y vs. 33% in Q1), HP is expected to post PLN ~0.33bn sales (80% y/y growth). Gross margin is expected to be under significant pressure due to the need to reduce inventory levels at Modivo (we expect a 6pp y/y decrease in gross margin). All in all, we expect HalfPrice to post ca. PLN 6.5m EBITDA in Q2.

DeeZee is expected to sport ca. PLN 29m sales (+2% y/y) with slight gross margin decline (ca. 0.5pp y/y) and increase in SG&A/Sales ratio resulting in EBITDA of ca PLN 2m.

Group. We expect CCC Group to record PLN 2.47bn revenue (+4% y/y) and ca. 0.6pp. decrease in gross margin. EBITDA is expected to come in at PLN 206m (+15% y/y). After financing costs of PLN 88m, we see net loss from continuing operations at PLN 48m and a net loss attributable to parent company of PLN 43m (broadly flat y/y).

Historical quarterly results of CCC and 2023/24 Q2 estimates

(PLN m)	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23E	y/y
revenue	1,882.0	2,377.4	2,422.1	2,441.7	2,064.1	2,467.7	3.8%
gross profit	922.8	1,129.4	1,163.1	1,050.1	958.8	1,160.9	2.8%
gross margin	49.0%	47.5%	48.0%	43.0%	46.5%	47.0%	-
EBITDA	89.3	179.0	172.9	89.7	88.6	206.0	15.1%
EBITDA margin	4.7%	7.5%	7.1%	3.7%	4.3%	8.3%	-
EBIT	-56.5	31.3	24.0	-50.1	-67.0	28.7	-8.4%
net profit, continuing operations	-160.1	-54.1	-75.3	-112.0	-152.0	-47.9	-

Source: CCC, E - mBank estimates

FY2023 Earnings Prospects: Our Forecasts vs. CCC's Guidance

We expect CCC Group to post ca. PLN 10.1 bn sales in fiscal 2023, slightly below the lower end of the guidance range. We think that HalfPrice will manage to deliver its top-line target (given resilient performance in Q1, and Q2). We are more skeptical when it comes to the CCC and Modivo Group segments as both have reported fairly ordinary sales figures in the quarter to date, and – although we expect consumer confidence to improve in H2 – CCC and Modivo might not deliver on the full-year sales targets.

Our gross margin estimate is broadly in line with CCC's guidance except for HalfPrice where we expect bigger gross margin erosion due to the cooperation with Modivo Group.

On the costs side, we remain below guidance, mainly due to Modivo Group's performance. We do not expect major margin optimization, leaving room for potential positive surprises. CCC and HalfPrice are expected to post EBITDA at lower end of the guidance range.

FY2023 earnings outlook: mBank forecasts vs CCC guidance

	mBank Forecast				Guidance				mBank Forecast vs. Midpoint Guidance			
PLN bn	Group	CCC	HalfPrice	Modivo	Group	CCC	HalfPrice	Modivo	Group	CCC	HalfPrice	Modivo
Sales	10.1	4.3	1.4	4.4	10.2-11	4.4-4.8	1.2-1.5	4.5-4.7	96%	94%	102%	96%
Gross profit	4.8	2.3	0.6	1.8	5.1	2.5	0.6	1.9	92%	93%	98%	96%
Gross profit margin	46.9%	54.4%	43.5%	40.8%	47-50%	54-56%	45-46%	40-42%				
EBITDA	0.9	0.6	0.1	0.1	1.2	0.7	0.1	0.2	75%	89%	94%	53%
EBITDA margin	8.7%	14.3%	10.1%	2.8%	10-12%	14-16%	10-12%	4-6%				

Source: mBank, CCC, Fields shaded grey show the implied mid-point guidance of CCC

2023-2025 Earnings Prospects: Our Forecasts vs. Consensus Expectations

Below is a comparison of our earnings expectations for CCC Group versus Bloomberg consensus estimates.

As you may notice, our estimates do not differ significantly from the consensus in terms of revenues.

Our EBITDA expectations for 2023-25 are above the analysts' expectations by more than 5% as we think that the market is not noticing positive changes in CCC's macro environment and is too conservative.

Our 2023 and 2024 EBIT estimates are around 13% lower/1% higher than the respective market forecasts, with a narrower spread to consensus than EBITDA, mainly due to our expectation of higher D&A.

Our net profit forecasts we are slightly below consensus in 2024 and well ahead of the market in 2025, but there are few consensus forecasts for this year.

mBank vs. consensus forecast comparison (PLN m)

	2023E		
	consensus	mBank	diff
revenue	10,495	10,127	-3.5%
EBITDA	748	878	17.5%
EBIT	214	185	-13.2%
net profit	-109	-107	-

	2024E		
	consensus	mBank	diff
revenue	12,106	12,039	-0.6%
EBITDA	1,133	1,190	5.0%
EBIT	434	436	0.5%
net profit	136	130	-4.5%

	2025E		
	consensus	mBank	diff
revenue	12,952	13,879	7.2%
EBITDA	1,345	1,480	10.0%
EBIT	567	664	17.3%
net profit	200	316	57.8%

Source: mBank, Bloomberg, E - estimates

GO.25 Strategy

CCC published its 2025 GO.25 strategy in November 2021, that is before Russia's attack on Ukraine which triggered a worsening of the economic outlook through a significant increase in energy and food prices, resulting in higher inflation and negatively impacting the real disposable income of consumers.

Reduced demand for discretionary goods, coupled with brands exiting their Russian operations, resulted in an increased inventory in the market that negatively impacted the sales margins of retailers.

Against this backdrop, in our view CCC's GO.25 goals have become unattainable (we expect only about 70% of the revenue target can be delivered by 2025). We estimate that the closest the Company will come to meeting its targets is with CCC omnichannel (c.90% achievement of the sales target according to our assumptions). This opinion is supported by the current performance of CCC.eu, which in the first half of 2023 is expected to record a total sales growth rate in excess of 30% y/y. CCC's core competency – footwear – is also a part of this segment.

In terms of HalfPrice, we are assuming lower revenue than the Company (c.70% of the target figure) due to a more conservative approach to store roll-out (we are assuming c.330k sq ft of HP sales space vs. CCC's plan for 400k). We believe that the Company will have to revise downwards its development plans due to an overstretched balance sheet which does not support large capital expenditure.

In case of Modivo Group, we assume that it will achieve about 60% of its targets due to the deterioration of the overall macro situation and management's overestimation of the development of the e-commerce market.

We are taking the most cautious approach to the DeeZee brand (our assumption is that DeeZee will deliver only 20% of its target sales), whose current performance is disappointing. The perception of this segment is not further supported by the departure of the brand's founder, Dominika Żak, who served as an advisor to the management board since March 2023.

Our cost expectations are well below the Company's targets. We assume EBITDA in 2025 will approximate PLN 1.5bn compared to CCC's PLN 2.5bn guidance. The lower EBITDA forecasts are due, on the one hand, to assumed lower sales levels, but also to assumed higher cost levels.

We are at the lower end of the guidance range in terms of the CCC segment's EBITDA margin (we assume 15.2%, cost optimization was visible in Q1, and we expect it to continue in subsequent quarters). We remain well below HalfPrice's margin target (the Company's assumed EBITDA margin of 18-20% seems very high to us, we target 14%). We also expect lower margin levels for Modivo Group, we target 6.2% in 2025, with the potential success of the marketplace project likely to come to the aid of the target (high margin of marketplace businesses).

Summary of mBank's revenue forecasts and GO.25* strategy assumptions for 2025 (in PLN bn)

	2022	2025E mBank	2025E GO.25	% execution
CCC Group	9.1	13.9	20.4	68%
Modivo Group	4.0	6.3	10.2	62%
CCC omnichannel	4.2	5.0	5.6	89%
of which CCC.eu	0.9	1.4	1.4	101%
HalfPrice	0.8	2.4	3.6	68%
DeeZee	0.1	0.2	1.0	18%

Source: mBank, CCC, * strategy according to the middle point of the range indicated by the Company

Falling Commodity Prices and USD Depreciation Support Gross Margins

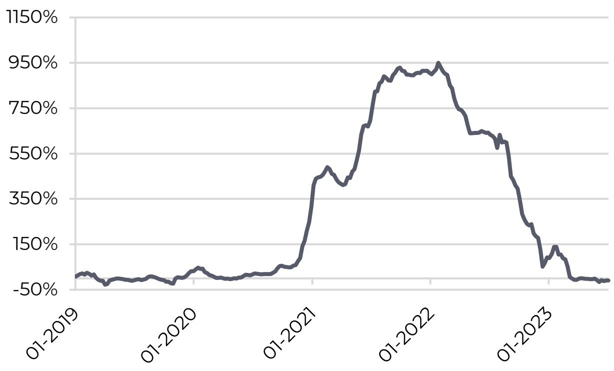
After an unprecedented rise in the prices of certain commodities during the Covid-19 pandemic, caused by disruptions in supply chains, we are currently seeing a normalization. An example of this is **sea freight, the cost of which fell sharply last year and this year, reaching pre-pandemic levels**. Indeed, in July the index was a single-digit percentage below the average level for 2019.

This has a positive impact on the cost of transport of products imported from Asia. CCC Group sources a significant proportion of its products in Asia (approximately 60% according to data for 2022). **This is expected to mainly benefit the CCC segment, but directly also other segments of the Group that source goods from Europe.**

In addition, the Polish zloty has strengthened significantly against the dollar, which will support gross margins through lower COGS, primarily in the CCC segment, but indirectly and to a much lesser extent also in the other segments.

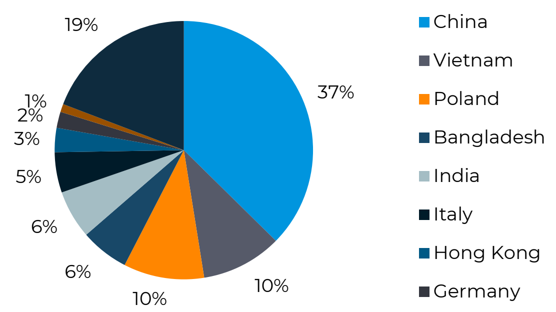
As a result of these two factors, together with slightly lower promotional activity assumed in the second half of the year, we expect the CCC segment to deliver a 2.5pp y/y increase in gross margin for the full year 2023.

China-Europe freight price index vs 2019 average level



Source: FRGHCNEU, Bloomberg, mBank

Geographic breakdown of CCC Group suppliers



Source: CCC, mBank

Improving Consumer Confidence...

Poland, together with CEE, accounts for approx. 90% of CCC's total sales, with Poland accounting for more than half of annual revenue. From this perspective, the economic situation in Poland remains the most relevant for the Group's performance.

Geographical split of CCC's sales and y/y growth in Q1'23

Country	% of Group sales	y/y growth
Poland	54.6%	12.6%
Romania	8.3%	11.8%
Czech Republic	6.8%	-1.8%
Hungary	5.9%	-8.6%
Slovakia	3.6%	3.6%
Bulgaria	3.6%	25.3%
Greece	3.4%	11.2%
Germany	2.4%	-34.2%
Croatia	2.1%	20.6%
Ukraine	1.9%	x50
Group (m PLN)	2,064	10.3%

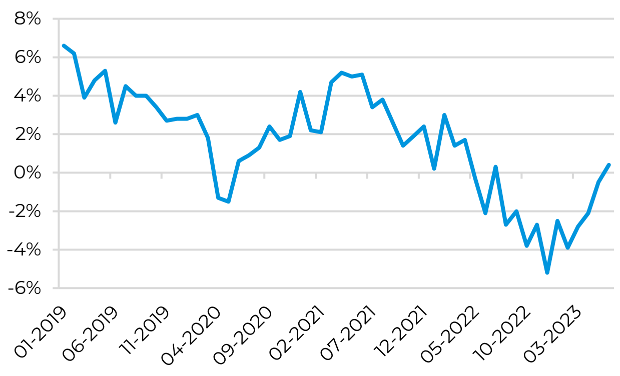
Source: mBank, CCC

Amid very high inflation, year-on-year growth in real wages in Poland turned out negative in 2022, which was also the case in the first half of 2023. However, inflation is starting to ease, and nominal wage growth remains high.

We believe that real wage growth in Poland will enter a positive territory in Q3'23 and remain positive next year due to still high nominal wage growth fueled by minimum wage increases and a low unemployment rate.

Poland is going to increase its minimum wage by around 20% in 2024. We expect this to translate into pay rises for employees earning above the minimum wage, keeping average wage growth in double digits.

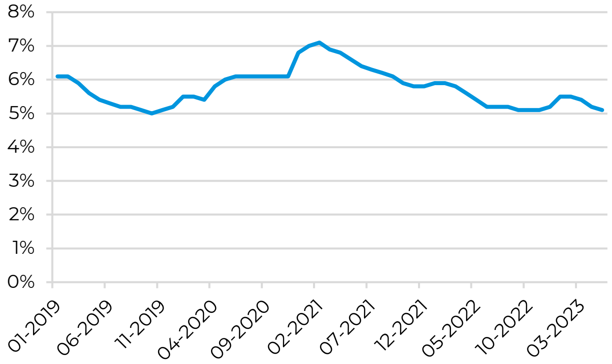
YoY change in average salary in Poland's enterprise sector (in real terms)



Source: Statistics Poland, mBank

Wages are also positively influenced by demographic trends, which keep the unemployment rate low. In fact, according to the latest data, the unemployment rate for May was 5.1%, and preliminary data from the Ministry for the Family and Social Policy indicate a further decline in June to 5%, down 0.2pp y/y.

Unemployment rate in Poland



Source: Statistics Poland, mBank

... and Fiscal Stimulus

Poland is having a general election in 2023 (the date is not yet set, but the vote will most likely take place in October-November 2023), and as the election campaign gathers steam the sitting ruling party have been making promises aimed at voter wallets that will effectively help boost domestic consumption.

In recent months, the Parliament has voted through a proposal by the ruling party to update their flagship "500+" welfare program and **raise the 500zl-a-month child benefits** to 800zl a month. The largest opposition party welcomed the raise, which means the benefits will indeed increase from 2024 regardless of the outcome of the elections.

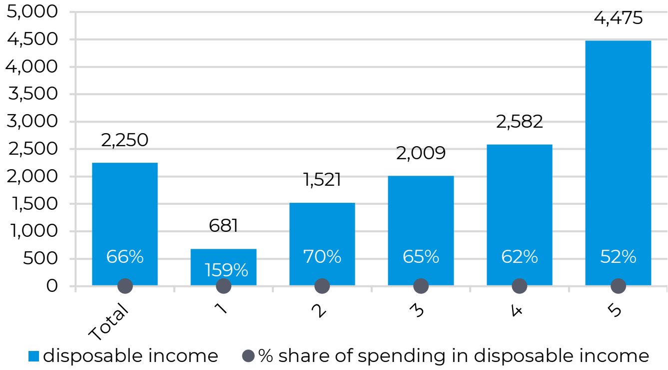
We estimate that 500+ upgrade to 800+ will boost the disposable income of Polish households by around PLN 24bn per year. Of this, spending on clothing and footwear may grow by around PLN 0.7bn per year.

Poland introduced a **zero VAT on food** in February 2022 as a temporary measure that has recently been extended until the end of 2023. Moreover, Prime Minister Mateusz Morawiecki has made public statements indicating a likely extension of zero VAT to 2024 as well, which is the baseline scenario. Food and beverages make up a significant part of the average shopping basket (around 27% according to 2022 data), and a zero sales tax on these items provides additional support to consumers.

Polish retirees have been receiving a 13th pension check every year since 2019, and in 2021-2023 they also received a 14th check. **In July 2023, the Parliament passed a law that makes the 14th payout a permanent feature** (the size of the 14th check depends on monthly income).

Further, Poland is set to **again significantly increase the minimum wage in 2024.** The social side and employers did not manage to reach a common position on the level of the minimum wage next year by 15 July, so it is the government side that will ultimately decide on the minimum wage. However, the government has already presented its proposal to raise the minimum wage from PLN 3,490 in January 2023 and PLN 3,600 in July 2023 to PLN 4,242 in January 2024 and PLN 4,300 in July 2024, which means an increase of 22% in January and 19% y/y in July 2024. An estimated 3.6 million people will benefit from the minimum wage hikes. **We think this will be an element supporting consumption next year, as the lowest earners spend the largest part of their household budgets. On the other hand, an increase in the minimum wage will negatively impact the labor costs of retailers.**

Average monthly disposable income per household member (PLN) and share of expenditure in disposable income by quintile group in 2022



Source: Statistics Poland, mBank

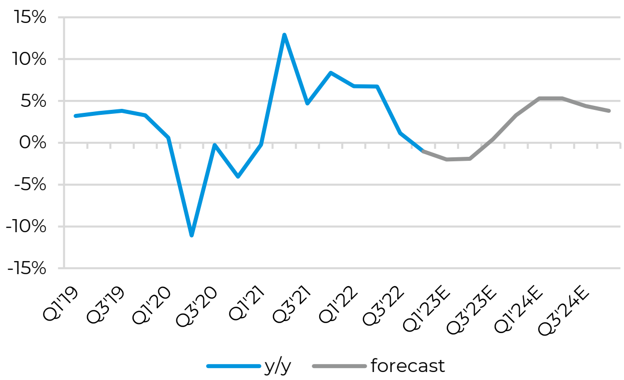
Last but not least, Prime Minister Morawiecki has hinted at a possibility of **extending last year's credit moratorium for mortgage borrowers to 2024**, but a final decision has not been made so far. In this case, there is a high likelihood that the loan holidays will not be extended as interest rates are expected to fall later this year.

... Drive Growth in Consumption

We believe that increases in real disposable income, combined with additional consumer fiscal stimulus, will boost consumer spending, including spending on clothing and footwear. This effect is expected to be particularly evident precisely in the footwear and clothing category (faster recovery than in the food category) due to the discretionary nature of these goods (higher income elasticity of demand, as pointed out by Kim Kisung in a study entitled *US aggregate demand for clothing and shoes: effects of non-durable expenditures, price and demographic changes*, International Journal of Consumer Studies, 2003)

Moreover, the current consumer confidence index, while still negative, is steadily improving. According to mBank Research, private consumption growth in Poland will turn positive in Q3 and Q4 2023 and accelerate to 4.7%/3.5% y/y in 2024/25, compared to an average growth dynamic of around 3% in 2010-19.

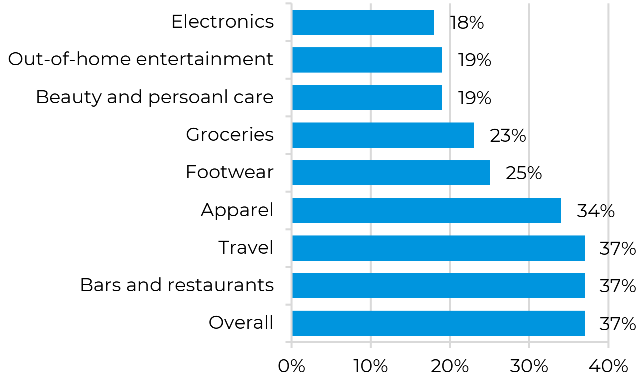
Private consumption in Poland y/y



Source: Statistics Poland, mBank

In fact, according to a McKinsey survey, a large proportion of Western and Southern European consumers are likely to splurge and spend their money on fashion, in addition to travelling and eating out. We believe this could be the case for CEE consumers as well.

Intent to splurge by category, % of respondents



Source: McKinsey Europe Consumer Pulse Survey, Apr 24–May 5, 2023, n = 5,159 (France, Germany, Italy, Spain, UK), sampled to match European general population 18+ years, mBank

In CCC's key markets outside of Poland, the macroeconomic environment is also expected to improve in 2024, driving consumption growth. According to OECD estimates, private consumption growth rates are expected to improve in 2024 compared to a relatively weak performance in 2023 (with the exception of Romania, where the growth rate will be subdued).

Private consumption growth rates in real terms (ppt), historical data and OECD forecasts.

ppt	avg. 2010-19	2022	2023	2024
Romania	3.6	5.5	3.6	2.3
Czech Republic	2.1	-0.9	-2.7	2.4
Hungary	2.3	6.4	-2.6	2.2
Slovakia	1.8	5.1	0.6	1.6
Bulgaria	2.3	4.8	2.7	3.2
Greece	-2.2	8.0	1.7	1.6
Germany	1.4	4.9	-1.4	1.6
Croatia	0.7	5.1	0.3	2.0

Source: OECD Economic Outlook – June 2023, mBank

SOTP Valuation

We performed a sum-of-the-parts analysis of CCC Group. We used EV/EBITDA multiples at equal weights for every year of 2023-25, except for Modivo Group, for which we also analyzed the EV/Sales multiple. The calculations factor in net debt including leases and minorities for DeeZee and Modivo Group. We assume CCC's target share in Modivo Group at 63%. **Our valuation points to the existence of significant upside risk to our target price of PLN 132 per share.**

SOTP valuation of CCC Group

(PLN m)		Enterprise Value
+	Modivo	3,677.5
+	HalfPrice	2,890.5
+	CCC + DeeZee	5,594.6
=	**SOTP**	**12,162.6**
-	Net debt	3,571.9
-	Minorities DeeZee	66.1
-	Minorities Modivo Group	1,239.0
+	Convertible debt to SoftBank	629.8
=	**Equity value**	**7,915.4**
	Value per share of CCC (PLN)	114.9
	12M target	**132.0**

Source: mBank

We have also analyzed the "CCC+DeeZee" segment of CCC Group, and besides the following table we provide more parts of the valuation later in the report.

CCC+DeeZee valuation

		EV/EBITDA		
		2023E	2024E	2025E
FOOT LOCKER		5.1	4.1	3.5
CALERES		4.5	4.3	4.1
ABC-MART		9.0	8.6	8.4
GEOX		5.8	4.9	4.9
ADIDAS		37.6	15.6	11.5
TOD'S		8.0	7.2	6.5
NIKE		21.6	18.5	16.4
CROCS		8.9	8.1	7.4
STEVEN MADDEN		8.8	7.9	7.4
INDITEX		10.8	10.1	9.5
H&M		9.3	8.0	7.7
LPP		8.8	7.3	6.3
maximum		37.6	18.5	16.4
minimum		4.5	4.1	3.5
median		**8.8**	**8.0**	**7.4**
CCC+DeeZee EBITDA		617.2	707.0	769.9
implied valuation				
implied EV		5,461.5	5,630.0	5,692.4
year weight		33%	33%	33%
EV	**5,594.6**			
value per share of CCC (PLN)	**81.2**			

Debt Will Cease to Be a Problem

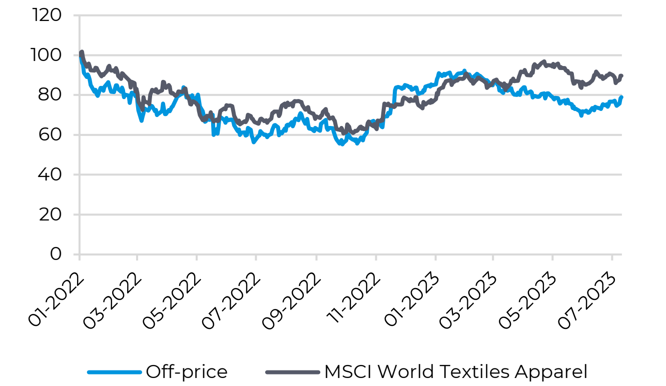
According to our estimates, CCC Group excluding Modivo Group (i.e., the part of the business that has had the biggest problem with debt) will have a healthy level of net debt/IAS 17 EBITDA below 3x at the end of 2023 year. For Modivo Group, the debt ratios remain elevated, but the banks have agreed not to include debt owed to SoftBank in the covenants. Extrapolating from the historical pattern, we believe that the financing institutions will grant the Company another waiver in early 2024, while **after 2024, Modivo Group's debt ratios are expected to also be at healthy levels. This is expected to lead investors to reduce the discount that they apply to the Company because of its high level of debt.**

Off-Price Segment

The performance of the off-price market was broadly in line with the performance of the broader apparel market over the recent years, but in the last few months the off-price segment has underperformed the apparel market by ca. 10pp. We think that this may be caused by deteriorating 2023 earnings prospects in the off-price segment compared to relatively resilient earnings at footwear and apparel companies.

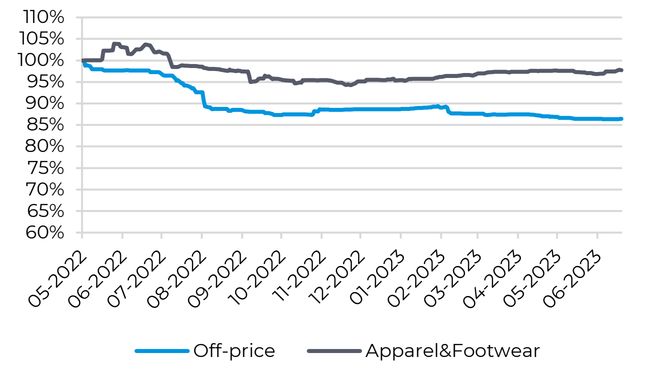
The approximately 15% downward correction in off-price comes mainly from Burlington Stores as the company back in 2022 slashed its full-year guidance for sales and earnings, pointing to pressure on lower-to-moderate income shoppers and high levels of promotional activity.

Off-Price Index* performance vis-à-vis MSCI World Textiles, Apparel & Luxury Goods (2022-2023)



Source: Bloomberg, mBank, *The Off-Price Index consists of TJX, Ross Stores, and Burlington Stores

Revisions to 2024 EBITDA expectation for Off-Price and Apparel & Footwear companies



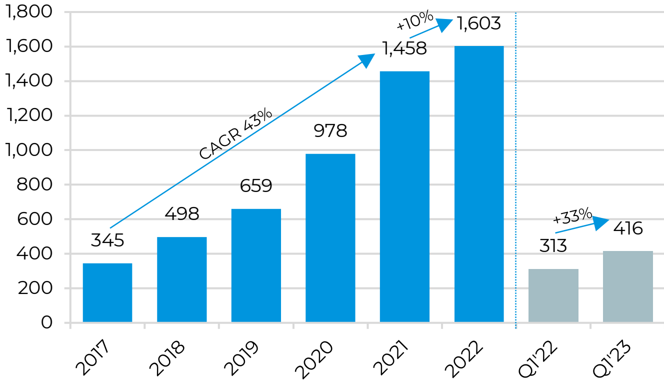
Source: Bloomberg, mBank, The Off-Price Index consists of TJX, Ross Stores, and Burlington Stores, Apparel & Footwear consists of Nike, Puma, Inditex, H&M, LPP, PCO, calculated on the base of 05.2022

Off-Price Performance in 2022

The year 2022 was not a successful one for the industry, with Burlington Stores and Ross Stores recording negative same-store sales and TJX recording flat growth. At the same time, all three chains recorded a decline in gross margin, which contributed to a decline in EBITDA margin.

In Europe, the off-price segment of Zalando recorded a slow-down in sales in 2022 (only 10% y/y) coupled with significant operating margin erosion (EBIT was almost halved). The current performance is however improving with Zalando Off-Price recording more than 30% y/y growth in Q1'23 together with sharp margin improvement, however still below 2021 level.

Sales of Zalando's off-price segment in €m



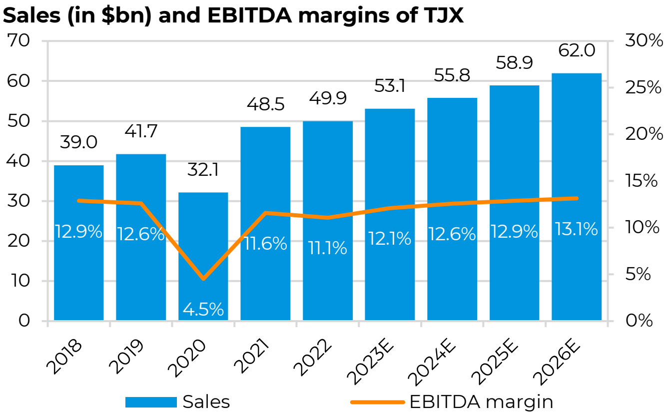
Source: Zalando, mBank

Market Expectations for Off-price Companies

Current market expectations point to a single-digit increase in same-store sales in 2023 (ca. 3%) with gross margins improving by reversing the declines recorded in 2022. This is expected to make the EBITDA result in 2023 on the level only slightly higher than recorded in 2019 (0-2% above 2019 level for Burlington and Ross Stores and ca. 20% for TJX).

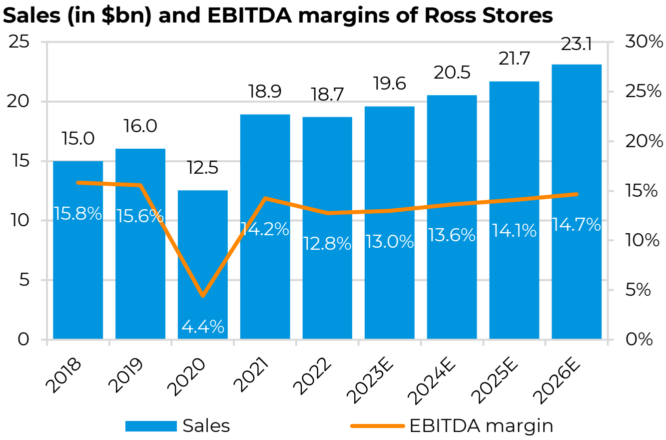
The market consensus assumes sales growth for the sector on a similar level to historical ones - ca. 5% Ross Stores and TJX (ca. 10% Burlington stores) with continued EBITDA margin expansion pointing to approximately 10% EBITDA growth annually in the following years at Ross, TJX and ca. 20% at Burlington.

Sales (in $bn) and EBITDA margins of TJX



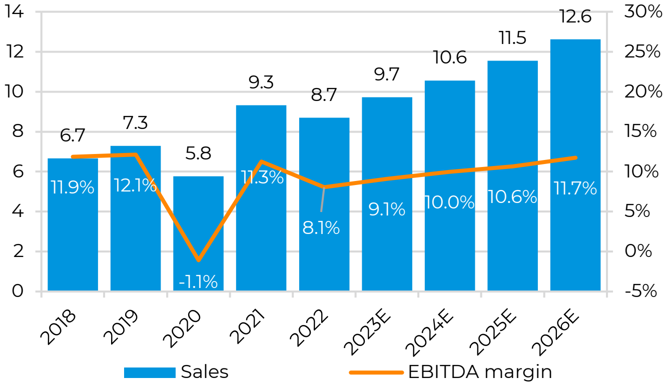
Source: Bloomberg, mBank

Sales (in $bn) and EBITDA margins of Ross Stores



Source: Bloomberg, mBank

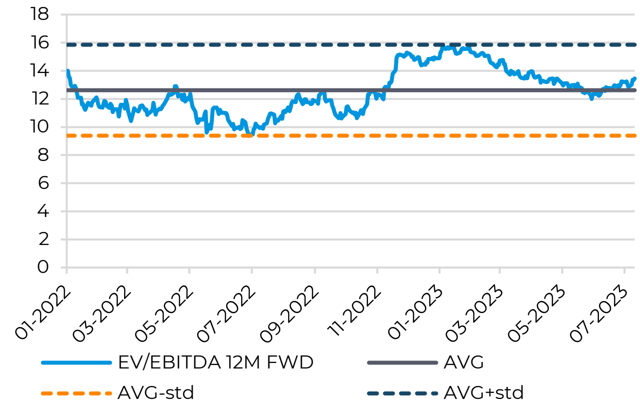
Sales (in $bn) and EBITDA margins of Burlington Stores



Source: Bloomberg, mBank

Off-price companies experienced a slight re-rating at the beginning of 2023. Today, the three companies comprising our Off-Price Index are back to trading at ca. 13.5x 12M FWD EV/EBITDA, slightly above the long-term average of 12.5x.

12M FWD EV/EBITDA ratios of Off-Price Retailers*



Source: Bloomberg, mBank, *TJX, Ross Stores, Burlington Stores

Half-Price Outlook

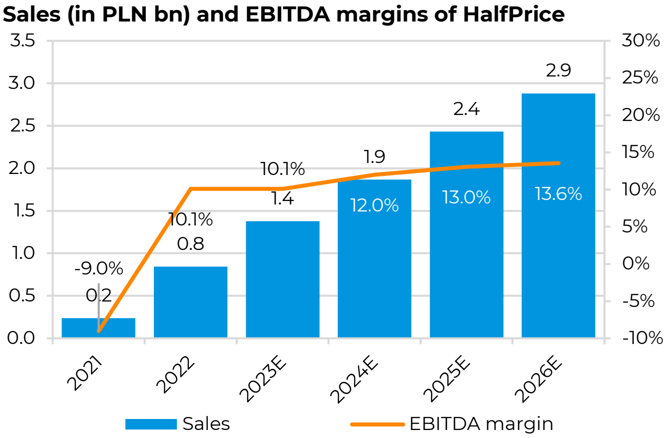
HalfPrice, the off-price player owned by CCC Group, is growing dynamically. In 2022 alone, it nearly doubled the number of stores and recorded relatively high EBITDA margins.

In FY 2023, we expect the company to open 32 new stores (ca. 36% y/y growth in sales area) together with same-store-sales improvement, which is expected to bring top line revenue to grow by ca. 63% y/y.

In terms of margins, we expect the segment to record a gross margin decline of ca. 2.8pp in 2023 due to a strong cooperation with Modivo Group aimed at lowering the inventory levels of the e-commerce platform. This negative effect is expected to be however mitigated by operational improvement coming from growing scale of the business, hence we expect flat EBITDA margin y/y.

For 2024, we expect a steady rise in gross margins (lack of negative impact of Modivo stock management), driving EBITDA margin improvement (ca. 60% EBITDA growth y/y in 2024). Our target profitability for the business remains at approximately 14%, slightly ahead of global peers but below CCC's guidance for 18-20%.

Sales (in PLN bn) and EBITDA margins of HalfPrice



Source: CCC, mBank

HalfPrice Valuation

We have assessed the value of HalfPrice by comparing its EV/EBITDA multiples with those of a group of peers. Assuming equal weights for each year, we put the enterprise value of HalfPrice at PLN 2.9bn, implying per-share contributions to CCC Group's value of PLN 42.0.

		EV/EBITDA		
		2023E	2024E	2025E
TJX		15.0	13.7	12.7
Ross Stores		14.2	13.0	11.9
Burlington Stores		13.6	11.4	9.9
maximum		15.0	13.7	12.7
minimum		13.6	11.4	9.9
median		**14.2**	**13.0**	**11.9**
Half Price EBITDA		139.1	224.4	317.2
Implied Valuation				
implied EV		1,979.0	2,908.7	3,783.8
year weight		33%	33%	33%
EV	**2,890.5**			
value per share of CCC (PLN)	**42.0**			

Source: mBank

Modivo vs. Peers

Fashion e-commerce companies had a difficult time in 2022-23 with global macro deteriorating and consumers being cautious about online spending. This translated into a slowdown or even decline in top-line growth at fashion e-commerce companies (Zalando and Boohoo reported y/y sales contraction in 2022).

The slowdown did not spare Modivo Group, with sales growth slowing from around 50% in 2019-21 to 17% in 2022.

The market expects the slowdown to continue in 2023 as well, with only a slight increase in sales at Zalando and y/y declines at Asos and Boohoo. We too expect a slower growth rate for Modivo Group compared to historical performance, but the growth rate is expected to be higher than the broad market (we assume around 12% y/y sales growth).

With expectations of an improving macroeconomic environment and a continuation of secular increase in e-commerce penetration of retail sales, **the market expects the growth momentum to improve from 2024 onwards. This is also our base case scenario for Modivo Group as we expect the company to sport 20%/18% sales growth in 2024/25.**

Overview of fashion e-commerce % YoY revenue growth, historical data and forecasts

	2019	2020	2021	2022	2023E	2024E	2025E
Zalando	20%	23%	30%	0%	1%	8%	9%
Asos	13%	19%	20%	1%	-9%	3%	8%
Boohoo	44%	41%	14%	-11%	-4%	7%	9%
Boozt	23%	27%	33%	16%	10%	12%	11%
Answear	41%	32%	67%	42%	30%	25%	18%
Modivo Group	**46%**	**59%**	**49%**	**17%**	**12%**	**20%**	**18%**

Source: Bloomberg, mBank, CCC, ANR, for Modivo financial data from KRS and mBank forecasts, for Answear mBank forecasts

Fashion e-commerce companies were not prepared for a significant reduction in demand growth as a result of economic slowdown, which contributed to inventory overhangs. This has forced the sector to intensify competition to move excess inventory. This, together with a need to encourage consumers to buy, and thus to discount more, negatively affected the sales margins (the more inventory a company held, the greater the negative effect on profitability).

Summary of fashion e-commerce EBITDA margins, historical data and forecasts

	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Zalando	3.8%	5.6%	7.3%	6.4%	3.8%	5.0%	6.2%	7.4%	7.7%
Asos	6.5%	3.9%	8.2%	8.8%	4.7%	3.3%	5.7%	6.2%	6.5%
Boohoo	9.9%	10.2%	9.9%	6.3%	3.6%	3.8%	4.8%	5.5%	6.6%
Boozt	4.2%	5.8%	8.5%	7.4%	7.0%	7.4%	8.0%	8.2%	7.8%
Answear	-1.5%	3.1%	7.4%	6.8%	6.3%	5.9%	5.7%	5.9%	6.0%
median	**4.2%**	**5.6%**	**8.2%**	**6.8%**	**4.7%**	**5.0%**	**5.7%**	**6.2%**	**6.6%**
Modivo Group	**8.5%**	**6.6%**	**8.3%**	**8.2%**	**2.5%**	**2.8%**	**4.8%**	**6.2%**	**6.9%**

Source: Bloomberg, mBank, CCC, ANR, for Modivo financial data from KRS and mBank forecasts, for Answear mBank forecasts

Thus, Zalando, Asos, and Boohoo (the end of the financial year is in February) all reported a significant increase in inventories in relation to sales, which had a negative impact on profitability, while in the case of Boozt and Answear this effect was not observed to a significant degree, so that profitability did not decrease as much. In the case of Modivo, the increase in inventory in relation to revenue was also very high in 2022, which negatively affected profitability. **At present, Modivo Group continues to suffer from the problem of excess inventories, so we expect that margins will not improve significantly this year.**

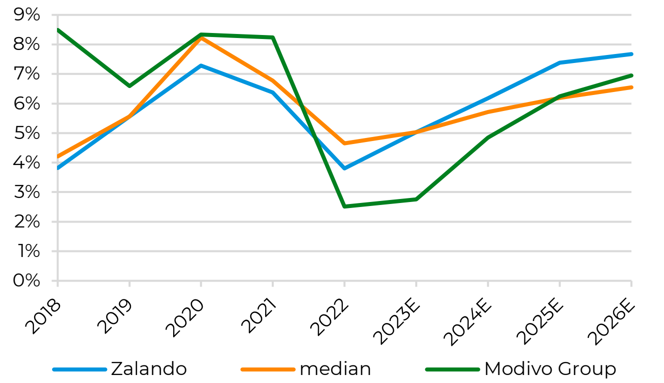
However, as consumer spending improves and inventories normalize, Modivo's margins are expected to improve (the high-margin marketplace could make a positive contribution; our assumption is that Modivo Group will gradually increase margins to almost 7% in 2026, below the average level in 2018-21).

Inventory/Sales ratio for fashion e-commerce

	AVG 2017-21	2021	2022	2022/AVG
Zalando	16.3%	14.9%	17.5%	7.3%
Asos	18.1%	20.6%	27.4%	51.8%
Boohoo	9.3%	14.1%	10.1%	8.2%
Boozt	30.5%	29.8%	30.2%	-1.0%
Answear	31.8%	34.8%	33.1%	4.3%
Modivo Group	**28.8%**	**28.3%**	**36.4%**	**26.5%**

Source: Bloomberg, mBank, CCC, ANR, for Modivo financial data from KRS

EBITDA margin forecast for Modivo, Zalando and fashion e-commerce median

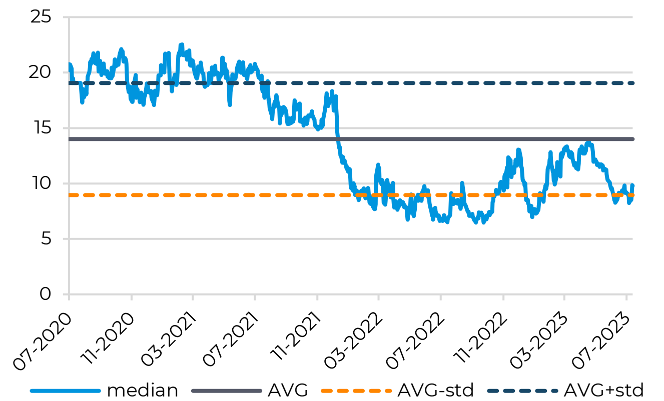


Source: Bloomberg, mBank, for Modivo financial data from KRS and mBank forecasts, in fashion e-commerce included: Zalando, Asos, Boohoo, Boozt, Answear

Sector Valuation

The fashion e-commerce sector recorded a substantial de-rating from ca. 18x EV/EBITDA 12M FWD in 2019-21 to ca. 10x after that period due to the earnings prospects of companies deteriorating and increasing yields. Currently the sector is trading at ca. 10x EV/EBITDA 12M FWD, near the average for the period started in 2022 to date.

12M FWD EV/EBITDA ratios of fashion e-commerce*



Source: Bloomberg, mBank, *Zozo, Boohoo, Asos, Zalando, Overstock, Showroomprive, Boozt

Modivo Group Outlook

After an ordinary 1H'23, we think the second half of the year will bring an up-tick in Modivo's sales momentum given improving consumer environment and a more favorable year-ago comparable base, which is expected to bring the full-year top line to grow by ca. 12% y/y.

In terms of margins, we expect the segment to record a gross margin decline of ca. 0.5pp. due to still high inventory levels driving increased promotional activity and the main aim of the group being lowering inventory levels. However, given slight cost optimization (marketing and labor) we expect the EBITDA margin to increase by 0.3pp. y/y.

For 2024, we expect a steady gross margin increase (decreasing effect of inventory overhang and partial dilution of SG&A costs) driving EBITDA margin improvement (doubling EBITDA result y/y).

Note that, assuming delivery of GO.25 targets and valuing Modivo Group only at Zalando's EV/EBITDA multiple, the EV of Modivo Group would be in the range of PLN 6.0-9.1 bn.

Modivo Group valuation

We have assessed the value of Modivo Group by comparing its EV/EBITDA and EV/Sales multiples against those of its peer group. Assuming equal weights for each year and each method, we put Modivo Group's enterprise value at PLN 3.7bn, which implies a per-share contribution to the value of CCC Group of PLN 53.4. Assuming net debt on an IFRS 16 basis, adjusted for the convertible debt owed to SoftBank, we estimate the equity value attributable to CCC to be PLN 2.1bn, or PLN 30.6 per CCC share.

		EV/EBITDA			EV/Sales		
		2023E	2024E	2025E	2023E	2024E	2025E
ALIBABA GROUP		6.5	5.9	5.3	1.3	1.2	1.1
AMAZON.COM		16.0	13.6	11.3	2.6	2.3	2.1
EBAY		8.3	8.0	8.6	2.7	2.6	2.5
ZOZO		12.7	11.7	10.9	4.1	3.8	3.5
BOOHOO GROUP		9.1	6.8	5.5	0.3	0.3	0.3
ASOS		10.2	5.9	5.2	0.4	0.3	0.3
ZALANDO		13.0	10.2	8.1	0.8	0.7	0.6
OVERSTOCK.COM		78.1	28.6	23.2	0.7	0.7	0.6
maximum		78.1	28.6	23.2	4.1	3.8	3.5
minimum		6.5	5.9	5.2	0.3	0.3	0.3
median		**11.5**	**9.1**	**8.4**	**1.0**	**0.9**	**0.9**
Modivo Group EBITDA/Sales		**122.3**	**258.2**	**392.6**	**4,436.9**	**5,324.3**	**6,282.7**
implied valuation							
implied EV		1,401.0	2,352.3	3,290.6	4,550.7	5,024.1	5,446.3
multiple weight			50%			50%	
year weight		33%	33%	33%	33%	33%	33%
EV	**3,677.5**						
value per share of CCC (PLN)	**53.4**						

Source: mBank

Debt

CCC Group is still quite heavily indebted. At the end of Q1'23, the Group had ca. PLN 1.9bn IAS 17 net debt, of which ca. PLN 1.1bn was attributable to CCC Group ex. Modivo and ca. PLN 0.8bn was Modivo's.

It is worth noting that CCC's debt includes debt to the state-run Polish Development Fund (PFR), which is mezzanine in nature and is not included in the calculation of covenants, as is the debt to SoftBank, which will ultimately be converted into Modivo shares.

Overview of CCC Group's debt obligations (PLN m)

	Jan'23	Apr'23
Bank+bond borrowing	2,526.2	2,265.4
Cash	395.4	394.4
Net debt (IAS 17)	2,130.8	1,871.0
Lease obligations	1,779.7	1,715.9
Net debt (IFRS 16)	3,910.5	3,586.9
Reverse factoring and bank guarantees	371.0	630.5
Mezzanine adjustment (PFR debt)	376.0	390.2
Net debt (IFRS16)+reverse factoring-mezzanine	3,905.5	3,827.2
/EBITDA (IFRS 16)	7.3	7.2
Net debt (IAS 17)+reverse factoring-mezzanine	2,125.8	2,111.3
/EBITDA (IAS 17)	11.8	12.2

Source: CCC, mBank

CCC conducted a share issue in April/May 2023. As part of the transaction, CCC raised PLN 0.5bn through the issue of 14m shares. CCC had already received PLN 212m through the subscription of registered shares in April. The rest of the funds are expected to be received in Q2'23.

With the funds raised from the equity issue, and the renegotiated covenants, the problem of meeting the covenants in the near term has been nearly resolved for CCC Group ex. Modivo. Our estimates point towards ca. PLN 25m greater EBITDA of CCC Group ex. Modivo compared to the minimum EBITDA required by financing providers.

Looking at covenants in the coming quarters, our calculations indicate that CCC Group ex. Modivo is at risk of not meeting them at the end of Q3'23, but the Company has signaled a willingness to carry out a leaseback transaction of a warehouse. In addition, in the event of a larger-than-assumed optimization of inventory levels, the covenant is expected to be met.

Minimum EBITDA covenants of CCC Group ex. Modivo

Covenant Test Date	Minimum EBITDA
31 Jul. 2023	PLN 150m
31. Oct. 2022	PLN 200m

Source: CCC, mBank, EBITDA ex. IFRS 16 D&A and capitalized costs of development work

Net debt/EBITDA covenants of CCC

Test Date	Maximum Net Debt/EBITDA
31. Jul 2023	7.3
31. Oct 2023	3.9
31. Jan 2024	3.5
30. Apr 2024	3.8
31. Jul 2024	3.5
31. Oct 2024+	3.0

Source: CCC, mBank, Net debt ex. certain IFRS 16 obligations, mezzanine debt and incl. reverse factoring obligations

We estimate that, from January 2024 onwards, the non-Modivo part of CCC will not only meet covenants, but also have net debt/EBITDA at a healthy level below 3x.

CCC Group ex. Modivo covenant estimates in 2023-25 (PLN m)

	2023E	2024E	2025E
Bank borrowing	1,077.8	1,077.8	1,077.8
Cash	107.4	172.0	229.5
Net debt (IAS 17)	970.4	905.8	848.3
Reverse factoring+ bank guarantees	311.5	311.5	311.5
Mezzanine adjustment (PFR debt)	402.4	418.6	434.8
Net debt+reverse factoring-mezzanine	879.6	798.8	725.0
/EBITDA IAS 17	2.7	1.8	1.3

Source: CCC, Modivo, mBank

Modivo Group has reported that it **reached an agreement with its financing providers** not to test the net debt-to-EBITDA ratio covenant as of 31 July 2023.

In addition, the lenders, the banks Pekao and PKO BP, agreed not to include the debt owed to SoftBank in the calculation of the debt covenants as it is convertible into Modivo shares.

Nevertheless, according to our calculations, Modivo Group will not meet the net debt/EBITDA covenant as of the end of January 2024 (we forecast 4.2x vs. a requirement of 3.5). However, we assume that the company will come to an agreement with its creditors as has been the case in the past (another one-off waiver required). Also, optimizing working capital by more than PLN 115m would allow Modivo to meet its covenants (we assume a reduction in working capital of around PLN 40m).

Modivo covenant estimates for 2023-25 (PLN m)

	2023E	2024E	2025E
Net debt (IAS 17)	817.1	904.1	859.3
Reverse factoring	319.0	319.0	319.0
Net debt+reverse factoring	1,136.1	1,223.1	1,178.3
/EBITDA IAS 17	11.0	5.1	3.2
SoftBank bonds adjustment	699.1	736.4	736.4
Net debt+reverse factoring-SoftBank	437.1	486.7	441.9
/EBITDA IAS 17	4.2	2.0	1.2

Source: CCC, Modivo, mBank

Valuation

Using DCF analysis and relative valuation, we set our twelve-month per-share price target for CCC at PLN 63.90.

Valuation Summary

(PLN)	weight	price
relative valuation	50%	67.30
DCF analysis	50%	44.00
	valuation	55.65
	12M target price	**63.90**

Source: mBank

Relative Valuation

We compared CCC with a peer group of comparable companies using 2023-2025 projected price-to-earnings and EV/EBITDA ratios. The peer group consists of companies operating in the footwear, apparel and online fashion markets.

We assume CCC's target share in Modivo Group at 63%. We value the minority interest in Modivo using the multiples comparison method (EV/EBITDA and EV/Sales).

Multiples Comparison

		P/E			EV/EBITDA	
	2023E	2024E	2025E	2023E	2024E	2025E
FOOT LOCKER	12.8	8.7	6.7	5.1	4.1	3.5
CALERES	6.2	5.7	5.3	4.5	4.2	4.1
ABC-MART	19.3	18.3	17.5	9.0	8.6	8.4
GEOX	16.6	7.8	6.6	5.8	4.9	4.9
ADIDAS	-	42.1	23.5	37.6	15.6	11.5
TOD'S	31.6	22.9	19.1	8.0	7.2	6.5
NIKE	28.9	24.6	21.3	21.6	18.5	16.4
CROCS	10.9	9.7	8.7	8.9	8.1	7.4
STEVEN MADDEN	13.2	11.6	10.7	8.8	7.9	7.4
TJX COMPANIES	24.0	21.7	19.7	15.0	13.7	12.7
INDITEX	21.4	19.9	18.6	10.8	10.1	9.5
H&M	28.6	19.4	17.7	9.3	8.0	7.7
ZALANDO	52.8	32.1	22.3	13.0	10.2	8.1
ASOS	-	29.5	12.9	10.2	5.9	5.2
BOOHOO GROUP	-	90.7	22.7	9.1	6.8	5.5
LPP	17.2	13.3	11.6	8.8	7.3	6.3
maximum	52.8	90.7	23.5	37.6	18.5	16.4
minimum	6.2	5.7	5.3	4.5	4.1	3.5
median	**19.3**	**19.7**	**17.6**	**9.1**	**8.0**	**7.4**
CCC	-29.0	23.8	9.8	7.8	5.9	4.8
premium/ discount	-	21.3%	-44.1%	-14.2%	-26.2%	-35.7%

Implied Valuation							
implied valuation per share		-	37.1	80.5	55.0	75.4	96.7
multiple weight			50%			50%	
year weight		0%	50%	50%	33%	33%	33%
value per share of CCC (PLN)	**67.3**						

Source: mBank

DCF Valuation

Assumptions:

- The DCF model uses free cash flow forecasts for the 2023-2032 period.
- Future cash flow is discounted as of the end of June 2023.
- Equity value calculations factor in net debt as of 31 January 2023 ex leases (ca. PLN 1.8n), convertible debt owed to Softbank (PLN 0.6bn), and private placement proceeds (PLN 0.5bn).
- For the purpose of terminal value estimates, we adjust CAPEX to match D&A expenses.
- The risk-free rate in residual period is 4.5% and beta is 1.5x.
- We assume that FCF after FY2032 will grow at an annual rate of 2%.

DCF Model

(PLN m)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	+
Revenue	**10,127.4**	**12,039.4**	**13,878.5**	**15,547.2**	**16,839.1**	**17,944.3**	**18,997.4**	**20,113.3**	**21,296.2**	**22,550.5**	
change	11.0%	18.9%	15.3%	12.0%	8.3%	6.6%	5.9%	5.9%	5.9%	5.9%	
EBITDA	**878.5**	**1,189.6**	**1,479.7**	**1,699.3**	**1,862.1**	**1,988.3**	**2,090.5**	**2,198.3**	**2,312.0**	**2,432.0**	
EBITDA margin	8.7%	9.9%	10.7%	10.9%	11.1%	11.1%	11.0%	10.9%	10.9%	10.8%	
D&A expenses (IAS 17)	249.6	254.3	277.6	302.2	324.4	345.7	366.3	386.5	406.3	418.3	
EBIT	**185.4**	**436.1**	**664.4**	**829.4**	**952.1**	**1,043.1**	**1,112.6**	**1,187.9**	**1,269.6**	**1,365.3**	
tax on EBIT	35.2	87.2	132.9	165.9	190.4	208.6	222.5	237.6	253.9	273.1	
NOPLAT	**150.2**	**348.9**	**531.5**	**663.5**	**761.7**	**834.5**	**890.1**	**950.4**	**1,015.7**	**1,092.2**	
CAPEX	-324.7	-337.5	-424.6	-433.1	-450.5	-465.9	-484.2	-503.0	-519.2	-418.3	
working capital	39.9	-69.2	-66.2	-118.6	-90.9	-116.6	-111.0	-117.6	-124.7	-132.3	
FCF	**115.1**	**196.6**	**318.3**	**414.0**	**544.8**	**597.8**	**661.1**	**716.1**	**778.0**	**959.9**	**979.1**
WACC	13.4%	13.4%	13.3%	13.3%	13.6%	13.3%	13.6%	13.9%	14.0%	13.8%	
discount factor	0.93	0.82	0.72	0.64	0.56	0.50	0.44	0.38	0.34	0.30	
PV FCF	106.9	161.0	230.2	264.2	306.2	296.5	288.6	274.5	261.7	283.7	
WACC	**13.4%**	**13.4%**	**13.3%**	**13.3%**	**13.6%**	**13.3%**	**13.6%**	**13.9%**	**14.0%**	**13.8%**	**12.1%**
Cost of debt	6.8%	6.8%	6.7%	6.7%	7.0%	6.7%	7.0%	7.3%	7.4%	7.2%	5.5%
Risk-free rate	5.8%	5.8%	5.7%	5.7%	6.0%	5.7%	6.0%	6.3%	6.4%	6.2%	4.5%
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	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Net debt / EV	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Cost of equity	14.8%	14.8%	14.7%	14.7%	15.0%	14.7%	15.0%	15.3%	15.4%	15.2%	13.5%
Risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Beta	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5

FCF growth in the terminal period	2.0%
Terminal value	9,660.6
Present value of terminal value	2,855.0
Present value of FCF in the forecast period	2,473.3
Enterprise value	5,328.4
Net debt (IAS 17)	995.5
Modivo minority interest	1,239.0
Other minority interest	66.1
Equity value	3,027.8
Million shares outst.	68.9
Equity value per share (PLN)	**44.0**
12M cost of equity	14.8%
Target price (PLN)	**50.5**

EV/EBITDA ('23) at target price	12.2
P/E('23) at target price	-
TV / EV	53.6%

Source: mBank

Sensitivity Analysis

	FCF growth in perpetuity				
	1.00%	1.50%	2.00%	2.50%	3.00%
WACC +1.0 p.p.	42.2	44.1	46.2	48.5	50.9
WACC +0.5 p.p.	43.9	46.0	48.2	50.7	53.4
WACC	45.8	48.0	**50.5**	53.2	56.2
WACC -0.5 p.p.	47.8	50.2	52.9	55.9	59.3
WACC -1.0 p.p.	50.0	52.7	55.7	59.0	62.8

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P&L

(PLN m)	2021	2022	2023E	2024E	2025E
revenues	**7,541.7**	**9,123.2**	**10,127.4**	**12,039.4**	**13,878.5**
COGS	-4,016.4	-4,857.8	-5,373.9	-6,307.7	-7,295.8
gross profit	**3,525.3**	**4,265.4**	**4,753.6**	**5,731.7**	**6,582.7**
margin	46.7%	46.8%	46.9%	47.6%	47.4%
cost of sales and points of sales	-3,204.9	-3,815.1	-4,150.9	-4,784.1	-5,342.5
administrative expenses	-379.5	-399.5	-430.7	-511.5	-575.8
other	63.2	-102.1	13.5	0.0	0.0
EBITDA (IAS 17)	**235.4**	**179.9**	**435.1**	**690.5**	**941.9**
EBITDA	**581.4**	**533.2**	**878.5**	**1,189.6**	**1,479.7**
margin	7.7%	5.8%	8.7%	9.9%	10.7%
D&A	-577.3	-584.5	-693.1	-753.5	-815.4
EBIT	**4.1**	**-51.3**	**185.4**	**436.1**	**664.4**
margin	0.1%	-0.6%	1.8%	3.6%	4.8%
financing activity	-152.4	-347.6	-296.3	-249.2	-215.2
pre-tax profit	**-148.3**	**-398.9**	**-110.9**	**186.9**	**449.2**
income tax	68.3	2.6	8.2	37.4	89.8
minority interest	-31.1	26.3	12.3	-19.6	-43.8
discontinued operations	24.3	-42.4	0.0	0.0	0.0
net profit	**-223.4**	**-417.6**	**-106.8**	**129.9**	**315.6**

Balance Sheet

(PLN m)	2021	2022	2023E	2024E	2025E
fixed assets	**3,393.8**	**3,601.3**	**3,705.5**	**3,904.0**	**4,154.7**
Intangible assets	317.9	376.8	396.1	396.1	396.1
PP&E & RoU Right of Use	2,677.6	2,821.8	2,898.6	3,097.1	3,347.8
other	398.3	402.7	410.8	410.8	410.8
current assets	**4,106.9**	**3,462.8**	**3,549.1**	**3,923.1**	**4,406.9**
accounts receivable	226.1	143.8	159.6	189.8	218.8
inventory	2,625.8	2,691.1	2,903.4	3,269.6	3,622.0
cash	941.1	395.4	207.8	185.4	287.8
other	313.9	232.5	278.3	278.3	278.3
equity	**985.2**	**416.3**	**813.4**	**923.8**	**1,195.6**
minority interest	166.4	166.4	162.1	181.7	225.5
noncurrent liab.	**3,410.2**	**2,741.4**	**2,575.9**	**2,691.3**	**2,795.0**
loans	1,914.6	1,370.5	1,199.3	1,199.3	1,199.3
leases	1,303.9	1,266.8	1,271.8	1,387.2	1,490.9
other	191.7	104.1	104.8	104.8	104.8
current liabilities	**2,938.9**	**3,740.0**	**3,703.1**	**4,030.4**	**4,345.5**
loans	545.0	1,155.7	796.1	796.1	796.1
leases	491.6	512.9	512.5	512.5	512.5
trade payables	1,480.1	1,389.5	1,684.3	2,011.6	2,326.7
other	422.2	681.9	710.2	710.2	710.2
net debt	**3,314.0**	**3,910.5**	**3,571.9**	**3,709.6**	**3,711.0**
net debt/EBITDA (IFRS 16)	5.7	7.3	4.1	3.1	2.5
net debt/EBITDA (IAS 17)	6.5	11.8	4.1	2.6	1.8

Source: mBank

Cash Flow

(PLN m)	2021	2022	2023E	2024E	2025E
operating CF	**50.3**	**540.7**	**888.0**	**1,063.5**	**1,279.9**
pre-tax profit	-125.2	-437.1	-110.9	186.9	449.2
D&A	577.3	584.5	693.1	753.5	815.4
income tax	-95.7	-81.5	-27.4	-37.4	-89.8
working capital	-339.1	1.2	39.9	-69.2	-66.2
other	33.0	473.6	293.2	229.6	171.4
investing CF	**-219.2**	**-409.1**	**-315.2**	**-337.5**	**-424.6**
CAPEX	-312.9	-455.1	-324.7	-337.5	-424.6
other	93.7	46.0	9.5	0.0	0.0
financing CF	**651.3**	**-677.3**	**-760.3**	**-748.4**	**-752.9**
interest expenses	-92.7	-198.1	-253.6	-249.2	-215.2
other	744.0	-479.2	-506.7	-499.1	-537.8
CF	**482.4**	**-545.7**	**-187.6**	**-22.4**	**102.4**
CFO/EBITDA	8.7%	101.4%	101.1%	89.4%	86.5%
FCFF	114.5	226.8	317.6	388.2	505.8
FCFF/EV	**1.9%**	**3.4%**	**4.6%**	**5.4%**	**7.1%**
FCFE	-701.3	-523.1	-139.1	-22.4	102.4
FCFE/MCAP	**-27.2%**	**-20.3%**	**-4.3%**	**-0.7%**	**3.2%**
ROIC	**0.1%**	**-0.9%**	**3.3%**	**7.5%**	**10.8%**
ROCE	**0.1%**	**-1.1%**	**4.4%**	**9.6%**	**13.4%**
divid. payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Dyield	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**

Key Ratios

	2021	2022	2023E	2024E	2025E
P/E	-11.0	-5.9	-29.0	23.8	9.8
EV/EBITDA (IFRS 16)	**10.2**	**12.3**	**7.8**	**5.9**	**4.8**
EV/EBITDA (IAS 17)	**17.6**	**26.5**	**11.6**	**7.4**	**5.3**
P/S	**0.3**	**0.3**	**0.3**	**0.3**	**0.2**
P/BV	2.5	5.9	3.8	3.4	2.6
P/CF	5.1	-4.5	-16.5	-138.3	30.3
P/FCFE	**-3.5**	**-4.7**	**-22.3**	**-138.3**	**30.3**
EBITDA YoY change	**-**	**-8.3%**	**64.8%**	**35.4%**	**24.4%**
net margin	-3.0%	-4.6%	-1.1%	1.1%	2.3%
net profit YoY change	**-**	**-**	**-**	**-**	**142.8%**
price (PLN)	45.0	45.0	45.0	45.0	45.0
shares outst. (millions)	54.9	54.9	68.9	68.9	68.9
MCap	2,469	2,469	3,098	3,098	3,098
EV	5,949	6,545	6,832	6,990	7,035

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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)
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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CCC (Janusz Pięta, Paweł Szpigiel)

Rating	suspended	hold	hold	hold	hold
Rating date	2023-04-17	2023-04-03	2022-12-01	2022-10-03	2022-09-15
Target price (PLN)	-	37.90	36.40	35.00	38.00
Price on rating day	39.33	38.59	37.57	37.14	37.98

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