

Tuesday, March 30, 2021 | special comment

VRG: Preliminary 2020 Q4 Results Fulfill Expectations

Rating: buy | target price: PLN 3.14 | current price: PLN 2.64

VRG PW; VRGP.WA | Retail, Poland

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- VRG generated 2020 Q4 **IFRS 16 EBITDA** consistent with our estimate according to this morning's earnings preview, accompanied by slightly lower-than-expected quarterly sales profit and lower costs. VRG is slated to publish the final FY2020 report on April 16th, 2021.
- Total **revenue** in Q4 2020 decreased by 30.2% y/y to PLN 232.0m, and revenue per square meter fell 28.5% to PLN 1,465 on a sales area of 53,000 square meters (-3% y/y).
- Gross margin** came in at 51.3% after a y/y decrease of 2.4p.p.
- VRG **reduced operating costs** by 8% y/y to PLN 121.9m, and it cut SG&A expenses by 5% from the same period a year earlier.
- The application of IFRS 16 impacted the quarterly results through FX differences, resulting in a net loss of PLN 18.3m (under IAS the 2020 Q4 bottom line shows a net profit of PLN 7.7m).
- Today's release does not contain balance-sheet or cash flow figures.
- Summing up, VRG fulfilled our expectations with its 2020 Q4 results and the revenue and sales profit figures for the full quarter were consistent with monthly estimates. VRG emphasizes that under IAS 17 its EBITDA for the full FY2020 was positive. We believe the Company was able to further improve its cash conversion cycle last year. At the moment investors are probably paying more attention to the fresh round of lockdown measures and how they might affect retail sales. Sales for March will be low but once restrictions are lifted VRG can be expected to deliver stronger upward momentum.**

Preliminary 2020 Q4 results vs. expectations

(PLN m)	4Q'20	4Q'19	change	4Q'20E	differ.	2020E	2019	change
Revenue	232.0	332.5	-30.2%	231.6	0.2%	853.7	1 068.3	-20.1%
Gross Profit	118.9	178.5	-33.4%	121.4	-2.1%	417.3	556.1	-25.0%
margin	51.3%	53.7%	-2.4p.p.	52.4%	-1.2p.p.	48.9%	52.1%	-3.2p.p.
Operating expenses	121.9	132.1	-7.7%	122.5	-0.5%	416.8	469.2	-11.2%
EBIT	2.9	47.6		-3.7		-11.9	87.5	
EBITDA	22.8	76.0		22.6	0.8%	98.4	198.5	-50.4%
Net income	-18.3	44.3		-6.8		-48.2	64.0	

Source: VRG. E - mBank estimates

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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SELL – we expect that an investment will bear a loss greater than 15%
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