

Wednesday, January 29, 2020 | special comment

VRG - Forecast of 2019 Q4 Results

Rating: accumulate | target price: PLN 4.50 | current price: PLN 3.86

VRG PW; VRGP.WA | Retail, Poland

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VRG is slated to release 2019 Q4 earnings on 31 March 2020. We expect to see slower pace of annual EBITDA growth in the period due to a lack of the positive base effects provided since the acquisition of Bytom in November 2018, combined with weaker sales growth reported in December. The gross margin is likely to show y/y expansion of 1pp thanks to synergy benefits. SG&A will amount to PLN 125m after a 21% rebound from the year-ago period, and there will be one-time charges in the amount of PLN 1.5m vs. a gain of PLN 0.6m posted in Q4 2018. Financing activity will produce a profit of PLN 7.4m (after positive FX differences of PLN 11m) vs. a year-ago financing loss of PLN 1.9m. VRG's main challenge in the months ahead is to improve sales effectiveness in the fashion segment, and to maintain positive like-for-like sales growth in the jewelry segment.

2019 Q4 estimates

(PLN m)	4Q'19E	4Q'18	change	2019E	YTD*
Revenue	315.1	272.1	16%	1067.6	98%
Gross profit	170.2	143.8	18%	550.8	99%
margin	54.0%	52.9%		51.6%	
EBITDA adj.	49.5	45.6	9%	108.9	98%
EBITDA margin	15.7%	16.8%		19.1%	
EBIT	44.0	40.8	8%	92.5	91%
Pre-tax income	51.4	38.9	32%	74.4	103%
Net profit	43.2	32.4	33%	60.8	103%

Source: Cognor, mBank; *as a percentage of our full-year forecast

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%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%

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Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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