

Wednesday, June 03, 2020 | special comment

VRG – May Sales Fall Less Than Expected for Fashion Group

Rating: hold | target price: PLN 2.43 | current price: PLN 2.39

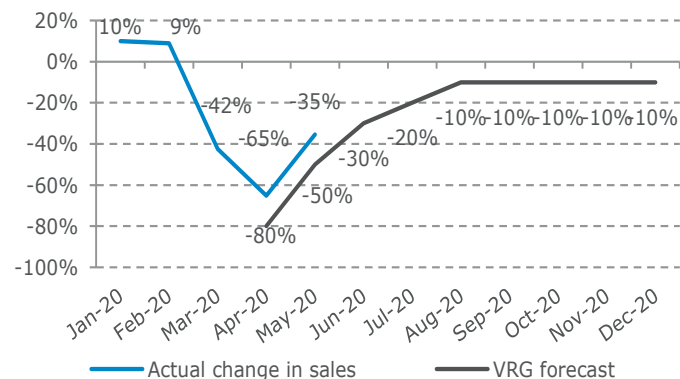
VRG PW; VRGP.WA | Retail, Poland

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VRG reported smaller-than-expected sales declines in May, thanks probably to a post-lockdown rush after Poland allowed shopping centers to open on May 4th. After rising consistently from week to week, in the end the total sales for the month showed a decrease of 35% compared to May 2019, which means the overall rate of contraction decelerated relative to the 40% fall recorded in the first eighteen days of the month. The reduction in sales margins also narrowed relative to April, but it was still considerable. According to our estimates, the May sales loss was roughly PLN 0.7m vis-à-vis a profit of PLN 19.9m generated in the same month a year earlier. The better-than-expected May sales performance sends a positive signal.

- Total sales revenue for May was down 35% on the year at PLN 62.5m, indicating a 26.7% reduction in the year-to-date figure compared to the January-May 2019 period.
- By operating segment, sales at fashion stores decreased 37.5% y/y in May to PLN 38.3m (-29.1% YTD), and sales at jewelry stores registered a 26.2% decline at PLN 22.9m (-20% YTD).
- VRG's total trading area measured 53,300 square meters as of 31 May 2020.
- The gross margin for May narrowed by 5.9pp to 47.7% (-4.9pp YTD), and gross profit came in at PLN 29.8m after sliding 42% year over year.

VRG actual monthly sales in 2020 vs. guidance (% YoY)



Source: VRG, 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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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
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%
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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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