

Thursday, 27 May 2021 | special comments

VRG: 2021 Q1 Results

Recommendation: accumulate | target price: PLN 3.65 | current price: PLN 3.65

VRG PW; VRG.WA | Retail, Poland

Analyst: Paweł Szpigiel +48 22 438 24 06

- VRG fulfilled our expectations with its 2021 first-quarter results, reporting revenue and sales profit figures for the full quarter consistent with monthly estimates.
- As a reminder, non-essential stores in Polish shopping centers were closed for the better part of the first quarter under lockdown restrictions introduced in early February and lifted on 19 March, with obvious effects on fashion sales.
- At VRG, 2021 Q1 revenue posted a year-over-year fall of 13.4%, but the gross margin remained at a stable 47.7%.
- By segment, Clothing registered 30% revenue shrinkage in Q1 to PLN 86.1m, accompanied by a 32.3% decrease in gross profit and a 1.4 p.p. decline to 44.7% in the gross margin. Average revenue per square meter of clothing store was down 28% y/y.
- At the same time, the Jewelry segment achieved a 16% y/y rebound in quarterly revenue (+13% revenue per sqm), led primarily by a 54% surge in online orders, although freestanding W.Kruk shops, not subject to lockdown restrictions, also registered substantial increases in sales of luxury watches and jewelry. e-Commerce sales accounted for 14.2% of total jewelry sales in Q1 2021, up from 12.1% in the same period last year. The segmental gross profit came in at PLN 43.2m after rising by PLN 6.1m or 16.4%, and the gross margin was stable at 50.2%.
- Total first-quarter SG&A expenses were in line with our estimate at PLN 96.1m, with SG&A per square meter reduced by nearly 7% y/y.
- VRG reported having inventory of PLN 516.5m as of 31 March 2021, a decline of 5.6% from March 2020 after a 13.7% decrease in the clothing stock and a 5.2% rise in the jewelry stock. On a per-square-meter basis, at PLN 9,841 the March inventory level was 3.4% lower than the year before.
- VRG generated larger negative OCF of PLN -42.2m in Q1 2021 vs. PLN -27.8m in Q1 2020 – a result of outflows to pay off current non-financial liabilities (PLN -30.4m). Given this, net debt (ex. IFRS16) stood at PLN 106.5m at 31 March 2021 as compared with PLN 53.7m in December 2020 and PLN 142.4m in March 2020. The ending IAS 17 net debt/EBITDA ratio came in at 4.71x.
- Summing up, VRG did not deliver any surprises in its final 2021 Q1 P&L, marked by continued growth in online jewelry sales, however we did feel a bit thrown off by the high negative OCF and the resulting rise in VRG's leverage ratio at the end of March.**

2021 Q1 Results of VRG

| (PLN m) | 1Q'21 | 1Q'20 | change | 1Q'21E | y/y change | consensus (median) | difference |
|---------------|-------|-------|--------|--------|------------|--------------------|------------|
| revenue | 171.1 | 197.5 | -13.4% | 171.5 | -0.2% | 171.5 | -0.2% |
| gross profit | 81.7 | 94.0 | -13.1% | 81.8 | -0.1% | - | - |
| gross margin | 47.7% | 47.6% | - | 47.7% | - | - | - |
| EBITDA | 10.7 | 17.4 | -38.3% | 10.7 | 0.4% | 14.5 | -25.9% |
| EBITDA margin | 6.3% | 8.8% | - | 6.2% | - | 8.5% | - |
| EBIT | -15.8 | -11.9 | - | -15.0 | - | -13.8 | - |
| net profit | -20.1 | -32.0 | - | -19.5 | - | -16.3 | - |

Source: VRG, E – mBank estimates



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

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mBank S.A.

Prosta 18
00-850 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszcz
director
+48 22 438 24 02
kamil.klischcz@mbank.pl
energy, power generation

Jakub Szkopek
+48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Piotr Poniatowski
+48 22 438 24 09
piotr.poniatowski@mbank.pl
industrials

Michał Marczak
+48 22 438 24 01
michal.marczak@mbank.pl
strategy

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl
media, IT, telco

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl
banks, financials

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl
banks, financials

Aleksandra Szklarczyk
+48 22 438 24 04
aleksandra.szklarczyk@mbank.pl
construction, real-estate development

Sales and Trading

Traders

Piotr Gawron
Director
+48 22 697 48 95
piotr.gawron@mbank.pl

Adam Prokop
+48 22 697 47 90
adam.prokop@mbank.pl

Krzysztof Bodek
+48 22 697 48 89
krzysztof.bodek@mbank.pl

Magdalena Bernacik
+48 22 697 47 35
magdalena.bernacik@mbank.pl

Tomasz Jakubiec
+48 22 697 47 31
tomasz.jakubiec@mbank.pl

Andrzej Sychowski
+48 22 697 48 46
andrzej.sychowski@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 22 697 48 82
marzena.lempicka-wilim@mbank.pl

Bartosz Orzechowski
+48 22 697 48 47
bartosz.orzechowski@mbank.pl

Jędrzej Łukomski
+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Private Client Sales

Kamil Szymański
director
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl