

Monday, October 19, 2020 | special comment

VRG: Forecast of 2020 Q3 Results

Rating: buy | target price: PLN 3.14 | current price: PLN 2.23

VRG PW; VRGP.WA | Retail, Poland

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VRG is slated to release 2020 third-quarter results on 10 November 2020. We expect the Fashion Retailer to report IAS17 EBITDA comparable with the figure generated in the same period a year earlier. Looking at monthly sales reports, we believe VRG was able to curb the annual rate of decline in gross profit to 3% in Q3, a big improvement on the previous quarter. This was most likely accompanied by a reduction in SG&A expenses by an estimated 4.5% y/y, driven by slower expansion of the trading area combined with tight cost management. As a result, 2020 Q3 EBIT will most likely show improvement versus the year-ago period. VRG is expected to have incurred a loss of PLN 4m on financing activity (mostly IFRS 16 FX adjustments) in Q3 2020, less than the PLN 12.4m lost in Q3 2019.

2020 Q3 Estimates

(PLN m)	Q3'20E	Q3'19	Y/Y	2020E	YTD*
Revenue	249.3	251.2	-1%	904.3	69%
Gross profit	123.6	128.0	-3%	448.7	67%
margin	49.6%	51.0%		49.6%	
IAS 17 EBITDA	18.5	18.4	0%	39.4	18%
EBITDA margin	7.4%	7.3%		4.4%	
EBIT	13.4	12.6	6%	18.2	
Pre-tax profit	9.4	0.2		5.3	
Net profit	9.4	-1.8		8.0	

Source: VRG, E - mBank estimates *IAS17 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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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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