

Tuesday, May 05, 2020 | Monthly Market Outlook, an excerpt

VRG hold (no change)

Piotr Bogusz +48 22 438 24 08 piotr.bogusz@mbank.pl

With shopping center stores on lockdown from mid-March through to the end of April, VRG is set to report weak sales figures for these periods, as well as probably delivering lower profits in the first half of the year. VRG shares registered a sharp upward swing since the announcement by the Polish government that it was opening shopping centers from Monday, May 4th. We agree that the reopened brick shops can help to slowly rebuild sales, although we must keep in mind that the ongoing epidemic and its economic fallout in the months ahead might hurt the spending power of consumers. Moreover, demand for VRG's particular kinds of semi-formal to smart-casual wear, and for jewelry, might require bigger price incentives to help restore sales to pre-epidemic levels. Our last valuation update for VRG aside from a base-case scenario for FY2020 also provided a worst- and best-case analysis. At the current price level, it looks like investors are discounting a scenario similar to our base case – probably somewhat prematurely considering the earnings risks the Company has yet to deal with. In the face of high price volatility and uncertain prospects, we maintain a hold recommendation for VRG.

Current Price	2.68 PLN	Downside
9M Target Price	2.00 PLN	-25.4%

	rating	target price	issued
unchanged	hold	2.00 PLN	2020-04-06

Key Metrics			VRG PW	vs. WIG
Ticker	VRG PW	1M Price Chng	+38.1%	+29.7%
ISIN	PLVSTLA00011	YTD Price Chng	-33.7%	-11.5%
Outst. Stock (m)	234.5	ADTV 1M		PLN 1.1m
MC (PLN m)	628.3	ADTV 6M		PLN 0.8m
EV (PLN m)	694.5	EV/EBITDA 12M fwd	5.2	-37.0%
Free Float	46.5%	EV/EBITDA 5Y avg	8.3	discount

Earnings Projections (adjusted for IFRS 16)

(PLN m)	2017	2018	2019	2020P	2021P
Revenue	689	806	1,068	740	974
EBITDA adj.	78	89	111	-15	47
EBITDA margin	11.4%	11.1%	10.4%	-2.1%	4.8%
EBIT	63	72	87	-37	26
Net income	43	54	64	-62	5
P/E	10.8	11.7	9.8	-	117.3
P/B	0.9	0.8	0.7	0.8	0.8
EV/EBITDA adj.	7.2	7.7	6.3	-	14.3
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%
Forecast Update (% change)			2020P	2021P	2022P
EBITDA			0.0%	0.0%	0.0%
Net income			0.0%	0.0%	0.0%
Gross profit margin			0.0 p.p.	0.0 p.p.	0.0 p.p.
B&M sales/sqm			0.0%	0.0%	0.0%
SG&A/sqm			0.0%	0.0%	0.0%

Financial Highlights (adjusted for IFRS 16)

(PLN m)	2018	2019	2020P	2021P	2022P
Fashion Sales	483	692	457	607	704
Fashion EBIT	33	43	-37	5	37
Jewelry Sales	323	376	283	367	384
Jewelry EBIT	39.4	44.5	-0.5	25.9	34.8
Gross profit margin	51.2%	52.1%	49.0%	50.3%	50.6%
Operating cash flow	54	109	80	148	94
D&A	17	24	22	20	21
D&A (IFRS 16)	0	87	85	86	90
Working capital	-21	-75	35	36	-59
Investing cash flow	-19	-17	-14	-20	-22
Financing cash flow	-18	-100	10	-128	-117
Credit/loans	8	-5	95	-42	-28
FCF	37	-6	5	59	-5
FCF/EBITDA	41%	-6%	-35%	125%	-6%
OCF/EBITDA	60%	19%	32%	132%	5%

Key Ratios (adj. for IFRS 16)

(PLN)	2018	2019	2020P	2020P	2020P
Sales/sqm, Fashion	1,318	1,049	603	869	978
Sales/sqm, Jewelry	2,540	2,689	1,929	2,505	2,564
SG&A/sqm, Fashion	420	598	526	607	611
SG&A/sqm, Jewelry	1,118	1,216	1,106	1,240	1,239
Cash (PLN m)	34	25	102	102	57
Net debt (PLN m)	63	66	85	42	59
Net debt/EBITDA (x)	0.7	0.6	-5.6	0.9	0.7

Relative Valuation Summary

	P/E			EV/EBITDA		
	20P	21P	22P	20P	21P	22P
Minimum	5.4	4.8	3.9	4.7	3.7	3.3
Maximum	28.0	66.7	27.3	15.6	21.9	15.8
Median	11.3	8.6	7.1	6.6	5.7	4.4
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis (adj. for IFRS 16)

(PLN m)	20P	21P	22P	23P	24P	25P	26P	27P	28P	29P	+
Sales/sqm (PLN)	1,169	1,575	1,708	1,706	1,721	1,729	1,742	1,756	1,771	1,786	
SG&A/sqm (PLN)	630	747	757	765	773	778	786	794	801	809	
Sales area (ksqm)	51	52	54	56	57	57	58	59	59	60	
Revenue	740	974	1,088	1,125	1,159	1,182	1,206	1,230	1,256	1,282	1,308
EBITDA	-15	47	88	89	90	91	91	91	91	92	94
EBITDA margin	-2.1%	4.8%	8.1%	7.9%	7.8%	7.7%	7.5%	7.4%	7.3%	7.2%	7.2%
EBIT	-37	26	67	68	69	69	69	70	70	72	73
Tax	1	5	13	13	13	13	13	13	13	14	14
CAPEX	14	20	22	22	21	21	21	21	20	20	21
Working capital	35	36	-59	-19	-3	-3	-3	-3	-4	-5	-5
FCF	5	59	-5	35	52	53	54	54	54	53	54
PV FCF	5	50	-4	25	35	32	30	28	26	23	
WACC	9.5%	9.2%	8.8%	8.8%	9.1%	9.0%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.1
FCF perp. growth rate	2.0%
PV FCF	619
Net debt	66
Other adjustments	0
Value per share (PLN)	2.36

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	1.10
DCF Val.	50%	2.36
Implied Price		1.85
Cost of equity (9M)		6.4%
9M Target Price		2.00

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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VRG

Rating	hold	buy	accumulate	buy	overweight
Rating date	2020-04-06	2020-02-05	2019-12-02	2019-07-26	2019-05-29
Target price (PLN)	2.00	4.50	4.50	5.20	-
Price on rating day	1.94	3.93	3.94	4.20	3.90

Comparable Companies Used In Relative Valuation Models

VRG CCC, Chow Sang, Chow Tai Fook, H&M, Hugo Boss, Inditex, Lao Fen Xiang, Lao Feng, LPP, Luk Fook, Marks & Spencer, Next, Pandora, Tiffany

mBank S.A.
Senatorska 18
00-950 Warszawa
<http://www.mbank.pl/>

Research Department

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

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

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

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

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

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

Piotr Bogusz
+48 22 438 24 08
piotr.bogusz@mbank.pl
retail, gaming

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

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

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
+48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
+48 22 697 48 70
jaroslaw.banasiak@mbank.pl