

Thursday, May 07, 2020 | special comment

## VRG - Forecast of 2020 Q1 Results

Rating: hold | target price: PLN 2.00 | current price: PLN 2.39

**VRG PW; VRGP.WA | Retail, Poland**

Analyst: Piotr Bogusz +48 22 438 24 08

**VRG is slated to release 2020 first-quarter earnings on 20 May 2020. We expect to see the quarterly EBITDA (ex. IFRS 16) swing to an operating loss of PLN 11.9m in Q1 2020 from a positive PLN 4.4m generated in Q1 2019. The main drivers behind the losses included brick store closures in mid-March under lockdown orders, alongside a 1pp sales margin contraction due to an increased share of online sales. We estimate the quarterly SG&A expenses at PLN 111.8m (+5.3% y/y), and we expect to see net one-time charges of PLN 0.1m (no change y/y). Financing activity most likely generated a loss of an estimated PLN 3.7m in Q1 2020 (vs. PLN 3m the year before). Looking ahead, the most critical challenges facing VRG include restoring sales at brick stores and renegotiating rental terms with shopping center owners.**

### 2020 Q1 estimates

| (PLN m)        | 1Q'20E | 1Q'19 | Y/Y  | 2020E | YTD* |
|----------------|--------|-------|------|-------|------|
| Revenue        | 196.5  | 214.4 | -8%  | 740.0 | 27%  |
| Gross profit   | 94.0   | 105.0 | -10% | 362.8 | 26%  |
| margin         | 47.9%  | 49.0% |      | 49.0% |      |
| EBITDA (adj.)  | -11.9  | 4.4   |      | -15.2 |      |
| margin         | -6.1%  | 2.1%  |      | -2.1% |      |
| EBIT           | -17.6  | -1.2  |      | -37.0 |      |
| Pre-tax profit | -21.4  | -4.0  |      | -60.4 |      |
| Net profit     | -20.3  | -2.4  |      | -61.6 |      |

Source: VRG, E - estimates by mBank, \*YTD result as a % of our FY 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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**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.

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

## Research Department

Kamil Kliszcz  
director  
+48 22 438 24 02  
[kamil.kliszcz@mbank.pl](mailto:kamil.kliszcz@mbank.pl)  
energy, power generation

Jakub Szkopek  
+48 22 438 24 03  
[jakub.szkopek@mbank.pl](mailto:jakub.szkopek@mbank.pl)  
industrials, chemicals, metals

Aleksandra Szklarczyk  
+48 22 438 24 04  
[aleksandra.szklarczyk@mbank.pl](mailto:aleksandra.szklarczyk@mbank.pl)  
construction, real-estate development

Michał Marczak  
+48 22 438 24 01  
[michal.marczak@mbank.pl](mailto:michal.marczak@mbank.pl)  
strategy

Paweł Szpigiel  
+48 22 438 24 06  
[pawel.szpigiel@mbank.pl](mailto:pawel.szpigiel@mbank.pl)  
media, IT, telco

Piotr Poniatowski  
+48 22 438 24 09  
[piotr.poniatowski@mbank.pl](mailto:piotr.poniatowski@mbank.pl)  
industrials

Michał Konarski  
+48 22 438 24 05  
[michal.konarski@mbank.pl](mailto:michal.konarski@mbank.pl)  
banks, financials

Piotr Bogusz  
+48 22 438 24 08  
[piotr.bogusz@mbank.pl](mailto:piotr.bogusz@mbank.pl)  
retail, gaming

Mikołaj Lemańczyk  
+48 22 438 24 07  
[mikolaj.lemanczyk@mbank.pl](mailto:mikolaj.lemanczyk@mbank.pl)  
financials

## Sales and Trading

### Traders

Piotr Gawron  
director  
+48 22 697 48 95  
[piotr.gawron@mbank.pl](mailto:piotr.gawron@mbank.pl)

Adam Prokop  
+48 22 697 47 90  
[adam.prokop@mbank.pl](mailto:adam.prokop@mbank.pl)

Krzysztof Bodek  
+48 22 697 48 89  
[krzysztof.bodek@mbank.pl](mailto:krzysztof.bodek@mbank.pl)

Magdalena Bernacik  
+48 22 697 47 35  
[magdalena.bernacik@mbank.pl](mailto:magdalena.bernacik@mbank.pl)

Tomasz Jakubiec  
+48 22 697 47 31  
[tomasz.jakubiec@mbank.pl](mailto:tomasz.jakubiec@mbank.pl)

Andrzej Sychowski  
+48 22 697 48 46  
[andrzej.sychowski@mbank.pl](mailto:andrzej.sychowski@mbank.pl)

### Sales, Foreign Markets

Bartosz Orzechowski  
+48 22 697 48 47  
[bartosz.orzechowski@mbank.pl](mailto:bartosz.orzechowski@mbank.pl)

Jędrzej Łukomski  
+48 22 697 49 85  
[jedrzej.lukomski@mbank.pl](mailto:jedrzej.lukomski@mbank.pl)

### Private Client Sales

Kamil Szymański  
director  
+48 22 697 47 06  
[kamil.szymanski@mbank.pl](mailto:kamil.szymanski@mbank.pl)

Jarosław Banasiak  
deputy director  
+48 22 697 48 70  
[jaroslaw.banasiak@mbank.pl](mailto:jaroslaw.banasiak@mbank.pl)