

Thursday, July 02, 2020 | Monthly Market Outlook, an excerpt

VRG accumulate (upgraded)

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VRG's 2020 first-quarter profits missed market expectations due to higher-than-forecast SG&A expenses. When it comes to sales during and post-lockdown, compared to the corresponding year-ago periods, they were down 42% in March, registered a 65% slump in April, and in May their falls decreased to 35%, indicating a recovery. At the same time, VRG raised its online/total sales guidance for 2020 from 20% to 25% based on increased Web store traffic. Online sales increased by 82% in March compared to the prior-year period, accelerating to 169% in April and 118% in the first half of May. VRG also decided to accelerate this year's brick store closure plans from 2% to 5% of total trading area (mainly fashion stores). The Company is in rent negotiations with retail property owners, and its employees have agreed to take pay cuts until sales are restored to 80% of last year's value. All in all, VRG still expects a 20% fall in total sales for FY2020, and it is guiding for a positive IAS 17 EBITDA result for the year. On 26 May VRG announced that its deputy CEO, Michał Wójcik, would be taking over as CEO as of the June AGM. We upgrade VRG from hold to accumulate after recent share price falls, with an unchanged target price.

Current Price	2.33 PLN	Upside
9M Target Price	2.43 PLN	+4.3%

	rating	target price	issued
new	accumulate	2.43 PLN	2020-07-02
old	hold	2.43 PLN	2020-06-03

Key Metrics			VRG PW	vs. WIG
Ticker	VRG PW	1M Price Chng	-1.9%	-4.9%
ISIN	PLVSTLA00011	YTD Price Chng	-42.3%	-29.0%
Outst. Stock (m)	234.5	ADTV 1M		PLN 0.8m
MC (PLN m)	546.3	ADTV 6M		PLN 0.8m
EV (PLN m)	614.4	EV/EBITDA 12M fwd	12.0	+40.9%
Free Float	40.1%	EV/EBITDA 5Y avg	8.5	premium

Earnings Projections (adjusted for IFRS 16)

(PLN m)	2018	2019	2020P	2021P	2022P
Revenue	806	1,068	824	1,032	1,155
EBITDA adj.	89	111	6	51	89
EBITDA margin	11.1%	10.4%	0.7%	4.9%	7.7%
EBIT	72	87	-16	30	68
Net income	54	66	-36	11	46
P/E	10.2	8.3	-	50.2	11.8
P/B	0.7	0.6	0.7	0.7	0.6
EV/EBITDA adj.	6.8	5.5	103.5	11.3	6.7
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%
B&M sales/sqm			0.0%	0.0%	0.0%
SG&A/sqm			0.0%	0.0%	0.0%
Floorspace			0.0%	0.0%	0.0%

Financial Highlights (adjusted for IFRS 16)

(PLN m)	2018	2019	2020P	2021P	2022P
Fashion Sales	483	692	525	656	761
Fashion EBIT	33	43	-22	2	28
Jewelry Sales	323	376	298	376	394
Jewelry EBIT	39.4	44.5	5.9	28.5	37.6
Gross profit margin	51.2%	52.1%	47.9%	48.8%	49.0%
Operating cash flow	54	109	98	145	90
D&A	17	24	22	21	22
D&A (IFRS 16)	0	87	85	86	90
Working capital	-21	-75	33	30	-64
Investing cash flow	-19	-17	-16	-21	-23
Financing cash flow	-18	-100	10	-128	-117
Credit/loans	8	-5	95	-42	-28
FCF	37	-6	23	54	-11
FCF/EBITDA	41%	-6%	380%	106%	-12%
OCF/EBITDA	60%	19%	230%	116%	1%

Key Ratios (adj. for IFRS 16)

(PLN)	2018	2019	2020P	2021P	2022P
Sales/sqm, Fashion	1,318	1,049	660	870	981
Sales/sqm, Jewelry	2,540	2,689	2,046	2,577	2,638
SG&A/sqm, Fashion	420	598	549	629	641
SG&A/sqm, Jewelry	1,118	1,216	1,106	1,240	1,239
Cash (PLN m)	34	25	118	114	63
Net debt (PLN m)	63	66	68	30	53
Net debt/EBITDA (x)	0.7	0.6	11.5	0.6	0.6

Relative Valuation Summary

	P/E			EV/EBITDA		
	20P	21P	22P	20P	21P	22P
Minimum	6.0	5.3	5.2	4.6	5.2	4.6
Maximum	121.5	67.8	34.4	26.1	26.8	20.0
Median	16.6	14.4	11.1	8.7	6.6	6.3
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)	1,301	1,669	1,814	1,818	1,835	1,846	1,864	1,881	1,900	1,919	1,919
SG&A/sqm (PLN)	647	765	781	780	787	792	800	807	814	821	821
Sales area (ksqm)	51	52	54	56	57	57	58	59	59	60	60
Revenue	824	1,032	1,155	1,198	1,236	1,262	1,290	1,318	1,347	1,377	1,405
EBITDA	6	51	89	93	96	98	99	101	103	105	107
EBITDA margin	0.7%	4.9%	7.7%	7.8%	7.8%	7.7%	7.7%	7.7%	7.6%	7.6%	7.6%
EBIT	-16	30	68	71	73	75	76	78	80	82	84
Tax	1	6	13	13	14	14	14	15	15	16	16
CAPEX	16	21	23	24	24	23	23	23	23	22	23
Working capital	33	30	-64	-17	-3	-3	-3	-3	-4	-4	-4
FCF	23	54	-11	39	55	57	59	61	61	63	64
PV FCF	21	46	-9	28	37	35	33	31	29	28	
WACC	9.6%	9.2%	8.8%	8.8%	9.0%	8.9%	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	712
Net debt	66
Other adjustments	0
Value per share (PLN)	2.75

Valuation Summary

(PLN)	Weight	Price
Relative Val.	40%	1.60
DCF Val.	60%	2.75
Implied Price		2.29
Cost of equity (9M)		6.4%
9M Target Price		2.43

List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
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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Rating	accumulate	hold	hold	buy	accumulate	buy
Rating date	2020-07-02	2020-06-03	2020-04-06	2020-02-05	2019-12-02	2019-07-26
Target price (PLN)	2.43	2.43	2.00	4.50	4.50	5.20
Price on rating day	2.33	2.40	1.94	3.93	3.94	4.20

Comparable Companies Used In Relative Valuation Models

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

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