

Friday, August 02, 2019 | Monthly Market Outlook, an excerpt

VRG buy (no change)

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VRG stock enjoyed a sharp rise in price in July, led most likely by expectations of strong 2019 Q2 results. VRG is set to report 39% growth in sales in Q2 2019 based on monthly sales reports, combined with a 1.6pp y/y rebound to 53.7% in the quarterly sales margin, achieved despite higher costs in dollars of summer collections and thanks to a successful new pricing policy coupled with lower sales of low-margin watches in June. In H2 2019, margin improvement will be additionally supported by sourcing synergies and favorable USDPLN shifts. Thanks to better inventory management, per-square-meter revenues at the recently-acquired Bytom menswear stores should reverse their downward trend in H2. Last but not least, we expect sustained lfl growth at the W.Kruk jewelry stores. VRG improved operating cash flow significantly in 2018, and the momentum should have continued into 2019.

Current Price	4.35 PLN	Upside
9M Target Price	5.20 PLN	+19.7%

	rating	target price	issued
unchanged	buy	5.20 PLN	2019-07-26

Key Metrics			VST PW	vs. WIG
Ticker	VST PW	1M Price Chng	+8.6%	+11.0%
ISIN	PLVSTLA00011	YTD Price Chng	+7.5%	+5.5%
Outst. Stock (m)	234.5	ADTV 1M		PLN 1.2m
MC (PLN m)	1,018.7	ADTV 6M		PLN 1.0m
EV (PLN m)	1,070.1	EV/EBITDA 12M fwd	7.0	-19.7%
Free Float	46.5%	EV/EBITDA 5Y avg	8.8	discount

Earnings Projections (adjusted for IFRS 16)

(PLN m)	2017	2018	2019P	2020P	2021P
Revenue	689	806	1,035	1,133	1,239
EBITDA adj.	78	89	124	138	149
EBITDA margin	11.4%	11.1%	11.9%	12.2%	12.0%
EBIT	63	72	101	116	126
Net income	43	54	74	85	94
P/E	17.5	19.0	13.8	12.0	10.8
P/B	1.4	1.3	1.2	1.1	1.0
EV/EBITDA	10.9	12.1	8.6	7.3	6.5
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)			2019P	2020P	2021P
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)	2017	2018	2019P	2020P	2021P
Fashion Sales	420	483	660	720	784
Fashion EBIT	32	35	53	64	72
Jewelry Sales	271	323	369	413	455
Jewelry EBIT	34.0	39.8	45.9	51.6	54.4
Gross profit margin	52.2%	51.2%	51.9%	52.2%	52.0%
Operating cash flow	21	54	119	167	169
D&A	16	17	22	23	23
D&A (IFRS 16)	0	0	82	87	92
Working capital	-27	-21	-51	-28	-41
Investing cash flow	-15	-19	-25	-24	-24
Financing cash flow	-5	-18	-29	-99	-104
Credit/loans	-8	8	54	-12	-12
FCF	19	37	29	65	60
FCF/EBITDA	25%	41%	24%	47%	40%
OCF/EBITDA	26%	60%	30%	58%	51%

Key Ratios (adj. for IFRS 16)

(PLN)	2017	2018	2019P	2020P	2021P
Sales/sqm, Fashion	1,495	1,207	1,264	1,294	1,329
Sales/sqm, Jewelry	2,602	2,814	2,951	3,061	3,178
SG&A/sqm, Fashion	618	420	530	541	553
SG&A/sqm, Jewelry	1,062	1,118	1,175	1,219	1,266
Cash (PLN m)	16	34	99	143	183
Net debt (PLN m)	99	63	51	-5	-57
Net debt/EBITDA (x)	1.3	0.7	0.4	0.0	-0.4

Relative Valuation Summary

	P/E			EV/EBITDA		
	19P	20P	21P	19P	20P	21P
Minimum	6.4	6.4	5.9	4.8	4.5	4.2
Maximum	25.4	22.6	21.2	15.4	12.3	11.4
Median	15.4	13.8	12.6	9.0	8.0	7.0
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis (adj. for IFRS 16)

(PLN m)	19P	20P	21P	22P	23P	24P	25P	26P	27P	28P	+
Sales/sqm (PLN)	1,612	1,651	1,699	1,719	1,720	1,725	1,740	1,756	1,771	1,787	
SG&A/sqm (PLN)	677	691	709	716	725	732	734	741	748	755	
Sales area (ksqm)	55	59	63	66	69	72	75	79	82	86	
Revenue	1,035	1,133	1,239	1,328	1,397	1,463	1,540	1,623	1,709	1,800	1,836
EBITDA	124	138	149	159	161	163	175	183	192	201	205
EBITDA margin	11.9%	12.2%	12.0%	12.0%	11.5%	11.2%	11.4%	11.3%	11.2%	11.1%	11.1%
EBIT	101	116	126	136	136	139	150	158	166	174	178
Tax	18	22	24	26	26	26	28	30	31	33	34
CAPEX	25	24	24	25	26	26	27	27	28	26	27
Working capital	-51	-28	-41	-34	-28	-27	-32	-34	-36	-39	-39
FCF	29	65	60	74	80	83	88	92	96	102	104
PV FCF	28	57	49	55	55	52	50	49	47	46	
WACC	8.8%	9.1%	9.0%	9.0%	8.9%	8.9%	8.8%	8.8%	8.7%	8.7%	8.7%
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	1,189
Net debt	63
Other adjustments	0
Value per share (PLN)	4.80

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	5.00
DCF Val.	50%	4.80
Implied Price		4.90
Cost of equity (9M)		6.4%
9M Target Price		5.20

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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mBank issued the following investment recommendations for VRG in the 12 months prior to this publication

Rating	buy	overweight	overweight	overweight	overweight
Rating date	2019-07-26	2019-05-29	2019-03-28	2018-12-05	2018-11-08
Target price (PLN)	5.20	-	-	-	-
Price on rating day	4.20	3.90	4.29	3.83	4.06

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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