Friday, April 24, 2015 | research report

Jeronimo Martins: reduce (new)

JMT PL; JMT.LS | Retail, Portugal

Catching a Breath

After a ytd gain of 40% Jeronimo Martins (JMT) is currently trading at a 41% premium to peers on 2015E EV/EBITDA and a 20% premium to 2015E P/E - levels which we consider undeserved given the reduced pace at which the Company is planning to expand its Polish supermarket chain Biedronka (at 4.7% 2014-17E CAGR vs. 11.9% in 2010-14), accompanied by EBITDA contraction to 6.6% in 2015 and 6.7% in 2016 (vs. 7.8% and 6.8% in 2013 and 2014), combined with downward margin pressure stemming from the development of new businesses in Poland and Colombia. Our expectations as to JMT's EBITDA growth in the next three years assume a slowdown to an average annual growth rate of 7.9% in 2014-2017 from 15.7% achieved in 2010-2013. Looking at the reduced earnings momentum we believe JMT is overpriced at the current level. We are initiating coverage of Jeronimo Martins with a reduce rating and a price target of EUR 10.70 per share (indicating 8.4% downside risk).

Poised for stronger growth after 2017

The curbed store expansion plans for Biedronka, accompanied by more dynamic expansion targets set for the Polish drugstore chain Hebe and the Colombian supermarket chain Ara, are not expected to make meaningful contributions to JMT's consolidated earnings in the near term. In 2015-2017 we predict that the new businesses will put a dent in the Company's annual EBITDA to the tune of a combined EUR 56m. In addition the expenses that JMT plans to incur on growing the Hebe and Ara chains will cause a slowdown in net earnings to a projected average annual rate of 14.4% in 2014-2017 from 33.9% achieved in 2010-2013.

Improving productivity

The Biedronka supermarket chain is set for 2014-2017 revenue growth at a projected CAGR of 8.5% (vs. 17% in 2010-2013) thanks to planned store upgrades, a broadening sales mix, and an easing of deflationary pressures starting in Q3 2015. We believe the Polish retailer will come close but not quite hit its 2017 revenue target of EUR 11bn at a projected EUR 10.78bn. At the same time we expect Biedronka stores to steadily improve their productivity in the next three years, with average sales per square meter of retail space (in zlotys) increasing at a projected annual rate of 0.4% in 2015, 2.0% in 2016, and 1.5% in 2017.

Steep premium to peers

After a 40% ytd gain JMT's share price at the current level already fully reflects the expected improvement in the sales results of Biedronka. On 2015-2016 EV/EBITDA and P/E the Company is trading 0-8.6% and 2-7%, respectively, above its historical premiums to peers for the last three years. Moreover at 22.4x its 12M blended forward P/E has come close to the eight-year high achieved in mid-2013 (when Biedronka was expanding at a much faster rate than today). Summing up we consider JMT overpriced relative to its earnings outlook for the next three years.

(EUR m)	2013	2014	2015P	2016P	2017P
Revenue	11,829.3	12,680.0	13,745.9	14,689.5	15,485.9
EBITDA	777.0	732.0	774.3	846.1	945.1
EBITDA margin	6.6%	5.8%	5.6%	5.8%	6.1%
EBIT	525.0	448.5	479.4	542.9	628.1
Net profit	382.3	301.4	328.6	381.9	451.1
DPS	0.3	0.3	0.2	0.3	0.3
P/E	19.2	24.4	22.4	19.2	16.3
P/CE	11.6	12.6	11.8	10.7	9.6
P/BV	5.3	5.3	4.6	4.0	3.5
EV/EBITDA	10.2	10.8	10.1	9.2	8.1
DYield	2.9%	2.8%	2.1%	2.2%	2.6%

Current Price	EUR 11.68
Target Price	EUR 10.70
MCap	EUR 7,347m
Free Float	EUR 2,850m
ADTV (3M)	EUR 34.97m

Ownership

Sociedade Francisco Manuel dos Santos, SGPS, S.A.	57.73%
Aberdeen Asset Managers Limited	5.00%
Heerema Holding Company Inc.	5.00%
Others	32.27%

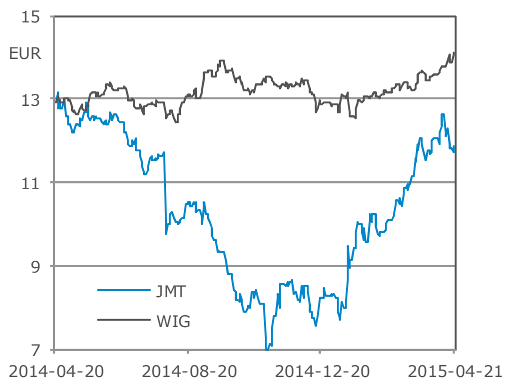
Sector Outlook

The earnings of Polish FMCG distributors have been under pressure from a marked deflation in food prices observed since the second half of 2014. To offset the pressure companies have been cutting prices, with further implications for profit margins. Once the price deflation reverses as expected in H2 2015, the sector should experience a recovery in profits.

Business Profile

Jeronimo Martins is a Portugal-based distributor of food and other consumer products with operations in Poland (where it is the leader in the grocery market through the discount supermarket chain Biedronka), Portugal (where it operates the Pingo Doce supermarket chain and the cash&carry chain Recheio), and Colombia (where it recently launched a new supermarket chain under the name Ara).

JMT vs. WIG



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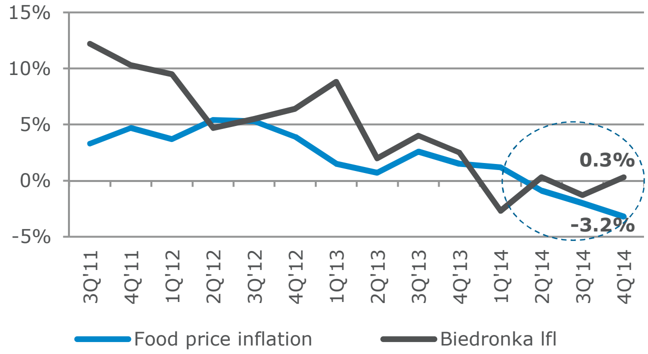
JMT sets ambitious sales target for Biedronka

Slowed pace of expansion…

Jeronimo Martins (JMT) announced toward the end of 2014 that it was scaling back the rate of expansion of its Polish supermarket chain Biedronka from 200-250 to 100 stores per year, with 80% of the new locations opening in major cities. The strategy for Biedronka also includes upgrades and remodeling of existing stores combined with an expansion of the product range (so far the number of stock keeping units has been increased by about 100 to 1100, with the target SKU per store set at 1300). By altering its strategy JMT achieved positive like-for-like sales at 0.3% in its Polish business as quickly as in Q4 2014 despite a 3.2% y/y drop in food prices observed in the period.

Quarterly lfl sales of Biedronka vs. food price inflation (y/y)

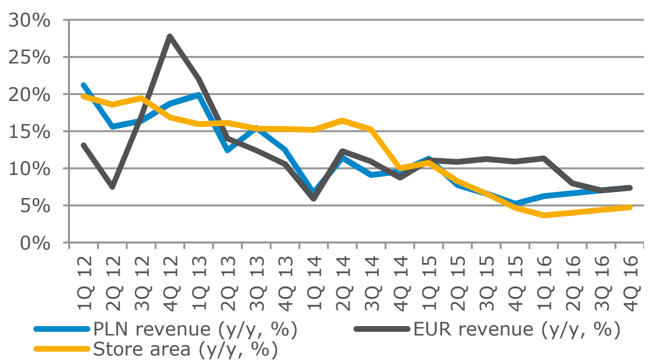


Source: Jeronimo Martins, GUS, Dom Maklerski mBanku

… combined with focus on sales efficiency…

Through the planned initiatives we believe JMT can **increase the average sales per square meter** generated by the Biedronka supermarkets **by 0.4% in 2015** (despite price deflation expected to continue throughout the first half of the year) after a 2.9% drop posted in 2014. In **2016-2017 store productivity should improve further by 2.0% and 1.5%**. At the more measured pace of store expansion, we anticipate that Biedronka's revenues going forward will increase at a faster rate than the retail area.

Biedronka: revenue vs. retail space growth

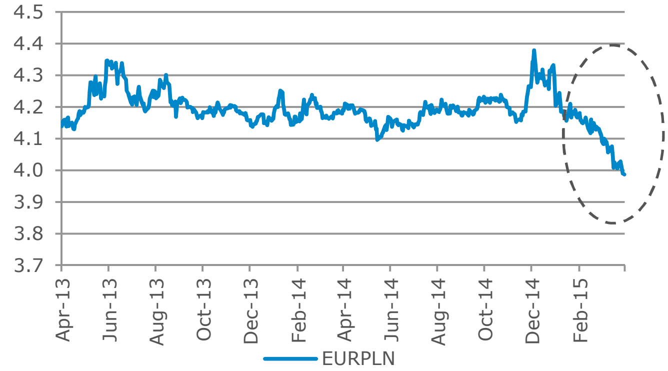


Source: Jeronimo Martins, Dom Maklerski mBanku

…and a weak euro…

In 2014 Biedronka, which earns in Polish zlotys, generated 66.5% of JMT's total revenue and accounted for 78.2% of the consolidated annual EBITDA of EUR 733m. In Q1 2015 the **EURPLN exchange rate averaged 4.19** and since the beginning of April it has hovered around 4.0 (marking depreciation in the wake of quantitative easing by the European Central Bank). **Assuming the exchange rate stays around 4.0 for the rest of the year** this will have a positive effect on the value of Biedronka's 2015 revenues and any further depreciation in the euro relative to the zloty may mean JMT will exceed our earnings estimates for the year.

EURPLN (2013-2015)

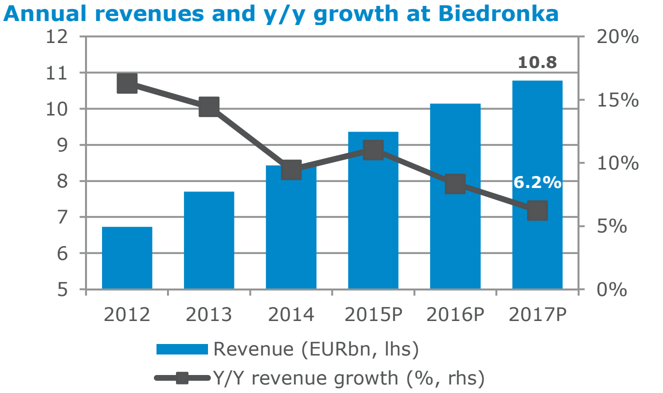


Source: Jeronimo Martins, Dom Maklerski mBanku

…not enough to produce EUR 11bn topline by 2017

The slowed store expansion combined with food price deflation, expected to last through the first half of 2015, indicate to us that JMT will probably fall short of the sales goals set for Biedronka which assume 9.3% 2014-2017 revenue CAGR accompanied by retail area expansion at an average annual rate of 4.7%. Accordingly we have more measured growth projections for the supermarket chain, and we put the 2014-2017 revenue CAGR at 8.5% (a pace still exceeding the rate of store area expansion), and place our **2017 revenue estimate at EUR 10.78bn**.

Annual revenues and y/y growth at Biedronka



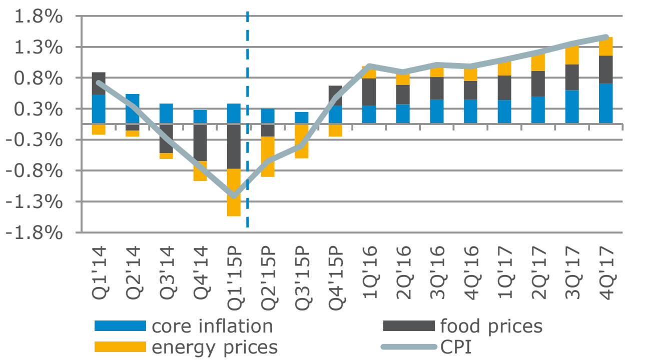
Source: Jeronimo Martins, Dom Maklerski mBanku

Overpriced relative to earnings potential

Biedronka poised for eventual margin recovery

Biedronka's EBITDA margin decreased by 1ppt to 6.8% in 2014 under pressure from food price deflation, an aggressive pricing policy, and cost inflation (led mainly by salaries). The pressures have continued into 2015, with Poland's central bank expecting the price deflation to persist through the first half of the year.

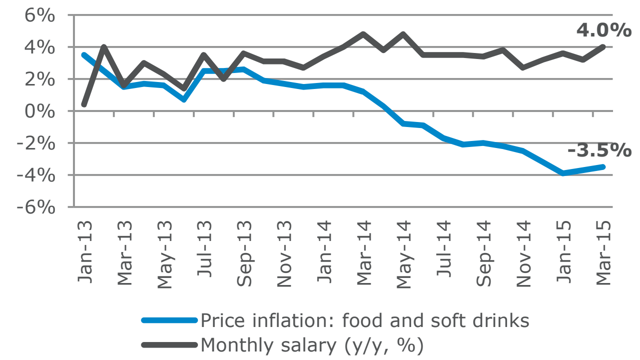
Quarterly breakdown of Polish annual CPI (2014-2017P)



Source: NBP, Dom Maklerski mBanku

On a positive note, while retail prices fall, salaries in Poland are on the rise, gaining 3.5% in March 2015 relative to the same month last year. Amid price deflation the way Biedronka can rebuild its profitability is by increasing sales of high-margin premium products and by broadening the sales mix to boost store efficiency. For 2015 we anticipate further **contraction in the EBITDA margin by an estimated 0.2ppt to 6.6%** (i.e. 0.1ppt more than JMT's minimum target of 6.5%), followed by gradual **recovery in subsequent years to a projected 6.7% in 2016 and 6.9% in 2017**.

Salary growth and food price inflation in Poland (yoy)

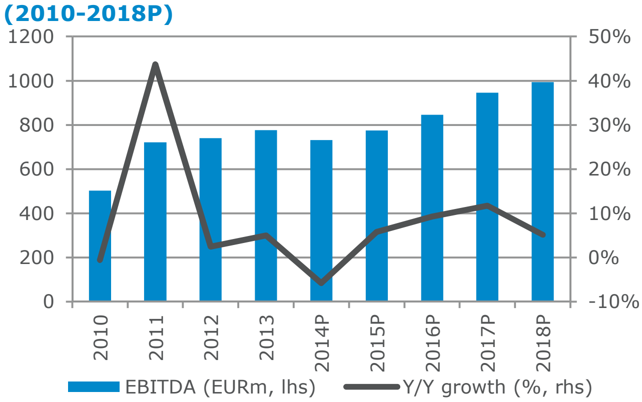


Source: GUS, Dom Maklerski mBanku

2014-2018 EBITDA CAGR projected at 7.9%...

Through the improving profitability of Biedronka we project that **Jeronimo Martins will be able to post EBITDA growth at an average annual rate of 7.9% between 2014 and 2018**, marking considerable deceleration from the 15.7% CAGR achieved in 2010-2013. The drop-off is led by the reduced rate of expansion of the Biedronka stores combined with EBITDA losses generated by Colombian operations and the Polish drugstore chain Hebe.

Annual EBITDA and y/y growth at Jeronimo Martins (2010-2018P)

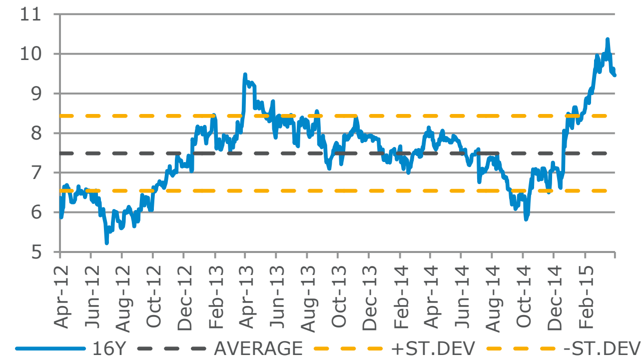


Source: JMT, Dom Maklerski mBanku

...makes JMT overvalued on EV/EBITDA

Jeronimo Martins shares have posted considerable gains since the beginning of the year, and with the market expectations as to its 2016 EBITDA remaining relatively stable this has driven the Company's EV/EBITDA ratio to 9.2x, a level well above the historical averages which makes JMTT overvalued relative to its earnings potential.

2016E EV/EBITDA

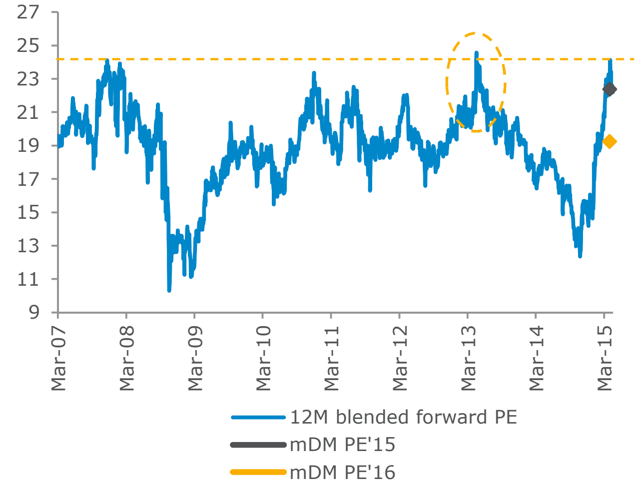


Source: Bloomberg, Dom Maklerski mBanku

Expensive P/E valuation

Jeronimo Martins is also trading at a steep price-to-earnings ratio, meanwhile its **net earnings are set for a slowdown to an average annual growth rate of a projected 12.7% between 2014 and 2018 from 33.9% in 2010-2013**. On our estimates the Company should be valued at 22.4x 2015E P/E and 19.2x 2016E P/E. The last time its shares were trading this high was in May 2013 when JMT announced plans to open 3000 Biedronka stores by the end of 2015 and Biedronka reported 8.8% lfl growth in Q1.

JMT P/E: 12M blended forward multiple vs. our estimates



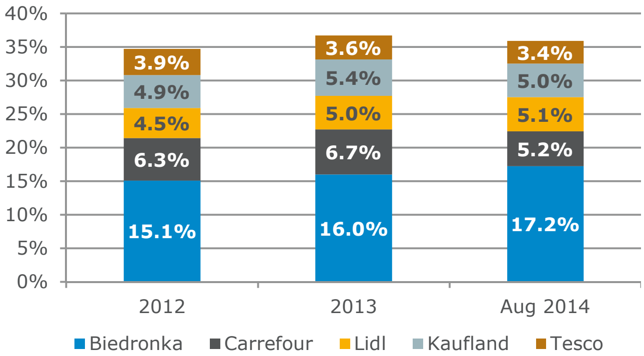
Source: Bloomberg, Dom Maklerski mBanku

Biedronka well-positioned for earnings growth in medium term

The undisputed leader of Polish grocery market…

Biedronka continues to assert its dominant position in the Polish retail market by constantly increasing market share even amid persistent price deflation. In December 2014 its market share was 16.9% after year-on-year growth by 1.1ppt achieved through continuing store expansion (+8.1% y/y at year-end 2014) and remodeling.

Polish retail market breakdown

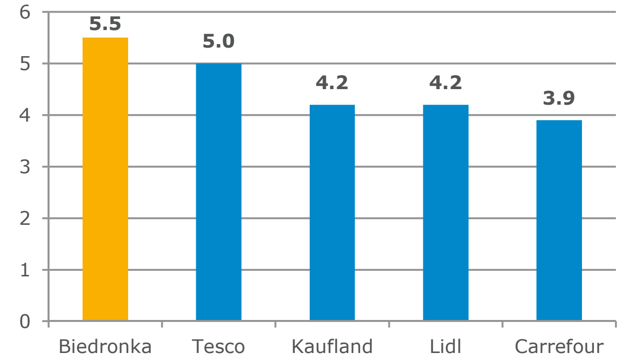


Source: GFK, Dom Maklerski mBanku

…with the most stores and uncontested sales efficiency…

Biedronka's dominant market share is reflected in an extensive store network which with 2,587 locations at the end of 2014 far outnumbered other major chains like Tesco (with 460+ locations), Carrefour (ca. 700), Lidl (520+), and Kaufland (ca. 180). As well as in network size Biedronka keeps far ahead of the competition in terms of store productivity, with average annual sales per square meter in 2013 coming in at EUR 5,500.

2013 annual sales per square meter (EUR '000): Biedronka vs. competition

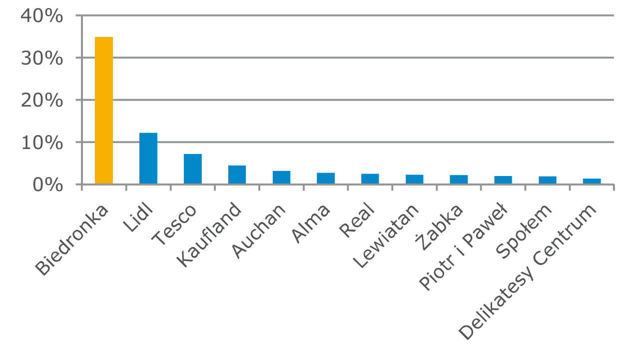


Source: Planet Retail, Dom Maklerski mBanku

…trusted by consumers

Biedronka has topped the Reader's Digest Trusted Brands survey for several years running, and in 2014 it got 34.8% of the votes compared to the next most trusted retailer Lidl which was picked by 12.2% of the consumers surveyed by the magazine. The long-standing reputation as the retailer most trusted by Polish shoppers is a validation of Jeronimo Martins's strategy for the Polish operations, and a positive indicator for the future.

2014 Reader's Digest Trusted Brands Survey



Source: Reader's Digest, Dom Maklerski mBanku

Medium- to long-term growth outlook

Hebe to break even by 2017

Jeronimo Martins opened the first Hebe drugstore in Poland in May 2011. As of the end of 2014 the Hebe network consisted of 119 stores after the addition of 18 new locations in the course of the year (including four pharmacies). Hebe offers skincare and beauty products at competitive prices. Its sales in 2014 amounted to EUR 87m. In the coming months JMT wants to restructure the Polish drugstore business (last year a new Managing Director was appointed for Hebe) while continuing its geographic expansion (at a projected rate of 10 stores per year, making for 2014-2017 CAGR of an estimated 9%). We assume that **Hebe will achieve EBITDA break even in 2017 (EUR 2.3m)**.

Colombian business without bearing on near-term valuation

In 2013 Jeronimo Martins launched operations in Colombia by opening 36 convenience stores under the name 'Ara.' The following year was a crucial one in the development of the Ara chain with JMT putting much effort into customizing the stores to better accommodate the preferences of local consumers (including by broadening the sales mix). This was accompanied by extensive marketing aimed at establishing Ara as the price leader, combined with investment in own brands. After 50 new openings at the end of 2014 the Ara chain increased to 86 stores. 2014 was also a year when JMT worked on establishing and reinforcing relationships with local suppliers in Colombia as part of the policy stating that 95% of the items carried by Ara stores must be locally sourced.

JMT's plans for the Colombian business for 2015 include the completion of a second distribution center designed to facilitate further expansion of Ara in the new region along the Caribbean coast (alongside the existing stores located in the so-called 'Coffee Belt'). **Between 2015 and 2018 we expect the Ara chain will increase at a rate of 65 stores on average per year.** At the same time we assume the Colombian business will not start making positive contributions to JMT's EBITDA results until 2020. Note that our financial forecasts for the Ara and Hebe segments may prove overly conservative We assume the Colombian business achieve EBITDA break even in 2019. Combined Hebe and Ara are expected to generate average annual EBITDA losses of EUR 56m between 2015 and 2017.

Q1 2015 earnings estimates

Food price deflation weighs on Q1 sales

According to official statistics prices of food and beverages in Poland decreased at an annual rate of 3.9% in January, 3.7% in February, and 3.5% in March after an acceleration from the 3.2% price deflation recorded in December 2014. At Biedronka, the implementation of the new strategy combined with new product launches and the Easter effect is likely to have generated an **increase of 4.5% in the first-quarter sales**. With the **Q1 price deflation estimated at 3.7%,** we expect the Polish retailer to experienced growth in like-for-like sales in the period. As for store productivity, we predict JMT achieved per-square-meter sales growth at an annual rate of **0.3% at Biedronka and 1.0% each at its Portuguese units, the Pingo Doce supermarket chain and the cash & carry unit Recheio**. All in all we estimate that the total sales for Q1 2015 at ca. EUR 3,161m will be 8.5% higher than in the same period in 2014.

Profits decline due to intense marketing and higher costs

We expect Jeronimo Martins to report **gross margin contraction by 0.14ppt to 21.24% in Q1 2015** due to intensified promotional activity. Moreover the Company experienced increasing payroll costs in the period, which were only partly offset by lower costs of logistics, and as a result its **quarterly SG&A expenses at ca. EUR 580m** are expected to show year-on-year growth of 9.13%, outpacing revenue growth at 8.54%. Consequently compared to Q1 2014 the **EBIT margin will decrease to 2.89%** from 3.13% and the **EBITDA margin will decline to 5.03%** from 5.42%. For **Biedronka** we anticipate **EBITDA margin shrinkage to 5.9%** (Q1 is seasonally the slowest for the retailer). All told the Q1 2015 **EBIT of JMT is likely to come in at EUR 91.5m (+0.4% y/y)**.

Thanks to reduced costs of debt service we expect JMT's financing costs to decrease to EUR 6m in Q1 from EUR 7.8m in the same period last year. After quarterly tax of EUR 21.4m (with the effective tax rate at 25%) and minority interests (EUR 3.3m) the **net profit for Q1 2015 is estimated at EUR 60.8m (-2.5% y/y)**.

Earnings Outlook

Revenue deceleration

At the reduced pace of expansion, taking into account the expected depreciation in the euro versus the zloty, we expect **Biedronka to generate sales growth at an annual rate of 11% in 2015 and 8.4% in 2016, with the respective annual topline figures projected at EUR 9.4bn and EUR 10.1bn.** Our 2017 revenue forecast is EUR 10.8bn, falling slightly short of the Company's EUR 11bn target. For revenue CAGR we anticipate a slowdown from 15.1% in 2010-2014 to 8.5% in 2014-2017.

In Portugal, we predict a deceleration in the sales generated by **Pingo Doce** from **4.1% 2010-2014 CAGR to 2.9% 2014-2017 CAGR,** accompanied by steady **1.0% 2014-2017 CAGR at Recheio.**

For total JMT we anticipate a **slowdown in revenue CAGR to 6.9% in 2014-2017 from 10.8% in 2010-2013,** with 2015 revenue estimated at EUR 13.7bn (+8.4% y/y) and the 2016 revenue expected to come in at EUR 14.7bn (+6.9% y/y).

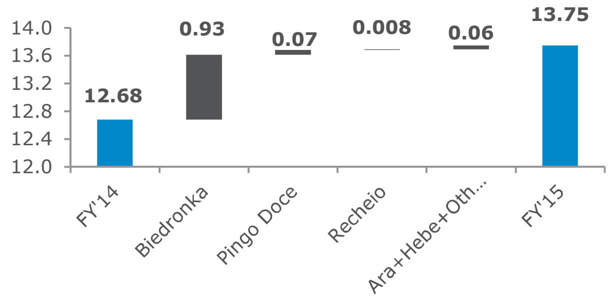
2014-2018 revenue growth projection by segment

(EUR m)	2014	2015P	2016P	2017P	2018P
Biedronka	8,432	9,362	10,144	10,778	11,339
Pingo Doce	3,234	3,306	3,412	3,521	3,590
Recheio	799	807	815	823	831
Hebe+Ara	153	208	255	299	343
Other	62	63	63	64	65
Total	12,680	13,746	14,689	15,486	16,169

Source: Jeronimo Martins, Dom Maklerski mBanku

By segment the biggest contribution to JMT's revenue in 2015 will come from **Biedronka (EUR 930m)**, followed by Pingo Doce (EUR 72m) and Hebe+Ara (EUR 56m). Our **2014-2017 CAGR projection for the Company's consolidated annual revenues is 6.9%**.

2015P sales breakdown (EUR bn)



Source: Jeronimo Martins, Dom Maklerski mBanku

Slower store expansion

We assume **Biedronka will expand at a rate of 100 stores per year in 2014-2017** followed by a slowdown to **60 stores** per year in **2018-2020.** For **Pingo Doce** due to a high market saturation rate in Portugal we anticipate **5 new store openings per year in 2015-2017** and for Recheio we assume a steady sales area. As for the new businesses, we expect JMT to open 12 new Hebe locations and 65 new Ara locations annually between 2014 and 2017.

Stores at year-end

	2014	2015P	2016P	2017P	2018P
Biedronka	2,587	2,682	2,782	2,882	2,942
Pingo Doce	380	385	390	395	399
Recheio	41	41	41	41	41
Ara	86	151	216	281	346
Hebe	119	131	143	155	167

Source: Jeronimo Martins, Dom Maklerski mBanku

Deflationary pressures are putting a strain on the productivity of JMT's stores (defined as average sales per square meter of sales area). For Biedronka, we predict that through a richer sales mix coupled with slower retail area expansion and remodels **store productivity in zlotys will improve at an annual rate of 0.4% in 2015 and 2.0% in 2016 (with the respective growth rates in euros at 3.6% and 3.5%)**. For Pingo Doce we assume growth in sales per square meter will amount to 1.2% in 2015 and 2% in 2016, and for Recheio we anticipate per-sqm sales expansion at a rate of 1.0-1.2% in 2015-2017.

2014-2018 sales-per-sqm growth projection by segment

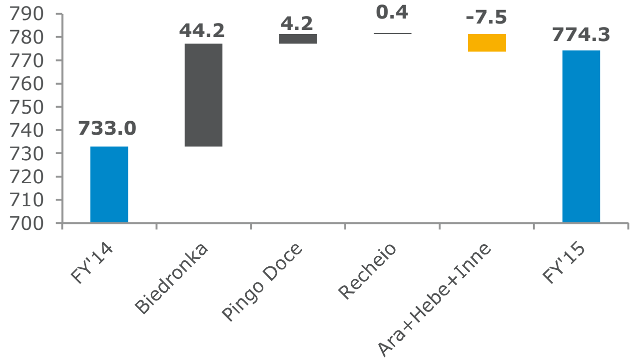
(EUR m)	2014	2015P	2016P	2017P	2018P
Biedronka (EUR)	-2.7%	3.6%	3.5%	1.5%	1.3%
Biedronka (PLN)	-2.9%	0.4%	2.0%	1.5%	1.3%
Pingo Doce	0.7%	1.2%	2.0%	2.0%	1.0%
Recheio	-0.5%	1.2%	1.0%	1.0%	1.0%

Source: Jeronimo Martins, Dom Maklerski mBanku

Margins set for squeeze in 2015…

By investing in prices amid food price deflation paired with cost inflation Biedronka has set itself for an **EBITDA margin squeeze** by **0.2ppt to 6.6% in 2015.** For Pingo Doce and Recheio we have a steady EBITDA margin estimate for this year. On a consolidated basis we expect **JMT to generate annual EBITDA of EUR 774.3m in 2015, marking y/y growth of 5.8%** owed primarily to Biedronka as Hebe, Ara and others are set for an EBITDA loss of ca. EUR 77m this year. Our 2015 EBITDA margin estimate for JMT is 5.62% (-0.15ppt y/y).

2015P EBITDA breakdown (EUR m)



Source: Jeronimo Martins, Dom Maklerski mBanku

…followed by recovery in subsequent years

In 2016 and 2017 we expect improvement in Biedronka's EBITDA margins to respective levels of 6.7% and 6.9%. Further we predict steady margins at Pingo Doce, and for **Recheio we anticipate expansion to 5.3% in 2016 from 5.2% in 2015**. In EBITDA we expect Ara and Hebe to generate annual losses of a combined EUR 65m in 2017 through 2017, with Hebe set to reach EBITDA break even in 2017. Driven by increasing contributions from Biedronka, we project gradual improvement in JMT's EBITDA margins in the years ahead to a target level of 6.23% in 2019.

2014-2018 EBITDA growth projection by segment

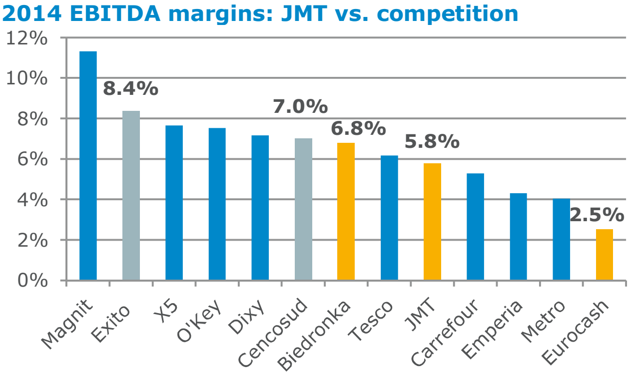
(EUR m)	2014	2015P	2016P	2017P	2018P
Biedronka	573	618	683	747	814
Pingo Doce	188	192	198	204	210
Recheio	42	42	43	44	45
Other	-69	-77	-77	-51	8
Total	733	774	846	944	1 076

Source: Jeronimo Martins, Dom Maklerski mBanku

EBITDA-generating capacity

The EBITDA-generating capacity of Biedronka ranks it in the middle of the peer group with a margin of 6.8%. In 2014 higher EBITDA margins were achieved by retailers based in Russia (Magnit, X5, O'Key, Dixy) and Colombia (Exito, Cencosud) – a fact which bodes well for the long-term earnings outlook of JMT's Colombian supermarket chain Ara.

2014 EBITDA margins: JMT vs. competition



Source: Jeronimo Martins, Dom Maklerski mBanku

Financing costs

JMT had a net debt/EBITDA ratio of 0.4x as of 31 December 2014. By repaying debt in the coming years we expect the Company to reduce financing costs from EUR 34m in 2014 to EUR 25m in 2015 and EUR 17.6m in 2016, and to achieve a net cash position in 2017.

Accounting for joint ventures and associates, minority interests

Jeronimo Martins started to consolidate the earnings of the joint-venture Unilever Jeronimo Martins and the associated company Gallo Worldwide using the equity method in 2013, resulting in additional profit of EUR 15m in 2014. For 2014-2020 we expect these businesses to generate steady growth at an average annual rate of 2.5%.
In 2014 net income attributable to non-controlling interests (mainly in Pingo Doce in which the Company holds a 51% stake) amounted to EUR 23m at JMT. Minority interests in the next three years are projected at respective annual amounts of EUR 23m, EUR 23.6m, and EUR 24m.

Predicting 2014-2017 net earnings CAGR at 14.4%

Assuming that JMT will pay taxes at an average effective rate of 25% in 2015-2022 (25% in Portugal, 34% in Colombia, 19% in Poland), **taking into account minority interests, we project that the Company will generate net earnings of EUR 328.6m in 2015 (+9% y/y) and EUR 382m in 2016 (+16.2% y/y)**.

2015-2017 earnings projection

(EUR m)	2014	2015P	2016P	2017P
Revenue	12,680	13,746	14,689	15,486
Gross profit	2,691	2,925	3,140	3,306
Gross margin	21.2%	21.3%	21.4%	21.3%
General expenses	-2,235	-2,445	-2,597	-2,678
Other gains/losses	-7.4	0.0	0.0	0.0
EBIT	448.5	479.4	542.9	628.1
EBITDA	732.0	774.3	846.1	945.1
Net financing gains/losses	-35.0	-25.3	-17.6	-10.7
Subsidiaries accounted for under the equity method	15.0	15.4	15.8	16.2
Minority interests	23.0	23.6	23.9	24.0
Net profit	301.4	328.6	381.9	451.1

Source: Jeronimo Martins, Dom Maklerski mBanku

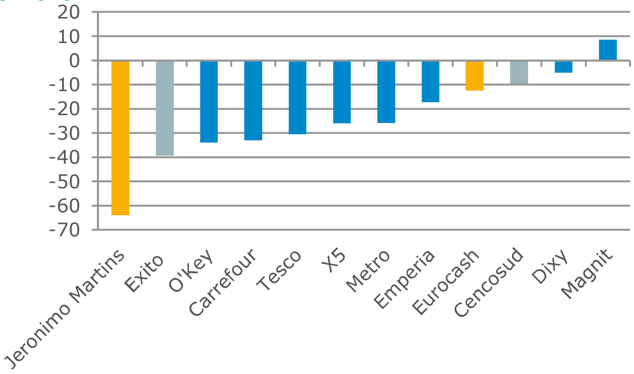
Cash flows

Jeronimo Martins generated operating cash flow of EUR 731m in 2014, equivalent to 99.9% of the annual EBITDA. In 2010-2014 the average CFO/EBITDA ratio was 103.3% and for 2014-2020 we project a gradual decrease in the ratio to 91.6% due to higher working capital allocations to inventory. Our 2016 and 2017 CFO projections for JMT are EUR 810.1m and EUR 862.2m, respectively.

Cash conversion cycle

JMT has a negative cash conversion cycle which in 2014 amounted to a peerless -63.9 days. This was owed to a low accounts receivable turnover ratio (7.5 days on average in 2010-2014),for which credit is due mostly to Recheio) coupled with long accounts payable days (95 on average in 2010-2014).

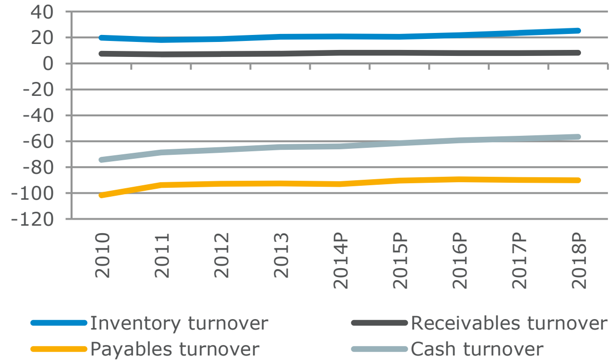
2014 cash conversion cycle: JMT vs. competition (days)



Source: Jeronimo Martins, Dom Maklerski mBanku

In the years ahead we anticipate deterioration in the cash conversion cycle due to an increasing inventory turnover ratio at Biedronka, reaching a negative 54 days in 2020.

Cash conversion cycle (days) (2010-2018P)



Source: Jeronimo Martins, Dom Maklerski mBanku

CAPEX

Our 2015 CAPEX assumption for JMT is EUR 508m, of which EUR 304.8m allocated to Biedronka and most of the remaining budget spent on the development of Hebe and Ara. In subsequent years we assume declining CAPEX with an increasing share of Ara and Hebe.

Dividends

Jeronimo Martins's dividend policy provides for annual distributions of 40-50% of the annual net profits for the previous year. For the purposes of our forecasting models we assume a payout ratio at the top end of the range at 50%.

Valuation risks

Persistent food price deflation

The deflation in food prices observed in Jeronimo Martins's markets can cause the Company to not deliver our financial forecasts if it persists for longer than assumed. Prolonged deflation can put pressure on the Company's revenues and like-for-like sales.

Economic risk

Jeronimo Martis's success depends heavily on the state of the Polish economy through Biedronka, which accounts for 75% of the annual EBITDA. Accordingly its profitability is likely to be affected in case of a slowdown in GDP growth or personal consumption.

Failure of Hebe or Ara

Jeronimo Martins has set an EBITDA breakeven deadline for Hebe for 2017. However, in a market already dominated by another drugstore player the time to break even may take longer. As for Ara the expansion plans may be squashed by such factors as an economic slowdown in Colombia, political instability, or changing preferences of consumers.

Currency risk

Jeronimo Martis faces a deterioration in profits in the event of a marked appreciation in the euro relative to the local currencies of its respective geographic markets. The currency pair with the most impact on earnings at the moment is EURPLN (JMT generates 65.5% of its revenues and 75% of EBITDA in zlotys).

Our forecasts vs. consensus

Our 2015-2017 revenue forecasts for Jeronimo Martins are 3% higher than the average market forecasts which assume higher EURPLN exchange rates. On higher revenue expectations and slightly more aggressive assumptions as to EBIT margins our EBIT projections as well are 5%-12% higher than average. The variations in EBITDA forecasts stem mostly from our more conservative approach to calculating amortization. As for bottom-line profits the 25% effective tax rate assumed by us is probably slightly higher than the average reflected in consensus estimates.

Our projections vs. consensus

(EUR m)	2015P			2016P			2017P		
	mDM	consensus	differ.	mDM	consensus	dffer.	mDM	consensus	differ.
Revenue	13,745.9	13,404.4	3%	14,689.5	14,202.4	3%	15,485.9	15,036.7	3%
EBIT	479.4	456.7	5%	542.9	506.1	7%	628.1	559.6	12%
EBITDA	774.3	747.2	4%	846.1	812.0	4%	945.1	884.2	7%
Net profit	328.6	316.8	4%	381.9	359.9	6%	451.1	403.3	12%

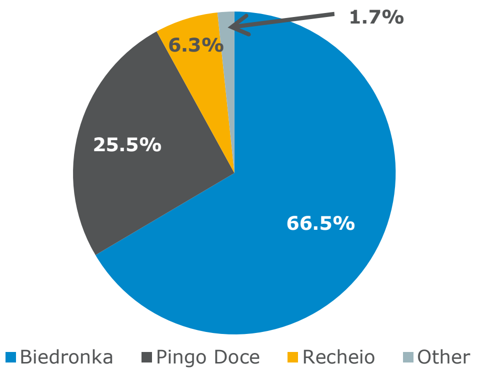
Source: Bloomberg, Dom Maklerski mBanku

Business Profile

Jeronimo Martins (JMT) is a Portugal-based distributor of food and other consumer products with operations in Poland (where it is the leader in the grocery market through the discount supermarket chain Biedronka), Portugal (where it operates the Pingo Doce supermarket chain and the cash&carry chain Recheio), and Colombia (where it recently launched a new supermarket chain under the name Ara). At the end of 2014 JMT employed 86,000 people.

JMT generated 66.5% of its 2014 revenue from Biedronka, with Pingo Doce accounting for 25.5% of the annual topline and Recheio contributing 6.3%. The Company's other operations include the Polish drugstore chain Hebe and the Colombian discount supermarket chain Ara.

2014 revenue breakdown by segment



Source: Jeronimo Martins, Dom Maklerski mBanku

Jeronimo Martins operates in three geographic markets:

- Poland (through Biedronka and Hebe);
- Portugal (through Pingo Doce, Cash&Carry Recheio, Unilever Jeronimo Martins, Hussel, and Jeronimo Martins Agro-Alimental); and
- Colombia (through Ara).

Operating segments

The main source of earnings for Jeronomo Martis is the Polish supermarket chain Biedronka with a 66.5% share in revenues and a 75% share in EBITDA. At the end of 2014 the Company operated 2,587 Biedronka stores with an average size of 638 square meters, sourcing merchandise through 15 distribution centers. Biedronka had a 16.9% share in the Polish retail market at year-end 2014. Going forward we expect the Polish unit to expand its store area at an average annual rate of 3.7% in 2014-2017, generating revenue CAGR in the period of a projected 8.5%. JMT estimates there is room in the Polish market for 500-650 more Biedronka stores with 600-950sqm of average retail area, of which most will be opened in major cities (we assume 595 annual openings in the forecast period).

Pingo Doce is the leading supermarket chain in Portugal with a market share approximating 18%. In 2014 it accounted for 25.5% of the total revenue of JMT and generated 25.6% of the consolidated EBITDA. The Pingo Doce business consisted of 380 stores at year-end 2014 with an average retail area of 1,200 square meters. Going forward due to a high market saturation in Portugal we assume the Pingo Doce chain will expand at a rate of 5 stores per year in 2015-2017, generating revenue growth at a 2014-2017 average annual rate of 2.9%. JMT has a 51% stake in Pingo Doce whose other shareholders account for most of the minority interests in the Company's profits, estimated at EUR 23.6m in 2015 and EUR 23.9m in 2016.

Recheio has the leading position in the Portuguese FMCG market through 37 Cash&Carry outlets and 4 food service supply locations (in 2013 Recheio finalized the absorption into its organizational structure of the food service operator Caterplus). The Portuguese cash&carry operator accounted for 6.3% of JMT's revenue in 2014 and generated 5.7% of the annual EBITDA. In the next three years it is expected to maintain its strong market position. The one challenge facing Recheio in 2015 is a continuing deflation in food prices combined with an inflation in costs. In 2014 it experienced negative like-for-like sales of 0.7% despite a 1.5% increase in sales volume. Going forward, through continued expansion of the 'Amanhecer' concept of proximity retail stores (in 2014 the network increased by 101 locations to 150 stores), accompanied by easing price deflation, we anticipate steady revenue growth at Recheio at 1.0% 2014-2017 CAGR, and we expect its EBITDA margins to improve from 5.2% in 2015 to 5.3% in 2016.

Other operations

JMT's other operations, which in 2014 put a dent of 9.4% in the annual EBITDA, consist of Hebe drugstores, Ara supermarkets, and the Portuguese units Unilever Jeronimo Martins (FMCG producer), Hussel (confectionery stores), and Jeronimo Martins Agro-Alimental (established as an internal supplier to the Company's stores).

Unilever Jeronimo Martins (ULJMT) is a joint venture in which JMT has a 45% stake accounted for under the equity method. ULJMT has a 70% market share in the local market for consumer categories such as ice-cream, detergents, and spices. We expect JMT to generate profits of EUR 15.4m in 2015 and EUR 15.8m in 2016 from entities accounted for under the equity method.

Hussel, in which JMT holds 51% ownership, operated 25 confectionery stores at the end of 2014. Its non-controlling shareholders have a small share in the minority interests line on JMT's income statement.
Jeronimo Martins Agro-Alimental was established in 2014 with a view to ensuring steady direct supplies of strategic products to JMT stores. JMT plans to spend up to EUR 50m in the future on acquisitions of food producing companies in Portugal.

Valuation

We used DCF analysis and relative valuation to assess the value of Jeronimo Martins. The DCF model yielded a per-share valuation of EUR 10.2 and the value obtained with multiples comparison amounted to EUR 10.0, implying a 9-month price target of EUR 10.7 per share.

(EUR)	weight	price
Relative Valuation	50%	10.0
DCF Analysis	50%	10.2
	price	10.1
	9M Target Price	10.7

DCF Analysis

DCF Model Assumptions:

- Cash flows are discounted as of 23 April 2015. Equity value is calculated based on net debt at year-end 2014.
- Due to deflationary pressures on the earnings of Biedronka we assume JMT's EBITDA margin for 2015 will fall by 0.15ppt to 5.63%, followed by gradual recovery to a target 6.22% in 2022.
- 2015 CAPEX is set at EUR 508m and in subsequent years we declining CAPEX with increasing allocations to the expansion of Hebe and Ara. The long-term CAPEX projection exceeds D&A expenses.
- The annual income tax rate is 25% throughout the forecast period reflecting the tax rates in force in Poland (19%), Portugal (25%) and Columbia (34%).
- Risk-free rate is 3.3%.
- We assume that FCF after FY2023 will grow at an annual rate of 1.75%.
- Beta=1.0.

Store expansion projection

	2014	2015P	2016P	2017P	2018P
Biedronka	2,587	2,682	2,782	2,882	2,942
Pingo Doce	380	385	390	395	399
Recheio	41	41	41	41	41
Ara	86	151	216	281	346
Hebe	119	131	143	155	167

Source: Jeronimo Martins, Dom Maklerski mBanku

Sensitivity Analysis: Variations in DCF valuation depending on EURPLN exchange rates in 2015 and 2016

		2015E EURPLN average					
		3.90	3.95	4.00	4.06	4.10	4.15
2016E EURPLN average	3.80	11.0	10.9	10.9	10.8	10.8	10.7
	3.90	10.9	10.8	10.8	10.7	10.7	10.7
	4.00	10.8	10.8	10.7	**10.7**	10.6	10.6
	4.10	10.8	10.7	10.7	10.6	10.6	10.5
	4.20	10.7	10.7	10.6	10.6	10.5	10.5

Source: Jeronimo Martins, Dom Maklerski mBanku

Sensitivity Analysis: 2015E EBITDA variations depending on EURPLN and Biedronka's EBITDA margins

		2015E EURPLN average					
		3.90	3.95	4.00	4.06	4.10	4.15
2015E EBITDA margin of Biedronka	6.9%	828.9	820.4	812.1	802.4	796.1	788.4
	6.8%	819.1	810.7	802.6	793.0	786.8	779.2
	6.7%	809.4	801.1	793.1	783.7	777.5	770.0
	6.6%	799.6	791.5	783.6	**774.3**	768.3	760.9
	6.5%	789.9	781.9	774.1	764.9	759.0	751.7

Source: Jeronimo Martins, Dom Maklerski mBanku

DCF Model

(EUR m)	2015P	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P+
Revenue	13,746	14,689	15,486	16,169	16,650	17,070	17,443	17,793	
change	8.4%	6.9%	5.4%	4.4%	3.0%	2.5%	2.2%	2.0%	
EBITDA	774	846	945	994	1 037	1 066	1 089	1 106	
EBITDA margin	5.6%	5.8%	6.1%	6.1%	6.2%	6.2%	6.2%	6.2%	
D&A	294.9	303.2	317.0	325.4	331.6	334.5	333.0	372.5	
EBIT	479	543	628	669	705	731	756	734	
EBIT margin	3.5%	3.7%	4.1%	4.1%	4.2%	4.3%	4.3%	4.1%	
Tax on EBIT	119.9	135.7	157.0	167.1	176.3	182.8	189.0	183.4	
NOPLAT	360	407	471	501	529	548	567	550	
CAPEX	-508.0	-522.9	-508.7	-447.3	-413.7	-390.1	-333.1	-372.5	
Working capital	-44.4	-67.7	-43.1	-19.9	13.0	-13.6	-5.8	-0.8	
FCF	191	255	323	399	434	506	573	551	561
WACC	7.9%	8.1%	8.2%	8.3%	8.3%	8.3%	8.3%	8.3%	
Discount factor	94.7%	87.5%	80.9%	74.8%	69.1%	63.9%	59.1%	54.6%	
PV FCF	180.8	223.4	261.0	298.8	299.8	323.6	338.2	300.9	

WACC	7.9%	8.1%	8.2%	8.3%	8.3%	8.3%	8.3%	8.3%
Cost of debt	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Risk-free rate	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Credit risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net debt / EV	7.7%	4.6%	1.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Cost of equity	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF after the forecast period	1.75%
Terminal value	8,614
Present value of terminal value	4,704
Present value of FCF in the forecast period	2,227
Enterprise value	6,930
Net debt	284
Minority interests	242.9
Equity value	6,403
Number of shares (millions)	629.29
Equity value per share (EUR)	10.2
9M cost of equity	5.9%
9M target price (EUR)	10.8
EV/EBITDA ('15) at target price	9.4
P/E ('15) at target price	20.6
TV / EV	68%

Sensitivity Analysis

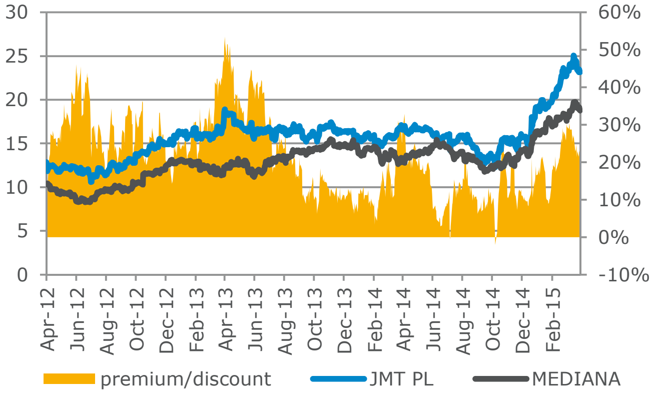
	FCF growth in perpetuity				
	0.75%	1.25%	1.75%	2.25%	2,75%
WACC -1.0 p.p.	10.7	11.2	11.9	12.7	13.6
WACC -0.5 p.p.	10.0	10.5	11.1	11.9	12.7
WACC	9.7	10.2	**10.8**	11.5	12.3
WACC +0.5 p.p.	9.3	9.8	10.4	11.1	11.9
WACC +1.0 p.p.	8.7	9.2	9.8	10.4	11.1

Relative Valuation

We compared Jeronimo Martins's P/E and EV/EBITDA ratios as projected for 2015-2017 with those a peer group of European retailers. The comparison shows that JMT is valued at premiums of 38-41% relative to peer P/E and 60-64% on EV/EBITDA.

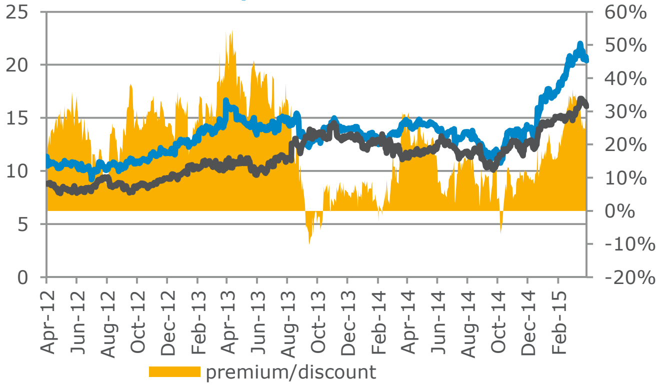
In our view JMT deserves premium valuation given the strong market presence of the Biedronka business, however at the current level the premium is too high and we consider 10% to be a more accurate reflection of the Company's advantage over competition.

2015E P/E comparison: JMT vs. peers and our estimates



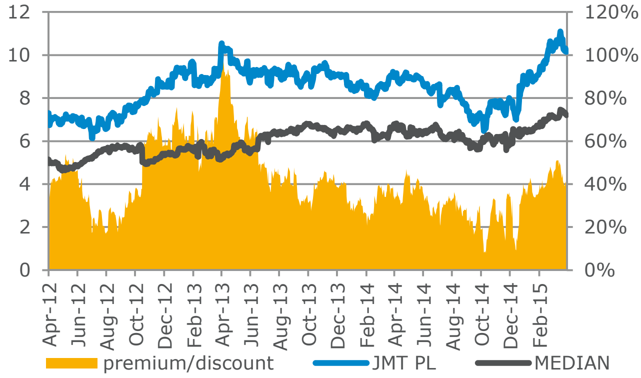
Source: Bloomberg, Dom Maklerski mBanku

2016E P/E: JMT vs. peers and our estimates



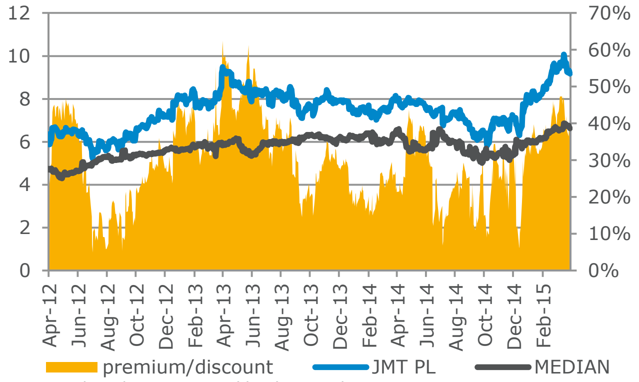
Source: Bloomberg, Dom Maklerski mBanku

2015E EV/EBITDA comparison: JMTT vs. peers and our estimates



Source: Bloomberg, Dom Maklerski mBanku

2016E EV/EBITDA comparison: JMTT vs. peers and our estimates



Source: Bloomberg, Dom Maklerski mBanku

Multiples Comparison

		P/E			EV/EBITDA		
	Price	2015E	2016E	2017E	2015E	2016E	2017E
Tesco	225.3	21.3	21.7	17.1	9.7	8.8	7.6
Carrefour	31.5	18.3	16.1	14.8	7.2	6.6	6.2
X5	18.5	16.1	11.2	8.7	6.6	5.5	4.5
Metro	32.9	18.7	15.4	13.6	5.7	5.3	5.0
O'Key Group	3.4	13.6	10.2	9.3	6.2	5.8	5.5
Magnit	58.7	26.0	19.6	15.4	14.0	11.0	9.0
Dixy Group	453.0	10.0	7.3	5.8	4.1	3.2	2.5
Emperia	59.5	24.6	24.2	b.d.	8.5	7.9	b.d.
Eurocash	36.8	20.8	17.6	16.2	11.7	10.2	9.8
Minimum		10.0	7.3	5.8	4.1	3.2	2.5
Maximum		26.0	24.2	17.1	14.0	11.0	9.8
Median		18.7	16.1	14.2	7.2	6.6	5.8
Jeronimo Martins	11.68	22.4	19.2	16.3	10.1	9.2	8.1
(premium / discount)		20%	19%	15%	41%	38%	38%
Implied valuation							
Median		18.7	16.1	14.2	7.2	6.6	5.8
Multiple weight			50%			50%	
Year weight		33%	33%	33%	33%	33%	33%
Premium to valuation		10%					
Equity value per share (EUR)		10.0					

Income Statement

(EUR m)	2012	2013	2014	2015P	2016P	2017P	2018P	2019P
Revenue	10,683.1	11,829.3	12,680.0	13,745.9	14,689.5	15,485.9	16,169.4	16,650.3
change	8.6%	10.7%	7.2%	8.4%	6.9%	5.4%	4.4%	3.0%
COGS	-8,337.5	-9,288.7	-9,989.0	-10,821.3	-11,549.5	-12,180.3	-12,722.8	-13,106.2
Gross profit	2,345.7	2,540.6	2,691.0	2,924.5	3,140.0	3,305.6	3,446.6	3,544.1
gross profit margin	22.0%	21.5%	21.2%	21.3%	21.4%	21.3%	21.3%	21.3%
Distribution costs	-1,643.5	-1,812.2	-2,021.0	-2,216.5	-2,351.4	-2,415.4	-2,505.9	-2,555.5
General and administrative expenses	-183.7	-200.6	-214.1	-228.6	-245.7	-262.1	-272.1	-283.6
Other net operating gains/losses	-16.4	-2.8	-7.4	0.0	0.0	0.0	0.0	0.0
EBIT	502.1	525.0	448.5	479.4	542.9	628.1	668.6	705.0
change	0.4%	4.6%	-14.6%	6.9%	13.3%	15.7%	6.4%	5.5%
EBIT margin	4.7%	4.4%	3.5%	3.5%	3.7%	4.1%	4.1%	4.2%
Financing gains / losses	-29.9	-38.8	-34.0	-25.3	-17.6	-10.7	-5.0	-2.7
Equity in profits of companies accounted for using the equity method	10.5	17.2	14.0	15.4	15.8	16.2	16.6	17.0
Pre-tax profit	482.7	503.4	428.5	469.5	541.1	633.5	680.1	719.3
Tax	-116.3	-110.8	-104.1	-117.4	-135.3	-158.4	-170.0	-179.8
Minority interests	5.9	10.3	23.0	23.6	23.9	24.0	24.2	24.3
Net profit	360.5	382.3	301.4	328.6	381.9	451.1	485.9	515.2
change	5.9%	6.0%	-21.2%	9.0%	16.2%	18.1%	7.7%	6.0%
margin	3.4%	3.2%	2.4%	2.4%	2.6%	2.9%	3.0%	3.1%
D&A	237.9	252.0	283.5	294.9	303.2	317.0	325.4	331.6
EBITDA	740.0	777.0	732.0	774.3	846.1	945.1	994.0	1 036.6
change	2.5%	5.0%	-5.8%	5.8%	9.3%	11.7%	5.2%	4.3%
EBITDA margin	6.9%	6.6%	5.8%	5.6%	5.8%	6.1%	6.1%	6.2%
Shares at year-end (millions)	629.3	629.3	629.3	629.3	629.3	629.3	629.3	629.3
EPS	0.6	0.6	0.5	0.5	0.6	0.7	0.8	0.8
ROA	7.6%	7.5%	5.8%	6.2%	6.9%	7.8%	7.9%	7.9%
ROE	29.8%	27.6%	21.6%	20.6%	20.8%	21.3%	20.2%	19.1%

Balance Sheet

(EUR m)	2012	2013	2014	2015P	2016P	2017P	2018P	2019P
ASSETS	4,771.7	5,099.2	5,172.4	5,341.5	5,539.3	5,773.3	6,117.9	6,507.8
Fixed assets	3,642.3	3,857.8	3,851.5	4,064.5	4,284.3	4,475.9	4,597.8	4,680.0
Property, plant and equipment	2,571.7	2,782.8	2,773.3	2,986.4	3,206.1	3,397.8	3,519.7	3,601.8
Intangible assets	794.4	805.8	806.2	806.2	806.2	806.2	806.2	806.2
Accruals	52.1	51.0	51.3	51.3	51.3	51.3	51.3	51.3
Other	224.1	218.1	220.6	220.6	220.6	220.6	220.6	220.6
Current assets	1,129.5	1,241.4	1,321.0	1,277.0	1,255.1	1,297.3	1,520.1	1,827.9
Inventory	474.1	575.0	572.0	647.2	739.1	834.1	932.2	1,027.5
Receivables	232.7	253.6	313.5	314.9	336.6	354.8	370.5	381.5
Cash and cash equivalents	375.1	371.7	430.7	310.0	174.5	103.6	212.6	414.0
Other	47.7	41.1	4.8	4.8	4.8	4.8	4.8	4.8

(EUR m)	2012	2013	2014	2015P	2016P	2017P	2018P	2019P
EQUITY AND LIABILITIES	4,771.7	5,099.2	5,172.4	5,341.5	5,539.3	5,773.3	6,117.9	6,507.8
Equity	1,211.5	1,382.7	1,395.8	1,593.8	1,835.3	2,119.5	2,404.0	2,700.6
Minority interests	290.4	266.6	242.9	242.9	242.9	242.9	242.9	242.9
Long-term liabilities	797.8	566.1	560.6	410.6	410.6	260.6	186.9	186.9
Loans	570.8	369.1	373.9	223.9	223.9	73.9	0.2	0.2
Other	227.1	197.0	186.7	186.7	186.7	186.7	186.7	186.7
Current liabilities	2,471.9	2,883.8	2,973.2	3,094.3	3,050.5	3,150.3	3,284.0	3,377.4
Loans	107.4	324.7	340.9	340.9	115.9	59.4	59.4	59.4
Trade creditors	2,232.5	2,477.7	2,616.0	2,737.1	2,918.4	3,074.7	3,208.4	3,301.8
Other	132.1	81.4	16.2	16.2	16.2	16.2	16.2	16.2
Debt	678.2	693.8	714.8	564.8	339.8	133.3	59.6	59.6
Net debt	303.1	322.1	284.1	254.8	165.3	29.6	-153.0	-354.4
(Net debt / Equity)	25.0%	23.3%	20.4%	16.0%	9.0%	1.4%	-6.4%	-13.1%
(Net debt / EBITDA)	0.4	0.4	0.4	0.3	0.2	0.0	-0.2	-0.3
BVPS	1.9	2.2	2.2	2.5	2.9	3.4	3.8	4.3

Cash Flows

(EUR m)	2012	2013	2014	2015P	2016P	2017P	2018P	2019P
Cash flow from operating activities	667.9	685.1	731.4	732.1	810.1	862.2	877.0	877.7
Net profit	366.3	392.5	325.4	352.2	405.8	475.1	510.1	539.5
D&A	237.9	252.0	283.5	294.9	303.2	317.0	325.4	331.6
Working capital	105.6	68.7	81.4	44.4	67.7	43.1	19.9	-13.0
Other	-42.0	-28.0	41.1	40.6	33.3	26.9	21.6	19.6
Cash flow from investing activities	-457.4	-495.4	-483.2	-508.0	-522.9	-508.7	-447.3	-413.7
CAPEX	-483.0	-512.0	-486.0	-508.0	-522.9	-508.7	-447.3	-413.7
Other	25.6	16.6	2.8	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	-378.2	-188.2	-179.5	-344.8	-422.6	-424.4	-320.8	-262.6
Loans	-39.2	23.4	28.9	-150.0	-225.0	-206.5	-73.7	0.0
Dividends	-339.0	-211.6	-208.4	-154.2	-164.3	-191.0	-225.5	-243.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash (eop)	-167.7	1.5	68.6	-120.7	-135.5	-70.9	109.0	201.4
Cash at period-end	375.1	371.7	430.7	310.0	174.5	103.6	212.6	414.0
DPS (EUR)	0.5	0.3	0.3	0.2	0.3	0.3	0.4	0.4
FCF	241.6	218.1	218.4	190.9	255.2	322.6	399.5	433.6
(CAPEX/Sales)	4.5%	4.3%	3.8%	3.7%	3.6%	3.3%	2.8%	2.5%

Trading Multiples

	2012	2013	2014	2015P	2016P	2017P	2018P	2019P
P/E	20.4	19.2	24.4	22.4	19.2	16.3	15.1	14.3
P/CE	12.3	11.6	12.6	11.8	10.7	9.6	9.1	8.7
P/BV	6.1	5.3	5.3	4.6	4.0	3.5	3.1	2.7
P/S	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.4
FCF/EV	3.0%	2.7%	2.8%	2.4%	3.3%	4.2%	5.4%	6.0%
EV/EBITDA	10.7	10.2	10.8	10.1	9.2	8.1	7.5	7.0
EV/EBIT	15.8	15.1	17.6	16.4	14.3	12.1	11.1	10.3
EV/S	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.4
DYield	4.6%	2.9%	2.8%	2.1%	2.2%	2.6%	3.1%	3.3%

Price (EUR)	11.68	11.68	11.68	11.68	11.68	11.68	11.68	11.68
Shares at year-end (millions)	629.3	629.3	629.3	629.3	629.3	629.3	629.3	629.3
MC (EUR m)	7,350	7,350	7,350	7,350	7,350	7,350	7,350	7,350
Minority interests (EUR m)	290.4	266.6	242.9	242.9	242.9	242.9	242.9	242.9
EV (EUR m)	7,944	7,939	7,877	7,848	7,758	7,623	7,440	7,239

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

Recommendations of Dom Maklerski mBanku:
A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:
BUY – we expect that the rate of return from an investment will be at least 15%
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%
SELL – we expect that an investment will bear a loss greater than 15%
Recommendations are updated at least once every nine months.

Strong and weak points of valuation methods used in recommendations:
DCF – acknowledged as the most methodologically correct method of valuation; it is based in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.
Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Dom Maklerski mBanku S.A. did not issue any investment ratings for Jeronimo Martins in the last nine months.

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