

Monday, 20 September 2021 | update

# Allegro: sell (reiterated)

ALE PW; ALEW.WA | e-commerce, Poland

## Bracing for Market Share Loss

Allegro stock has registered a decline of nearly 6% since our last update in November 2020, which means it underperformed the broad market by a staggering 32%. Nevertheless we stand by our contrarian bearish view on the e-Commerce marketplace, which in our view is poised to lose its dominant position in the Polish market. There is no question that Allegro will benefit from the rise in e-Commerce in the coming years, but its sales growth is not likely to top industry averages because of its structure, and because of increasingly stiff competition.

Our negative view sets us apart from most market analysts, who are currently predicting a rise in Allegro's market share despite the fact that, in Q2 2021, an 11% rebound in the gross merchandise volume sold via the allegro.pl marketplace put it 7pp behind the average for the market.

Going forward, in its determination to retain market share as Amazon makes increasingly bold moves in Poland (amazon.pl has just cut the minimum order value for free deliver by more than half), Allegro will probably also lower the thresholds of its 'SMART!' loyalty program – with implications for EBITDA.

After updating our models to factor in the Covid boost and favorable market conditions, on the one hand, and lower expectations for future revenues and margins, on the other hand, our revised EBITDA forecast for Allegros sits 9% below the Bloomberg consensus. We also set a new price target for ALE stock at PLN 52.40, implying a sell recommendation.

On our updated 2022 estimates, currently ALE stock is trading at 27.7x EV/EBITDA, showing a big premium to the peer group (+137% vs. Alibaba, +42% vs. Amazon) which we consider undeserved.

### Slow-Rising Merchandise Categories Account For Most of GMV

Polish e-commerce is forecast by PWC to grow at an average annual rate of about 12% in the 2020-26 period, and within this the Home & Garden category might increase by 9.7% a year, and the rise in sales of Electronics & Media could average 7.1%. These two categories accounted for upwards of 53% of Allegro's LTM GMV in Q2 2020, and as the year went on we suspect Home & Garden products gained even more weight. Based on these proportions, we do not see Allegro as keeping pace with the expected growth in the Polish e-commerce market in the coming years, much less exceeding it.

### Competition Gets Tougher

The world's three biggest online marketplaces, Amazon, Alibaba, and Shopee, have either already established a foothold in Poland, or expressed a desire to do so. Most recently, amazon.pl has cut the minimum order value for free delivery to 40 zloty, or around 9 euros, and soon enough Polish shoppers should also be given a chance to become Amazon Prime members. In October, the Singapore-based Shopee is opening its marketplace to Polish shoppers with an offer of free delivery on all orders for six months, along with a free commission program for the merchants.

(PLN m)	2019	2020	2021E	2022E	2023E
revenue	2,592.3	3,997.8	5,328.6	6,329.6	7,553.9
EBITDA (adj.)	1,338.1	1,750.0	2,144.3	2,456.2	2,859.8
margin	51.6%	43.8%	40.2%	38.8%	37.9%
EBIT	886.1	1,122.9	1,613.4	1,850.7	2,209.0
net profit	393.1	418.5	1,118.5	1,341.1	1,661.7
P/E	167.2	157.1	58.8	49.0	39.6
P/S	25.4	16.4	12.3	10.4	8.7
P/B	9.9	8.1	7.1	6.2	5.3
EV/EBITDA (adj.)	53.6	40.0	32.2	27.7	23.3
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

current price	PLN 64.25
target price	PLN 52.40
mCap	PLN 65.7bn
free float	PLN 24.7bn
ADTV (3M)	PLN 162.9m

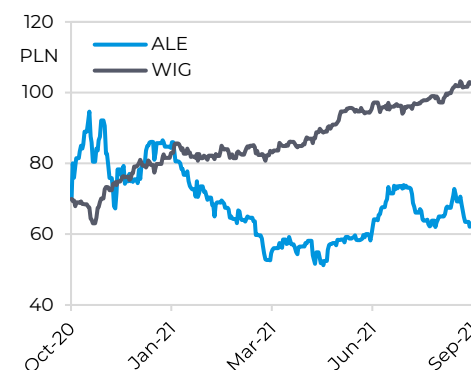
### Shareholders

Cidinan S.à r.l.	28.0%
Permira VI Investment Platform Ltd	28.0%
Mepinan S.à r.l.	6.2%
Others	37.7%

### About

Allegro is the owner of Poland's biggest e-commerce platform, Allegro.pl, and it runs the country's leading price comparison site, Ceneo.pl. As of July 2021, Allegro had the sixth biggest online presence in Poland with 20.6 million real users and a reach of 71.3%. Allegro's 2021 Q2 LTM revenue amounted to PLN 4.7 billion, and of this 81.4% was provided by the allegro.pl platform, 8.7% came from advertising, and 4.0% was generated by ceneo.pl.

### ALE vs. WIG



	Target price		Recommendation	
	new	old	new	old
Allegro	52.40	54.00	sell	sell
Current Price Target Price Downside				
Allegro	64.25	52.40	-18.4%	
Forecast Revision				
revenue		+14.3%	+9.6%	+6.7%
EBITDA (adj.)		+5.4%	+2.2%	+0.5%
net profit		+3.7%	+0.1%	-2.1%

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**List of abbreviations and ratios used by mBank:**

**EV** (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases) - Lease Payments  
**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%  
**SELL** – we expect that an investment will bear a loss greater than 15%  
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**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**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 issued the following recommendations for Allegro in the 12 months prior to this publication:

Allegro	
recommendation	sell
date issued	2020-11-18
target price (PLN)	54.00
price on rating day	67.89

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