

Jeronimo Martins

Retail

After LFLs, now turning to margins

(Price Target cut from €9.30 to €9.20; Neutral Recommendation maintained)

Neutral
Medium Risk

January 2015

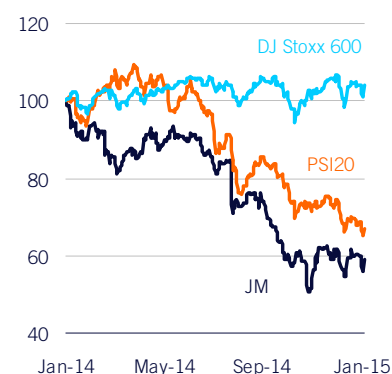
Portugal

▶ **Trading statement with opposite deflation trends:** JM released its preliminary sales which showed opposite deflation trends. In Portugal, the industry has already started to show some early indications of easing deflation while in Poland deflation continues to mount dragged by price competition in the market and the effect of the ban on Polish products from Russia. This deflationary trend in Poland should keep pressuring margins, a trend that may persist during 1H15. Still, volumes remain positive and increased 3% yoy in Q4.

▶ **New strategy in place:** JM has eased its expansion plans in Poland to better deal with the changes that it has in place in terms of new assortment, which are expected to be rolled out throughout 2015. This comprises an enlarged assortment (+30% to c1800) and lower "in&out" promotions. Meanwhile, the company should keep expanding (at a lower rate) into the big cities. Short term should still be ruled by deflation both at the top line and margins while the (positive?) effects of the company's new strategy should only be felt towards YE15 and 2016. We therefore expect 2015 to be a difficult year with limited top line growth (+4%, 2p.p. impact from FX) and no EPS growth.

▶ **Not out of the woods yet - Neutral:** JM has strong operations both in Portugal and Poland and while we have started to see some stabilisation signs in the Iberian Peninsula, the Polish market remains highly competitive and without clear signs of deflation easing. This backdrop together with the still recent concept changes create some uncertainties regarding JM's profitability. The company accumulates a 42% loss in 12M but multiples remain unappealing while our revised **YE15 Price Target of €9.20**, cut by 1% due to a weaker PLN currency, still suggests some caution. Deflation should be a clear trigger for the company while the Russian turmoil may continue to bring some volatility along with the impacts from the drop of the CHF peg to euro.

Jeronimo Martins vs. PSI20 vs. DJ Stoxx 600



Source: Bloomberg.

Valuation Summary (€ mn)

	EV Attrib.	% EV
Portugal	801	13%
Retail (DCF)	555	9%
Cash & Carry (DCF)	246	4%
Poland (DCF)	5 153	81%
Hebe (DCF)	0	0%
Colombia (DCF) ⁽¹⁾	107	2%
Manufacturing&JMD ⁽²⁾	251	4%
Non core assets ⁽³⁾	49	1%
Total EV	6 361	100%
YE15 Adj. Net Debt ⁽⁴⁾	557	
Total Equity Value	5 804	
# shares (mn)	629	
# own shares (mn)	0.9	
YE15 Price Target (€)	9.20	

(1) 75% execution risk; (2) 13.3x PE14; (3) BCP shares, real estate and others; (4) Includes pension fund liabilities
Source: BPI Equity Research.

Stock Data

Price (9 th Jan.):	7.99	Price Target (YE15):	9.20
# shares (mn):	629.3	M. Cap (€ mn) / F. Float:	5 026 / 39%
Reuters/Bloomberg:	JMT.LS / JMT.PL	Avg. Daily Vol. [€'000]:	11 541
Major Shareholders:	Soares dos Santos Family (56.1%); Heerema (5.0%)		

Estimates	2011	2012	2013	2014 ^f	2015 ^f	2016 ^f	2017 ^f
PE Adj.	14.3	13.3	13.0	15.6	15.6	15.4	14.1
Dividend yield	0.0%	6.4%	3.7%	3.8%	3.8%	3.8%	3.8%
FCFE Yield	3.9%	2.5%	1.8%	0.8%	1.7%	3.0%	3.1%
FCFF Yield	5.4%	5.4%	5.6%	5.0%	5.0%	5.9%	6.2%
PBV	4.5	4.1	3.6	3.3	3.1	2.8	2.6
EV/EBITDA ⁽¹⁾	8.7	8.2	8.1	8.6	8.5	8.2	7.7
EV/Sales ⁽¹⁾	0.6	0.6	0.5	0.5	0.5	0.5	0.4

(1) EV is fixed with current market cap and MV of remaining items.

Analysts

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Historical Recommendation

Date	Recommendation
27-Sep-13	Buy
30-Jul-14	Neutral

Source: BPI Equity Research.

Available on our website:
www.bpiequity.bpi.pt. BPI Online.
and Bloomberg at **NH BPD.**

P&L (€ mn)								CAGR
	2011	2012	2013	2014 ^f	2015 ^f	2016 ^f	2017 ^f	13-17 ^f
Revenues	9838	10683	11829	12680	13248	14067	14805	6%
EBITDA	721	740	777	732	738	761	810	1%
EBITDA adj.	721	740	777	732	738	761	810	1%
EBITDA adj. mg.	7.3%	6.9%	6.6%	5.8%	5.6%	5.4%	5.5%	
Depreciation & others	208	221	249	276	290	305	320	6%
EBIT	512	518	528	456	448	457	491	-2%
EBIT adj.	512	518	528	456	448	457	491	-2%
Net financial results	-30	-17	-20	-15	-13	-12	-6	-25%
Income tax	111	116	111	98	91	93	102	-2%
Others	-14	-19	-4	-1	0	0	0	n.s.
Minority Interests	17	6	10	20	22	25	27	27%
Net Profit reported	340	360	382	322	321	327	356	-2%
Net Profit adj.	340	360	382	322	321	327	356	-2%

Balance Sheet (€ mn)								CAGR
	2011	2012	2013	2014 ^f	2015 ^f	2016 ^f	2017 ^f	13-17 ^f
Net Intangibles	831	794	806	803	800	797	795	0%
Net Fixed Assets	2301	2572	2783	3072	3273	3411	3571	6%
Net Financials	59	128	130	130	130	130	130	0%
Inventories	388	474	575	606	657	699	735	6%
ST Receivables	170	175	169	174	178	183	188	3%
Other Assets	202	254	264	266	271	280	287	2%
Cash & Equivalents	530	375	372	100	100	100	100	-28%
Total Assets	4481	4772	5099	5151	5410	5600	5806	3%
Equity & Minorities	1422	1502	1649	1789	1920	2058	2224	8%
MLT Liabilities	795	957	726	872	829	741	751	1%
o.w. Debt	394	582	372	500	450	350	350	-2%
ST Liabilities	2265	2313	2724	2490	2660	2801	2831	1%
o.w. Debt	359	112	340	64	153	179	95	-27%
o.w. Payables	1726	2038	2193	2247	2319	2421	2523	4%
Equity+Min. + Liabilities	4481	4772	5099	5151	5410	5600	5806	3%

Cashflow (€ mn)							
	2011	2012	2013	2014 ^f	2015 ^f	2016 ^f	2017 ^f
+ EBITDA	721	740	777	732	738	761	810
- Chg in Net W.C.	-78	-102	-63	-14	-23	-62	-68
- Income Taxes	88	118	105	89	86	85	94
= Operating Cash Flow	711	724	735	657	675	739	785
- Growth Capex	126	248	328	398	308	283	303
- Replacement Capex	158	212	182	164	180	157	173
- Net Fin. Inv.	13	91	-31	1	0	0	0
= Cash Flow after Inv.	415	174	256	94	187	298	308
- Net Fin. Exp.	30	17	20	15	13	12	6
- Dividends Paid	0	323	186	192	192	192	192
+/- Equity	0	0	0	0	0	0	0
Other	-34	60	-72	-10	-20	-22	-25
=Change in Net Debt	-351	107	22	124	38	-73	-85
Net Debt (+)/Net Cash (-)	223	319	341	464	503	429	345

Growth. per share data and ratios							
	2011	2012	2013	2014 ^f	2015 ^f	2016 ^f	2017 ^f
Sales growth	13%	11%	9%	7%	4%	6%	5%
EBITDA Adj. growth	16%	3%	5%	-6%	1%	3%	6%
EPS Adj. growth	21%	6%	6%	-16%	0%	2%	9%
Avg. # sh (mn)	629.3	629.3	629.3	629.3	629.3	629.3	629.3
Basic EPS	0.56	0.60	0.61	0.51	0.51	0.52	0.57
EPS Adj. Fully diluted	0.56	0.60	0.61	0.51	0.51	0.52	0.57
DPS	0.51	0.30	0.31	0.31	0.31	0.31	0.31
Payout	95.1%	51.5%	50.2%	59.7%	59.7%	58.8%	53.9%
ROCE (after tax)	15.9%	15.8%	14.9%	12.2%	11.3%	11.1%	11.3%
ROE	30.4%	29.7%	29.5%	22.2%	20.4%	19.1%	19.2%
Gearing (ND/EV)	12.2%	17.5%	18.7%	26.0%	28.1%	24.0%	19.3%
Net Debt/EBITDA	0.3x	0.4x	0.4x	0.6x	0.7x	0.6x	0.4x

Source: Company data and BPI Equity Research (F).

Sensitivity Analysis to LfL in Poland ⁽¹⁾	
	€/sh
0.90%	8.60
1.90%	9.20
2.90%	9.90

(1) Average LfL in 2014-20.

Source: BPI Equity Research.

DCF Assumptions - Poland Retail	
Re	10.1%
Rf	3.25%
CRP	1.25%
Beta Equity	0.9
Mkt Premium	6.0%
Rd	6.0%
Tax rate	19.0%
D/EV	20.0%
WACC	9.0%
g	2.5%

Source: BPI Equity Research.

Sensitivity Analysis (€/Share)				
	Δ g	Δ g		
		-0.5pp	B. Case	+0.5pp
Δ Rf	-0.5pp	9.40	10.00	10.70
B. Case	0.5pp	8.70	9.20	9.80
	0.5pp	8.10	8.60	9.10

Source: BPI Equity Research.

Market Multiples	PE		EV/EBITDA	
	15 ^f	16 ^f	15 ^f	16 ^f
Jeronimo Martins	15.6	15.4	8.5	8.2
Carrefour	13.7	12.1	5.5	5.0
Casino	14.2	12.4	3.9	3.5
Ahold	14.7	13.9	6.4	6.0
Tesco	17.4	14.6	8.0	7.2
Metro	13.8	11.8	4.6	4.4
Morrison	13.1	12.5	6.9	6.1
Delhaize	13.8	12.6	5.3	4.9
Sainsbury	11.1	10.6	5.5	5.2
Colruyt	16.4	15.8	8.2	7.8
Axfood	21.1	20.4	10.8	10.6
Avg (W. Europe)	14.9	13.7	6.5	6.1
DIA	15.5	12.3	7.1	6.0
Eurocash	20.2	17.7	11.4	10.1
BIM	27.9	23.2	18.1	14.9
X5	9.1	7.1	4.9	4.1
Magnit	15.2	12.1	8.4	6.7
Avg (EM)	17.6	14.5	10.0	8.4

Source: BPI Equity Research (DIA and Jerónimo Martins) and Factset.

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	Low Risk	Medium Risk	High Risk
Buy/CoRe Buy	>15%	>20%	>30%
Neutral	>5% and < 15%	>10% and <20%	>15% and < 30%
Reduce	>-10% and < 5%	>-10% and < 10%	>-10% and < 15%
Sell	< -10%	< -10%	< -10%

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As of 31st December BPI Equity Research's investment ratings were distributed as follows:

CoRe Buy	9%
Buy	26%
Neutral	43%
Reduce	11%
Sell/Accept Bid	5%
Under Revision/Restricted	5%
Total	100%

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