

Monnari Trade SA

Analysis of the results for the 1H 2021

2021-10-01 16:35

Key data

Target price [PLN]	5,3
DCF Valuation [PLN]	5,3
Comparative Valuation [PLN]	5,1
Market price [PLN]	2,9
Growth/decrease potential [%]	89,3%
Market cap [mIn PLN]	88,3
Free float [mIn PLN]	68,0%
Industry	retail sale of clothing
WSE code	MON
Bloomberg code	MON PW

Analysts

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Company profile

The company focuses on creating own comprehensive collections, aimed mainly at women over 30, in the attractive segment of brand clothing. Production is outsourced, the collections are sold through a network of own showrooms and online.

Source: www.gpw.pl

Shareholders: [%]

Misztal Mirosław	26,2
NN OFE	5,7

Growth factors

Strong consumer demand
Competitive offer
Diversified supplies
New distribution channels

Risk factors

Lockdown
Supply chain disruptions
Transport cost increase
Exchange rate fluctuations

Stock performance



Source: DM Banku BPS SA calculations

- The results for the first half of 2021 were strongly influenced by the pandemic. Stationary sales were not possible throughout January and from March 20 to May 3 this year, which meant no revenues generated in shopping centers for 10 weeks in 2021. During the lockdown period, sales took place only in a few stores on the streets and in smaller shopping centers, and primarily through the Internet channel.
- In the first half of 2021, Monnari Trade SA decreased revenues by 1.5% y/y to 91,743 thd. PLN. Nevertheless, the Company's results turned out to be a positive surprise, as the operating loss amounted to only 339 thd. PLN against 18,144 thd. PLN in H1 2020.
- We positively evaluate the actions undertaken by Monnari Trade SA in the area of crisis management, including, in particular cost reduction. The company significantly reduced selling, general and administrative expenses by 18.8%, to the level of 51,351 thd. PLN against 63 219 thd. PLN in H1 2020.
- Decrease in revenues along with a costs decrease resulted in a net profit of 3,745 thd. PLN in the 1H 2021 compared to the net loss in the same period of 19 816 thd. PLN.
- The improvement in profitability in 1H 2021 compared to the first half of 2020 was possible thanks to the very good results achieved in the 2Q 2021 (despite the partial closure of shopping malls). Revenues increased by 25.6% y/y and 16.9% q/q, operating profit amounted to 5,002 thd. PLN, against the loss of 11,702 thd. PLN in the 2Q 2020. Finally, in the 2Q 2021, the Company generated a net profit of 10,121 thd. PLN compared to the net loss of 6,254 thd. PLN in Q1 2021 and 10,169 thd. PLN in Q2 2020. One-off event (profit on sale of shares in a subsidiary with negative equity of 4,573 thd. PLN) had a significant impact on the value of net profit, although it was a purely accounting transaction not generating real cash flows.
- The company kept its sales infrastructure at a similar level from before the pandemic, which implies that with strong consumer demand, epidemic restrictions will be a key limitation in the process of revenue recovery. At the end of the 1H 2021, the sales network consisted of 202 stores with an area of 42.5 thousand m².
- In line with our expectations, Monnari Trade SA continuously develops online sales channel. In the 1H2021, the online store increased its sales compared to the 1H 2020 by 32%, and its share in the revenue has increased by 5 pp and amounted to approx. 20% share of total revenue.
- A loan granted in June 2021 in the amount of 7,368 thd. PLN under the government program "Financial Shield of the Polish Development Fund for Large Companies" was redeemed in 75% with effect from 09/24/2021.

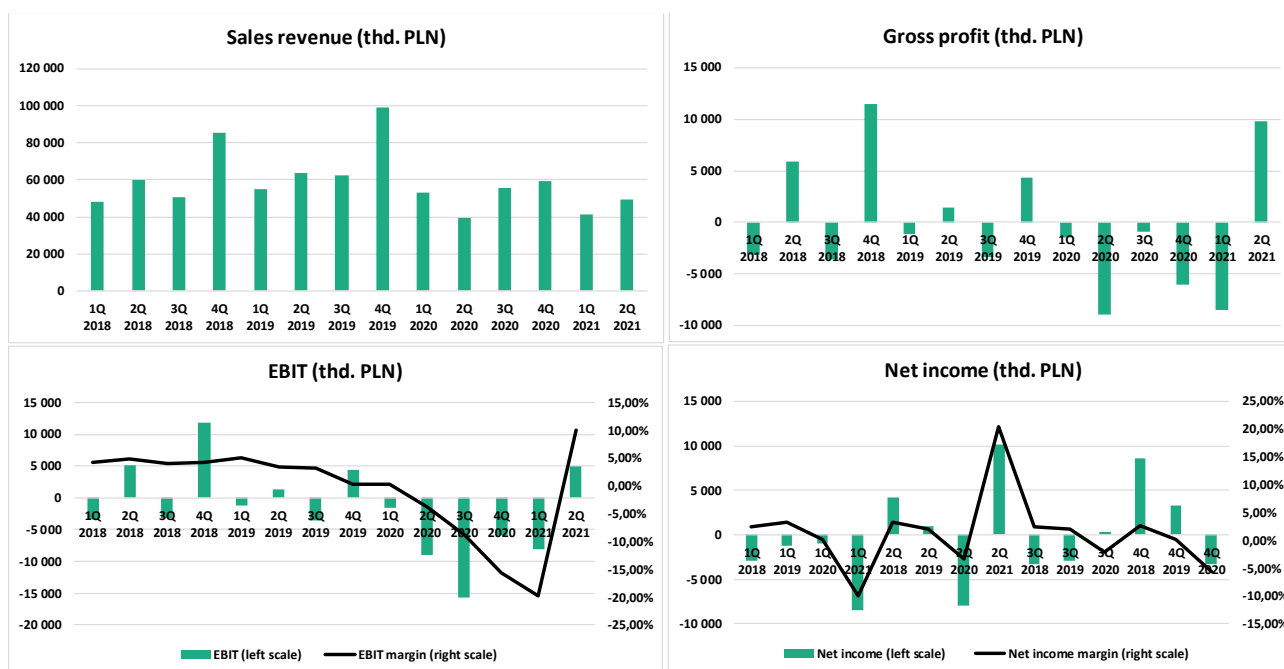
	PLN thd	2020	2021E	2022E	2023E	2024E	2025E
Sales		209 408	230 084	249 259	278 738	311 743	348 697
EBITDA		-9 098	8 893	21 320	23 690	26 343	31 169
<i>EBITDA margin</i>		-4,3%	3,9%	8,6%	8,5%	8,5%	8,9%
EBIT		-28 129	-1 810	9 073	9 718	10 439	11 247
Net income		-30 439	-4 637	4 774	4 981	5 220	5 493
Equity		190 951	180 609	190 157	200 120	210 560	221 546
Debt		-6 204	40 593	60 486	75 321	92 211	121 291
P/E		-2,8	-18,3	17,8	17,1	16,3	15,5
P/BV		0,4	0,5	0,4	0,4	0,4	0,4
EV/EBITDA		-10,0	5,0	1,1	0,4	-0,3	-1,2
DY		0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

Source: DM Banku BPS SA, E - estimates

Financial results for 2Q against the DM Banku BPS forecasts

tys. PLN	Q publ.	DM BPS forecasts	Comparison to the DM BPS forecasts	Q-1 hist	Q-2 hist	Change q/q
Revenue	49 459	42 284	17,0%	41 600	59 467	-30,0%
Profit on sales	30 112	29 200	3,1%	18 130	33 691	-46,2%
<i>Sales margin</i>	60,9%	69,1%	-11,8%	43,6%	56,7%	-23,1%
EBITDA	7 617	5 073	50,1%	-7 069	-4 454	58,7%
<i>EBITDA margin</i>	15,4%	12,0%	28,4%	-17,0%	-7,5%	126,9%
EBIT	5 002	2 369	111,1%	-8 131	-5 959	36,4%
<i>EBIT margin</i>	10,1%	5,6%	80,5%	-19,5%	-10,0%	95,1%
Gross profit	9 768	1 218	702,0%	-8 535	-6 047	41,1%
<i>Gross profit margin</i>	19,7%	2,9%	585,6%	-20,5%	-10,2%	101,8%
Net income	10 121	987	925,9%	-8 515	-3 315	156,9%
<i>Net income margin</i>	20,5%	2,3%	777,0%	-20,5%	-5,6%	267,2%

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA, Company

Expected impact: Thanks to the maintenance of the sales infrastructure and the development of the online channel, Monnari Trade SA in the 2Q 2021, in line with our expectations, is gradually rebuilding its revenues. Revenues increased by 25,6% y/y and 16,9% q/q. We positively assess the undertaken cost reduction and the cancellation of 75% of the loan from PFR in the amount of 7.4 million PLN. Our revenue forecasts do not differ significantly from the values published by the Company, but we see a significant underestimation at the level of gross and net profit, which results from the fact that Monnari Trade SA sold shares in an associated company for 4.6 million PLN, which was a one-off event. The future results of the Company and its value will depend to a greater extent on the development of the pandemic and possible lockdowns disabling sales through traditional channels. Despite the open shopping malls, in the 3Q 2021, we expect a deterioration of the quarterly results due to the seasonality of sales in the clothing industry (the 3Q Monnari Trade SA usually recorded a decrease in revenues and net profit). In turn, in relation to the 4Q 2021, we recognize a great potential in further rebuilding of revenues thanks to the sale of the fall-winter collection with higher margins. Nevertheless, given the uncertainty on the market related to possible restrictions in trade, we maintain the current valuation, but also

consider a possible change in the valuation due to the favorable results generated in the 4Q 2021 and (mainly) because of increase in the value of real estate in Łódź (Ogrody Geyera), which the Management plans to commercialize and partially sell in 2022.

Basic definitions

CAPEX (capital expenditures) - investment expenditures on product development, system implementation (including intangible assets) or tangibles assets in the part in which the capital is intended to maintain the company's current ability to generate income.

DCF (discounted cash flows) - discounted cash flows; all future cash flows are estimated and discounted in order to determine their present value. The value of the discount rate used corresponds to the cost of capital and includes an assessment of the risk related to future cash flows.

DFCF - Discounted FCF (Free Cash Flows to Firm).

EBIT (earnings before interest and taxes) - operating income i.e. the income before deduction of taxes and interest.

EBITDA (earnings before interest, taxes, depreciation and amortization) - the company's operating profit before deducting interest on interest-bearing liabilities (loans, bonds), taxes, amortization and depreciation of tangible and intangible assets; here EBITDA = operating income + amortization of tangible fixed assets + depreciation of intangible assets.

EV (Enterprise Value) - total enterprise value; here EV = current stock market capitalization + net debt.

EV / EBITDA - the ratio is calculated by dividing the present value of the enterprise (EV) by the value of EBITDA.

FCFF (Free Cash Flow to Firm) - free cash flows for owners of equity capital and creditors, which can be defined as flows resulting from the company's operating and investment activities, after all financial expectations of capital donors, i.e. all parties financing the company, have been settled.

WSE - Warsaw Stock Exchange.

NOPLAT - net operating result less adjusted taxes; here NOPLAT = EBIT * (1 - tax rate).

P / BV (price / book value) - the ratio is calculated by dividing the current capitalization of a listed company by the book value of its equity, which is provided in the company's balance sheet.

P / E (price earnings ratio) - stock exchange ratio. It is calculated by dividing the market price of one share by the net profit per share.

PV TV - Present Value, i.e. the residual value (TV) discounted at the present moment.

CR - current report.

SB - Supervisory Board.

TV (Terminal Value) - residual value; enterprise value after the forecast period; here estimated with the help of the Gordon model.

WACC - weighted average cost of capital; financial indicator informing about the average relative cost of capital engaged in financing the enterprise.

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