

Monnari Trade SA

Analysis of the results for the 3Q 2022

2022-12-01 08:40

Key data

Target price [PLN]	7,2
DCF Valuation [PLN]	5,4
Comparative Valuation [PLN]	12,3
Market price [PLN]	4,9
Growth/decrease potential [%]	48,6%
Market cap [mln PLN]	148,2
Free float [%]	63,7%
Industry	clothes retail
WSE code	MON
Bloomberg code	MON PW

Analyst

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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	32,94
MONNARI TRADE S.A.	15,04
Fair Sp. z o.o.	8,29

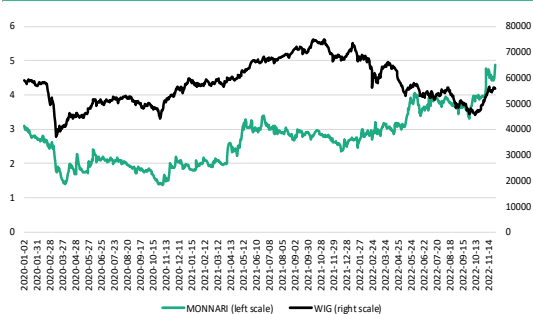
Growth factors

Sales network growth
Competitive offer
High cash amount

Risk factors

Risk of recession
Costs pressure

Stock performance



Source: DM Banku BPS SA calculations

Monnari Trade's results for the third quarter are good. The Company generated revenues of PLN 66.162 million, which means an increase of 17.9% compared to the third quarter of 2021 and a decrease by 10.0% q/q. In the clothing industry, characterized by seasonality, a decrease in sales in the third quarter is a normal phenomenon.

Gross profit on sales amounted to PLN 35.745 million and was higher by 12.2% y/y. Gross margin on sales amounted to 54.0% (an increase of 2.3 p.p. y/y and a decrease of 7 p.p. q/q), which, taking into account the seasonality of the industry, is a good result (the last time in the third quarter Monnari Trade generated such a high margin in 2018 - 56.1%)

We perceive the Company's cost discipline moderately positive. Selling costs increased by 23.9% y/y, and overheads by 30.1% y/y, which resulted in the Company losing profitability at the level of profit on sales. Thanks to the redemption of the preferential loan from PFR (PLN 11.4 million), Monnari Trade generated **PLN 10.1 million in operating profit** (the year before, the EBIT loss was minus PLN 1.128 million) and **PLN 10.914 million in net profit** (the year before, plus PLN 692 thousand).

The Company's fundamentals remain solid. Thanks to the sale of a part of Geyer's Gardens, liquidity remains high and liabilities are consistently decreasing. Despite the uncertainty in the macroeconomic environment, we assess the prospects for further growth positively, which is influenced by: a strong labor market, the strengthening of the zloty against the dollar, inflation rate slowdown in Poland and the suspension of the monetary policy tightening cycle.

The Company's results are better than our expectations, hence **we finally increase our valuation to PLN 7.2 per share** (previously PLN 6.7), which is also due to a decrease in discount rates (WIBOR, treasury bond yields) and an increase in valuation multiples of peer companies.

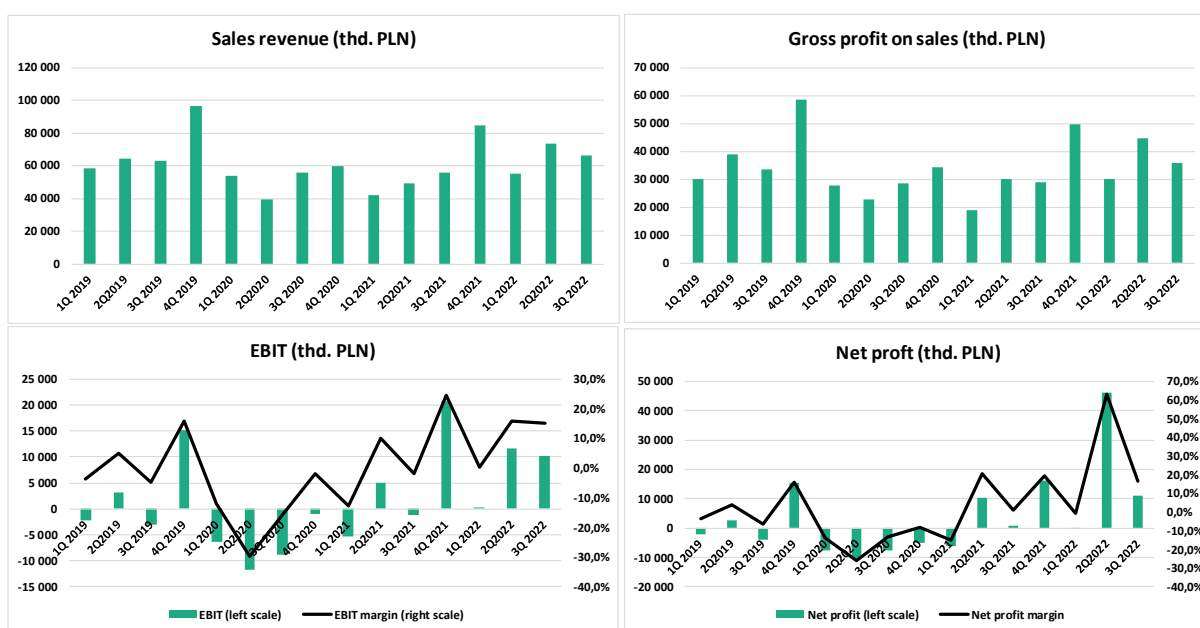
PLN thd	2021	2022P	2023P	2024P	2025P	2026P
Sales	232 422	286 580	289 248	313 187	339 108	367 173
EBITDA	30 072	43 534	28 482	29 675	30 545	34 668
EBITDA margin	12,9%	15,2%	9,8%	9,5%	9,0%	9,4%
EBIT	19 337	36 213	17 776	18 193	18 298	21 621
Net income	20 696	68 597	15 012	15 981	16 148	18 928
Equity	211 451	280 331	298 822	318 506	338 397	361 711
Net debt	-34 983	-50 203	-52 702	-49 057	-48 333	-61 155
P/E	5,8	1,8	8,0	7,6	7,5	6,4
P/BV	0,6	0,4	0,4	0,4	0,4	0,3
EV/EBITDA	2,9	1,6	2,4	2,4	2,4	1,7
EPS	0,7	2,2	0,5	0,5	0,5	0,6

Source: DM Banku BPS SA, E - estimates

Financial results for 3Q 2022 against the DM Banku BPS forecasts

thd. PLN	3Q 2022	DM BPS forecasts	Comparison to the DM BPS forecasts	1Q 2022	2Q 2022	Change q/q
Revenue	66 162	63 277	4,6%	55 223	73 531	33,2%
Profit on sales	35 745	33 502	6,7%	29 928	44 848	49,9%
<i>Sales margin</i>	54,0%	52,9%	+1,1 p.p.	54,2%	61,0%	+6,8 p.p.
EBITDA	12 833	13 110	-2,1%	2 608	13 448	415,6%
<i>EBITDA margin</i>	19,4%	20,7%	0	4,7%	18,3%	+13,6 p.p.
EBIT	10 111	10 583	-4,5%	70	11 683	16590,0%
<i>EBIT margin</i>	15,3%	16,7%	-2,4 p.p.	0,1%	15,9%	+15,8 p.p.
Gross profit	11 164	8 523	31,0%	-489	55 282	-
<i>Gross profit margin</i>	16,9%	13,5%	+3,4 p.p.	-0,9%	75,2%	+76 p.p.
Net income	10 914	6 920	31,0%	-325	46 238	-
<i>Net income margin</i>	16,5%	10,9%	+5,6 p.p.	-0,6%	62,9%	+63,5 p.p.

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA calculations, Company

Expected impact: At the revenue level, Monnari Trade's results are close to our estimates (PLN 66.162 mln vs. PLN 63.277 mln expected). The gross profit on sales turned out to be higher by 6.7% than our forecast (PLN 35.745 million vs. the expected PLN 33.502 million). On the other hand, at the level of operating profit, the result turned out to be slightly worse than we expected. EBIT amounted to PLN 10.111 million, with our estimates at PLN 10.583 million. The Company's net profit surprised us positively and amounted to PLN 10.914 million against the expected PLN 6.92 million.

As announced by the Management Board, the Company's cash resources decreased in Q3 (from PLN 97.7 million at the end of Q2 to PLN 51.1 million). These funds were utilized to i.a. increase in inventories and decrease in liabilities, which fell from PLN 57.7 million in Q2 to PLN 48.9 million in Q3. In the perspective of the next year, the Company's results will be influenced by the economic situation in Poland, the exchange rate of the dollar against the zloty (the settlement currency for the purchase of imported goods) and cost discipline. Slightly better than expected results prompt us to revise our forecasts upwards at the level of net profit.

Therefore, after updating the data in the model and multiples in the comparative valuation, we increase our valuation to PLN 7.2 per share at the end of 2022 (previously PLN 6.7).

We believe the Company remains heavily undervalued. We see potential for growth not only in the company's core business (sale of clothing and clothing accessories), but also in the possibilities of business development of the remaining, unsold part of Geyer Gardens.

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, ie 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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This report is published on the day of its completion on the publicly available <https://dmbps.pl/wsparcie-analityczne/program-wsparcia-pokrycia-analitycznego-gpw/monnari-trade-s-a>

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List of recommendations issued within the last 12 month

Company	Recommendation	Target price	Market price	Type of recommendation	Date of Issue	Analyst(s)
VIVID GAMES	nd	1,23	1,34	Analysis of results	2021-12-02	Łukasz Bryl, Tomasz Czamecki
NTT SYSTEM	nd	8,3	5,16	Analysis of results	2021-12-03	Łukasz Bryl, Tomasz Czamecki
MONNARI TRADE	nd	5,3	2,57	Analysis of results	2021-12-10	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	4,6	3,17	Analytical report	2021-12-10	Artur Wizner
INTERFERIE	SELL	6,73	7,5	Initial report	2021-12-30	Łukasz Bryl
JSW	BUY	45	34,87	Analytical report	2021-12-30	Artur Wizner
JSW	BUY	46,4	35,4	Analytical report	2022-01-04	Artur Wizner
SNIEZKA	HOLD	84	79,8	Analytical report	2022-03-24	Artur Wizner
UNIBEP	nd	11	9	Analytical report	2022-04-21	Artur Wizner
NTT SYSTEM	nd	7,94	5	Analytical report	2022-05-04	Tomasz Czamecki, Łukasz Bryl
PROCHEM	nd	37	32,8	Analytical report	2022-05-10	Artur Wizner
VIVID GAMES	nd	1,25	1,17	Analysis of results	2022-05-13	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	3,6	2,8	Analytical report	2022-05-13	Artur Wizner
PROCHEM	nd	37	33,6	Analysis of results	2022-05-17	Artur Wizner
MONNARI TRADE	nd	5,5	3,5	Analytical report	2022-05-18	Łukasz Bryl
VIVID GAMES	nd	1,29	1,26	Analysis of results	2022-05-26	Łukasz Bryl
MONNARI TRADE	nd	6,21	3,87	Analysis of results	2022-05-31	Łukasz Bryl
NTT SYSTEM	nd	7,92	4,28	Analysis of results	2022-05-31	Łukasz Bryl
UNIBEP	nd	11	8,1	Analysis of results	2022-05-31	Artur Wizner
PROTEKTOR	nd	3,6	2,83	Analysis of results	2022-06-01	Artur Wizner
JSW	BUY	74	38,7	Analytical report	2022-09-12	Artur Wizner
UNIBEP	nd	10	7,2	Analytical report	2022-09-20	Artur Wizner
VIVID GAMES	nd	1,07	1,03	Analytical report	2022-09-29	Łukasz Bryl
SNIEZKA	HOLD	67	64,2	Analytical report	2022-09-29	Artur Wizner
NTT SYSTEM	nd	7,03	3,95	Analytical report	2022-10-04	Łukasz Bryl
PROCHEM	nd	30	34,8	Analytical report	2022-10-05	Artur Wizner
PROTEKTOR	nd	2,9	2,6	Analytical report	2022-10-12	Artur Wizner
MONNARI TRADE	nd	6,74	3,87	Analytical report	2022-10-21	Łukasz Bryl
PROCHEM	nd	30	35	Analysis of results	2022-11-15	Artur Wizner
UNIBEP	nd	10	8,84	Analysis of results	2022-11-18	Artur Wizner
VIVID GAMES	nd	1,09	1,05	Analysis of results	2022-11-29	Łukasz Bryl
MONNARI TRADE	nd	7,20	4,85	Analysis of results	2022-12-01	Łukasz Bryl