

13th January 2016

Food retailing

Jeronimo Martins

Price EUR12.56

Q4 trading statement: Jeronimo Martins commands respect!

Fair Value EUR13,5 (+7%)

NEUTRAL

Bloomberg	JMT.PL
Reuters	JMT.LS
12-month High / Low (EUR)	13.8 / 8.6
Market Cap (EURm)	7,904
Ev (BG Estimates) (EURm)	8,475
Avg. 6m daily volume (000)	1 129
3y EPS CAGR	8.6%

We admire Jeronimo Martins' exemplary model that should benefit from the move in favour of both discount and proximity within the industry going forward. Once again, the retailer showed its class by publishing its strongest LFL rates for two years at Biedronka (+3.8% in Q4), while Pingo Doce keeps showing an impressive performance (+4.1% LFL excl. fuel). Within a sector suffering from anorexic growth (a disruptive factor in a fixed-cost industry), Jeronimo is the best-in-class. Only the uncertainty about the implementation of a retail tax in Poland and to a lesser extent the valuation (22x 2016 P/E vs 16x for the panel or 15x excluding Tesco) prevent us from buying the stock.

	1 M	3 M	6 M	31/12/14
Absolute perf.	6.5%	2.6%	8.6%	50.7%
Food Retailing	0.1%	-7.0%	-8.1%	6.1%
DJ Stoxx 600	-3.5%	-5.1%	-11.7%	0.2%

Yesterday, Jeronimo Martins released its 2015 preliminary sales which work out rather in line with our initial estimates (total sales of EUR13.73bn vs EUR13.69bn e). Beyond the expansion programme that delivered in line with expectations (see table on next page), the overall performance remains driven by strong LFL rates, both in Poland and Portugal. Elsewhere, Colombia (EUR122m annual sales vs EUR118m e) and Hebe (EUR100m annual sales vs EUR100m e) also delivered in line with estimates.

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	12,679	13,735	14,627	15,551
% change		8.3%	6.5%	6.3%
EBITDA	732	789	863	945
EBIT	446.9	486.7	517.3	565.1
% change		8.9%	6.3%	9.2%
Net income	310.4	336.4	358.9	397.6
% change		8.4%	6.7%	10.8%

In Poland, food inflation was negative in the first nine months of the year (-2.2%), but turned marginally positive in October (+0.4%) and November (+0.1%). Against this backdrop, Biedronka put the emphasis on improving its offer in a bid to grow its share of wallet. In the end, LFL sales growth worked out at +3.8% in Q4 (vs +2.9% in 9M), driven by volumes (+5%e). It goes without saying, the banner grew its market share. In the end, the LFL rate has improved all along the year, supported by strong volume growth which more than compensated the basket deflation. Both the number of visits and the average tickets contributed positively to the annual LFL performance of +3.2%. On the whole, impressive.

	2014	2015e	2016e	2017e
Operating margin	3.6	3.6	3.5	3.6
Net margin	2.4	2.4	2.5	2.6
ROE	NM	NM	NM	NM
ROCE	18.6	20.5	21.7	24.1
Gearing	17.4	19.2	-3.8	-15.2

In Portugal, Pingo Doce and Recheio, sticking to their promotional strategy, obviously reinforced their value proposition and outperformed their respective market. We would like to emphasise the exceptional commercial performance by Jeronimo Martins, which, against the backdrop of declining sales momentum all over Europe (see our recent report: [Anorexic growth... the bigger the better!](#)), is able to show a +4.1% LFL Q4 sales growth excl. fuel (vs +4.7% in 9M) at Pingo Doce (!), driven by volumes (+6% we believe). If we play the devil's advocate, we could notice the sequential deceleration at Recheio whose LFL sales growth worked out at +1.4% in Q4 (vs +4.2% in 9M). Let us not deceive ourselves, this is another set of strong figures.

(EUR)	2014	2015e	2016e	2017e
EPS	0.49	0.53	0.57	0.63
% change	-	8.4%	6.7%	10.8%
P/E	25.5x	23.5x	22.0x	19.9x
FCF yield (%)	2.2%	4.7%	4.9%	5.6%
Dividends (EUR)	0.25	0.27	0.00	0.32
Div yield (%)	2.0%	2.1%	NM	2.5%
EV/Sales	0.7x	0.6x	0.6x	0.5x
EV/EBITDA	11.5x	10.7x	9.4x	8.3x
EV/EBIT	18.9x	17.4x	15.6x	13.9x

Why we remain cautious despite such performances

As a reminder, the Polish government may introduce a progressive retail tax of 0.5/2% on turnover with a progression depending on revenues (implementation could be in Q2 2016). Hence, at this stage, our understanding is that big retailers may be subject to a higher tax rate than their smaller competitors (the initial plan was to introduce a tax representing up to 2.5% of the banner's sales for the stores with a selling area exceeding 250sqm). This scenario would meet with both the fiscal (budget) and social (protection of the smallest players) targets of the government. On the one hand, we do believe that Biedronka should be able to pass part of this tax to suppliers. On the other one, it seems complicated to us to pass part of this tax on to consumers through homogeneous price increases (potential risk of cross-elasticity), since different retailers could be subject to different tax rates depending on their revenues. In short, at this stage, the lack of information leads to caution.

VALUATION

- Jeronimo Martins is showing a 21x 2016 P/E vs 16x for the panel (15x excluding Tesco)

NEXT CATALYSTS

- Upcoming details about the retail tax in Poland (next week?)
- Field Trip to Colombia (15&16 March 2016)



Performances at Jeronimo Martins' main banner

BIEDRONKA	Q1	Q2	Q3	Q4	2 014	Q1	Q2	Q3	Q4	2 015
Sales (EURm)	1 953	2 076	2 162	2 241	8 432	2 172	2 327	2 337	2 369	9 205
(1) LFL	-2.7%	0.3%	-1.3%	0.3%	-0.8%	2.9%	2.4%	3.5%	3.8%	3.2%
(2) F/X	-0.7%	0.8%	1.9%	-0.6%	0.3%	-0.2%	1.5%	-0.3%	1.1%	-0.1%
(3) Expansion	9.3%	11.2%	10.3%	9.1%	10.0%	8.5%	8.2%	4.9%	3.2%	6.1%
(1)+(2)+(3) % change	5.9%	12.3%	10.9%	8.8%	9.5%	11.2%	12.1%	8.1%	8.1%	9.2%
(1)+(3)% change tcc	6.6%	11.5%	9.0%	9.4%	9.1%	11.4%	10.6%	8.4%	7.0%	9.3%

Source: Group, BG estimates

PINGO DOCE	Q1	Q2	Q3	Q4	2 014	Q1	Q2	Q3	Q4	2 015
Sales (EURm), store sales	743	812	835	844	3 234	772	850	888	896	3 406
(1) LFL (incl. fuel)	1.1%	1.9%	-2.0%	1.1%	0.5%	3.4%	4.2%	4.0%	3.4%	3.8%
(2) Expansion	1.1%	1.0%	1.8%	0.8%	1.2%	0.5%	0.5%	2.3%	2.8%	1.6%
(1)+(2) % change	2.2%	2.9%	-0.2%	1.9%	1.7%	3.9%	4.7%	6.3%	6.2%	5.3%

Source: Group, BG estimates

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