

Jeronimo Martins

Price EUR11.34

Polish tax relief

Fair Value EUR13.5 (+19%)

NEUTRAL

| | |
|----------------------------|------------|
| Bloomberg | JMT.PL |
| Reuters | JMT.LS |
| 12-month High / Low (EUR) | 13.8 / 9.6 |
| Market Cap (EURm) | 7,133 |
| Ev (BG Estimates) (EURm) | 7,704 |
| Avg. 6m daily volume (000) | 1 195 |
| 3y EPS CAGR | 8.6% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|--------|--------|----------|
| Absolute perf. | -3.9% | -11.7% | -5.7% | -5.5% |
| Food Retailing | -1.8% | -7.7% | -14.2% | -3.3% |
| DJ Stoxx 600 | -5.2% | -8.6% | -15.5% | -7.5% |

| 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% |

| | 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 |

| (EUR) | 2014 | 2015e | 2016e | 2017e |
|-----------------|-------|-------|-------|-------|
| EPS | 0.49 | 0.53 | 0.57 | 0.63 |
| % change | - | 8.4% | 6.7% | 10.8% |
| P/E | 23.0x | 21.2x | 19.9x | 17.9x |
| FCF yield (%) | 2.4% | 5.2% | 5.4% | 6.2% |
| Dividends (EUR) | 0.25 | 0.27 | 0.00 | 0.32 |
| Div yield (%) | 2.2% | 2.4% | NM | 2.8% |
| EV/Sales | 0.6x | 0.6x | 0.5x | 0.5x |
| EV/EBITDA | 10.5x | 9.8x | 8.5x | 7.5x |
| EV/EBIT | 17.1x | 15.8x | 14.2x | 12.5x |

The Polish government has released details of the famous Polish Retail Tax. Some details on its implementation are still lacking but, at this stage, we know that retailers with monthly revenues of between PLN1.5m and PLN300m are likely to have to pay a 0.7% sales tax while those with revenues above EUR300m should pay a 1.3% sales tax. Small retailers with sales below EUR1.5m will be tax exempt. Moreover, the ministry also plans to impose a 1.9% tax rate on weekend and holiday revenues. The good news is that Biedronka should be impacted in similar proportions to its largest competitors while the blended rate (~1.5%e for JM) is probably lower than the level initially feared (i.e. up to 2.5%). Further details are still to come. Stay tuned.

According to the latest information released post the market close yesterday, the government finally plans to impose a progressive tax that will amount to 0.7% for retailers with monthly sales of between PLN1.5m under PLN300m and 1.3% for those with monthly revenues above this level. On top of this, the ministry also plans to impose a 1.9% tax rate on weekend and holiday revenues (of course, we guess this WE tax would replace the normal tax and not be on top). Note that payments to low-income young families should also increase, partly funded by the PLN2bn expected to be raised thanks to the new tax. The proposal is yet to go through all legislative levels and the ministry expects the tax to be effective as of April. However, questions remain particularly about whether the tax will be regarded as compliant with EU regulation (we imagine that the government has covered itself). Stay tuned.

ANALYSIS

- Admittedly, the tax rate announced today (i.e. 1.5% e blended tax rate) is lower than the level initially feared (i.e. up to 2.5%). However, this announcement remains confirmation that JM will have to face a headwind going forward. At first sight, it would seem complicated to pass part of this tax on to consumers through homogeneous price increases (potential risk of cross-elasticity), since different retailers will be subject to different tax rates depending on their revenues.
- Nevertheless, the real good news in this respect is that Biedronka should be impacted in similar proportions to its largest competitors (Tesco, Auchan and Carrefour...), the majority of which are barely profitable and should have no choice but to pass this new tax through to consumers (not to mention de fact that hypermarkets generate a higher proportion of sales on WEs).
- The government indicated that the retail tax will not lead to increases in prices which is probably kind of wishful thinking. Given how this new tax should be implemented, we rather expect some more inflation to come as a consequence of this new regulation.
- Moreover, it is worth remembering Jeronimo Martins's strong price advantage vs its competitors (i.e. ~5%e vs discounters and ~10%e vs hypermarkets) while the increased payment to young families should intuitively benefit Biedronka.
- A blended tax rate of around 1.5% would imply a gross impact of around EUR140m a year, i.e. 39% of the net profit expected in 2016 (assuming that 2/3 of this tax is passed through to consumers, the impact would be restrained vs previous expectations).

VALUATION

- Jeronimo Martins is currently showing a 20x 2016 P/E ratio vs 16x for our sample

NEXT CATALYSTS

- Strong come-back of inflation in Poland
- Field Trip to Colombia (15&16 March 2016)



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| | |
|---------|---|
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