Jeronimo Martins

Price EUR13.38

Bloomberg	JMT PL
Reuters	JMT.LS
12-month High / Low (EUR)	13.8 / 10.4
Market Cap (EURm)	8,417
Ev (BG Estimates) (EURm)	8,988
Avg. 6m daily volume (000)	1 246
3y EPS CAGR	8.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.3%	3.6%	12.0%	11.5%
Food Retailing	0.3%	-4.0%	2.4%	2.0%
DJ Stoxx 600	-0.8%	-11.8%	-4.0%	-7.4%

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	27.1x	25.0x	23.5x	21.2x
FCF yield (%)	2.0%	4.4%	4.6%	5.3%
Dividends (EUR)	0.25	0.27	0.00	0.32
Div yield (%)	1.8%	2.0%	NM	2.4%
EV/Sales	0.7x	0.7x	0.6x	0.5x
EV/EBITDA	12.2x	11.4x	10.0x	8.8x
EV/EBIT	20.0x	18.5x	16.6x	14.8x

FY 2015 (first take): JM is very impressive but also very expensive…

Fair Value EUR13,5 (+1%) **NEUTRAL**

We deeply admire JM's exemplary model that should benefit in the future from moves within the industry favouring both discount and proximity. The retailer again showed its class by publishing its strongest LFL rates for two years at Biedronka (+3.8% in Q4) along with a strong margin (7.05%e i.e. +80bp), while Portugal continued to show an impressive topline-driven performance (+4.1% LFL excl. fuel at Pingo Doce and +1.4% at Recheio) and a margin in line with expectations (5.7%e, down 30 bp in a very promotional environment). Only valuation (2016 P/E of 23x vs 16x on average for the panel) remains a hindrance. Neutral.

Yesterday, JM released its Q4 2015 net results, which were 6% above expectations at the EBITDA level (i.e. EUR212m vs EUR200m according to Bloomberg consensus) and otherwise in line with estimates (i.e. EUR81m vs EUR82m according to Bloomberg consensus). As a reminder, Jeronimo Martins had already released its Q4 trading statement showing that the overall commercial performance remained driven by very strong LFL rates, at both Biedronka (67% of quarterly sales/+3.8% LFL) and Pingo Doce (25%/+4.1%) while that of Recheio (6%/+1.4% LFL) remained very decent.

In terms of EBITDA, given a cash margin approach to business, these strong commercial performances translated into a sequential improvement in the quarterly margin at Biedronka (+80bp vs ~50bp expected by the market and +20bp in Q3), given strong volumes, which more than compensated for deflation. On the whole, the 2015 EBITDA margin in Poland (i.e. 7.0%) was higher than expected since initial guidance was for at least 6.50%. Unsurprisingly, the quarterly margin in Portugal (i.e. 5.7% e) remained under pressure margin (-30bp) in a highly promotional environment.

For the FY, FCF increased +80% (FCF/EBITDA moved from 35% in 2014 to 60% in 2015), thanks to strong operational performances and good management of both WCR and capex (down from EUR496m in 2014 to EUR400m in 2015). Pre-tax ROIC improved from 20.8% in 2014 to 23.6%, an unequivocal performance in a sector suffering from declines on this front. This overall strong performance prompted the group to offer an unexpected dividend of EUR0.265 (gross) in April on top of what was already paid for FY 2015 (in December, JM paid a dividend of EUR0.375 which included the dividend for 2015 paid early and an exceptional dividend).

In terms of the outlook, management is unsurpringly cautious (as usual) both for Portugal and Poland and the main surprise is more about capex that should increase from EUR400m to EUR550/650m with Biedronka (67% of sales) absorbing "only" 45% of this value. This suggests that the group, rather confident in prospects in Colombia, could significantly accelerate development of Ara (management is to meet investors in Colombia on 13th and 14th March).

ANALYSIS

- **On the whole, we consider that any share price weakness would be a good opportunity to increase exposure to what we view as the best equity story in the sector:**
    - We admire Jeronimo Martins' exemplary model that should benefit from moves in favour of both discount and proximity within the industry going forward. In a fixed costs industry suffering an obvious lack of commercial growth (Anorexic growth… the bigger the better!), Jeronimo Martins offers a much appreciated guarantee.
    - Recent information regarding the Polish Retail Tax was rather reassuring (the tax rate announced on 26th January, i.e. 1.5%e blended tax rate, was lower than the level initially feared, i.e. up to 2.5%, and could even be lowered following EU critcism). 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 onto consumers.

VALUATION

- Jeronimo Martins is currently showing a 2016 P/E of 23x vs 16x for the sector

NEXT CATALYSTS

- Ivestor days in Colombia on 13th and 14th March

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