

Jeronimo Martins

Price EUR14.26

Q1 2016 (first take): strong commercial and cash margin. Need clarification on tax.**Fair Value EUR13,5 (-5%)****NEUTRAL**

Bloomberg	JMT.PL
Reuters	JMT.LS
12-month High / Low (EUR)	14.9 / 10.8
Market Cap (EURm)	8,974
Ev (BG Estimates) (EURm)	9,421
Avg. 6m daily volume (000)	1 236
3y EPS CAGR	11.4%

Jeronimo Martins has again showed its class by publishing very strong LFL growth in Q1 2016 (+6% at the group level), which is an outstanding performance compared with the rest of the panel. First-quarter net profit was EUR77.3m (vs EUR75m expected by the consensus), while EBITDA rose 10.7% to EUR183 (vs EUR182m e). Total net sales rose to EUR3.4bn in the quarter, also slightly exceeding expectations of EUR3.33bn. Nevertheless, some points need to be clarified especially regarding a transitory budget law in Portugal that could have a material impact on the group in Portugal.

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.8%	15.8%	13.8%	18.9%
Food Retailing	0.7%	3.5%	-3.7%	1.9%
DJ Stoxx 600	4.1%	4.2%	-7.2%	-4.6%

Overall commercial performance was again driven by very strong LFL rates on top of a favourable calendar effect (leap year and Easter in Q1 2016), at both Biedronka (~68% of quarterly sales/+7.6% LFL vs +4.8e) and Pingo Doce (~24% of quarterly sales /+2.1% LFL vs +2.6% e) while that of Recheio (~6% of quarterly sales /+3.8% vs +2.0%e) remained very decent.

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	12,679	13,726	14,643	15,577
% change		8.3%	6.7%	6.4%
EBITDA	732	799	898	989
EBIT	446.9	485.4	523.4	577.6
% change		8.6%	7.8%	10.3%
Net income	310.4	354.4	383.9	428.6
% change		14.2%	8.3%	11.6%

Given a cash margin approach to business ("we will continue to focus on top line performance in order to maximise profitability and cash generation"), these strong commercial performances translated into a 30bp margin improvement in Poland, given strong volumes (inflation of +0.4%). In an environment that remains highly promotional (deflation of -0.4%), the distribution businesses in Poland delivered a 10bp improvement in margin (vs -30bp in Q4 15).

	2014	2015e	2016e	2017e
Operating margin	3.6	3.7	3.7	3.9
Net margin	2.4	2.6	2.6	2.8
ROE	NM	NM	NM	NM
ROCE	18.6	22.4	23.2	25.7
Gearing	17.4	11.8	3.0	-8.8

In terms of outlook, management is unsurprisingly cautious (as usual) both for Portugal and Poland ("very competitive operating environment and low food inflation in both Poland and Portugal"). Losses at Ara and Hebe, at the EBITDA level, are expected to be below the 2015 level (EUR55.5m), excluding F/X. The Group expects to invest EUR550/650m, with Biedronka absorbing around 45% of this amount.

(EUR)	2014	2015e	2016e	2017e
EPS	0.49	0.56	0.61	0.68
% change	-	14.2%	8.3%	11.6%
P/E	28.9x	25.3x	23.4x	20.9x
FCF yield (%)	1.9%	5.4%	3.3%	4.8%
Dividends (EUR)	0.25	0.28	0.00	0.34
Div yield (%)	1.7%	2.0%	NM	2.4%
EV/Sales	0.7x	0.7x	0.6x	0.6x
EV/EBITDA	13.0x	11.8x	10.3x	9.2x
EV/EBIT	21.3x	19.4x	17.7x	15.7x

A salient point is that the 2016 Portuguese State Budget law includes a transitory law by which 1/4 of all booked gains derived from internal transactions are subject to tax. Based on the initial assessment, Jeronimo Martins firmly believes that there is sufficient ground to oppose the said rule. Therefore, the group did not incorporate the considered amount (i.e. EUR50m euros in taxes) in first quarter results.

In a separate statement, the company also said it had received an offer worth EUR285m for its manufacturing and services subsidiary, Monterroio, from its key shareholder Sociedade Francisco Manuel dos Santos and was assessing the offer. The disposal of this BU is an old story. Stay tuned.

ANALYSIS

- 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.
- And Jeronimo Martins again showed its class by publishing very strong LFL in Q1 2016 (+6% at the group level), which is an outstanding performance when comparing with the rest of the panel.

VALUATION

- Only valuation (2017 P/E of 21x vs 16x on average for the panel excl. Tesco) remains a hindrance.

NEXT CATALYSTS

- Any significant weakness in the stock (i.e. entry point)

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