

## Jeronimo Martins

Price EUR14.56

## Q2 2016 results (first take): a tough price battle

Fair Value EUR13.5 (-7%)

NEUTRAL

Bloomberg	JMT.PL
Reuters	JMT.LS
12-month High / Low (EUR)	14.9 / 10.9
Market Cap (EURm)	9,163
Ev (BG Estimates) (EURm)	9,561
Avg. 6m daily volume (000)	1 032
3y EPS CAGR	7.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.1%	1.4%	18.1%	21.4%
Food Retailing	9.4%	-3.6%	0.6%	-1.7%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	13,726	14,570	15,597	16,510
% change		6.1%	7.0%	5.9%
EBITDA	799	868	974	1,038
EBIT	485.0	495.5	563.1	590.1
% change		2.2%	13.6%	4.8%
Net income	354.0	358.8	413.2	437.0
% change		1.4%	15.2%	5.8%

	2015	2016e	2017e	2018e
Operating margin	3.7	3.5	3.8	3.7
Net margin	2.6	2.5	2.6	2.6
ROE	NM	NM	NM	NM
ROCE	22.0	21.4	24.6	26.5
Gearing	13.6	7.0	-5.9	-17.1

(EUR)	2015	2016e	2017e	2018e
EPS	0.56	0.57	0.66	0.69
% change	-	1.4%	15.2%	5.8%
P/E	25.9x	25.5x	22.2x	21.0x
FCF yield (%)	5.1%	2.8%	4.6%	5.2%
Dividends (EUR)	0.27	0.00	0.33	0.35
Div yield (%)	1.8%	NM	2.3%	2.4%
EV/Sales	0.7x	0.7x	0.6x	0.5x
EV/EBITDA	12.1x	11.0x	9.6x	8.7x
EV/EBIT	19.9x	19.3x	16.5x	15.3x

Q2 sales (EUR3,583m vs EUR3,530m e) and H1 EBITDA (EUR387m vs EUR386m e) are in line with consensus estimates. **1/** On the one hand, we remain impressed by the topline momentum in Poland (+9.9% LFL in Q2 vs +5.0% e), with a healthy focus on cash margin (i.e. modest +13bp increase in Q2 margin). On the other hand, **2/** PD bears the scars of a price war (-1.5% LFL in Q2 and estimated 30bp decline in Q2 margin), while **3/** the wording of the guidance for FY losses at Ara and Hebe is evolving ("are expected not to surpass their 2015 level" at cc vs "are expected to be below the 2015 level" excl F/X previously mentioned in Q1 press release). Anyway, given a very demanding valuation (2017 PE of 24x vs 16.5 for the sector), we keep our Neutral rating.

**Topline in Q2: 1/** Overall commercial performance was again driven by very strong LFL rates at Biedronka (67% of quarterly sales/+9.9% LFL vs +5.0 e) in Poland. The recent increase in disposable income has supported the positive trend in food consumption. That said, the operating environment continued to be dominated by promotional campaigns. **2/** Against the backdrop of a deceleration in consumption (still negative basket inflation), Pingo Doce (24% of quarterly sales /-1.5% LFL vs -0.9% e, penalised by a negative calendar effect) published a sequential deceleration (+1.9% LFL in Q1) while that of Recheio (6% of quarterly sales /+3.4% LFL vs +1.5%e) remained very decent.

**Bottom line in H1: 1/** management remains focused on the topline (healthy cash margin approach to the business) which constrained the operating leverage in Poland. This is the reason why a +8.8% LFL rate in H1 (+9.9% in Q2) resulted in a modest 20bp increase in EBITDA margin (+13bp in Q2). **2/** At Pingo Doce, we can foresee the scars of a price war (-6bp decline in margin in H1, estimated 30bp decline in Q2...). Not that much to comment on Recheio (+20bp in H1) whose momentum remains solid.

**In terms of the outlook: 1/** management is unsurprisingly cautious (as usual) both for Portugal ("food inflation is also very low and the market remains promotionally driven. Pingo Doce's priority is to consolidate its competitive positioning whilst improving shopping experience") and Poland ("In Poland, growth in consumption demand is still expected. However, in an environment of low food inflation, competition will remain fierce"). **2/** Losses at Ara and Hebe, at the EBITDA level, are expected not to surpass their 2015 level at cc. The Group expects to invest EUR550/650m, with Biedronka absorbing around 45% of this amount.

## ANALYSIS

- 1/** On the one hand, we remain impressed by the topline momentum in Poland (+9.9% LFL in Q2 vs +5.0% e), with a clear focus on cash margin (modest +13bp increase in quarterly margin). **2/** On the other hand, PD seems to be bearing the scars of a price war (-1.5% LFL in Q2 and estimated 30bp decline in Q2 margin) while **3/** the wording of the guidance for FY losses at Ara and Hebe ("losses in Ara and Hebe, at the EBITDA level, are expected not to surpass their 2015 level" at cc vs "are expected to be below the 2015 level" excl F/X previously mentioned in Q1). Stay tuned... Given a very demanding valuation (2017 PE of 24x vs 16.5 for the sector), we keep our Neutral rating.

## VALUATION

- Forex was the main reason why we adjusted our EPS by 3.4% on average between 2016 and 2018
- Given a demanding valuation (2017 PE of 22x vs 16.5 for the sector), we keep our Neutral rating

## NEXT CATALYSTS

- Q3 results on November 24<sup>th</sup>



### Topline

	Total sales growth			LFL Sales growth		
	Q1 16	Q2 16	H1 16	Q1 16	Q2 16	H1 16
<b>Biedronka (67% of sales)</b>						
EURO	5,1%	3,0%	<b>4,0%</b>			
PLN	9,3%	10,2%	<b>9,8%</b>	7,6%	9,9%	<b>8,8%</b>
<b>Pingo Doce (24% of sales)</b>	5,8%	2,2%	<b>3,9%</b>	1,9%	-1,5%	<b>0,1%</b>
<b>Recheio (6% of sales)</b>	4,4%	4,1%	<b>4,2%</b>	3,8%	3,4%	<b>3,6%</b>

Sources: Jeronimo Martins, Bryan Garnier estimates

### Bottom line

	H1 2015	H1 2016
Biedronka	6,8%	7,0%
Pingo Doce	4,7%	4,7%
Recheio	4,8%	5,0%
Others	Na	Na
Total group	5,5%	5,6%

Sources: Jeronimo Martins, Bryan Garnier estimates

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