

Thursday, 4 July 2024 | update

## LPP: buy (reiterated)

LPP.PW; LPP.WA | Retail, Poland

### Gross margin to boost profit this year

We expect LPP to record another set of solid results in Q2'24 on the back of consistently executed roll-out and great performance on the gross margin side. During the recent Q1 earnings call, the company highlighted that it is targeting a flat q/q gross margin in Q2. This implies that gross margin will improve by more than 4pp y/y in Q2, exceeding the 2.5pp y/y improvement realized in Q1 and more than offsetting the negative currency impact on revenue growth. Based on this, coupled with a slight increase on the SG&A side, we believe that LPP will increase its operating profit by more than 25% y/y in Q2. This points to a continuation of the attractive earnings momentum and should have a positive impact on investor sentiment towards the company in the short term.

With the Q2 gross margin outlook higher than previously expected, we believe the 2024 earnings outlook looks even more attractive. PLN appreciation, lower promotional activity and significantly improved sourcing conditions in Asia should allow for around 1.5 pp y/y gross margin expansion for full-year 2024 (we therefore raise our gross margin expectation to 53%, placing our forecast at the upper end of the guidance range, while still seeing positive risks to our numbers, especially in H2).

We decrease marginally our 2024 sales target at PLN 21.6bn to reflect the negative impact of FX translation, however we still remain above LPP's PLN 21bn revenue guidance as well as the consensus estimate.

At the same time, we are raising our SG&A cost assumptions for future years due to a larger-than-expected increase in the minimum wage in Poland in 2025 driving sharp increase in labor costs. Consequently, we have raised our 2024/25 EBIT margin assumption by around 50/40 bps. Based on the improved margin outlook we have revised our EBITDA estimates for 2024 and 2025 around 3% higher.

We believe LPP is still offering the most appealing risk/reward profile in our consumer discretionary coverage while the market significantly underestimates the operating profit growth potential provided by the aggressive roll-out together with gross margin improvement (our EBIT estimates are around 8%/16% higher than the market consensus for 2024 and 2025, respectively).

Despite a moderate increase in the stock price since our last update LPP at ca. 7.6x 2024E EV/EBITDA, is still trading at a discount of around 25% to Inditex and H&M. We find it unjustified not only given LPP's attractive growth profile (LPP's EBITDA is expected to grow at an annual rate of 23% in the next three years compared to 8% for ITX and H&M but also reasonable dividend yield (5% in 2025 vs around 4% for peers). We therefore think that LPP should be traded at higher multiples to reflect these characteristics. As a result, we raise our target price for LPP to PLN 24,000 with a reiterated buy recommendation.

### Stellar performance from Sinsay

Value for money market is sending mixed signals as Pepco continues to record negative LFL. However, Sinsay stands out as it posted double-digit LFL in Q1 with positive trends in Q2. We expect good LFL to continue in the coming quarters as Sinsay's stores continue to mature.

(PLN m)	2022	2023	2024E	2025E	2026E
revenue	15,926.6	17,406.2	21,642.3	27,391.2	34,091.0
EBITDA (adj.)	2,588.9	3,666.0	4,611.4	5,537.4	6,737.2
margin	16.3%	21.1%	21.3%	20.2%	19.8%
EBIT	1,184.4	2,283.5	2,953.8	3,537.2	4,379.3
net profit	486.7	1,607.1	2,208.8	2,682.8	3,341.3
P/E	62.9	19.1	13.9	11.4	9.2
P/S	1.9	1.8	1.4	1.1	0.9
P/B	7.7	6.5	4.9	4.1	3.4
EV/EBITDA	15.3	9.4	7.6	6.4	5.3
DPS	349.6	429.7	609.8	832.9	1,011.6
Dividend Yield	2.1%	2.6%	3.7%	5.0%	6.1%

current price*	PLN 16,510
target price	PLN 24,000
mCap	PLN 30.6bn
free float	PLN 21.3bn
ADTV (3M)	PLN 54.3m

\*Price as of July 03, 2024, 5:00 PM

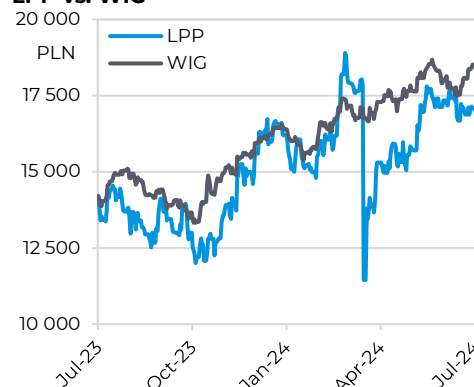
### Shareholders

Semper Simul Foundation	31.2%
Others	68.8%

### About LPP

LPP Group is Poland's leading fashion retailer and one of the largest companies on the fashion market in the CEE region. The Group operates both brick-and-mortar and e-commerce sales channels. In 2023/24, LPP generated PLN 17.4bn in revenue, 25% of which was attributable to online sales. LPP's geographic presence spans 39 countries, and its fashion labels include Reserved, Cropp, House, Mohito, and Sinsay.

### LPP vs. WIG



Name	Target Price		Recommendation	
	new	old	new	old
LPP	24,000	23,300	buy	buy

Name	Current Price	Target Price	Upside
LPP	16,510	24,000	+45.4%

Forecast Update	2024E	2025E	2026E
revenue	-0.7%	0.0%	+0.5%
EBITDA	+3.6%	+3.3%	+2.8%
net Profit	+2.1%	+2.7%	+2.5%
SG&A/Sales	0.1 p.p.	0.2 p.p.	0.4 p.p.
sales area	0.0%	0.0%	0.0%

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#### List of abbreviations and ratios used by mBank:

**EV** (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)  
**EBITDA margin** – EBITDA/Sales

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market  
**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market  
**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

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**HOLD** – we expect that the rate of return from an investment will range from 0% to +10%  
**SELL** – we expect that an investment will bear a loss

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**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following recommendations for LPP in the 12 months prior to this publication:

[LPP \(Janusz Pięta\)](#)

Rating	buy	buy	buy	buy	buy
Rating date	2024-04-29	2024-01-26	2023-12-01	2023-10-02	2023-07-03
Target price (PLN)	23,300.00	20,000.00	18,200.00	17,100.00	17,700.00
Price on rating day	15,550.00	15,000.00	14,880.00	13,000.00	14,010.00

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