

Monday, 26 August 2024 | update

# Dino: buy (upgraded)

DNP.PW; DNA.WA | Grocery Retailers, Poland

## Looking Past Worst Quarter of 2024

Since we issued our 'sell' rating on Dino in December 2023, its stock has fallen around 30%, underperforming the WIG index by more than 40%. At this point, we believe the market has overreacted to the latest results and we again see upside potential in DNP.

Dino reported a major deterioration in Q2'24 results (with EBITDA down 9% y/y) led by a confluence of negative trends (price war in the Polish grocery market, food basket deflation, soaring labor costs, and negative calendar effects). We expect H2'24 results to remain subdued as food price deflation and lack of operating leverage will negatively impact the EBITDA margin. Since margin pressure is far greater than we initially expected, we have reduced our FY2024/25 EBITDA forecasts for Dino by 12%/11%. That said, however, we believe Q2 was the worst quarter of the year for Dino, and we expect improvement in earnings momentum, with stable y/y EBITDA, in the second half of the year.

FY2024 is proving tough for Dino due to margin pressure which keeps EBITDA from growing. However, 2025 is expected to bring significant improvement led by accelerated store roll-out, LFL rising over 9% with reversed food inflation trends, and EBITDA margin expansion likely driving EBITDA 24% higher y/y.

Dino's risk-reward has become skewed to the upside in our view, as the company's 2024 soft guidance does not envision a pick-up in consumption in H2, what might happen moreover, there is upside to food inflation forecasts for 2025, which would push top-line growth higher, improving margin prospects.

We view DNP as attractively priced after a de-rating from an initial 17x to around 13x NTM EV/EBITDA over the past year that has its shares traded down to a 25% discount to a L5Y average multiple of around 17x.

We also update our valuation model to reflect a new RFR path and an ERP of 5.0%. As a result, we lower our target price to PLN 400.00, implying upside potential of 28%, and we upgrade our view to buy from hold.

### Poised for Margin Expansion in 2025

2024 has brought significant margin deterioration for Dino as a result of labor costs outpacing LFL growth. Labor costs in 2024 are up sharply due to minimum wage growth of around 20% y/y, and LFL growth this year has amounted to just 6%. On the upside, this is expected to change in 2025 looking at a proposal by the Polish government for a minimum monthly pay of PLN 4,626 in 2025, which implies an increase of around 8.3% y/y. This compares to our LFL growth forecast for the year at 9.4% in 2025, which should be enough to cover the higher labor costs. Together with savings on energy and transport costs, this should lead to an improvement in margins in 2025, finally putting an end to the margin contraction that started in 2021.

### Scolded Twice for the Same Earnings Miss

Dino's stock dropped nearly 10% after the release of Q2'24 results, but the stock also reacted negatively to an earlier release of weaker-than-expected Q2 results by rival JM, triggering a 9% slide in its stock. In our view, Dino's Q2 results did not differ significantly from what was implied by Biedronka's results, so we would take the recent sell-off as a buying opportunity.

(PLN m)	2022	2023	2024E	2025E	2026E
revenue	19,801.6	25,666.3	29,441.2	35,326.4	41,508.6
EBITDA	1,837.9	2,232.7	2,225.4	2,762.8	3,372.1
margin	9.3%	8.7%	7.6%	7.8%	8.1%
EBIT	1,537.8	1,875.9	1,825.9	2,291.8	2,823.5
net profit	1,132.1	1,405.3	1,410.3	1,772.8	2,204.5
P/E	27.1	21.8	21.7	17.3	13.9
P/S	1.5	1.2	1.0	0.9	0.7
P/B	7.3	5.5	4.4	3.5	3.2
EV/EBITDA	17.4	14.1	14.2	11.3	9.3
DPS	0.00	0.00	0.00	0.00	14.47
Dividend Yield	0.0%	0.0%	0.0%	0.0%	4.6%

current price*	PLN 312.50
target price	PLN 400.00
mCap	PLN 30.6bn
free float	PLN 15.0bn
ADTV (3M)	PLN 84.5m

\*Price as of August 23, 2024, 5:00 PM

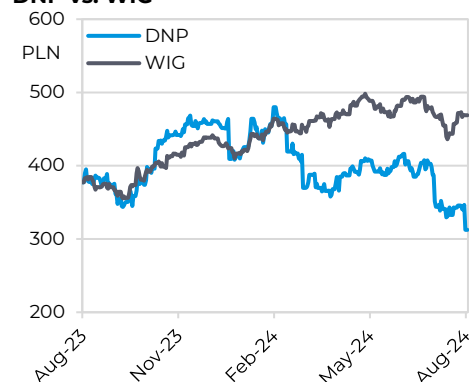
### Shareholders

Tomasz Biernacki	51%
Others	49%

### About

Dino is one of the fastest-growing supermarket chains in Poland, with 2,504 shops in operation as of 30 June 2024. The majority of Dino shops have sales areas of about 400 square meters, located in small and mid-sized towns and the outskirts of big cities. In Q2 2024, Dino had LTM revenue of PLN 27.5bn. We estimate Dino market share in Polish grocery market at around 6% in 2023, making it the biggest supermarket chain in Poland.

### DNP vs. WIG



Name	Target Price		Recommendation	
	new	old	new	old
Dino	400.00	417.00	buy	hold

Name	Current Price	Target Price	Upside
Dino	312.50	400.00	+28.0%

Forecast Update	2024E	2025E	2026E
revenue	-1.1%	-0.6%	0.1%
EBITDA	-12.3%	-11.0%	-9.9%
net Profit	-17.0%	-16.7%	-14.9%
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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The production of this recommendation was completed on August 26, 2024, 8:23 AM.

This recommendation was first disseminated on August 26, 2024, 8:50 AM.

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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 Dino in the 12 months prior to this publication:

##### Dino (Janusz Pięta)

Rating	hold	sell	buy	hold
Rating date	2024-05-06	2023-12-01	2023-10-02	2023-09-01
Target price (PLN)	417.00	431.00	416.00	446.00
Price on rating day	386.70	445.80	355.00	378.90

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