Research

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FMCG

The new normal: Tough play, but margin compression to ease by 2025

Jeronimo Martins

Buy

(Initiation)

Target price: 19.5 EUR

(Date: 22.10.2024)

Upside: +15%

Dino Polska

Hold

(previous: Hold)

Target price: 360 PLN

(Date: 22.10.2024)

Upside: +8%

We do not perceive the current competitive environment as a temporary phenomenon, but rather as a new normal. We do not see market distortion by a leader; instead, deeper price investments are possible thanks to the cushion built in previous years (according to KRS data, Biedronka standalone improved its gross margin between 2019 and 2023 by 70 bps, p. 7). The revenue of grocery store chains has been boosted in recent years, particularly by inflation. This is evidenced by the spectacular growth in revenue per sqm in Biedronka and Dino in the years 2021-2023, up 30% and 44%, respectively, accompanied by an improvement in pre-IFRS 16 EBITDA per sqm of 21% and 32%, respectively.

In recent quarters, we have observed increasing asymmetry in revenue dynamics between supermarkets and the traditional channel (p. 27,28), confirming the acceleration of market share gains by both Biedronka and Dino in a volume-stable market. This year, both chains continue to report positive real LFL growth. Deflation is a temporary phenomenon, based on market data (p. 23), gradually fading, and we expect a return to basket inflation in both chains in Q1'25. This will translate into an acceleration of LFL sales growth in 2025 for Biedronka and Dino to 4.5% and 8%, respectively. Additionally, we expect gross margin de-compression in both companies and an increase in adj. EPS'25 by 10% and 19% y/y, respectively.

We are initiating coverage for JMT with a Buy investment recommendation, TP EUR 19.5 (15% upside), and maintaining a Hold investment recommendation for DNP, TP PLN 360 (8% upside).

#JMT. At the center of the equity story remains Biedronka; the Ara chain is still difficult to assess as a successful project. We estimate that the group has so far spent nearly EUR 1bn on expansion in Colombia (2018-2024E), but the challenging local market environment has caused the chain to retreat to break-even despite having over 1,400 stores, thus achieving ~40% of its target expansion potential (LINK). Ara standalone accounts for about 8% of our valuation. In 3Q, we expect flat LFL and a 5% decline in EBITDA pre-IFRS 16. While the LFL trough is behind the group, a return to earnings growth is likely delayed until 4Q.

#DNP. The pace of this growth should accelerate already in Q4, and in the perspective of 5-6 quarters, the company is capable of reaching a level of approximately 400 store openings annually. We maintain the target EBITDA pre-IFRS 16 profitability level in DNP at 8.2%, which means about a 150 bps premium compared to profitability at this level in Biedronka. This primarily reflects operating in a model of owned stores, which extends the payback period of stores compared to Biedronka, and to a lesser extent, the geographic rent resulting from the location of Dino stores. As a result, compared to previous assumptions, we are raising our store opening forecasts (by an average of 7% in '24-26), which, along with the passage of time, has influenced a 6% increase in the TP compared to the last recommendation.

Jeronimo Martins

EURm	2021	2022	2023	2024E	2025E	2026E
Revenues	20,889	25,385	30,608	33,567	36,201	38,666
EBITDA	1,550	1,759	2,088	2,067	2,168	2,473
adj. EBITDA	1,584	1,854	2,168	2,155	2,338	2,542
EBIT	805	977	1,186	1,053	1,062	1,279
Net profit	463	591	756	610	610	774
adj. Net profit	488	662	817	677	741	828
EPS (EUR)	0.7	0.9	1.2	1.0	1.0	1.2
P/E (x)	23.0	18.0	14.1	17.4	17.4	13.7
adj. P/E (x)	21.8	16.1	13.0	15.7	14.3	12.9
EV/EBITDA (x)	7.7	6.8	6.2	6.4	6.2	5.4
adj. EV/EBITDA (x)	7.6	6.5	5.9	6.1	5.7	5.3
EV/EBITDA pre-IFRS16 (x)	8.2	6.6	5.7	6.1	5.5	5.0
DY (%)	1.9%	4.8%	3.4%	3.9%	3.4%	3.4%

Dino Polska

PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	13,362	19,802	25,666	29,408	35,019	41,776
EBITDA	1,271	1,838	2,233	2,271	2,738	3,339
adj. EBITDA	1,272	1,840	2,229	2,269	2,738	3,339
EBIT	1,024	1,538	1,876	1,865	2,239	2,724
Net profit	805	1,132	1,405	1,447	1,728	2,127
adj. Net profit	806	1,134	1,403	1,446	1,728	2,127
EPS (PLN)	8.2	11.5	14.3	14.8	17.6	21.7
P/E (x)	40.5	28.8	23.2	22.6	18.9	15.3
adj. P/E (x)	40.5	28.8	23.3	22.6	18.9	15.3
EV/EBITDA (x)	26.5	18.5	15.0	14.8	12.3	9.9
adj. EV/EBITDA (x)	26.5	18.5	15.1	14.8	12.3	9.9
EV/EBITDA pre-IFRS16 (x)	27.0	18.7	15.2	14.9	12.3	10.0
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, Trigon; adjustments for other operating profits/losses, inlcuding a fine for Jeronimo Martins of EUR ~117m in 2025

Research

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Jeronimo Martins

Buy
(Initiation)

LFL to rise again as food inflation picks up

Target price: 19.5 EUR
(Date: 22.10.2024)
Upside: +15%

We initiate our coverage of Jeronimo Martins with a BUY recommendation and a price target of EUR 19.5, implying an upside of 15%. We believe that the return of food inflation in Poland to ~5% in 2025 and ~3% in 2026 (Appendix 1 & 2. p 44, 45) will translate into an improvement in Biedronka's LFL to 4.3% and 5.3% LFL in 2025/26 respectively. In our view, the group is also relatively better positioned vs. Dino for rising cost pressures in Poland (mainly labour) thanks to lower personnel costs as a percentage of sales and SG&A (see p. 10), and higher sales density and efficiency per sqm (see p. 6).

Food inflation rebound in Poland will boost LFL. We expect 3Q24 to bring an easing of food deflation in Poland (-0.2% y/y VAT adj.), while Biedronka should reduce basket price discount relative to the market q/q, achieving ~4% basket deflation. We believe that Biedronka will maintain slight basket deflation until the end of 2024 with a consistent focus on volume growth. In terms of volumes, the 2H23 base is very challenging; as a result, Biedronka will not significantly reduce the scale of its price investment in 2H24 in our view. We forecast that Biedronka should show positive LFL from 4Q onwards (+0.8%) . Unfavourable calendar effects in 1Q25 will weigh on LFL in the quarter (no Easter or leap year), despite the projected peak in food inflation (LFL of +1.5% with ~2% volume growth).

Gross margin stabilisation in 2024, slight recovery in 2025. We forecast a slight gross margin decompression in 2024 (+5bps r/r), followed by an improvement of 45bps r/r to 20.9% in 2025, mainly driven by changes in Poland: improved terms with suppliers (e.g. shorter payment terms and larger volumes for more attractive prices) and lower price investments, but also improving consumer sentiment in Colombia. EBITDA margin will be under pressure in both years due to rising wages, especially in Poland and Portugal (together ~90% of group employees), minimum wage in Poland in EUR +23%/+12% y/y in 2H24/1H25, +8% y/y in Portugal in 2H24. We estimate Biedronka's EBITDA margin (IFRS16) to decline by 0.8pp y/y in 2024 and improve by 0.2pp y/y in 2025 thanks to higher LFL (0.1/4.3% in 2024/25).

3Q24 results weighed down by weak September. Unsettling the results in 3Q24 in our view will be the weather in Poland. September was a month of floods and heavy rains which we believe reduced shop traffic, while having a very challenging impulse sales base from last year (warm sunny weather). We forecast negative LFL in Q3 at -0.5% at Biedronka, which should translate into ~3.6% y/y volume growth. At Group level, we expect EBITDA growth of 1% y/y (-1.6% y/y at Biedronka, +24% y/y at Hebe, -4% at Pingo Doce & Reicho, +70% at Ara), with Group EBITDA margin 0.5pp lower y/y (-0.8pp y/y at Biedronka).

Significant investments in Ara with limited results for the Group. In the years 2018-2023, Jeronimo Martins invested a total of EUR ~741 in Ara. In 2023, Ara generated a loss of EUR 12m on a pre-IFRS16 EBITDA basis (+45m EBITDA post-IFRS16). We forecast banner's pre-IFRS16 EBITDA to reach EUR 8m (0.3% margin) in 2024 and 26m in 2025 (0.7% margin).

Valuation and recommendation. Our 12m TP is 100% based on the DCF method. The relative valuation returns the value of EUR 14.7/share (see p. 21). However, we point to Jeronimo Martins' higher growth profile vs peers (CAGR EBIT '24-26 12% vs median 9%) and limited comparables in the Group's main market, Poland. Attractive valuation relative to growth is reflected in historically lowest forward valuation ratios (see p. 22), 12M FWD EV/EBITDA and P/E are 32% and 24% below the group's long-term average, respectively. The current PEG ratio of 1.1x is almost half the 2017-2024 average of 2.0x (see p. 22).

Key specific risk factors for JMT include: 1) high dependence on the Polish market, 2) Prolonged food deflation putting pressure on LFL, especially in Biedronka, 3) High labour cost increases and staff shortages, 4) Ongoing gross margin compression as competition intensifies in mature markets. More risks described on p. 33.

EURm	2021	2022	2023	2024E	2025E	2026E
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EV/EBITDA (x)	7.7	6.8	6.2	6.4	6.2	5.4
P/BV (x)	4.2	4.1	3.5	3.3	3.0	2.7
DY (%)	1.9%	4.8%	3.4%	3.9%	3.4%	3.4%

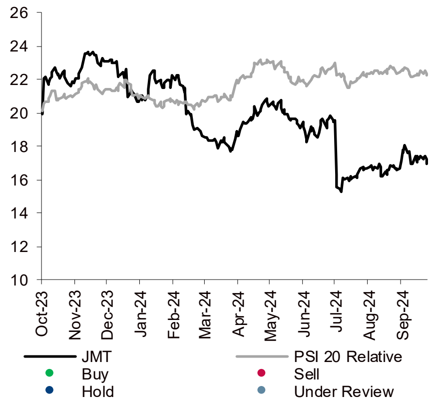
Source: Company, Trigon

FACT SHEET

Ticker	**JMT**
Sector	**FMCG**
Price (EUR)	**16.9**
52W range (EUR)	**15.2 / 24.02**
Shares outstanding (m)	**629.3**
Market Cap (EURm)	**10,635**
Free-float	**44%**
3M Avg. Vol. (EURm)	**16.7**

	1M	3M	1Y
Price performance	**-14.6%**	**-19.2%**	**-29.1%**

RELATIVE SHARE PRICE VS PSI20 INDEX



RECOMMENDATIONS | DATE | TP

SHAREHOLDERS

	Share %
Soc. Fransisco Manuel do Santos	56.1%

INVESTOR CALENDAR

3Q'24 report	30.10.2024

ANALYST

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Dino Polska

Hold
(previous: Hold)

No breakthrough in 3Q results

Target price: 360 PLN
(Date: 22.10.2024)
Upside: +8%

The prices of a basket of basic agricultural products tracked by GUS, similar to the PPI in food processing in 3Q, indicate a fading of deflationary processes. The category that continues to stand out with a significant decline in 3Q is pork livestock (average selling prices in 3Q down by 15% y/y, LINK), with pork products accounting for ~13% of DNP's revenues (total meat counter ~17% of revenues). Nevertheless, we expect the company's basket deflation to be somewhat lower than in 3Q, when it reached ~4%, and by 1Q'25, we anticipate a return to basket inflation. This will support a 5% volume growth per store, contributing to a sales acceleration in LFL from 5% to 8% next year.

At the same time, we maintain the assumption from the previous recommendation that the EBITDA margin decline y/y will likely reverse only in 2Q'25. The competitive environment will remain challenging, in our view, but a more stable raw material market should allow the company to exert greater pressure on suppliers, hence the expectation of continued recovery in the gross margin. Especially since DNP continues to increase its market share. The pace of this growth is expected to accelerate in 4Q, and within the next 5-6 quarters, the company could reach a level of ~400 store openings annually. We maintain the target EBITDA margin pre-IFRS 16 for DNP at 8.2%, which represents about a 150 bps premium compared to Biedronka. This mainly reflects the company's own store model, which extends the payback period of stores compared to Biedronka, and to a lesser extent, the geographic advantage of Dino's store locations. Consequently, compared to previous assumptions, we are raising the store opening forecast (by 7% annually on average in '24-26), which, along with the passage of time, has led to a 6% increase in TP.

No breakthrough in 3Q results. (1) LFL. In 3Q, we expect lower q/q basket deflation (impact on LFL -2 p.p.), with pork (13% of sales, total meat 17% of Dino's sales) contributing to the deflation. In July and August, we expect over 5% LFL, while in September, closer to 2-3% due to the high base from the weather in '23. As a result, we estimate LFL in 3Q at 4%. **(2)** Gross margin. We do not observe significant changes in the competitive environment, but the company may improve trading conditions with suppliers more than in previous quarters, supported by volume growth and a more favorable raw material market, as well as lower energy prices. Consequently, we expect continued improvement in gross margin (+0.2 p.p. y/y, +0.8 p.p. q/q). **(3)** SG&A. In 3Q, we expect a slowdown in per-store sales cost growth from 13% in 2Q to 9% y/y (seasonal dilution). It will still be significantly higher than the per-store revenue growth (+3% y/y), so EBITDA margin pressure will persist, though lower than in 2Q.

Summary of Trigon Investor Week 2024. (1) In 3Q, volumes continue to grow at a rate of 5-6% per store, with slight basket deflation and a high base in September. The company will accelerate store openings to 100 in 4Q, aiming to reach 400 store openings annually within 4-6 quarters; (2) The company opened another distribution center in 2Q and plans to open three more by the end of 2025, with a decision on another logistics investment expected around year-end; (3) The company assumes that the faster pace of logistics expansion will not impact SG&A ratios, as operating costs will be adjusted to the number of connected stores; (5) The company sees more room for improving trading terms in the current market and does not expect intensifying competition.

Valuation Summary. We base Dino's valuation entirely on an income approach using the DCF method, which implies a 12M TP per share of 360 PLN (Hold, 8% upside).

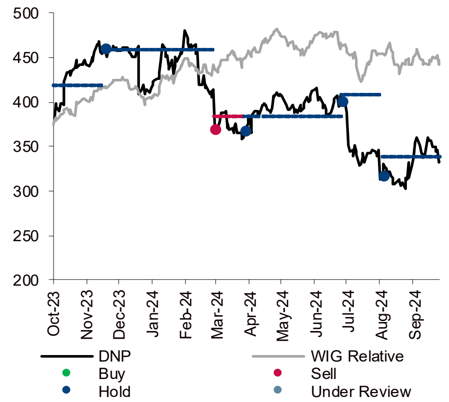
PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	13,362	19,802	25,666	29,408	35,019	41,776
EBITDA	1,271	1,838	2,233	2,271	2,738	3,339
EBIT	1,024	1,538	1,876	1,865	2,239	2,724
Net profit	805	1,132	1,405	1,447	1,728	2,127
EPS (PLN)	8.2	11.5	14.3	14.8	17.6	21.7
P/E (x)	40.5	28.8	23.2	22.6	18.9	15.3
EV/EBITDA (x)	26.5	18.5	15.0	14.8	12.3	9.9
P/BV (x)	10.6	7.8	5.8	4.6	3.7	3.0
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, Trigon

FACT SHEET

Ticker			DNP
Sector			FMCG
Price (PLN)			332.9
52W range (PLN)			323.2 / 482.1
Shares outstanding (m)			98.0
Market Cap (PLNm)			32,638
Free-float			49%
3M Avg. Vol. (PLNm)			77.3
	1M	3M	1Y
Price performance	-14.6%	-16.4%	-11.6%

RELATIVE SHARE PRICE VS WIG INDEX



RECOMMENDATIONS

	DATE	TP
Hold	26.08.2024	340.0
Hold	19.07.2024	410.0
Hold	19.04.2024	385.0
Sell	22.03.2024	385.0
Hold	11.12.2023	460.0
Hold	23.10.2023	420.0

SHAREHOLDERS

	Share %
Tomasz Biernacki	51.2%

INVESTOR CALENDAR

Q3'24 report	07.11.2024

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Glossary of professional terms:
capitalisation – market price multiplied by the number of a company's shares
free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company
min/max 52 wks – lowest/highest share price over the previous 52 weeks
average turnover – average volume of share trading over the previous month

EBIT – operating profit
EBITDA – operating profit before depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
CAPEX – sum of investment expenditures on fixed assets
OCF – cash generated through a company's operating activities
FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets
ROA – rate of return on assets
ROE – rate of return on equity
ROIC – rate of return on invested capital
NWC – net working capital
cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services
gross profit margin – ratio of gross profit to net revenue
EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – ratio of operating profit to net revenue
net margin – ratio of net profit to net revenue
EPS – earnings per share
DPS – dividend per share
P/E – ratio of market price to earnings per share
P/BV – ratio of market price to book value per share
EV/EBITDA – ratio of a company's EV to EBITDA
EV – sum of a company's current capitalisation and net debt
DY – dividend yield, ratio of dividends paid to share price
RFR – risk free rate
WACC – weighted average cost of capital

Recommendations of the Brokerage House
Issuer – Jeronimo Martins SGPS S.A., Dino Polska S.A.
BUY – we expect the total return on an investment to reach at least 15%
HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 15%
SELL – we expect negative total return on an investment of more than -0%

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Short-term recommendations (particularly those designated as speculative) may be valid for shorter periods of time. Short-term recommendations designated as speculative involve a higher investment risk.
Document prepared by: Piotr Chodyra, Grzegorz Kujawski

Valuation methods used

The Discounted Cash Flow (DCF) method values a company by estimating its future cash flows and discounting them back to their present value.
- Advantages: future-oriented, flexible when it comes to assumptions, based on the intrinsic value of a company, widely accepted.
- Disadvantages: sensitivity to assumptions, complexity, subjectivity, doesn't consider market sentiment or short-term fluctuations.
The comparable valuation method values a company by comparing it to similar publicly traded companies.
- Advantages: simplicity, transparency, benchmarking, reflects current market valuations and investor sentiment.
- Disadvantages: lack of specificity, limited comparables, sensitive to market fluctuations, ignoring fundamental differences.
SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.
Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.
Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.
Risk-adjusted net present value method (rNPV)
Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.
Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.
Discounted residual income method (DRI)
Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.
Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.
Discounted dividend model (DDM)
Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.
Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.
Net asset value method (NAV)
Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.
Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.
Target multiple method
Advantages: the method can be applied to any company.
Disadvantages: it involves a high degree of subjectivity.
Replacement value method – it assesses the value of a company based on the costs of replacing its assets.
Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.
Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.
Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.
Advantages: the method can capture the lowest threshold of a company's value.
Disadvantages: it may be hard to capture the value of a company's intangibles.

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