mBank Biuro maklerskie

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Wednesday, November 20, 2024 | research report

Żabka: buy (new)

ZAB PW; ZAB.WA | Retail, Poland

Combining Leapfrog Growth with Price War Immunity

Żabka Group ("Żabka," "Żabka Group" or the "Company") is the uncontested #1 modern convenience chain in Poland with a 90% market share. The Group operates around 10k convenience shops across Poland, including Europe's biggest network of autonomous shops in Europe, Nano. Moreover, Żabka has developed a significant footprint in the D2C Meals market and in eGrocery. Żabka has created a win-win franchise model that makes it as easy as possible for franchisees to set up and run a business and, on the other hand, facilitates rapid expansion through smooth franchisee recruitment. Żabka's directly addressable market is expected to grow at 8.6% CAGR 2023-28, and we believe the Company is perfectly positioned to monetize this potential. The Group aims to more than double Sales to the End customers by 2028 while maintaining a healthy mix of LFL growth and store expansion to a target 14.5k locations. This is a realistic goal in our view looking at the pace of growth to date, the vast headroom across the country for takeover from small, outmoded neighbourhood shops, and a well-thought-out roll-out process with an average payback period of just 12 months. This is accommodated with only small proportion of new stores assumed to open in Romania with an undiscounted option for acceleration provided positive consumer feedback.

We expect Żabka Group to grow its sales and adjusted EBITDA at a CAGR of 16% over 2023-28, and, coupled with great cash generation potential, we see the Company as offering high dividends in the medium term or doubling down on its Romanian expansion, further boosting earnings prospects. As such, we see Żabka as an attractive exposure to the growing affluence of consumers in Poland, with the company being in the perfect part of the market to benefit from this. We initiate coverage of Żabka Group with a target price of PLN 36.90 and a buy recommendation.

A Scalable Business in a Fast-Growing Market

OC&C estimates that, in 2023-28, the Directly Addressable Market will grow 9% per year. At the same time, the buzzing market for D2C meal plans is set to grow 14% along with 10% expansion in foodservice – opportunities that Żabka can maximize with its highly scalable business model; a Żabka franchisee requires limited upfront costs with the Company handling everything from the pick of location to shop fit-out, pricing strategy, and lease ownership.

An Exceptional Financial Profile

Żabka has >20-year track record of uninterrupted growth in Sales to End Customers (2000-23 CAGR = 23%). The Company generates high EBITDA margins and great cash conversion rate at more than 80%**. At Żabka, continuous investment in shop roll-out, coincides with an ability to deleverage. With all this, we believe Żabka will be able to offer dividends as soon as in 2027.

Price War Avoids Żabka stores

Żabka focuses on same-day shopping and has little overlap with discounters in terms of assortment (around 33% SKUs). Due to different shopping mission Żabka is not affected by the price war in the market. In this environment, Żabka raises prices against discounters, posting deflation, allowing it to expand margins and record stellar earnings momentum in H1'24 with EBITDA growth in excess of 30% y/y compared to declines at Dino and Biedronka.

(PLN m)	2022	2023	2024E	2025E	2026E
Revenue	16,003	19,806	23,598	27,359	31,170
adj. EBITDA	2,418	2,834	3,452	4,018	4,625
Margin*	13.1%	12.4%	12.6%	12.6%	12.7%
EBIT	1,220	1,380	1,730	2,174	2,539
Net profit***	382	354	591	918	1,260
P/E	48.4	52.3	31.3	20.2	14.7
P/S	1.0	0.8	0.7	0.6	0.5
P/B	32.2	20.6	12.4	7.7	5.0
EV/adj. EBITDA	10.7	9.6	8.1	7.0	6.0
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

* vs. Sales to End Customer; **Adj. EBITDAaL-Maintenance CAPEX/Adj. EBITDAaL,, ***Attributable to equity holders of the parent

current price*	PLN 18.50
target price	PLN 36.90
mCap	PLN 18.5bn
free float	PLN 7.8bn
ADTV (20D)	PLN 106.6m

*Price as of November 19, 2024, 5:00 PM

Ownership

CVC	45%
Partners Group	13%
Other minority shareholders	12%
Others	30%

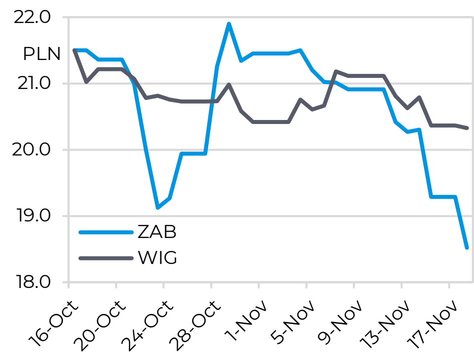
About Żabka

Żabka Group leads Poland's modern convenience industry with a market share of 90% (the next biggest competitor had a share of 10% in 2023). The franchise consists of approximately 10,000 shops operating under the Żabka logo, along with 24/7 autonomous Nano stores.

In addition, the Company runs Maczfit, a direct-to-consumer meal provider, the D2C meal order and review platform, Dietly, the rapid grocery delivery service Jush, and the same-day full basket e-grocery, Delio.

The Maczfit ready-to-eat diet plans managed to grab 15% of the market in 2023, and the SaaS-based Dietly platform is a leading service of its kind in the Polish market. Jush is a quick commerce player that can deliver groceries in as little as 15 minutes. Delio, on the other hand, offers a wider range with a delivery time of just 2-3 hours.

ZAB share price vs. WIG Index



Name	Target Price new	Target Price old	Recommendation new	Recommendation old
Żabka	36.90	-	buy	-

Name	Current Price	Target Price	Upside
Żabka	18.50	36.90	+99.5%

Analyst:

Janusz Pięta
Equity Analyst, Senior Specialist
+48 506 065 659
janusz.pieta@mbank.pl

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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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 did not issue any recommendations for Żabka in the 12 months prior to this publication

mBank Biuro maklerskie

mBank S.A.
Prosta 18
00-850 Warszawa
http://www.mbank.pl/

Research Department

Kamil Kliszcz
director
+48 667 770 837
kamil.kliszcz@mbank.pl
energy, power generation

Mateusz Krupa, CFA
deputy director
+48 571 608 973
mateusz.krupa@mbank.pl
strategy

Paweł Szpigiel
+48 509 603 258
pawel.szpigiel@mbank.pl
media, IT, telco, e-commerce

Michał Konarski
+48 515 025 640
michal.konarski@mbank.pl
banks, financials

Mikołaj Lemańczyk, CFA
+48 501 663 511
mikolaj.lemanczyk@mbank.pl
banks, financials, property developers

Piotr Poniatowski
+48 509 603 046
piotr.poniatowski@mbank.pl
gaming

Janusz Pięta
+48 506 065 659
janusz.pieta@mbank.pl
retail, e-commerce

Beata Szparaga-Waśniewska, CFA
+48 510 929 021
beata.szparaga-wasniewska@mbank.pl
biotechnology, healthcare

Jakub Sargsyan
+48 519 419 895
marlen.sargsyan@mbank.pl
industrials, mining

Sales and Trading

Traders

Piotr Gawron
director
+48 698 832 853 | +48 22 697 48 95
piotr.gawron@mbank.pl

Paweł Cylkowski
+48 503 684 130 | +48 22 697 47 31
pawel.cylkowski@mbank.pl

Piotr Brożyna
+48 512 756 702 | +48 22 697 48 47
piotr.brozyna@mbank.pl

Andrzej Kowalczyk
+48 789 868 634 | +48 22 697 47 44
andrzej.kowalczyk@mbank.pl

Andrzej Sychowski
+48 605 848 003 | +48 22 697 48 46
andrzej.sychowski@mbank.pl

Łukasz Płaska
+48 784 449 962 | +48 22 697 47 90
lukasz.plaska@mbank.pl

Karol Kułaj
+48 509 602 984 | +48 22 697 49 85
karol.kulaj@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 696 427 249 | +48 22 697 48 82
marzena.lempicka-wilim@mbank.pl

Private Client Sales

Maciej Sokołowski
director
maciej.sokolowski@mbank.pl

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl