TRIGON DOM MAKLERSKI

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Zabka Group

Buy
(Initiation)

Winning share of voice in the convenience ecosystem

Target price: 25.1 PLN
Date: 20.11.2024
Upside: +36%

We are initiating coverage of Żabka Group with a Buy recommendation (TP PLN 25.1, upside 36%). In our view, the Group's strategy is ambitious yet achievable, with management demonstrating a consistent track record of meeting objectives. We believe the majority of value growth in the coming years will still come from the Polish market. However, the company has a proven format capable of achieving success in other CEE markets, including Romania.

Significant white space in Poland and ambitions for CEE expansion. As of the end of 2023, Żabka operates 10,014 stores, and the Company sees potential for an additional 9,500 stores in the long-term. The Company has already secured around 1,000 lease contracts for 2024 and intends to maintain a pace of nearly 1,000 new openings per year in the medium term and add over 4,5k stores by 2028, with annual closures at 0.5% of the network. Our forecast implies a 7.1% CAGR in the number of stores in '23-'28. At the end of 2023, Żabka stores accounted for 13% of the small-format store number in Poland, and we expect this share to grow to 22% by 2028. At the same time, Żabka's share of the Directly Accessible Market may increase from 20.1% in 2023 to 25.6% in 2028. Additionally, the Group has identified a white space potential for approximately 4,500 stores in Romania or 45% of the current store count in Poland.

Resilient profitability in inflationary environment and positive margin trajectory ahead. The Group has demonstrated resilient profitability in recent years, maintaining an average gross margin of approximately 16%, defined as the ratio of gross profit to sales to end customers. The adjusted EBITDA pre-IFRS 16 margin averaged around 11% during this period. Looking ahead to 2024-26E, we anticipate an average blended (Żabka & Froo) LFL growth of c. 8.0%, accompanied by further improvement in gross margin. This growth is expected to be driven by a favorable category mix, along with margin and cost dilution, despite a high single-digit growth in franchise margin per store during the period.

Żabka's LFL sales outperform the market. In 2H24, Żabka will maintain relatively faster LFL sales growth compared to major competitors, including Carrefour in the convenience segment. Carrefour's network showed weak KPIs in 3Q. LFL sales in Poland were -3.0% (vs. -3.3% in 1H24). Additionally, store closures continue, most notably in the convenience format (the network currently has 548 stores, -7% y/y). Over the past three years, Carrefour has closed about 25% of its stores in this format in Poland.

4Q24 Estimates: LFL at Żabka 7.5%, flat adj. EBITDA profitability y/y, adj. EPS growth c. 10% y/y. In 4Q, we expect slight acceleration in LFL vs 3Q, an increase in franchisee margin to StEC of c.50bps y/y, and a 40bps y/y improvement in gross margin (due to lower energy costs, and to a lesser extent, better supplier settlement and sales mix). At the same time, we expect SG&A to StEC increase by 20bps y/y before one-offs. We believe the rise in SG&A costs in part will reflect the higher level of expansion activities in Romania. As a result, we expect a comparable adj. EBITDA to StEC in 4Q y/y. Reported EPS is expected to rise by 13% (adj. EPS up +7% y/y).

Valuation & risk factors. The TP of PLN 25.1 is derived from a 10-year DCF model. Peer comparison, based on 2024-26E EV/EBITDA (both pre- and post-IFRS 16) and P/E multiples, suggests a valuation range of PLN 22.2–26.8 per share. The Group demonstrates a solid growth profile, supported by a strong EBITDA CAGR relative to its peers. Key risks are detailed in a separate section of the report (p. 24).

PLNm	2021A	2022A	2023A	2024E	2025E	2026E
Sales to end customers	14,498	18,530	22,775	27,724	33,093	38,721
Revenue	12,493	16,003	19,806	23,725	28,186	32,898
EBITDA	1,882	2,335	2,740	3,410	3,873	4,669
Adj. EBITDA	1,986	2,418	2,834	3,455	4,085	4,816
Adj. EBITDA (pre-IFRS 16)	1,424	1,737	2,009	2,474	2,930	3,500
EBIT	966	1,220	1,380	1,736	1,949	2,501
Adj. Net profit	580	452	432	647	988	1,403
P/E (x)	37.6	48.5	52.2	30.5	22.8	14.5
Adj. P/E (x)	32.1	41.2	43.0	28.8	18.8	13.3
EV/EBITDA (x)	12.7	10.7	9.6	8.2	7.2	5.9
Adj. EV/EBITDA (x)	12.7	10.7	9.6	8.1	6.9	5.7
Adj. EV/EBITDA (pre-IFRS 16) (x)	15.6	12.8	11.5	9.3	7.7	6.1

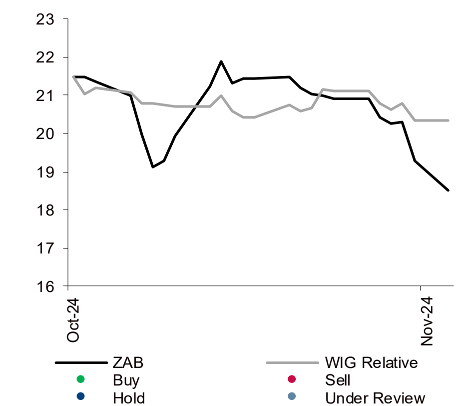
Source: Company, Trigon estimates

FACT SHEET

Ticker	**ZAB**
Sector	**FMCG**
Price (PLN)	**18.5**
52W range (PLN)	**18.512 / 23.44**
Shares outstanding (m)	**1,000.0**
Market Cap (PLNm)	**18,500**
Free-float	**47%**
3M Avg. Vol. (PLNm)	**198.5**

	1M	3M	1Y
Price performance	**-9.7%**	**-**	**-**

RELATIVE SHARE PRICE VS WIG INDEX



RECOMMENDATIONS

	DATE	TP

SHAREHOLDERS

	Share %
Heket Topco S.à r.l.	40.8%
PG Investment Company 1113B S.à r.l.	12.6%
Other minority shareholders	12.0%

INVESTOR CALENDAR

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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 – ZABKA GROUP 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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Document prepared by: Grzegorz Kujawski, Piotr Chodyra

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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