TRIGON

Research

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LPP

Brilliant presentation, so what’s wrong?

Buy

(Previous: Buy)

Target price: PLN 23400

Upside: +44%

In our view, this was one of the Group’s best-ever presentation. We’re buying into Sinsay’s market advantages and the resulting dynamic strengthening of its market position. The brand addresses customer needs exceptionally well, and the KPIs for new stores are very attractive. It’s true that the costs of expansion are frontloaded – with the most visible impact in 2025–2026, especially in 1H’25. In our opinion, the strategy has no real weak spots – unless investors view temporary softness in EBIT dynamics, quarterly EPS declines, moderate leverage growth, or a payout ratio closer to the lower end of the range as concerns. What truly matters, however, is that we fully back the company’s ambition to double EBIT within four years, which, based on a 2025E P/E of ~15.5x, represents a highly attractive valuation.

2025–27 strategy. We strongly appreciate the strategy presentation, which emphasized the uniqueness of Sinsay’s business model and its competitive advantages. We agree that the format – combining fashion with low price points – benefits from:(1) the trend toward retail consolidation in local hubs (at the expense of traditional; channels), (2) inflationary pressures supporting demand for value offerings with good quality, and (3) increasing online penetration. We also see Sinsay’s clear advantages over peers, including Pepco. The company presented strong KPIs for new openings, which in our view fully justify the chosen direction. That said, the ~30% 3Y CAGR in retail space will weigh on profitability due to the timing mismatch between scaling costs and the maturing of new stores. This effect will be particularly visible over the next two years. That being said, the company also highlighted the flexibility of its approach – with the ability to adjust openings while maintaining the strategic financial targets, and shifting focus more towards profitability if needed.

Forecast revisions. For 2025, we’re raising our gross margin assumption by 50bps, while increasing the SG&A burden by 250bps (driven by a ~+3% y/y increase in store operating costs per sqm, or +150bps y/y in relation to revenue, and +18% y/y in other costs). As a result, we’re lowering our 2025 EBIT and EPS forecasts by 11% and 18%, respectively. Similar downside revisions apply to 2026, with a smaller effect in 2027. We believe consensus will also need to be revised downward for 2025–26. Our forecasted EBIT is 15% and 11% below consensus in 2025 and 2026, respectively, and EPS is lower by 12% and 8%.

1Q25 & full-year 2025 outlook. In the first two months of 1Q, the company delivered 23% y/y growth in sales at constant FX (with FX impact estimated at +3pp), 32% y/y online growth, and a 1.4% y/y increase in LFL. During the presentation, the company noted that Reserved saw an LFL of 18% in this period, implying a mid-single-digit decline in Sinsay LFL, which will pressure store profitability metrics. We forecast 20% revenue growth for the full quarter, a 150bps drop in adjusted gross margin (driven by Sinsay mix dilution and higher inventory triggering deeper promotions), and a 140bps y/y increase in adjusted SG&A ratio – resulting in an approx. 10% y/y EBIT decline. We expect EBIT growth to return in 2Q and accelerate further in 2H, helped by seasonally stronger sales. For the full year, we forecast a 15% y/y increase in EBIT, with a ~100bps EBIT margin decline to 11%.

Valuation. Our target price is 100% based on a DCF approach. The peer comparison implies a fair value of PLN 22.377 per share. What matters most, however, is that the growth profile of all the peers we considered is weaker than LPP’s – in some cases (aside from BS and CCC) significantly so, with LPP boasting a 3Y revenue and EBITDA CAGR of 18% and 19%, respectively.

PLNm	2022	2023	2024	2025E	2026E	2027E
Revenues	15,927	17,406	20,194	25,064	31,429	38,460
EBITDA	2,314	3,666	4,104	4,861	5,875	7,179
EBIT	1,184	2,284	2,415	2,750	3,299	4,114
Net profit	1,054	1,607	1,747	1,925	2,357	2,936
EPS (PLN)	568	866	941	1,037	1,270	1,582
P/E (x)	28.7	-	17.3	15.7	12.8	10.3
EV/EBITDA (x)	15.2	9.2	8.6	7.6	6.4	5.4
P/BV (x)	7.6	6.4	5.7	5.0	4.1	3.4
DY (%)	2.1%	2.6%	3.7%	4.1%	3.3%	4.3%

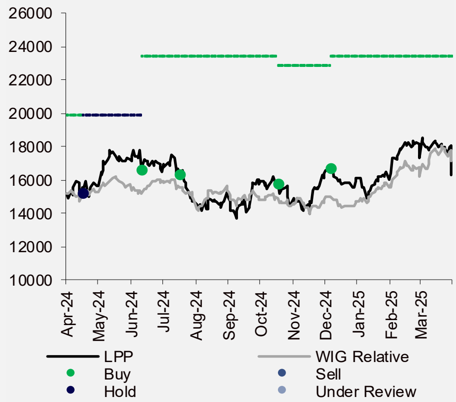
Source: Company, Trigon, Note: Fiscal year starts 1st Feb

FACT SHEET

Ticker	**LPP**
Sector	**Retail**
Price (PLN)	**15430**
52W range (PLN)	**13620 / 18520**
Shares outstanding (m)	**1.9**
Market Cap (PLNm)	**28,636**
Free-float	**69%**
3M Avg. Vol. (PLNm)	**64.0**

Price performance	1M	3M	1Y
	-1.3%	**13.8%**	**17.8%**

RELATIVE SHARE PRICE VS WIG INDEX



RECOMMENDATIONS	DATE	TP
Buy	10.12.2024	23,500
Buy	21.10.2024	23,000
Buy	19.07.2024	23,500
Buy	14.06.2024	23,500
Hold	19.04.2024	20,000
Buy	19.03.2024	20,000
Buy	11.12.2023	22,000

SHAREHOLDERS	Share %
Semper Simul	31.2%
OFE Nationale-Nederlanden	8.1%
OFE Aviva Santander	7.1%

INVESTOR CALENDAR

ANALYST

Grzegorz Kujawski

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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 – LPP 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

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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