

Monnari Trade SA

2021-12-10 17:00

Key data

Target price [PLN]	5,3
DCF Valuation [PLN]	5,3
Comparative Valuation [PLN]	5,1
Market price [PLN]	2,6
Growth/decrease potential [%]	103,8%
Market cap [mln PLN]	77,9
Free float [mln PLN]	68,0%
Industry	retail sale of clothing
WSE code	MON
Bloomberg code	MON PW

Analysts

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Company profile

The company focuses on creating own comprehensive collections, aimed mainly at women over 30, in the attractive segment of brand clothing. Production is outsourced, the collections are sold through a network of own showrooms and online.

Source: www.gpw.pl

Shareholders:

	[%]
Misztal Mirosław	26,2
NN OFE	5,7

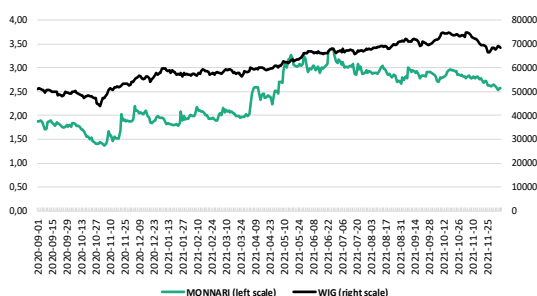
Growth factors

Competitive offer
Diversified supplies
Expansion of sales network

Risk factors

Lockdown
Supply chain disruptions
Transport cost increase
Exchange rate fluctuations

Stock performance



Source: DM Banku BPS SA calculations

Analysis of the results for the Q3 2021

- In the third quarter of 2021, Company operated in an environment of significant lifting of pandemic restrictions**, which means that it was possible to generate revenues through the main sales channel (distribution in shops located in shopping malls).
- In the third quarter, Company increased sales to PLN 56.1 million, which means an increase by 13.5% qoq and 0.8% yoy.** Gross profit on sales amounted to PLN 29.0 million (a decrease by 3.6% qoq). The generated gross margin on sales was slightly higher than in the corresponding period of 2020 (51.8% compared to 51.7%). However, in relation to the previous quarter, we notice a significant decrease in the gross margin by 9.2 pp.
- Company recorded an operating loss of PLN 434 thousand**, which is a decrease in loss compared to the third quarter of 2020 (PLN 4.2 million of operating loss). Other operating income, amounting to PLN 5.7 million (redemption of the loan from PFR) had a significant impact on the reduction of the operating loss. On the other hand, the achieved result is significantly worse compared to the second quarter, when the Company generated an operating profit of PLN 5.0 million. **The Company net profit amounted to PLN 692 thousand**, which is a significant decrease compared to the second quarter (minus 93.2% qoq) and an increase by 111.6% compared to the third quarter of 2020.
- In the clothing industry, the performance in the third quarter is usually worse than in the second quarter, which results from the seasonal nature of sales. In the case of Monnari Trade SA, we see a reverse trend in terms of revenues, which unfortunately does not translate into profitability.
- We assess negatively the gross margin** (decrease by 9.2 pp. from 60.9% in Q2 to 51.7% in Q3), **EBIT margin** (decrease by 12.1 pp. from 10.1% in Q2 to minus 2.0% in Q3) and the **net profit margin** (down by 19.3 pp. from 20.5% in Q2 to 1.2% in Q3). However, it should be borne in mind that the comparability of gross and net profit margins in relation to the second quarter is disturbed by a one-off event in Q2 (sale of shares in an associate with negative equity, which resulted in the accounting profit of PLN 4.6 million)
- Monnari Trade SA obtained redemption of part of the preferential loan and repaid the remaining amount.** The company also applied for another loan under the Shield 2.0 for Large Enterprises (the decision is to be made by the end of December 2021).

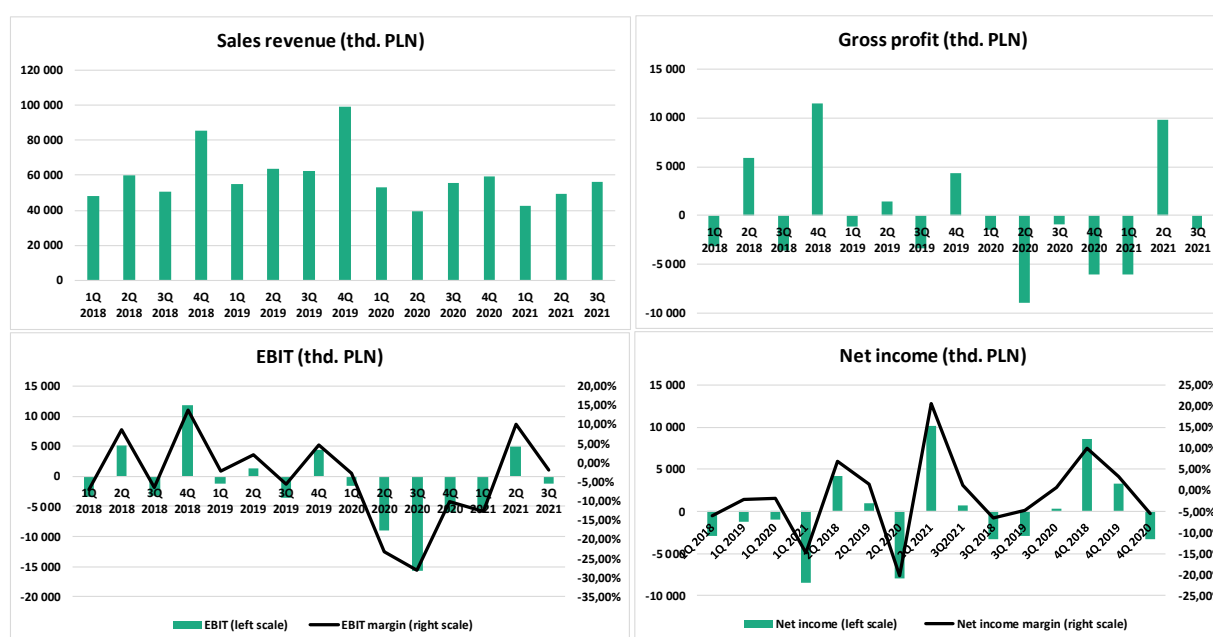
	PLN thd	2020	2021E	2022E	2023E	2024E	2025E
Sales		209 408	230 084	249 259	278 738	311 743	348 697
EBITDA		-9 098	8 893	21 320	23 690	26 343	31 169
<i>EBITDA margin</i>		-4,3%	3,9%	8,6%	8,5%	8,5%	8,9%
EBIT		-28 129	-1 810	9 073	9 718	10 439	11 247
Net income		-30 439	-4 637	4 774	4 981	5 220	5 493
Equity		190 951	180 609	190 157	200 120	210 560	221 546
Debt		-6 204	40 593	60 486	75 321	92 211	121 291
P/E		-2,8	-18,3	17,8	17,1	16,3	15,5
P/BV		0,4	0,5	0,4	0,4	0,4	0,4
EV/EBITDA		-10,0	5,0	1,1	0,4	-0,3	-1,2
DY		0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

Source: DM Banku BPS SA, E - estimates

Financial results for Q3 against the DM Banku BPS forecasts

thd. PLN	3Q 2021	DM BPS forecasts	Comparison to the DM BPS forecasts	2Q 2021	1Q 2021	Change q/q
Revenue	56 131	59 455	3 324	49 459	42 284	17,0%
Profit on sales	29 020	30 823	1 803	30 113	18 814	60,1%
<i>Sales margin</i>	51,7%	51,8%	0,1%	60,9%	44,5%	36,8%
EBITDA	413	-3 557	-3 970	7 617	-2 637	388,9%
<i>EBITDA margin</i>	0,7%	-6,0%	-6,7%	15,4%	-6,2%	346,9%
EBIT	-1 128	-5 098	-3 970	5 002	-5 341	193,7%
<i>EBIT margin</i>	-2,0%	-8,6%	-6,6%	10,1%	-12,6%	180,1%
Gross profit	-1 391	-5 377	-3 986	9 768	-6 024	262,2%
<i>Gross profit margin</i>	-2,5%	-9,0%	-6,6%	19,7%	-14,2%	238,6%
Net income	692	-5 377	-6 069	10 121	-6 274	261,3%
<i>Net income margin</i>	1,2%	-9,0%	-10,3%	20,5%	-14,8%	237,9%

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA, Company

Expected impact: In line with our expectations, **Monnari Trade SA continues the process of rebuilding revenues after the collapse caused by pandemic restrictions.** However, the increase in sales in the third quarter was lower than our expectations by PLN 3.3 million (minus 5.6%). Cumulatively, from the beginning of the year, the Company's revenues were comparable to the corresponding period of 2020 and amounted to PLN 147.9 million compared to PLN 149.4 million. **We note that the Company has expanded the sales network.** At the end of Q3 2021, the retail space for the MONNARI and Femestage brands was slightly greater than at the end of 2020 (43.7 thousand m² compared to 41.1 thousand m²). The MONNARI brand had 164 stores with an area of 36.3k m², under the Femestage brand there were 31 stores with an area of 5.1k m², while the franchise network of the MONNARI brand consisted of 12 stores with an area of 2.3k m². Compared to the end of the second quarter, this represents an increase by 5 stores and 1.2k m² of sales space, respectively. **At the end of November, the Company expanded its sales network by another 6 stores.** On the other hand, **we estimate the dynamics of sales via the Internet channel as too slow** (increase by approx. 3.7% qoq).

The company achieved gross profit on sales in the amount of PLN 29.0 million, which was lower than expected by PLN 1.8 million (minus 5.8%). **The gross margin on sales is in line with our expectations.** The relief of the loan

from PFR (an increase in other operating income to PLN 5.7 million) ultimately translated into significantly lower than expected operating loss (minus PLN 1.1 million as compared to the expected minus PLN 5.1 million), gross loss (minus 1.4 PLN million compared to the expected minus PLN 5.4 million) and net profit (PLN 692 thousand compared to the expected minus PLN 5.4 million).

The results show that the Company **still experiences the effects of the pandemic** (lower number of visits to stores), **post-pandemic recovery** (increased costs of purchasing goods abroad and transportation) and **hacker attack** (incomplete data restoration). In the third quarter, the share of costs of goods sold in revenues increased significantly (from 39% to 48%), thus weakening the gross margin on sales. However, **we positively assess the cost discipline** resulting in the decline of selling, general and administrative expenses, which amounted to PLN 29.5 million, compared to PLN 30.9 million in Q3 2020 (decrease by 4.5% yoy).

We look with optimism at the revenue increase in the fourth quarter due to the lack of pandemic restrictions. At the same we closely observe the formation of margins, which, despite the sale of the fall-winter collection (sales of relatively more expensive outerwear than spring-summer clothes) will be under strong pressure of costs resulting from domestic inflation (the Company plans to increase salaries by 10-12% in 2022) and international transport prices (in December 2021 the increase in freight prices was over 250% yoy). The company's results will be also negatively influenced by the almost 10% appreciation of the dollar (the currency of import purchases) against the zloty observed in period of September till November 2021. We note also a deterioration in current and future consumer sentiment. The current consumer confidence index (BWUK) in November was 23.3 (5.5 pp. below the value from October 2021). Future Consumer Confidence Index (WWUK) fell by 3.6 pp. compared to the previous month and amounted to -18.1.

Finally, we maintain our September valuation at PLN 5.3, making its change dependent on the future profitability of the Company, commercialization of the Geyer Gardens (H1 2022) and possible epidemic restrictions.

Basic definitions

CAPEX (capital expenditures) - investment expenditures on product development, system implementation (including intangible assets) or tangibles assets in the part in which the capital is intended to maintain the company's current ability to generate income.

DCF (discounted cash flows) - discounted cash flows; all future cash flows are estimated and discounted in order to determine their present value. The value of the discount rate used corresponds to the cost of capital and includes an assessment of the risk related to future cash flows.

DFCF - Discounted FCF (Free Cash Flows to Firm).

EBIT (earnings before interest and taxes) - operating income i.e. the income before deduction of taxes and interest.

EBITDA (earnings before interest, taxes, depreciation and amortization) - the company's operating profit before deducting interest on interest-bearing liabilities (loans, bonds), taxes, amortization and depreciation of tangible and intangible assets; here EBITDA = operating income + amortization of tangible fixed assets + depreciation of intangible assets.

EV (Enterprise Value) - total enterprise value; here EV = current stock market capitalization + net debt.

EV / EBITDA - the ratio is calculated by dividing the present value of the enterprise (EV) by the value of EBITDA.

FCFF (Free Cash Flow to Firm) - free cash flows for owners of equity capital and creditors, which can be defined as flows resulting from the company's operating and investment activities, after all financial expectations of capital donors, i.e. all parties financing the company, have been settled.

WSE - Warsaw Stock Exchange.

NOPLAT - net operating result less adjusted taxes; here NOPLAT = EBIT * (1 - tax rate).

P / BV (price / book value) - the ratio is calculated by dividing the current capitalization of a listed company by the book value of its equity, which is provided in the company's balance sheet.

P / E (price earnings ratio) - stock exchange ratio. It is calculated by dividing the market price of one share by the net profit per share.

PV TV - Present Value, ie the residual value (TV) discounted at the present moment.

CR - current report.

SB - Supervisory Board.

TV (Terminal Value) - residual value; enterprise value after the forecast period; here estimated with the help of the Gordon model.

WACC - weighted average cost of capital; financial indicator informing about the average relative cost of capital engaged in financing the enterprise.

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Distribution of this study: 10 December 2021, 17:10

This report is published on the day of its completion on the publicly available <https://dmbps.pl/wsparcie-analityczne/program-wsparcia-pokrycia-analitycznego-gpw/monnari-trade-s-a>

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https://dmbps.pl/informacje/228/Regulamin_zarzadzania_konfliktami_interesow_w_Domu_Maklerskim_Banku_BPS_SA

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List of recommendations issued within the last 12 months as part of the Analytical Coverage Support Program 3.0.

Company	Recommendation	Target price	Market price	Type of recommendation	Date of Issue	Analyst(s)
NTT SYSTEM	nd	8,30	5,98	Initial report	2021-09-01	Łukasz Bryl, Tomasz Czamecki
UNIBEP	nd	17,00	12,90	Initial report	2021-09-07	Artur Wizner
MONNARI TRADE	nd	5,30	2,80	Initial report	2021-09-07	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	4,60	3,60	Initial report	2021-09-07	Artur Wizner, Tomasz Czamecki
PROCHEM	nd	31,00	25,00	Initial report	2021-10-06	Artur Wizner
NTT SYSTEM	nd	8,30	5,80	Analysis of results	2021-10-01	Łukasz Bryl, Tomasz Czamecki
MONNARI TRADE	nd	5,30	2,90	Analysis of results	2021-10-01	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	4,60	3,40	Analysis of results	2021-10-08	Artur Wizner, Tomasz Czamecki
VIVID GAMES	nd	1,23	1,39	Analytical report	2021-10-18	Łukasz Bryl, Tomasz Czamecki
PROCHEM	nd	31,00	25,40	Analysis of results	2021-11-17	Artur Wizner
VIVID GAMES	nd	1,23	1,37	Financial forecast	2021-11-24	Łukasz Bryl, Tomasz Czamecki
NTT SYSTEM	nd	8,30	5,04	Financial forecast	2021-11-24	Łukasz Bryl, Tomasz Czamecki
UNIBEP	nd	14,00	10,35	Analytical report	2021-11-24	Artur Wizner
VIVID GAMES	nd	1,23	1,34	Analysis of results	2021-12-02	Łukasz Bryl, Tomasz Czamecki
NTT SYSTEM	nd	8,30	5,16	Analysis of results	2021-12-03	Łukasz Bryl, Tomasz Czamecki
MONNARI TRADE	nd	5,30	2,57	Analysis of results	2021-12-10	Łukasz Bryl, Tomasz Czamecki