

Monnari Trade SA

2022-05-31 08:45

Analysis of the results for the 1Q 2022

Key data

Target price [PLN]	6,2
DCF Valuation [PLN]	5,0
Comparative Valuation [PLN]	8,2
Market price [PLN]	3,9
Growth/decrease potential [%]	60,4%
Market cap [mIn PLN]	118,3
Free float [%]	68,0%
Industry	clothes retail
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:

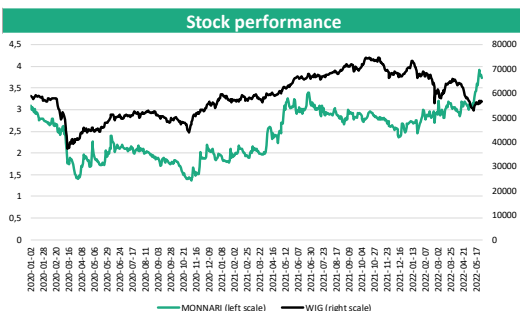
	[%]
Misztal Mirosław	28,94
MONNARI TRADE S.A.	14,85
Fair Sp. z o.o.	8,29

Growth factors

Sales network growth
Competitive offer
High cash amount
Strong consumer demand

Risk factors

Low value of domestic currency
Low profitability
Supply chain disruptions
Costs pressure



Positive data on retail sales along with development of clothing and footwear prices allowed for the long-awaited improvement in the situation of companies in the clothing industry. Due to the seasonality of sales in the clothing industry, the first quarter is usually one of the worst in the year. Traditionally, companies experience declines in sales compared to the record-breaking fourth quarter, and there is often a loss at the profits level. In the case of Monnari Trade, the sales recovery to the pre-pandemic values is underway, and the Company's concentration on the Polish market has made it possible to avoid declines in sales due to exposure to Eastern markets.

In the first quarter, the Company generated revenues of PLN 55.223 million, which means a decrease by 34.7% q/q, but at the same time an increase by 30.6% compared to the first quarter of 2021, which we evaluate positively. The company has still not managed to generate revenues comparable to the value before the pandemic (in the first quarter of 2019, sales amounted to PLN 58.282 million), although we can see an improvement.

Gross profit on sales amounted to PLN 29.928 million and was higher by 59.1% y/y. The gross margin on sales amounted to 54.2%, which means an increase by 9.7 pp. y/y and decline by 4.6 pp. q/q. **We assess the development of the gross margin positively** - the margin is even higher than in the first quarter of 2019 (51.5%).

We positively evaluate the Company's cost discipline. Despite high inflation in the Polish economy, selling costs increased by only 0.4% q/q, and general and administrative expenses decreased by 44.2% q/q.

The operating profit for the first time since 2016 was positive in Q1 and amounted to PLN 71 thd. The net loss was minus PLN 652 thd. against minus PLN 6.254 million net loss in Q1 2021.

We evaluate the Company's results as good and slightly better than our expectations, therefore **we increase our valuation to PLN 6.2 per share.**

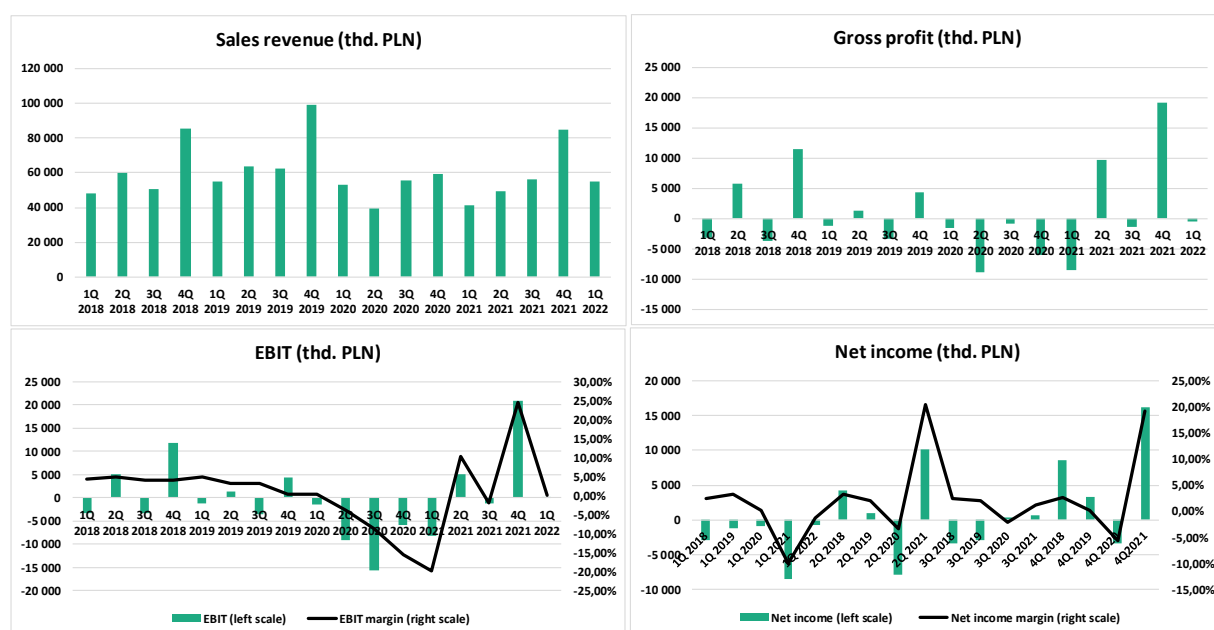
PLN thd	2021	2022P	2023P	2024P	2025P	2026P
Sales	232 422	268 110	289 248	313 187	339 108	367 173
EBITDA	30 072	33 322	25 515	26 592	26 859	29 848
EBITDA margin	12,9%	12,4%	8,8%	8,5%	7,9%	8,1%
EBIT	19 337	24 581	13 095	13 106	12 262	14 059
Net income	20 696	17 622	7 743	8 842	9 155	10 623
Equity	211 451	233 310	242 847	253 739	265 015	278 100
Net debt	-34 983	-41 376	-40 505	-33 951	-30 810	-39 930
P/E	5,1	6,0	13,7	12,0	11,6	10,0
P/BV	0,5	0,5	0,4	0,4	0,4	0,4
EV/EBITDA	2,4	1,9	2,6	2,7	2,8	2,2
EPS	0,7	0,6	0,3	0,3	0,3	0,3

Source: DM Banku BPS SA, E - estimates

Financial results for 1Q 2022 against the DM Banku BPS forecasts

tys. PLN	1Q 2022	DM BPS forecasts	Comparison to the DM BPS forecasts	3Q 2021	4Q 2021	Change q/q
Revenue	55 223	54 251	1,8%	56 131	84 548	50,6%
Profit on sales	29 928	27 143	10,3%	29 020	49 693	71,2%
<i>Sales margin</i>	54,2%	50,0%	+4,2 pp.	51,7%	58,8%	+7,1 pp.
EBITDA	2 609	-1 775	-	413	24 679	5875,5%
<i>EBITDA margin</i>	4,7%	-3,3%	+8,0 pp.	0,7%	29,2%	+28,5 pp.
EBIT	71	-4 593	-	-1 128	20 804	1944,3%
<i>EBIT margin</i>	0,1%	-8,5%	+8,6 pp.	-2,0%	24,6%	+26,6 pp.
Gross profit	-488	-4 971	-	-1 391	19 148	1476,6%
<i>Gross profit margin</i>	-0,9%	-9,2%	+8,3 pp.	-2,5%	22,6%	+25,1 pp.
Net income	-652	-4 036	-	692	16 157	2234,8%
<i>Net income margin</i>	-1,2%	-7,4%	+6,2 pp.	1,2%	19,1%	+17,9 pp.

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA, Company

Expected impact: In line with our expectations, Monnari Trade is consistently approaching pre-pandemic sales levels. Maintaining the sales infrastructure and the high dynamics of retail sales in Poland made it possible to generate revenues of only PLN 3.059 million lower than in the last quarter of the year before the pandemic (PLN 55.223 million compared to PLN 58.282 million in the first quarter of 2019). The cost control introduced by the Management Board in the strategy brings results. Selling costs recorded only a slight increase q/q, while management costs decreased q/q significantly, which translated into positive operating result. In turn, Company generated net loss of minus PLN 652 thd. which is significantly lower than in previous years (including non-pandemic ones) and should not be assessed negatively. The best periods for companies in the clothing industry are the second and (above all) the fourth quarter in which the industry more than covers the losses from the first quarter. Monnari Trade assumes a high dynamics of opening new stores in 2022 (both own and franchised), hence we forecast that in 2023, revenues will return to the pre-pandemic levels.

In the perspective of the current half-year, the Company's value will be positively influenced by the settlement of the transaction of a part of Geyer Gardens (PLN 31.5 million) and the possible

cancellation of 75% of the loan from PFR (PLN 11.145 million). Part of the received cash was allocated by the Company in the 1st quarter to the repayment of liabilities.

In terms of revenues, Monnari Trade's results are in line with our estimates (PLN 55.223 mln vs. PLN 54.251 mln). Gross profit on sales was 10.3% higher than our forecast (PLN 29.928m vs. PLN 27.143m). On the other hand, at the net profit level, the result turned out to be much better than we expected. The net loss was minus PLN 652 thd. with our estimates at minus PLN 4.036 mln. **Hence, after updating the data in the model and the multipliers in the comparative valuation, we increase our valuation to PLN 6.2 per share (previously PLN 5.5).**

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.

DFCFF - 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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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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List of recommendations issued within the last 12 month

ML SYSTEM	HOLD	126	118	Initial report	2021-06-30	Tomasz Czamecki, Artur Wizner
NTT SYSTEM	nd	8,3	5,98	Initial report	2021-09-01	Łukasz Bryl, Tomasz Czamecki
UNIBEP	nd	17	12,9	Initial report	2021-09-07	Artur Wizner
MONNARI TRADE	nd	5,3	2,8	Initial report	2021-09-07	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	4,6	3,6	Initial report	2021-09-07	Artur Wizner, Tomasz Czamecki
PROCHEM	nd	31	25	Initial report	2021-10-06	Artur Wizner
NTT SYSTEM	nd	8,3	5,8	Analysis of results	2021-10-01	Łukasz Bryl, Tomasz Czamecki
MONNARI TRADE	nd	5,3	2,9	Analysis of results	2021-10-01	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	4,6	3,4	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	25,4	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	8,3	5,04	Financial forecast	2021-11-24	Łukasz Bryl, Tomasz Czamecki
UNIBEP	nd	14	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	8,3	5,16	Analysis of results	2021-12-03	Łukasz Bryl, Tomasz Czamecki
MONNARI TRADE	nd	5,3	2,57	Analysis of results	2021-12-10	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	4,6	3,17	Analytical report	2021-12-10	Artur Wizner
INTERFERIE	SELL	6,73	7,5	Initial report	2021-12-30	Łukasz Bryl
JSW	BUY	45	34,87	Analytical report	2021-12-30	Artur Wizner
JSW	BUY	46,4	35,4	Analytical report	2022-01-04	Artur Wizner
SNIEZKA	HOLD	84	79,8	Analytical report	2022-03-24	Artur Wizner
UNIBEP	nd	11	9	Analytical report	2022-04-21	Artur Wizner
NTT SYSTEM	nd	7,94	5	Analytical report	2022-05-04	Tomasz Czamecki, Łukasz Bryl
PROCHEM	nd	37	32,8	Analytical report	2022-05-10	Artur Wizner
VIVID GAMES	nd	1,25	1,17	Analysis of results	2022-05-13	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	3,6	2,8	Analytical report	2022-05-13	Artur Wizner
PROCHEM	nd	37	33,6	Analysis of results	2022-05-17	Artur Wizner
MONNARI TRADE	nd	5,5	3,5	Analytical report	2022-05-18	Łukasz Bryl
VIVID GAMES	nd	1,29	1,26	Analysis of results	2022-05-26	Łukasz Bryl
MONNARI TRADE	nd	6,21	3,87	Analysis of results	2022-05-31	Łukasz Bryl