



Jumbo

Company Update Report

November 10, 2015



Overweight

Previous Rating: Overweight

Winning Business Concept Safeguards Profitability

Share Price: €11.94 (close of November 9)

12M Price Target: €14.70

Previous Target: €12.50

Expected Total Return: 26%

Estimates

	2015/16	2016/17e	2017/18e	2018/19e
Sales (€m)	638	684	730	775
EBITDA (€m)	184	191	203	216
Net profit (€m)	121	126	134	143
EPS New (€)	0.89	0.93	0.99	1.05
EPS New chng (%)	15.7%	3.9%	6.7%	6.5%
EPS Old (€)	-	0.90	0.95	0.98
New vs. Old (%)	-	2.5%	4.1%	7.0%
DPS / Cap. Return	0.63	0.30	0.32	0.34
chng (%)	n/a	-53.0%	6.7%	6.5%

Source: Jumbo, Euroxx Research

Ratios

	2015/16	2016/17e	2017/18e	2018/19e
P/E (x)	10.7x	12.9x	12.1x	11.4x
EV/EBITDA (x)	5.7x	7.1x	6.4x	5.6x
EV/EBIT (x)	10.2	8.1x	7.3x	6.4x
EV/Sales (x)	6.5x	2.0x	1.8x	1.6x
Div Yield (%)	6.6%	2.5%	2.6%	2.8%
P/BV (x)	1.4x	1.7x	1.5x	1.4x

Note: Historic ratios are computed on FY average stock prices

Source: Jumbo, Euroxx Research

Stock Performance

	3M	6M	12M	YTD
Absolute	13.7%	8.9%	36.8%	26.2%
Difference (ATG)	10.2%	13.5%	51.6%	34.0%

Stock Data:

Market Cap (€m)	1,625
Outstanding shares (#)	136,059,759
Daily volume (#)	107,771
Low / High 52 w (€)	8.20 – 12.99
Free float	73.28%
Bloomberg / Reuters	BELA GA / BABr.AT

Company Description:

Jumbo is the leading toy retailer in Greece having expanded its product mix to offer seasonal and home goods, toys, books & stationery and baby apparel. It has developed a very successful, high-margin business model based on variety and low price with more than 70% of inventory sourced from Asian low cost producing countries. After establishing its presence in the domestic market, the company is expanding its geographical footprint to the wider SEE region with hyper-stores in Bulgaria, Cyprus and Romania.

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Resilient Business Model Safeguards Profitability – with top-line up by 10% y-o-y in H2'15/16 -and above the 4-6% group guidance for the full year and despite the domestic macro headwinds. More significant, though, in our view, was the resilience of the business model, which produced yet another 142bps hike in the EBITDA margin (to 29.4%) despite the gross margin drop (-120bps to 55.1%), courtesy of cost discipline (OpEx down by 274bps y-o-y to c31% of sales).

Impressive Track Record – Six years after the onset of the massive crisis in Greece, which reduced economic output by >25%, Jumbo finds itself reporting in 2016 record high EBITDA (€184m), net earnings (€121m), net equity (€916m) and a staggering gross cash balance of €395m (net cash at €250m) –with FCF at €85m (c5% yield). During the crisis, Jumbo has also expanded its retail network by 27 new stores (or c176k m² of net retail space), further enhancing its domestic dominance.

2016/17-18/19e EPS Upgrades of 3-7% - to reflect mainly (a) the 11-28% sales upgrades in Bulgaria and Romania, and (b) our 44-72bps higher EBITDA margin estimates, with OpEx now averaging 27.9% of sales from 29.5% previously, and despite the c70bps downgrade in the gross margin to 51.8%. The drop reflects the deflationary pressures and the full effect of the VAT increase in Greece, the increased competition (both in Greece and abroad), and the pick-up in freight rates.

Positive Outlook Remains: We still see healthy growth potential, with sales, EBITDA and EPS CAGRs of 6-7% over 2016/17-18/19e, driven mostly by the Greek operations. We also identify c10% upside potential to our EPS estimates (after 2016), should Greek I-f-I sales/m² return to the peak pre-crisis levels. Moreover, given its successful track record, we still argue that Jumbo will manage to offset most of the full negative FX impact due to (a) its strong bargaining power with its Chinese suppliers, (b) its best in-place product mix, and (c) its flexibility to capture the timing element over a favourable €/€ parity and proceed with pre-buying of inventory. In sensitivity terms, assuming no mitigating actions, a 10% drop in our new 2016/17-18/19e €/€ parity of 1.14 implies ceteris paribus a c100-150bps fall to our 51.8% avg gross margin forecast. That said, we expect the above mentioned mitigating actions to significantly soften any such impact.

Remains at O/W; TP Raised to €14.70 (26% Total Upside) – from €12.50 due to the lower WACC of 9.5% (from 10.0%) and the mild earnings upgrades. The shares trade on a June '17 EV/EBITDA of 7.1x, or at 2% discount over the historic 10-year average EV/EBITDA multiple of 7.3x. This is not justified by Jumbo's strong B/S, FCF and market positioning in Greece and abroad, we believe. On top, the business remains highly cash generative, with average FCF of >€100m p.a. (>54% of EBITDA over 2016/17-18/19e) that leaves Jumbo with a net cash position of €3.0/share by June'19e, suggesting upside risk on capital returns. That said, a deeper-than-expected economic recession in Greece (72% of sales) could further damage domestic economic sentiment/consumer demand and adversely affect domestic retail sales.

Please refer to important disclosures in the Disclosure Appendix.

Summary of Financials

PROFIT & LOSS (€m)	2015/16	2016/17e	2017/18e	2018/19e	BALANCE SHEET (€m)	2015/16	2016/17e	2017/18e	2018/19e
Sales	638	684	730	775	Non-current assets	530	549	565	577
change (%)	9.4%	7.2%	6.7%	6.2%	Net fixed assets	499	518	534	547
Gross Profit	338	356	378	400	Intangible assets	0	0	0	0
change (%)	9.1%	5.3%	6.3%	5.8%	Other assets	32	31	31	31
Other Income	4	5	5	5	Current Assets	679	718	802	904
change (%)	7.3%	7.9%	6.7%	6.1%	Accounts receivable	85	90	94	99
OpEx	181	192	205	216	Inventories	197	222	231	248
change (%)	3.1%	6.2%	6.4%	5.4%	Cash & cash equivalent	395	405	475	554
EBITDA	184	191	203	216	Other investments	2	2	3	3
change (%)	15.4%	4.1%	6.2%	6.2%	TOTAL ASSETS	1,209	1,268	1,367	1,482
Depreciation & amortization	23	23	25	26	Net Debt / (Cash)	(250)	(261)	(331)	(410)
Operating profit (EBIT)	161	168	178	189	Shareholders' equity	916	956	1,050	1,150
change (%)	16.7%	4.4%	6.1%	6.2%	Minority interest	0	0	0	0
Net financing cost	(4)	(2)	(3)	(4)	Non-current liabilities	165	167	169	171
Pre-tax profit	165	170	181	193	Long-term debt	144	144	144	144
change (%)	20.6%	3.2%	6.4%	6.4%	Deferred tax liabilities	8	8	8	8
Tax	44	44	47	50	Retirement obligations	7	9	11	13
% effective tax rate	26.6%	26.1%	25.9%	25.8%	Provisions / other	6	6	6	6
Net profit	121	126	134	143	Current liabilities	129	145	148	161
change (%)	15.7%	3.9%	6.7%	6.5%	Accounts payable	39	52	51	57
Recurring Net profit	120	126	134	143	Liabilities for taxes	51	52	54	57
change (%)	12.0%	5.3%	6.7%	6.5%	Liabilities to banks	0	0	0	0
EPS Basic (in €)	0.89	0.93	0.99	1.05	Other liabilities	38	41	43	46
EPS chng	15.7%	3.9%	6.7%	6.5%	EQUITY & LIABILITIES	1,209	1,268	1,367	1,482
EPS Recurring	0.88	0.93	0.99	1.05					
EPS chng	12.0%	5.3%	6.7%	6.5%					
DPS / Capital Return	0.63	0.30	0.32	0.34					
change (%)	-	-53.0%	6.7%	6.5%					

CASH FLOW (€m)	2015/16	2016/17e	2017/18e	2018/19e	RATIO ANALYSIS	2015/16	2016/17e	2017/18e	2018/19e
Pre-tax profits	165	170	181	193	Current ratio	5.3x	5.0x	5.4x	5.6x
(+) Depreciation & amort.	23	23	25	26	Acid Test	3.8x	3.4x	3.8x	4.1x
(+) Non-cash items	0	2	2	2	Liabilities to equity	0.3x	0.3x	0.3x	0.3x
(+) Net interest expenses	(10)	(9)	(9)	(10)	Bank debt to equity	0.2x	0.2x	0.1x	0.1x
(-) Taxation paid	43	44	46	49	Net debt / EBITDA	-1.4x	-1.4x	-1.6x	-1.9x
Gross cash flow	135	142	153	163	Return on total assets	10.5%	10.2%	10.2%	10.0%
Decrease/ (Increase) in inventories	1	(25)	(9)	(17)	Return on equity	14.2%	13.5%	13.4%	13.0%
Decrease/ (Increase) in receivables	(16)	(4)	(4)	(4)	Return on Capital Employed	12.1%	11.7%	11.7%	11.5%
(Decrease)/ Increase in payables	(13)	16	1	9	Free Cash Flow yield	5.2%	5.9%	6.8%	7.5%
Other	5	-	-	-	Gross Margin	53.0%	52.1%	51.8%	51.6%
Operating Cash Flow	112	129	142	151	EBITDA margin	28.8%	28.0%	27.9%	27.9%
(-) CapEx	35	42	40	39	Operating profit margin	25.3%	24.6%	24.4%	24.4%
(+) Interest & Other Investments	8	9	9	10	Pre-tax profit margin	25.9%	24.9%	24.9%	24.9%
Free Cash Flow	85	96	110	122	Net profit margin	19.0%	18.4%	18.4%	18.5%
(-) Dividends paid	-	(86)	(40)	(43)	Recurring net profit margin	18.8%	18.4%	18.4%	18.5%
(+) Equity chng	-	-	-	-	Dividend/Capital return Yield	5.3%	2.5%	2.6%	2.8%
(+) Debt chng	(3)	-	-	-	Dividend payout ratio	70.7%	32.0%	32.0%	32.0%
(+) Other	14	-	-	-					
Change in Cash	96	10	70	79					
Cash at End	395	405	475	554					

Source: Jumbo, Euroxx Research

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Valuation & Rating Update

New TP of €14.70 (from €12.50); we reiterate our O/W rating on the stock

We continue to value Jumbo through a two-stage DCF model. We form an explicit set of forecasts for the period up to 2020e, after which we assign a terminal growth of 2.5% (unchanged). We now set our WACC at 9.5% (previously at 10.0%) mainly to account for the decrease in Greek spreads to <750bps (from c930bps, previously). Our WACC assumption is also based on a market beta of 1.0x, a risk-free rate of 0.16% (German 10-year Bund Yield) and a risk premium of 10.4% (weighted blended mix reflecting country risk exposure). Our revised DCF-based valuation returns a new TP of **€14.70** / share (an 18% increase to reflect the lower WACC and our 3-7% earnings upgrades). This implies a 26% expected total return from current price levels, including the 2016/17e DPS of €0.30. We therefore reiterate our **O/W** rating.

Now trading at 2% discount over the 10-year historic EV/EBITDA; we believe Jumbo's growth potential not fully captured at current price levels

The shares now trade at a June '17 EV/EBITDA of 7.1x, or at 2% discount over the historic 10-year average EV/EBITDA multiple of 7.3x. This, we believe, is not justified by Jumbo's expansion over the last decade, its healthy earnings growth potential and strong market positioning in Greece and abroad. Notably, Jumbo, through an unabated expansionary strategy, has invested c€490m over the last decade to see its retail network expanding by 32 new stores (or c209k m² of net retail space), which have contributed c€295m of additional revenues over the same period. We also highlight Jumbo's strong FCF generation potential. Assuming that Jumbo will generate an average FCF of >€100m p.a. over 2017-19e, this implies an average cash conversion ratio of >54%. We also expect Jumbo to maintain a net cash position of €261-410m in the next 3 years – peaking to €3.0 per share in 2019e, which suggests upside risk on capital returns.

Table 1. Jumbo Valuation & Sensitivity

DCF Valuation (in € m)	2016/17e	2017/18e	2018/19e	2019/20e	Terminal
Sales	684	730	775	823	844
EBIT	168	178	189	200	205
Less: Adjusted Tax	44	46	49	52	53
NOPAT	124	132	140	149	152
Depreciation	23	25	26	28	29
Working capital delta	13	12	12	13	-
CapEx	42	40	39	39	34
Cash Flow to the Firm (FCFF)	93	105	116	125	142
Present Value of Cash Flows	85	87	88	87	1,402

Terminal Value % of EV 80%

Enterprise Value 1,750

Less: Net Debt (2015/16a) (250)

Value of Equity 2,000

Number of shares (in million) 136.1

Current Price (€) 11.94

Value of share (€) 14.70

% upside potential 23.1%

Source: Euroxx Research

TP Sensitivity to WACC and Long-term Growth

WACC	Long-term Growth				
	1.5%	2.0%	2.5%	3.0%	3.5%
8.5%	15.17	15.97	16.90	18.00	19.33
9.0%	14.27	14.95	15.73	16.64	17.72
9.5%	13.46	14.04	14.70	15.46	16.35
10.0%	12.79	13.29	13.86	14.52	15.27
10.5%	12.18	12.62	13.11	13.67	14.31

Source: Euroxx Research

Table 2. Jumbo Historic Multiples

Historic Multiples	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Period Start	01-Jul-06	01-Jul-07	01-Jul-08	01-Jul-09	01-Jul-10	01-Jul-11	01-Jul-12	01-Jul-13	01-Jul-14	01-Jul-15
Period End	30-Jun-07	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-14	30-Jun-15	30-Jun-16
Average Market Cap (€m)	1,117	1,417	787	966	690	487	734	1,419	1,301	1,294
EPS (€)	0.54	0.65	0.76	0.59	0.70	0.72	0.54	0.74	0.77	0.89
Recurring EPS (€)	0.51	0.62	0.72	0.74	0.70	0.72	0.72	0.74	0.78	0.88
EBITDA (€m)	106	126	140	145	135	134	110	147	159	184
Average Share Price (€)	8.21	10.41	5.78	7.10	5.07	3.58	5.40	10.43	9.56	9.51
Average Enterprise value (€m)	1,183	1,505	861	982	687	456	714	1,295	1,149	1,044
Average P/E	15.3x	16.0x	7.7x	12.0x	7.3x	5.0x	9.9x	14.0x	12.4x	10.7x
Average EV/EBITDA	11.2x	12.0x	6.2x	6.8x	5.1x	3.4x	6.5x	8.8x	7.2x	5.7x

10yr Historic Average	Current	Current vs Historic
11.0x	12.9x	17%
7.3x	7.1x	-2%

Note: Enterprise value is defined as Average Market Cap (Avg. Share Price * no of Shares) + Net Cash/(Debt).

Source: Euroxx Research

In our view, Jumbo's **key downside risks** include:

The Greek macro environment, the €/€ parity, the economic recovery in Cyprus & strong dependence on the founder are the key risks

- 1 **Large Exposure to the Economic and Political Conditions in Greece** – which accounted for c72% of total sales (2015/16). Should economic recovery prove to be softer-than-expected and GDP falls below the IMF (+2.8%) & EC's (+2.7%) growth forecasts for 2017e, this may impair economic sentiment and weigh on domestic retail sales evolution. At the same time, a worsening macro environment could increase the country's risk premium and negatively impact the performance of the shares
- 2 **A lower than expected economic recovery in Cyprus in 2016-17e** (estimated at +2.8% y-o-y for 2016e and +2.5% y-o-y for 2017e by the European Commission, and at +2.8% y-o-y for 2016e and +2.2% y-o-y for 2017e by the IMF) could hurt divisional results and burden group's profitability
- 3 **Execution risks related with the expansion in Romania** – where Jumbo targets to operate 12-18 stores by 2018/19e. We remain cautious and assume 13 store openings
- 4 **A higher-than-expected appreciation of the US\$ vs. the Euro** would put more pressure on gross profit and adversely affect earnings and valuation. Assuming no mitigating actions, a 10% drop in our 2016-19e 1.14 €/€ parity implies, ceteris paribus, a c100-150bps fall to our 2016/17-18/19e 51.8% average gross margin forecast. That said, we expect Jumbo's mitigating actions to significantly soften any such impact
- 5 **The strong dependence on Mr. Vakakis**, who is the company's founder, key shareholder (26.7%) and Chairman.

On the contrary, **future potential catalysts** include:

c10% upside risk to our EPS estimates from better I-f-I in Greece...

...with an additional c1% from Bulgaria...

...and c4% from Romania

- 1 **A potential return of Jumbo's Greek I-f-I sales to the pre-crisis peak level** of c2,300/m² in 2008/09 (or 16% higher than our estimate) in 2017/18e on stronger-than-expected domestic private consumption. This would result in a c10% upside potential to our group EPS forecasts for 2017/18e
- 2 **A potential convergence of the sales/m² in Bulgaria with the related Greek levels** – adjusted for the purchasing power parity – i.e. at c60% of Greek sales or c13% higher than our current estimate of €1,047/m². This would lead to c1.2-1.3% upside potential to our group sales and EPS estimates for 2017/18e
- 3 **A potential roll-out of 18 stores in Romania by 2018/19e** vs. our estimate of 13 would lead to an upside potential of c4% to our EPS estimates.

Earnings Update

Group Sales: 2-5% Upgrades over 2016/17-18/19e due to Resilient Domestic and Upbeat Foreign Operations

Greek Sales to Grow at a 3-year CAGR of 5% (from 4%) – To Account for 49% of the €137m Incremental Revenues over 2016/17-18/19e

We now see a 2016/17e l-f-l sales growth of +5.7% y-o-y (from +4.0%), after the solid top-line performance in H2'15/16 & the positive trading update for Q1'16/17

Following a solid top-line performance in H2'15/16 (sales up by 7% y-o-y / +5% y-o-y on a full year basis) and the positive trading update for Q1'16/17 (+c5% y-o-y), we have revised upwards our previous 2016/17e l-f-l growth assumptions for the Greek franchise to +5.7% y-o-y from +c4% before. This is despite the slightly negative sales growth momentum in early-October '16 (early Q2'16/17e) to the tune of 1-2% (as per the management), with visibility on the Greek macro remaining at relatively low levels.

On our estimates, Jumbo concept should pick up again momentum in the second-half of the most important quarter of the year, which traditionally accounts for c35% of annual sales (Q2 covers Oct–Dec, including the crucial Christmas period). Our view is also supported by the IMF's latest estimate (World Economic Outlook - Oct'16) calling for a Q4'16e (Q2'16/17e for Jumbo) GDP growth of +0.7% y-o-y. Going forward, we now expect domestic l-f-l sales to grow by 3.5% y-o-y in 2017/18e (from +3.0% previously) and by 4.0% y-o-y in 2018/19e (from +3.5%) also on the back of the expected economic recovery. Note that both the IMF & EC expect 2017e GDP growth of 2.8% and 2.7% y-o-y, respectively.

We now see domestic network reaching 52 stores from 2017/18e onward vs. 53 previously

On the network front, we have adjusted our model to account for one less-than-previously-expected store in Greece. To this end, we now expect Jumbo to operate 51 stores (from 52 previously) this year, and 52 (from 53 previously) from 2017/18e onwards.

We now expect Greek sales per adj. m² to reach €2,055/m² by 2018/19e from €1,974/m² previously

In terms of Greek sales per adj. m², we now see them reaching €2,055/m² by 2018/19e from €1,974/m² previously. Although this is in-line with the pre-crisis average historic levels of c€2,000/m², it is however 11% lower than the 2008/09 peak, as we prefer to remain cautious at this stage largely due to the high unemployment rate (at 23.2% -according to the latest official data for July '16) and the dilution of the l-f-l recovery capacity from the higher market penetration. On our estimates, by 2016/17e, Jumbo would have expanded its domestic retail space by 34% (or 64.7k m²) compared to 2008/09.

Domestic sales to grow by a 2015/16-18/19e CAGR of 4.7%

All in, we now expect domestic sales to grow by a 2015/16-18/19e CAGR of 4.7% driven mainly by the recovery of l-f-l sales and to a lesser extend from the 1 new store, which we expect to be deployed within Q2'17/18e and increase the total retail space to 256k m², or c2% higher than 2015/16.

Table 3. Greek Operations – Key P&L drivers 2015/16-2019/20e

	2015/16	2016/17e	2017/18e	2018/19e	2019/20e
Sales (in € m)	459	479	501	527	558
Change (y-o-y %)	4.8%	4.4%	4.6%	5.1%	6.0%
% of Total	72.0%	70.1%	68.7%	68.0%	67.8%
CoGS (in € m)	213	228	240	253	269
Gross Profit (in € m)	246	251	261	274	289
Change (y-o-y %)	4.1%	2.0%	4.1%	4.6%	5.6%
Gross Profit Margin	53.7%	52.4%	52.2%	51.9%	51.8%
# of Stores	51	51	52	52	52
Retail space (in '000 sq. m.)	251	251	256	256	256
Change (y-o-y %)	-2.1%	0.0%	2.2%	0.0%	0.0%
Adjusted Capacity (in '000 sq. m.)	254	251	254	256	256
Change (y-o-y %)	0.2%	-1.2%	1.1%	1.0%	0.0%
Sales / Adjusted m² (in €)	1,807	1,909	1,975	2,055	2,178
L4L proxy (%)	4.5%	5.7%	3.5%	4.0%	6.0%

Source: Jumbo, Euroxx Research

Cypriot Operations' 3-year Sales GACR of 4.4%

Divisional sales per adj. m² to grow by 5.2% this year at €2,518/m² (from €2,570/m²)

In Cyprus, the group's network comprises of 5 stores with the latest addition being the store in Limassol in Q2'14/15. On our estimates, divisional sales per adj. m² are seen at 2,518/m² (+5.2%) this year, or 2% lower when compared to our previous estimate of 2,570/m². The mild downgrade relates to the fact that Cypriot operations' nominal revenue growth of 5% y-o-y in 2015/16 came short of the 11% y-o-y increase in divisional adjusted space capacity.

Going forward, we now expect domestic sales per adj. m² to reach €2,723/m² by 2018/19e from €2,780/m² previously (-2%). The fact that Cypriot sales/adjusted m² are superior to all other markets is a function of the high private consumption and purchase power per capita and despite the comparably small size of its economy. Overall, we now forecast Cypriot sales to grow by a 2015/16-18/19e CAGR of 4.4%.

Table 4. Cypriot Operations – Key P&L drivers 2015/16-2019/20e

	2015/16	2016/17e	2017/18e	2018/19e	2019/20e
Sales (in € m)	79	83	86	90	93
<i>Change (y-o-y %)</i>	5.1%	5.2%	4.0%	4.0%	3.5%
<i>% of Total</i>	12.4%	12.1%	11.8%	11.6%	11.3%
CoGS (in € m)	38	41	42	44	46
Gross Profit (in € m)	41	42	44	46	47
<i>Change (y-o-y %)</i>	6.2%	4.2%	3.6%	3.6%	3.1%
Gross Profit Margin	51.7%	51.2%	51.0%	50.7%	50.5%
# of Stores	5	5	5	5	5
Retail space (in '000 sq. m.)	33	33	33	33	33
<i>Change (y-o-y %)</i>	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Adjusted Capacity (in '000 sq. m.)</i>	33	33	33	33	33
<i>Change (y-o-y %)</i>	11.1%	0.0%	0.0%	0.0%	0.0%
Sales / Adjusted m² (in €)	2,393	2,518	2,618	2,723	2,818
L4L proxy (%)	-5.4%	5.2%	4.0%	4.0%	3.5%

Source: Jumbo, Euroxx Research

Bulgarian Sales to Grow by a 3-year CAGR of 10% on Stable Outlook and Market Share Gains

We have raised our previous I-f-I growth assumption for 2016/17e to 6.3% from 5.0% previously

Turning to Bulgaria, we have adjusted upwards our previous I-f-I growth assumption for 2016/17e to 6.3% from 5.0% previously, while taking also into account one new store addition, which we expect to commence operations in November '16 (mid-Q2'16/17e) and increase regional network to 9 stores. Our more optimistic stance on group's divisional operations reflects the 14.6% y-o-y increase in divisional top-line in 2015/16 and the double-digit sales growth (15% on our estimates) witnessed in early Q2'16/17e (October '16), as per the management. In our view, this should have been a function of increased market share gains.

Going forward, we have increased our previous I-f-I growth rate to 4.7% for 2017/18e and 4% for 2018/19e from 4% and 3%, respectively, leading to divisional sales CAGR of c10% over 2015/16-18/19e.

Table 5. Bulgarian Operations – Key P&L drivers 2015/16-2019/20e

	2015/16	2016/17e	2017/18e	2018/19e	2019/20e
Sales (in € m)	52	59	66	69	71
<i>Change (y-o-y %)</i>	14.6%	14.0%	11.7%	4.0%	3.0%
<i>% of Total</i>	8.1%	8.7%	9.1%	8.9%	8.6%
CoGS (in € m)	26	29	33	34	35
Gross Profit (in € m)	26	30	33	35	35
<i>Change (y-o-y %)</i>	17.4%	13.7%	11.5%	3.8%	2.8%
Gross Profit Margin	50.6%	50.4%	50.3%	50.2%	50.1%
# of Stores	8	9	9	9	9
Retail space (in '000 sq. m.)	55	63	63	63	63
<i>Change (y-o-y %)</i>	0.0%	14.3%	0.0%	0.0%	0.0%
<i>Adjusted Capacity (in '000 sq. m.)</i>	55	59	63	63	63
<i>Change (y-o-y %)</i>	0.0%	7.2%	6.7%	0.0%	0.0%
Sales / Adjusted m² (in €)	940	1,000	1,047	1,089	1,121
L4L proxy (%)	14.6%	6.3%	4.7%	4.0%	3.0%

Source: Jumbo, Euroxx Research

Romanian Sales Up by a 3-year CAGR of 23% On Network Expansion

We now assume that Jumbo will operate 13 stores by 2019/20e (from 12) vs. Jumbo guidance of 18 stores

We have kept our estimates for Jumbo's Romanian operations for this year unchanged, while we have raised our previous top-line estimates for 2017/18-18/19e by 11-28%, respectively. We now assume that Jumbo will open 13 stores by 2019/20e (from 12 stores previously), while Jumbo guides for 18 store openings over the same period.

We also forecast the local franchise to generate a 3-year I-f-I sales CAGR of 23% to reflect the on-going economic growth (IMF expects 5% and c4% y-o-y GDP expansion in 2016-17e) that should enhance the low consumer disposable income and market share gains. The latter should be driven by (a) the enhancing brand awareness facilitated by the network expansion and (b) the growing competitive pressures that may lead large foreign retailers to exit the market (like the German DYI retailer OBI, member of Tengelmann who leased 5 out its 7 Romanian stores to Jumbo) and suppress prices downwards so as to match country's low consumer income levels - a field in which Jumbo is particularly strong. Worth noting that Jumbo hyper-stores currently carry 40,000 active stock keeping units (SKUs), with an average price of €4.99. Every store carries a similar product mix, which is easily adjusted according to the needs of the season.

We now expect divisional sales per adjusted m² of €1,271 (vs. €1,124 previously) in 2018/19e. Although this stands c38% below Greece's respective figure, it is still c17% higher than that of Bulgaria, justified, in our view, by the bigger economy and market opportunity in Romania.

Table 6. Romanian Operations – Key P&L drivers 2015/16-2019/20e

	2015/16	2016/17e	2017/18e	2018/19e	2019/20e
Sales (in € m)	48	62	76	90	101
Change (y-o-y %)	97.1%	30.1%	22.3%	17.8%	13.1%
% of Total	7.5%	9.1%	10.4%	11.6%	12.3%
CoGS (in € m)	23	30	37	43	49
Gross Profit (in € m)	25	32	40	46	52
Change (y-o-y %)	98.9%	31.0%	22.1%	17.2%	12.5%
Gross Profit Margin	51.6%	52.0%	51.9%	51.7%	51.4%
# of Stores	7	7	9	11	13
Retail space (in '000 sq. m.)	49	49	62	76	89
Change (y-o-y %)	15.5%	0.0%	26.8%	21.2%	17.5%
Adjusted Capacity (in '000 sq. m.)	45	49	57	71	83
Change (y-o-y %)	85.2%	8.9%	16.7%	23.0%	18.3%
Sales / Adjusted m² (in €)	1,059	1,266	1,327	1,271	1,215
L4L proxy (%)	6.4%	19.5%	4.8%	-4.2%	-4.4%

Source: Jumbo, Euroxx Research

Group Sales 2015/16-18/19e CAGR of 6.7%: Greece Fuels Growth

We upgrade our previous 2016/17-18/19e group sales estimates by 2-5% due to our 11-21% higher top-line forecasts for Bulgaria and 11-28% sales upgrades for Romania

Overall, we have raised our previous 2016/17-18/19e group sales estimates by 2-5% to account mainly for (a) the 11-21% higher top-line forecasts in Bulgaria and (b) the 11-28% sales upgrades for Romania. With regard to the Greek and Cypriot markets, we have left our previous estimates broadly unchanged. Over 2016/17-18/19e we expect top-line growth to remain above capacity expansion to the tune of c6-7% (see table 7 below) facilitated by the anticipated economic recovery in Greece, the maturing of the new hyper-stores, as well as, the all-important roll out in Romania.

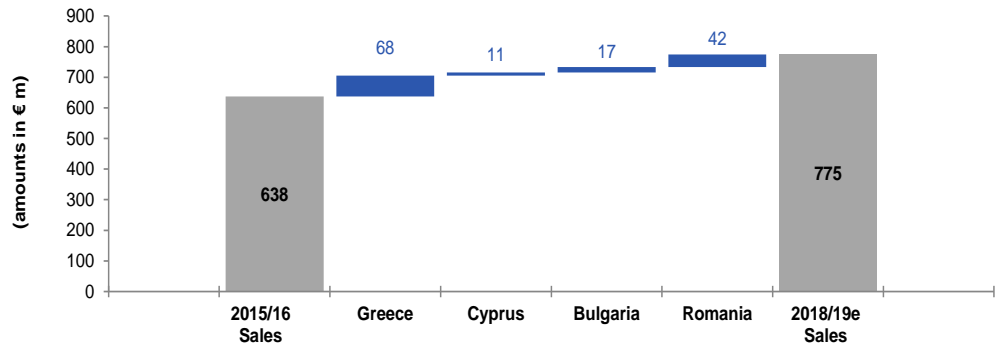
To this end, we expect Jumbo to exhibit a 3-year (2015/16-18/19e) group sales CAGR of 6.7%, with Greece remaining the steam engine of growth accounting for €68m or 49% of the total incremental revenues over the same period. However, the contribution from the expected roll-out to 13 stores in Romania is also important (€42m or c31% of incremental growth), while the Bulgarian (€17m) and to a lesser extend the Cypriot (11m) operations are also expected to provide support, accounting for c11% and c17% of incremental revenue growth respectively.

Table 7. Group Operations – Key P&L drivers 2015/16-2019/20e

	2015/16	2016/17e	2017/18e	2018/19e	2019/20e
Sales (in € m)	638	684	730	775	823
Change (y-o-y %)	9.4%	7.2%	6.7%	6.2%	6.3%
CoGS (in € m)	300	328	351	375	400
Gross Profit (in € m)	338	356	378	400	424
Change (y-o-y %)	9.1%	5.3%	6.3%	5.8%	5.9%
Gross Profit Margin	53.0%	52.1%	51.8%	51.6%	51.4%
# of Stores	71	72	75	77	79
Retail space (in '000 sq. m.)	388	396	415	428	441
Change (y-o-y %)	0.3%	2.0%	4.7%	3.2%	3.1%
Adjusted Capacity (in '000 sq. m.)	387	392	407	423	436
Change (y-o-y %)	6.8%	1.3%	3.8%	3.9%	3.0%
Sales / Adjusted m² (in €)	1,646	1,742	1,792	1,832	1,889
L4L proxy (%)	2.5%	5.9%	2.8%	2.2%	3.1%

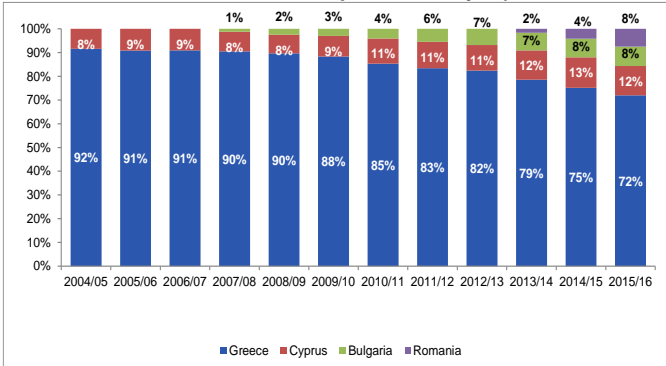
Source: Jumbo, Euroxx Research

Chart 1: 2015/16 – 2018/19e Euroxx Sales Bridge by Country Estimates



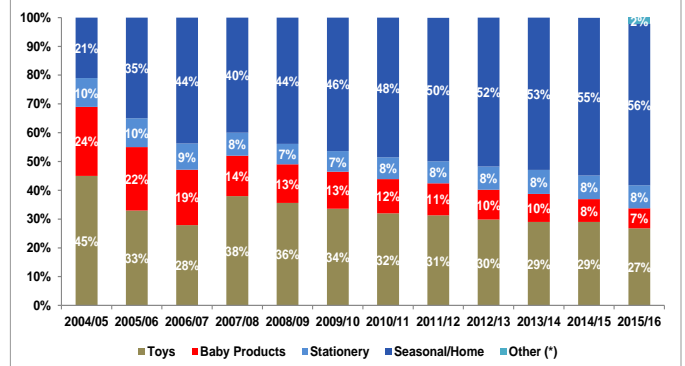
Source: Jumbo, Euroxx Research

Chart 2: Sales Breakdown per Country (2004/05-2015/16)



Source: Jumbo, Euroxx Research

Chart 3: Sales Breakdown per Product (2004/05-2015/16)



Note (*): Includes the recently introduced (Q4'2015/16) haberdashery product category

Source: Jumbo, Euroxx Research

Gross Profit: Winning Business Concept Safeguards Profitability

Remarkable gross margin resilience

Over 2015/16 Jumbo managed to offset most of the negative impact from FX (€/\$ parity fell by 7.7% y-o-y) and the increase in VAT (+100bps to 24%, effective since June '16), with its gross margin easing by only 16bps y-o-y to 53%. However, the hit from the VAT introduction was more pronounced in H2'15/16 with GPM down by 120bps y-o-y to 55.1% - but this also cycled a surprisingly strong H2'14/15 with gross margin at 56.3%.

FX (€/\$ parity) freight/transportation cost and product mix – the key profitability axes

In our view, Jumbo's remarkable margin resilience is a function of (a) its favourable sales-mix, as high margin seasonal/home and haberdashery (newly introduced) products posted an impressive top-line growth of 16% y-o-y (vs. group sales growth of 9%) and accounted for 58% of group sales from 55% a year ago, providing significant support to margins, and (b) the favourable €/\$ parity, as most of the Christmas pre-buying (important element for group's Q2 performance, which has a seasonal weight of c35% over group annual sales) should have been already in place before the € decline (down c4% between July – December '15) and with flattish freight rates.

We now expect Jumbo's gross margin to average 51.8% over 2016/17-18/19e (from 52.5%)

Keeping our previous estimates on €/\$ parity broadly unchanged, we reiterate our cautious stance for the group's gross profit margin, as c70% of Jumbo's CoGS is in US\$. Assuming an average €/\$ parity of 1.14 over 2016-2019e, we now expect Jumbo's gross margin to average 51.8% over 2016/17-18/19e from 52.5%, previously. This is to reflect the deflationary pressures in the home country and the full effect of the VAT increase, the increased price competition both in Greece and abroad, as well as the pick-up in the freight rates.

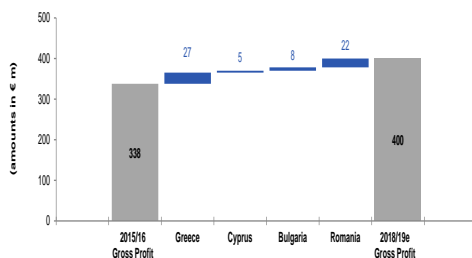
We expect Jumbo's effective business model to offset most of the full negative currency impact

We still believe that Jumbo, given its successful track record, will manage to offset most of the full negative currency impact due to (a) its strong bargaining / buying power over its Chinese suppliers, (b) a best in-place product mix, i.e. increasing contribution of higher-margin seasonal and home products, (c) a continuous product re-engineering (e.g. smaller quantities for the same price), and (d) its flexibility to capture the timing element over a favourable €/\$ parity and proceed with a pre-buying of inventory. All in, we have cut our previous gross margin estimates by 67bps for this year to 52.1%, by 70bps to 51.8% for 2017/18e and 66bps to 51.6% for 2018/19e. Our 52.1% forecast for 2016/17e still lies c230bps below Jumbo's pre-crisis margin levels of 54.4% in 2008/09, but is still 410bps above management's guidance for a sustainable gross margin of 48% in the medium-term.

A 10% drop in our avg 2016-19e €/\$ parity of 1.14 implies a c100-150bps fall to our avg GPM forecast

In sensitivity terms and assuming no mitigating actions, a 10% drop in our 2016-19e 1.14 €/\$ parity implies, ceteris paribus, a c100-150bps drop to our 2016/17-18/19e 51.8% average gross margin forecast. That said, we expect the above mentioned mitigating actions to significantly soften any such impact.

Chart 4: 2015/16 – 2018/19e Gross Profit Bridge by Country Estimates



Source: Jumbo, Euroxx Research

Chart 5: Shanghai Containerized Freight Index



Source: Bloomberg, Euroxx Research

Chart 6: EUR/USD Rate Evolution



Source: Bloomberg, Euroxx Research

2016/17-18/19e EPS Upgrades of 3-7% on Cost Discipline and Strong Operating Leverage

Downward revisions in our previous 2016/17-18/19e OpEx assumptions on strong cost containment in 2015/16

We now expect OpEx (as % of sales) to drop by c9-27bps over 2016/17-18/19e to 27.9% from 28.4% in 2015/16.

Strong operating leverage leads to upward revisions in our 2016/17-18/19e EBITDA assumptions by 4-8%

We now expect net profits of €126m this year (+5% y-o-y) before reaching €134m in 2017/18e (+7% y-o-y) and €143m in 2018/19e (+7% y-o-y).

We continue assuming that Jumbo will follow a >30% DPO – leading to DPS of €0.30 to €0.34 over 2016/17-18/19e (DY of 2.5–2.9%)

OpEx: Following the strong cost containment in 2015/16 (OpEx as % of sales down by 175bps y-o-y to 28.4%), we have revised downwards our previous estimates and we now expect OpEx (as % of sales) to drop by c9-27bps over 2016/17-18/19e to 27.9% from 28.4% in 2015/16. This is c130bps below Jumbo's historical average of 29.2% and is mainly attributed to the fact that the bulk of future network expansion, in our model, comes from Romania, which has a lower cost base when compared to Greece and Cyprus. We also highlight the group's successful cost-cutting efforts -and despite the labour intensive nature of the retail industry- with the average cost / employee down by c20% since 2008/09. In our view, such tight management of labour cost is likely to be maintained, hence creating strong economies of scale and provide support to operating profitability throughout 2016/17-18/19e.

EBITDA: We have increased our previous 2016/17-18/19e EBITDA estimates by 4-8% and despite the downward revisions in our gross margin. This reflects Jumbo's strong operating leverage. To this end, we now expect group 2016/17e EBITDA to grow by 4% y-o-y to €191m and by 6% y-o-y to €203m in 2017/18e before reaching €216m in 2018/19e (+6% y-o-y), with related margin at 27.9% (vs. 27.1% previously).

EPS: We maintain our view that Jumbo's cash generative / low gearing business model will keep providing the group with a positive net financial position. That said, we expect the falling market deposit rates to partially offset this positive effect. To this end, we have cut our previous estimates on net financial income by 24-30% for 2016/17-18/19e. All in, we have revised upwards our previous 2016/17-18/19e net profit estimates by 3%-7% and we expect net profits of €126m this year (+3% y-o-y) before reaching €134m in 2017/18e (+7% y-o-y) and €143m in 2018/19e (+7% y-o-y). In EPS terms, we now forecast €0.93 this year, with a 3-year CAGR of 6.1%.

DPS / Capital Return: On November 2, Jumbo's AGM approved the distribution of a 2015/16 DPS of €0.36 (ex-dividend date on November 4 / payment on November 10). Recall that Jumbo has also distributed an extraordinary DPS of €0.27/share (ex-date on July 29; payment date on August 4). This was the result of the capitalization of reserves derived from taxed and undistributed profits of previous years. Going forward we maintain our assumption that Jumbo will follow a >30% dividend payout – leading to DPS of €0.30 to €0.34 over 2016/17-18/19e (DY of 2.5 - 2.9%).

Table 8. 2015/16 – 2018/19e Forecast Changes

(in €m)	2015/16	2016/17e			2017/18e			2018/19e			CAGR	
		Old	New	chng	old	new	chng	old	new	chng	old	new
Greece	459	470	479	2.0%	494	501	1.4%	516	527	1.9%	4.8%	4.4%
Cyprus	79	85	83	-2.0%	88	86	-2.0%	92	90	-2.0%	5.1%	5.2%
Bulgaria	52	53	59	11.2%	55	66	19.5%	57	69	20.6%	14.6%	14.0%
Romania	48	62	62	0.0%	69	76	11.0%	70	90	27.9%	97.1%	30.1%
Sales	638	670	684	2.1%	706	730	3.3%	735	775	5.4%	9.4%	7.2%
Gross Profit	338	353	356	0.8%	371	378	2.0%	384	400	4.0%	9.1%	5.3%
Other Income	4	5	5	-8.5%	5	5	-7.4%	6	5	-5.7%	7.3%	7.9%
OpEx	181	198	192	-2.8%	209	205	-1.8%	217	216	-0.7%	3.1%	6.2%
EBITDA	184	184	191	3.7%	193	203	5.2%	199	216	8.2%	15.3%	4.1%
EBIT	161	160	168	4.9%	168	178	6.4%	173	189	9.7%	16.7%	4.4%
Net financial results	4	3	2	-28.2%	4	3	-23.9%	5	4	-29.7%	-519.2%	-42.2%
Pre-tax Profit	165	164	170	4.2%	172	181	5.7%	178	193	8.5%	20.6%	3.2%
Net profit	121	123	126	2.5%	129	134	4.1%	134	143	7.0%	15.7%	3.9%
Recurring Net Profit	120	123	126	2.5%	129	134	4.1%	134	143	7.0%	12.0%	5.3%
EPS (in €)	0.89	0.90	0.93	2.5%	0.95	0.99	4.1%	0.98	1.05	7.0%	15.7%	3.9%
Recurring EPS (in €)	0.88	0.90	0.93	2.5%	0.95	0.99	4.1%	0.98	1.05	7.0%	12.0%	5.3%

Margins	2015/16	2016/17e			2017/18e			2018/19e			2015/16		2016/17e		2017/18e		2018/19e	
		Old	New	chng	old	new	chng	old	new	chng	chng bp	chng bp	chng bp	chng bp	chng bp	chng bp	chng bp	chng bp
Gross profit	53.0%	52.7%	52.1%	(67)bp	52.5%	51.8%	(70)bp	52.3%	51.6%	(66)bp	(16) bp	(94)bp	(22)bp	(22)bp	(175) bp	(27)bp	(9)bp	(21)bp
OpEx	28.4%	29.5%	28.2%	(140)bp	29.5%	28.1%	(148)bp	29.6%	27.9%	(170)bp	148 bp	(84)bp	(13)bp	0bp	148 bp	(84)bp	(13)bp	0bp
EBITDA	28.8%	27.5%	28.0%	44 bp	27.4%	27.9%	49 bp	27.1%	27.9%	72 bp	157 bp	(67)bp	(14)bp	(0)bp	239 bp	(96)bp	(7)bp	4bp
EBIT	25.3%	23.9%	24.6%	65 bp	23.7%	24.4%	70 bp	23.5%	24.4%	96 bp	102 bp	(59)bp	(1)bp	5bp	102 bp	(59)bp	(1)bp	5bp
Pre-tax profit	25.9%	24.4%	24.9%	51 bp	24.3%	24.9%	55 bp	24.2%	24.9%	73 bp	44 bp	(34)bp	(1)bp	5bp	44 bp	(34)bp	(1)bp	5bp
Net profit	19.0%	18.4%	18.4%	8 bp	18.3%	18.4%	13 bp	18.2%	18.5%	29 bp	44 bp	(34)bp	(1)bp	5bp	44 bp	(34)bp	(1)bp	5bp
Recurring Net Profit	18.8%	18.4%	18.4%	8 bp	18.3%	18.4%	13 bp	18.2%	18.5%	29 bp	44 bp	(34)bp	(1)bp	5bp	44 bp	(34)bp	(1)bp	5bp

Source: Jumbo, Euroxx Research

Euroxx vs. Consensus: In-line for 2016/17-17/18e

We are in-line with consensus for 2016/17-17/18e and below for 2018/19e on lower GM assumptions & financials

Over 2016/17-17/18e, our top-line, EBITDA and EPS estimates are broadly in-line with consensus. For 2018/19e, although our sales figure is in-line with market estimates, our numbers are below consensus at both the EBITDA and EPS levels. We believe this is mainly due to our lower assumptions on group gross margin and net financial income.

Table 9. Euroxx vs. Consensus Estimates

in € m	2016/17e		2017/18e		2018/19e		2016/17e vs. Cons	2017/18e vs. Cons	2018/19e vs. Cons
	Cons	Exx	Cons	Exx	Cons	Exx			
Sales	679	684	725	730	768	775	0.7%	0.6%	0.9%
Gross Profit	357	356	381	378	404	400	-0.3%	-0.8%	-1.0%
EBITDA	190	191	203	203	221	216	0.7%	0.1%	-2.4%
EBIT	165	168	175	178	180	189	2.0%	1.9%	5.2%
Pre-tax Profit	169	170	182	181	202	193	1.0%	-0.3%	-4.5%
Net profit	126	126	136	134	151	143	0.2%	-0.8%	-5.0%
EPS	0.92	0.93	1.00	0.99	1.11	1.05	0.2%	-0.8%	-5.0%
Margins									
Gross profit	52.6%	52.1%	52.6%	51.8%	52.6%	51.6%	(54) bps	(71) bps	(98) bps
EBITDA	28.0%	28.0%	28.0%	27.9%	28.8%	27.9%	(1) bps	(13) bps	(92) bps
EBIT	24.3%	24.6%	24.1%	24.4%	23.4%	24.4%	30 bps	32 bps	101 bps
Pre-tax profit	24.9%	24.9%	25.1%	24.9%	26.3%	24.9%	6 bps	(23) bps	(140) bps
Net profit	18.5%	18.4%	18.7%	18.4%	19.6%	18.5%	(9) bps	(26) bps	(115) bps

Source: Bloomberg, Euroxx Research

We Stand 4% Above Jumbo's 2016/17e Net Profit Guidance

We stand 3% above Jumbo's lower-end sales guidance (in line at the upper-end level), and 4% higher at the bottom-line level

Jumbo now guides for sales growth of 4-7% y-o-y in 2016/17e to €663-682m (Exx at €684m), with net profit flattish at €121m (Exx at €126m), as the VAT increase in Greece, the €/€ parity and the continuing deflationary policy enforced in the Greek market are expected to weigh on gross profit margin. We note that during the past years Jumbo's management has been consistently proven conservative on its guidance for both top-line growth and profitability margins. On the latter, we expect that Jumbo, given its successful track record, will manage to offset most of any negative FX impact due to its strong bargaining power with its Chinese suppliers, the continuous product re-engineering, its best in-place product mix and its flexibility to capture the timing element over a favourable €/€ parity and proceed with pre-buying of inventory.

Given the +11.5% in Q1'16/17 sales, we believe that management's guidance for this year will be once again beaten to the upside

Taking into consideration that sales in Q1'16/17e grew by 11.5% we believe that Jumbo's guidance for this year will be once again beaten to the upside – and despite the slight negative sales growth momentum in early-October '16 (early Q2'16/17e) in Greece (to the tune of 1-2%, as per the management) with visibility on the Greek macro remaining at relatively low levels. As we have previously noted in this report, we believe that Jumbo concept will pick up momentum in the second-half of the most important quarter of the year, which traditionally accounts for c35% of annual sales (Q2 covers Oct-Dec, including the crucial Christmas period).

Table 10. Euroxx vs. Jumbo Guidance

	2016/17e				
	Jumbo	Exx	Exx	Exx Vs Jumbo	
Sales (€m)	663	682	684	3%	0%
y-o-y %	4%	7%	7%		
Net Profit (€m)	121	121	126	4%	4%
y-o-y %	0%	0%	4%		

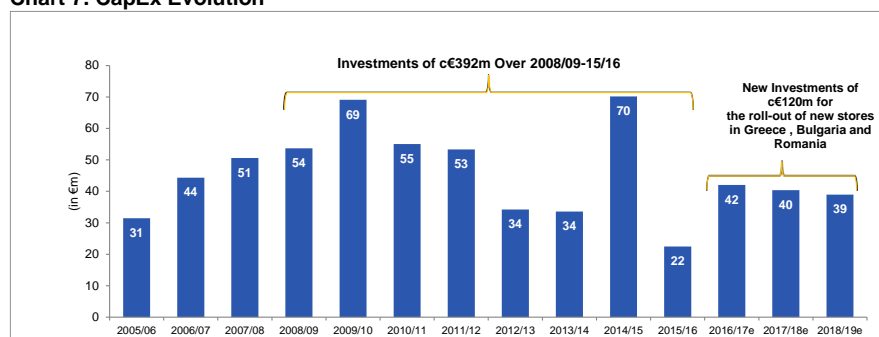
Source: Jumbo, Euroxx Research

CapEx of c€120m in 2016/17-18/19e

We see CapEx averaging €40m p.a. in the next 3-years

We have kept our previous CapEx estimates for 2016/17-18/19e unchanged at a cumulative €120m, or €40m p.a. – in line with group guidance. This accounts for the expansion of group's network both in Greece, Bulgaria and Romania, as per the chart 7 below.

Chart 7. CapEx Evolution



Source: Jumbo, Euroxx Research

Strong Cash Conversion of >54% over 2016/17-18/19e

Balance sheet remains strong with gearing <0.2x

Since the onset of the economic crisis (2009), Jumbo has managed to maintain both a positive FCF and strong balance sheet, with a net cash position in the last six years. Jumbo has also expanded its retail network by 27 new stores (or c176k m² of net retail space) over the same period.

On our estimates, Jumbo will generate an average FCF of >€100m p.a. over 2016/17-18/19e, which implies an average cash conversion ratio of >54% over the same period. We also expect Jumbo to maintain a net cash position of €261-410m in the next 3 years – peaking to €3.0 per share in 2018/19e, which suggests upside risk on capital returns.

Table 11. Key Balance Sheet & Cash Flow ratios

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17e	2017/18e	2018/19e	2019/20e
Current ratio	3.1x	3.2x	3.6x	4.1x	1.7x	4.1x	4.5x	5.3x	5.0x	5.4x	5.6x	6.0x
Acid test	1.5x	1.8x	2.0x	2.3x	1.0x	2.7x	2.9x	3.8x	3.4x	3.8x	4.1x	4.4x
Leverage (Ttl Liab. / Equity)	0.9x	0.6x	0.5x	0.4x	0.4x	0.4x	0.4x	0.3x	0.3x	0.3x	0.3x	0.3x
Gearing (Debt / Equity)	0.5x	0.3x	0.3x	0.3x	0.2x	0.2x	0.2x	0.2x	0.2x	0.1x	0.1x	0.1x
Debt to assets	0.3x	0.2x	0.2x	0.2x	0.2x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x
Net Debt / (Cash) (in €m)	74	16	(2)	(31)	(21)	(124)	(152)	(250)	(261)	(331)	(410)	(496)
Net Debt (Cash) / EBITDA	0.5x	0.1x	(0.0x)	(0.2x)	(0.2x)	(0.8x)	(1.0x)	(1.4x)	(1.4x)	(1.6x)	(1.9x)	(2.2x)
RoA	16%	11%	12%	12%	8%	11%	10%	11%	10%	10%	10%	10%
RoE	30%	20%	19%	17%	12%	15%	14%	14%	13%	13%	13%	13%
RoIC	20%	14%	15%	13%	9%	12%	12%	12%	12%	12%	11%	11%
FCF (in €m)	40.6	42.9	43.3	56.0	16.0	100.7	75.7	84.6	96.1	110.4	121.8	131.8
FCF over Sales	8.7%	8.8%	8.8%	11.3%	3.2%	18.6%	13.0%	13.3%	14.1%	15.1%	15.7%	16.0%
FCF over EBITDA	29%	30%	32%	42%	15%	69%	48%	46%	50%	54%	56%	58%
OCF (in €m)	85.4	103.9	92.4	95.9	59.8	122.1	128.9	111.7	129.5	141.6	151.0	160.5
OCF over Sales	18%	21%	19%	19%	12%	23%	22%	18%	19%	19%	19%	19%
OCF over EBITDA	61%	72%	68%	71%	54%	83%	81%	61%	68%	70%	70%	70%

Source: Jumbo, Euroxx Research

APPENDIX

Strong H2'15/16 Results on Domestic Market Share Gains and Operating Leverage

Strong set of results with key P&L figures beating our call to the upside on stronger-than-expected gross profit margin

Jumbo announced another strong set of results with H2'15/16 (Jan - Jun '16) key P&L figures coming above our estimates across the board. This was mainly the result of a stronger-than-expected gross profit margin, on the back of a best in-place and expanding product mix (high margin seasonal & home products accounted for 58% of group sales from 57% a year ago, while the newly introduced haberdashery items accounted for another 5%) and stronger-than-expected operating efficiency. Still, H2'15/16 gross profit margin declined by 120bps y-o-y reflecting VAT hike (+100bps from July 1, 2016 to 24%) and a tough y-o-y base effect.

On a semi-annual basis top-line grew by 10% y-o-y to €266m (3% above our call).

On a semi-annual basis (note that Jumbo did not provide a Q3'15/16), the positive top-line momentum witnessed in H1'15/16 (Jul - Dec'15 sales up by 9% y-o-y to €372m) continued in H2'15/16 (i.e. Jan-Jun'16), with sales growing by 10% y-o-y to €266m (3% above our estimate). More specifically, H2'15/16 domestic sales growth accelerated to c7% y-o-y to c€194m (Exx at €187m) from +3% y-o-y to €264m in H1. Moreover, foreign operations remained strong, with Romanian sales soaring by c68% to c€19m (Exx at €17m) Bulgarian revenues growing by c17% to c€20m (Exx at €18m), whereas Cypriot sales increased by c5%y-o-y to €33m (Exx at €35m).

On a FY'15/16 (i.e. Jul '15 - Jun '16) basis, grew by 9.4% y-o-y to €638m (1.2% above Exx) and 140-320bps above the management guidance

On a FY'15/16 (i.e. Jul '15 - Jun '16) basis, sales (pre-announced on July 13) increased by 9.4% y-o-y to €637.6m (1.2% above our estimate) and 140-320bps above the management guidance of 6-8% sales growth for the full year (to €618-629m). In terms of geographical split, sales in Greece and Cyprus were up by c5% y-o-y respectively, Romania continued its impressive performance, with turnover up by 97% y-o-y, while Bulgaria recorded a weighted average growth of c15% per store.

Gross profit grew by 8% y-o-y to €146m, with related margin down by 120bps on higher VAT and tough y-o-y comparables

Shifting towards operating profitability, **gross profit** grew by 8% y-o-y to €146m (c4% above our estimates), with related margin down by 120bps on higher VAT and tough y-o-y comparables. Going down the P&L, group **EBITDA** grew by 16% y-o-y to **€78m** (16% above our call), with related margin up by 142bps to 29.4%, benefited also by group's successful cost-cutting efforts with OpEx (as % of sales) down by 274bps y-o-y to c31% from c34% a year ago. **Net profit** increased by 16% y-o-y to €49m (18% ahead of our estimates), also positively affected by the absence (gains of c€1.6m) of last year's losses of c€1.8m from the mark-to-market valuation of investments. Excluding the aforementioned non-core valuation items, group **adjusted net profit** grew by c9% y-o-y. **Operating cash flow** turned negative to -€34m in H2'15/16 from +€21m a year ago relating to advances for inventory purchases and repayment of suppliers, while **FCF** settled at -€49m from -€4m in H2'14/15. In June '16, Jumbo's **net cash** position reached €245m from €139m a year ago. Distributed a **2015/16 DPS €0.36 DPS** (net at €0.3240) with ex-dividend date on November 4, 2016 (payment on November 10, 2016).

Distributed a 2015/16 DPS €0.36 DPS (net at €0.3240) with ex-dividend date on November 4, 2016 (payment on November 10, 2016).

To open its 9th store in Bulgaria in November '16 (Q2'16/17e) and another 2 hyper-stores in Romania (totaling at 9 stores) by end-December '17 (Q2'17/18e)

As pre-announced, the group proceeded with the closure (included in our model) of two small, first-generation stores in Greece, which in the future will be replaced by new hyper-stores in areas that the group is not present yet. To this end, Jumbo announced that within 2016/17e it will proceed with the opening of two hyper-stores in Romania, while in order to fully capitalize the upbeat growth momentum in Bulgaria the company will proceed with the launch of its 9th hyper-store also within the next year. The group currently operates a network of 71 stores, of which 51 are located in Greece, 5 in Cyprus, 8 in Bulgaria and 7 in Romania.

Table12. H2'15/16 Results

P&L items (in € m)	H2'14/15	H2'15/16	y-o-y	Exx	Actual		y-o-y	Exx	Actual	
					vs. Exx	2014/15			2015/16	vs. Exx
Greece	181.5	193.7	6.7%	187.4	3.3%	437.9	458.9	4.8%	452.6	1.4%
Cyprus	31.6	33.1	4.6%	35.0	-5.5%	75.0	78.9	5.1%	80.8	-2.4%
Bulgaria	16.7	19.6	17.4%	18.4	6.8%	45.3	51.9	14.6%	50.7	2.5%
Romania	11.6	19.4	68.0%	17.4	11.7%	24.3	47.9	97.1%	45.8	4.4%
Greece % of group	75.2%	72.9%		72.6%		75.2%	72.0%		71.9%	
Cyprus % of group	13.1%	12.4%		13.5%		12.9%	12.4%		12.8%	
Bulgaria % of group	6.9%	7.4%		7.1%		7.8%	8.1%		8.0%	
Romania % of group	4.8%	7.3%		6.7%		4.2%	7.5%		7.3%	
Sales	241.4	265.8	10.1%	258.2	3.0%	582.5	637.6	9.4%	629.9	1.2%
CoGS	105.6	119.5	13.1%	116.9	2.2%	272.8	299.6	9.8%	297.1	0.9%
Gross Profit	135.8	146.3	7.7%	141.3	3.6%	309.7	337.9	9.1%	332.8	1.5%
OpEx	81.2	82.1	1.1%	88.3	-7.0%	175.8	181.2	3.1%	187.4	-3.3%
EBITDA	67.6	78.2	15.7%	67.4	16.1%	159.3	183.7	15.3%	172.8	6.3%
Depreciation	10.7	11.5	7.5%	11.4	0.6%	21.3	22.7	6.5%	22.6	0.3%
EBIT	56.9	66.7	17.2%	55.9	19.3%	137.9	161.0	16.7%	150.2	7.2%
Pre-tax Profit	55.5	68.3	23.0%	55.2	23.7%	137.0	165.1	20.6%	152.0	8.6%
Net Profit	42.2	48.7	15.6%	41.4	17.9%	104.8	121.3	15.7%	113.9	6.5%
Recurring Net Profit	43.5	47.6	9.4%	41.4	15.1%	106.8	119.7	12.0%	113.87	5.1%
Margins										
Gross profit	56.3%	55.1%	(120.4) bps	54.7%	34 bps	53.16%	53.0%	(16) bps	52.8%	17 bps
OpEx	33.6%	30.9%	(274) bps	34.2%	(331) bps	30.2%	28.4%	(175) bps	29.7%	(133) bps
EBITDA	28.0%	29.4%	142 bps	26.1%	334 bps	27.3%	28.8%	148 bps	27.4%	138 bps
EBITDA adjusted	28.0%	29.4%	142 bps	26.1%	334 bps	27.3%	28.8%	148 bps	27.4%	138 bps
EBIT	23.6%	25.1%	152 bps	21.7%	344 bps	23.7%	25.3%	157 bps	23.8%	141 bps
Pre-tax profit	23.0%	25.7%	270 bps	21.4%	432 bps	23.5%	25.9%	239 bps	24.1%	177 bps
Net profit	17.5%	18.3%	87 bps	16.0%	232 bps	18.0%	19.0%	102 bps	18.1%	94 bps
Net profit adjusted	18.0%	17.9%	(11) bps	16.0%	189 bps	18.3%	18.8%	44 bps	18.1%	69 bps

Source: Jumbo, Euroxx Research

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Valuation Method

We value Jumbo through a two-stage DCF model. We form an explicit set of forecasts for the period up to 2019/20e, after which we assign a terminal growth of 2.5%. Our WACC has been set at 9.5% based on a market beta of 1.0, a risk-free rate of 0.16% (German 10-year Bund Yield) and a risk premium of 10.4% (weighted blended mix reflecting country risk exposure).

Rating History

Date	Rating	Share Price	Target Price
06-03-15	Overweight	9.50	12.50
04-09-15	Overweight	7.75	10.50
04-09-15	Overweight	7.75	10.50
02-02-16	Overweight	9.70	12.50
10-11-16	Overweight	11.94	14.70

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Reg. by the Hellenic Capital Markets Commission
Authorization No: 45/23.06.95/item 3rd
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