



## Company Flash Note

June 9, 2017



## Overweight

Previous Rating: Overweight

## Solid Earnings Outlook on Upbeat Balkan Operations

Share Price: €15.85 (close of June 8)

**12M Price Target: €18.00**

Previous Target: €14.70

Expected Total Return: 15%

## Estimates

	2015/16	2016/17e	2017/18e	2018/19e
Sales (€m)	638	683	735	790
EBITDA (€m)	184	197	206	221
Net profit (€m)	121	131	136	147
EPS New (€)	0.89	0.96	1.00	1.08
EPS New chng (%)	15.7%	7.9%	4.0%	8.1%
EPS Old (€)	-	0.93	0.99	1.05
New vs. Old (%)	-	3.8%	1.3%	2.9%
DPS / Cap. Ret.*	0.63	0.38	0.40	0.43
chng (%)	n/a	-39.7%	5.3%	8.1%

Note: 2016 includes DPS of €0.36/share & Capital return of €0.27/share / 2017e includes interim-DPS of €0.18 (paid on 28Mar'17) and estimated remaining DPS of €0.20/share

Source: Jumbo, Euroxx Research

## Ratios

	2015/16	2016/17e	2017/18e	2018/19e
P/E (x)	17.8x	16.5x	15.8x	14.7x
EV/EBITDA (x)	10.4x	9.8x	9.0x	8.1x
EV/EBIT (x)	11.8x	11.1x	10.2x	9.2x
EV/Sales (x)	3.0x	2.8x	2.5x	2.3x
Div Yield (%)	4.0%	2.4%	2.5%	2.7%
P/BV (x)	2.4x	2.3x	2.1x	1.9x

Source: Jumbo, Euroxx Research

## Stock Performance

	3M	6M	12M	YTD
Absolute	18.9%	11.4%	34.6%	5.2%
Difference (ATG)	-1.1%	-8.8%	15.2%	-15.8%

## Stock Data:

Market Cap (€m)	2,157
Outstanding shares (#)	136,059,759
Daily volume (#)	215,577
Low / High 52 w (€)	9.75 – 16.50
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 Greece, the company has expanded its geographical footprint to the wider SEE region with hyper-stores in Bulgaria, Cyprus and Romania.

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**Remarkable Resilience Despite the Crisis** – with Jumbo reporting a record high H1'16/17 EBITDA (€117m) and net earnings (€81m), as well as a staggering net cash of €249m, with FCF at €95m (c5% yield). All that with domestic economic output down by c25% since 2009 yet, with Jumbo having expanded its retail network by 28 stores (or c183k m<sup>2</sup> of net retail space), entering Romania and further enhancing its domestic dominance. With a leading c40% market share in Greece, Jumbo is one of the best ways of investing in the anticipated recovery of the domestic economy and consumer demand, in our view.

**2016/17-18/19e EPS Upgrades of 1-4%** - to reflect mainly (a) the 5-22% top-line upgrades in Bulgaria & Romania, and (b) our c27-32bps gross margin improvements. Keeping our previous OpEx/sales estimates unchanged at 27.8% on average, this leads into 11-87bps EBITDA margin enhancements, highlighting once again Jumbo's strong operating leverage. All in all, we expect 2016/17-18/19e top-line growth to remain above capacity expansion at c7% y-o-y, facilitated by the anticipated recovery, the maturing of the new hyper-stores, the market share gains in Bulgaria, and the enhanced brand awareness in Romania on the back of an aggressive network expansion. For the latter we now assume 18 new store openings by 2019/20e (from 13 stores previously / Jumbo guides for at least 20 new stores within the next 5 years), with Romanian sales/m<sup>2</sup> at c2/3 of the Greek average but on c20% larger stores.

**Outlook Remains Solid Driven by Balkan Operations:** We still see healthy growth potential, with 3-year sales, EBITDA & EPS CAGRs of 6-7%, fuelled by the Balkan ops, which account for €82/42m or 54/58% of the total incremental sales/gross profit over the same period. That said, Greece remains the largest contributor, accounting for 67/68% of total sales/gr.profit in 2016/17-18/19e. We also identify c10% upside potential to our EPS estimates (post 2017e), should Greek l-f-l sales/m<sup>2</sup> return to the peak pre-crisis levels. Given its successful track record, we argue that Jumbo will manage to offset most of a potential 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.

**Remains at O/W; TP Raised to €18.00 (15% Total Upside)** – from €14.70, due to the lower WACC of 8.5% (from 9.5%, owing to the Greek spreads decline), the DCF rollover 1yr forward and our mild earnings upgrades. Although current price levels imply a c34-49% premium over its historic 10yr average EV/EBITDA (7.3x) & P/E (11.0x), we believe this could be justified by the solid earnings growth potential and the strong B/S and market positioning in Greece and abroad. On top, the business model remains highly cash generative, with average FCF of c€100m p.a. (c50% of EBITDA over 2016/17-18/19e). This, leaves Jumbo with a net cash position of €2.7/share by June'19e, suggesting upside risk on capital returns. On the downside, as Greece accounts for c2/3 of total sales, a prolonged economic recession would weigh on domestic economic sentiment/consumer demand and adversely affect domestic retail sales.

Please refer to important disclosures in the Disclosure Appendix.

## Summary of Financials

in € m, unless otherwise stated

PROFIT & LOSS (€m)	2015/16	2016/17e	2017/18e	2018/19e	BALANCE SHEET (€m)	2015/16	2016/17e	2017/18e	2018/19e
<b>Sales</b>	<b>638</b>	<b>683</b>	<b>735</b>	<b>790</b>	<b>Non-current assets</b>	<b>530</b>	<b>547</b>	<b>565</b>	<b>585</b>
change (%)	9.4%	7.2%	7.6%	7.5%	Net fixed assets	499	516	534	554
<b>Gross Profit</b>	<b>338</b>	<b>358</b>	<b>383</b>	<b>411</b>	Intangible assets	0	0	0	0
change (%)	9.1%	5.9%	7.1%	7.2%	Other assets	32	31	31	31
Other Income	4	5	4	4	<b>Current Assets</b>	<b>679</b>	<b>690</b>	<b>789</b>	<b>873</b>
change (%)	7.3%	17.4%	-19.8%	7.6%	Accounts receivable	85	94	99	105
OpEx	181	189	206	220	Inventories	197	219	235	253
change (%)	3.1%	4.2%	9.3%	6.6%	Cash & cash equivalent	395	375	452	512
<b>EBITDA</b>	<b>184</b>	<b>197</b>	<b>206</b>	<b>221</b>	Other investments	2	2	3	3
change (%)	15.4%	7.3%	4.3%	7.7%	<b>TOTAL ASSETS</b>	<b>1,209</b>	<b>1,237</b>	<b>1,354</b>	<b>1,458</b>
Depreciation & amortization	23	23	25	27	<b>Net Debt / (Cash)</b>	<b>(250)</b>	<b>(231)</b>	<b>(308)</b>	<b>(368)</b>
<b>Operating profit (EBIT)</b>	<b>161</b>	<b>174</b>	<b>181</b>	<b>195</b>	<b>Shareholders' equity</b>	<b>916</b>	<b>936</b>	<b>1,045</b>	<b>1,138</b>
change (%)	16.7%	8.1%	3.9%	7.8%	Minority interest	0	0	0	0
Net financing cost	(4)	(2)	(2)	(3)	<b>Non-current liabilities</b>	<b>165</b>	<b>162</b>	<b>163</b>	<b>165</b>
Pre-tax profit	165	176	183	198	Long-term debt	144	144	144	144
change (%)	20.6%	6.6%	4.1%	7.9%	Deferred tax liabilities	8	8	8	8
Tax	44	45	47	51	Retirement obligations	7	8	9	11
% effective tax rate	26.6%	25.7%	25.7%	25.6%	Provisions / other	6	2	2	2
<b>Net profit</b>	<b>121</b>	<b>131</b>	<b>136</b>	<b>147</b>	<b>Current liabilities</b>	<b>129</b>	<b>138</b>	<b>146</b>	<b>155</b>
change (%)	15.7%	7.9%	4.0%	8.1%	Accounts payable	39	46	48	50
<b>Recurring Net profit</b>	<b>120</b>	<b>131</b>	<b>136</b>	<b>147</b>	Liabilities for taxes	51	52	54	58
change (%)	12.0%	9.4%	4.0%	8.1%	Liabilities to banks	0	0	0	0
<b>EPS Basic (in €)</b>	<b>0.89</b>	<b>0.96</b>	<b>1.00</b>	<b>1.08</b>	Other liabilities	38	41	44	47
EPS chng	15.7%	7.9%	4.0%	8.1%	<b>EQUITY &amp; LIABILITIES</b>	<b>1,209</b>	<b>1,237</b>	<b>1,354</b>	<b>1,458</b>
<b>EPS Recurring</b>	<b>0.88</b>	<b>0.96</b>	<b>1.00</b>	<b>1.08</b>					
EPS chng	12.0%	9.4%	4.0%	8.1%					
<b>DPS / Capital Return</b>	<b>0.63</b>	<b>0.38</b>	<b>0.40</b>	<b>0.43</b>					
change (%)	-	-39.7%	5.3%	8.1%					

  

CASH FLOW (€m)	2015/16	2016/17e	2017/18e	2018/19e	RATIO ANALYSIS	2015/16	2016/17e	2017/18e	2018/19e
<b>Pre-tax profits</b>	<b>165</b>	<b>176</b>	<b>183</b>	<b>198</b>	Current ratio	5.3x	5.0x	5.4x	5.6x
(+) Depreciation & amort.	23	23	25	27	Acid Test	3.8x	3.4x	3.8x	4.0x
(+) Non-cash items	0	1	1	1	Liabilities to equity	0.3x	0.3x	0.3x	0.3x
(+) Net interest expenses	(10)	(8)	(9)	(9)	Bank debt to equity	0.2x	0.2x	0.1x	0.1x
(-) Taxation paid	43	45	46	48	Net debt / EBITDA	-1.4x	-1.2x	-1.5x	-1.7x
<b>Gross cash flow</b>	<b>135</b>	<b>147</b>	<b>154</b>	<b>168</b>	Return on total assets	10.5%	10.7%	10.5%	10.5%
Decrease/ (Increase) in inventories	1	(22)	(17)	(18)	Return on equity	14.2%	14.1%	13.7%	13.5%
Decrease/ (Increase) in receivables	(16)	(8)	(5)	(5)	Return on Capital Employed	12.1%	12.2%	12.0%	11.9%
(Decrease)/ Increase in payables	(13)	5	5	6	Free Cash Flow yield	4.0%	4.3%	4.9%	5.4%
Other	5	-	-	-	Gross Margin	53.0%	52.3%	52.1%	51.9%
<b>Operating Cash Flow</b>	<b>112</b>	<b>122</b>	<b>138</b>	<b>151</b>	EBITDA margin	28.8%	28.8%	28.0%	28.0%
(-) CapEx	35	40	43	46	Operating profit margin	25.3%	25.5%	24.6%	24.6%
(+) Interest & Other Investments	8	8	9	9	Pre-tax profit margin	25.9%	25.8%	24.9%	25.0%
<b>Free Cash Flow</b>	<b>85</b>	<b>91</b>	<b>104</b>	<b>115</b>	Net profit margin	19.0%	19.1%	18.5%	18.6%
(-) Dividends paid	-	(110)	(27)	(54)	Recurring net profit margin	18.8%	19.1%	18.5%	18.6%
(+) Equity chng	-	-	-	-	Dividend/Capital return Yield	4.0%	2.4%	2.6%	2.8%
(+) Debt chng	(3)	0	-	-	Dividend payout ratio	70.7%	39.5%	40.0%	40.0%
(+) Other	14	-	-	-					
<b>Change in Cash</b>	<b>96</b>	<b>(20)</b>	<b>77</b>	<b>60</b>					
<b>Cash at End</b>	<b>395</b>	<b>375</b>	<b>452</b>	<b>512</b>					

Source: Jumbo, Euroxx Research

Table 1. 2016/17e – 2018/19e Forecast Revisions

(in €m)	2015/16	2016/17e			2017/18e			2018/19e			CAGR	
		Old	New	chng	old	new	chng	old	new	chng	old	new
Greece	51	51	51	0	52	52	0	52	52	0	-3.8%	0.0%
Cyprus	5	5	5	0	5	5	0	5	5	0	0.0%	0.0%
Bulgaria	8	9	9	0	9	9	0	9	9	0	0.0%	12.5%
Romania	7	7	8	1	9	12	3	11	15	4	16.7%	14.3%
<b>Stores</b>	<b>71</b>	<b>72</b>	<b>73</b>	<b>1</b>	<b>75</b>	<b>78</b>	<b>3</b>	<b>77</b>	<b>81</b>	<b>4</b>	<b>-1.4%</b>	<b>2.8%</b>
Greece	459	479	473	-1.2%	501	495	-1.2%	527	520	-1.2%	4.8%	3.1%
Cyprus	79	83	82	-1.2%	86	85	-1.2%	90	89	-1.2%	5.1%	3.9%
Bulgaria	52	59	63	6.4%	66	70	5.4%	69	72	4.4%	14.6%	21.3%
Romania	48	62	65	4.9%	76	85	12.1%	90	110	22.4%	97.1%	36.5%
<b>Sales</b>	<b>638</b>	<b>684</b>	<b>683</b>	<b>0.0%</b>	<b>730</b>	<b>735</b>	<b>0.8%</b>	<b>775</b>	<b>790</b>	<b>2.0%</b>	<b>9.4%</b>	<b>7.2%</b>
Gross Profit	338	356	358	0.5%	378	383	1.3%	400	411	2.6%	9.1%	5.9%
Greece	246	251	250	-0.5%	261	260	-0.5%	274	273	-0.3%	4.1%	1.5%
Cyprus	41	42	42	-1.1%	44	43	-1.2%	46	45	-1.2%	6.2%	3.0%
Bulgaria	26	30	32	6.5%	33	35	5.5%	35	36	4.4%	17.4%	21.1%
Romania	25	32	34	5.1%	40	44	12.2%	46	57	22.6%	98.9%	37.7%
Other Income	4	5	5	8.9%	5	4	-18.1%	5	4	-17.0%	7.3%	17.4%
OpEx	181	192	189	-1.9%	205	206	0.8%	216	220	2.0%	3.1%	4.2%
<b>EBITDA</b>	<b>184</b>	<b>191</b>	<b>197</b>	<b>3.1%</b>	<b>203</b>	<b>206</b>	<b>1.2%</b>	<b>216</b>	<b>221</b>	<b>2.6%</b>	<b>15.3%</b>	<b>7.3%</b>
EBIT	161	168	174	3.5%	178	181	1.3%	189	195	2.8%	16.7%	8.1%
Net financial results	4	2	2	-13.5%	3	2	-18.5%	4	3	-17.4%	-519.2%	-50.0%
Pre-tax Profit	165	170	176	3.3%	181	183	1.0%	193	198	2.5%	20.6%	6.6%
Net profit	121	126	131	3.8%	134	136	1.3%	143	147	2.9%	15.7%	7.9%
<b>Recurring Net Profit</b>	<b>120</b>	<b>126</b>	<b>131</b>	<b>3.9%</b>	<b>134</b>	<b>136</b>	<b>1.3%</b>	<b>143</b>	<b>147</b>	<b>2.9%</b>	<b>12.0%</b>	<b>9.4%</b>
EPS (in €)	0.89	0.93	0.96	3.8%	0.99	1.00	1.3%	1.05	1.08	2.9%	15.7%	7.9%
<b>Recurring EPS (in €)</b>	<b>0.88</b>	<b>0.93</b>	<b>0.96</b>	<b>3.9%</b>	<b>0.99</b>	<b>1.00</b>	<b>1.3%</b>	<b>1.05</b>	<b>1.08</b>	<b>2.9%</b>	<b>12.0%</b>	<b>9.4%</b>

  

Margins	2015/16	2016/17e			2017/18e			2018/19e			2015/16 chng bp	2016/17e chng bp	2017/18e chng bp	2018/19e chng bp
		Old	New	chng	old	new	chng	old	new	chng				
<b>Gross profit</b>	<b>53.0%</b>	<b>52.1%</b>	<b>52.3%</b>	<b>28 bp</b>	<b>51.8%</b>	<b>52.1%</b>	<b>27 bp</b>	<b>51.6%</b>	<b>51.9%</b>	<b>32 bp</b>	<b>(16) bp</b>	<b>(66)bp</b>	<b>(23)bp</b>	<b>(17)bp</b>
OpEx	28.4%	28.2%	27.6%	(53)bp	28.1%	28.1%	1 bp	27.9%	27.8%	(0)bp	(175) bp	(80)bp	45bp	(23)bp
EBITDA	28.8%	28.0%	28.8%	87 bp	27.9%	28.0%	11 bp	27.9%	28.0%	15 bp	148 bp	3bp	(88)bp	5bp
EBIT	25.3%	24.6%	25.5%	87 bp	24.4%	24.6%	14 bp	24.4%	24.6%	20 bp	157 bp	21bp	(87)bp	6bp
Pre-tax profit	25.9%	24.9%	25.8%	83 bp	24.9%	24.9%	6 bp	24.9%	25.0%	11 bp	239 bp	(14)bp	(84)bp	9bp
Net profit	19.0%	18.4%	19.1%	71 bp	18.4%	18.5%	9 bp	18.5%	18.6%	15 bp	102 bp	12bp	(63)bp	11bp
<b>Recurring Net Profit</b>	<b>18.8%</b>	<b>18.4%</b>	<b>19.1%</b>	<b>72 bp</b>	<b>18.4%</b>	<b>18.5%</b>	<b>9 bp</b>	<b>18.5%</b>	<b>18.6%</b>	<b>15 bp</b>	<b>44 bp</b>	<b>38bp</b>	<b>(63)bp</b>	<b>11bp</b>

Source: Jumbo, Euroxx Research

Table 2. Jumbo DCF Valuation, TP Sensitivity and Historic Multiples

DCF Valuation (in € m)	2016/17e	2017/18e	2018/19e	2019/20e	Terminal
Sales	683	735	790	839	860
EBIT	174	181	195	207	212
Less: Adjusted Tax	45	46	50	53	54
<b>NOPAT</b>	<b>129</b>	<b>134</b>	<b>145</b>	<b>154</b>	<b>158</b>
Depreciation	23	25	27	28	29
Working capital delta	24	16	17	15	-
CapEx	40	43	46	49	35
<b>Cash Flow to the Firm (FCFF)</b>	<b>88</b>	<b>100</b>	<b>109</b>	<b>119</b>	<b>146</b>
Present Value of Cash Flows	85	89	89	90	1,847

Terminal Value % of EV	84%
<b>Enterprise Value</b>	<b>2,198</b>
Less: Net Debt (H1'16/17a)	(249)
<b>Value of Equity</b>	<b>2,447</b>
Number of shares (in million)	136.1
Current Price (€)	15.85
<b>Value of share (€)</b>	<b>18.00</b>
<b>% upside potential</b>	<b>13.5%</b>

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%
7.5%	18.40	19.62	21.09	22.87	25.10
8.0%	17.12	18.13	19.33	20.76	22.51
8.5%	16.12	16.99	18.00	19.19	20.62
9.0%	15.08	15.80	16.63	17.61	18.75
9.5%	14.25	14.87	15.58	16.40	17.35

Source: Euroxx Research

Historic Multiples	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	10yr Historic Average	Current	Current vs Historic	
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		11.0x	16.5x	49%
Average EV/EBITDA	11.2x	12.0x	6.2x	6.8x	5.1x	3.4x	6.5x	8.8x	7.2x	5.7x		7.3x	9.8x	34%

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

Source: Euroxx Research

## IMPORTANT DISCLOSURES

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<b>Equalweight</b>	Expected total return between -10% and +10%	2	8%	0%
<b>Underweight</b>	Expected total return < -10%	0	0%	0%
<b>Under Review</b>	Recommendation and Target Price are subject to revision	5	21%	0%

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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 8.5% based on a market beta of 1.0, a risk-free rate of 0.26% (German 10-year Bund Yield) and a risk premium of 9.1% (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
09-06-17	Overweight	15.85	18.00

### Euroxx Securities S.A.

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