JUMBO

Set to chart another record year

2017: temporary pushback on gross margins – Jumbo's performance in H2'17 was weighed down by the slowdown of domestic sales run rates (+0.9%) and the enfeebled gross margin (-150bps yoy) as a result of the substantial increase in transport costs. That being said, we argue that investors should not conclude that cracks are forming in Jumbo's margins. On the contrary, in FY18e Jumbo is not only faced with a more benign macroeconomic backdrop in Greece and unfettered growth abroad – as reaffirmed by the 12% group revenue growth delivered in Q1'18 – but it is also set to benefit from the recent strengthening of the EUR against the USD. The impact from the latter is likely to more than offset the ongoing headwind from higher transport costs, thereby underpinning gross margins (EE +30bps).

2018: acceleration of revenue run rates and resilient margins = strong EPS growth – Management has guided for 6-9% sales growth in FY18e and for flat net profits due to the headwind from higher transport costs. Our 8% revenue growth projection is at the high end of the guided range but we are more optimistic on margins, anticipating EBITDA and net profit growth of c11%. We remind investors that Jumbo has consistently outperformed both the guidance and our own projections (FY17 actual numbers came in c8% above initial guidance and c2% above our estimate in Oct'16). This instills us with confidence that Jumbo will deliver net profit growth >10% in FY18e.

"Jumbonomics" – Jumbo enjoys high returns as a result of the combination of robust gross margins and high store productivity. With the expansion plan continuing at full speed, mgt seems to be trying to adhere to strict hurdle rates on investment targeting a payback period as short as two years for new stores in Romania. At group level, store metrics seem to validate the observation of healthy returns on capital, with our estimates pointing to a payback period less than 5 years and IRR close to 20% over a 10-year period. The high store profitability substantiates a case for rising profit margins and continuing delivery of healthy returns on capital, which will edge up to a high-teens level post 2019 on a lease-adjusted basis (post tax).

Valuation – Limited history of downgrades, consistent cash conversion (c50% of EBITDA converted into FCF in the last 7 years), property backing (owned property assets' book value at c€470m) and a robust balance sheet make up an attractive investment case. With Jumbo at >30% 2017 PE discount to the EU retail sector and well below its peak valuation, we see the current price level as an attractive entry point. Our PT is based on a DCF using 8.9% WACC and places the stock at c16x CY2018e PE, namely still >10% discount to the current valuation of EU retailers.

Estimates					
EUR mn	**2016a**	**2017a**	**2018e**	**2019e**	**2020e**
Revenues	637.6	681.4	736.9	790.1	852.9
EBITDA - adj.	183.7	194.8	215.3	233.0	248.2
Net profit - reported	121.3	131.0	145.5	161.2	173.9
Net profit - adj.	119.6	131.1	145.5	161.2	173.9
EPS - adj.	0.88	0.96	1.07	1.18	1.28
DPS	0.63	0.36	0.40	0.44	0.48

Valuation					
(Calendar Year)	**2016a**	**2017a**	**2018e**	**2019e**	**2020e**
P/E	14.9	13.5	12.2	11.1	10.2
EV/EBITDA	8.5	8.1	7.2	6.4	5.7
EBIT/Interest expense	NM	NM	NM	NM	NM
Dividend Yield	4.6%	2.6%	2.9%	3.2%	3.5%
ROE	14.0%	14.3%	14.7%	14.7%	14.5%

Note: Financial year ends in June

Recommendation	**BUY**
Target Price	**€18.20**
Closing Price (19/10)	€13.80
Market Cap (mn)	€1,877.6
Expected Return	31.9%
Expected Dividend	2.9%
Expected Total Return	34.8%

Jumbo Share Price

Stock Data

Reuters RIC	BABr.AT
Bloomberg Code	BELA GA
52 Week High (adj.)	€16.50
52 Week Low (adj.)	€11.32
Abs. performance (1m)	0.0%
Abs. performance (YTD)	-8.4%
Number of shares	136.1mn
Avg Trading Volume (qrt)	€2,330k
Est. 3yr EPS CAGR	9.9%
Free Float	73%

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See Appendix for Analyst Certification and important disclosures

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Investment case

Fundamental growth story…

Jumbo is one of the largest Greek retailers, with its product offering covering almost all retail sub-segments except for food. Return of Greece (69% of sales) to positive LFL (sales/store +4% in FY17) and further share gains in a fragmented market ought to underpin at least low single-digit domestic growth rates. Romania, Cyprus and Bulgaria are additional growth levers, but will still account for <c40% of sales in the near future on our numbers. Assuming domestic sales per store grow c3% post FY18 and international LFL growth is in broad sync with GDP growth, our estimate for c8% group sales CAGR through to 2021 looks underpinned. On the cost side, the recovery in freight rates dragged down gross margins in H2'17 (-150bps) but 2018 faces a currency tailwind (strong EUR vs. USD) which will be further supported by product mix management we believe. Overall, we contend that Jumbo is on track to deliver 8-11% EBITDA growth in FY18-19e, translating to double-digit EPS CAGR.

…with consistent cash generation

Jumbo's cash generating track record is impressive (OCF 55-90% of EBITDA in the last nine years). With EBITDA ranging between EUR215m and EUR248m over 2018-20e, we estimate Jumbo's FCF is set to surpass €120m from 2019 onwards even assuming capex ranges between €50m and €60m (incorporating 3 owned store openings per annum). Mgt has committed to distributing one third of profits as ordinary dividend, which would point to DPS €0.40-0.50 in the coming years on our numbers. Given the underleveraged balance sheet, there is clearly scope for heftier returns to shareholders in the form of special dividends, but we understand that mgt's intention is to continue operating a suboptimal capital structure taking advantage of its net cash position in order to secure better prices from its suppliers. The mgt's decision to propose the issuance of a convertible bond points to its desire to lower the cost of capital embedded in this ongoing cash "hoarding", and most likely suggests that mgt is not favourably disposed to the idea of pursuing a higher cash return policy, at least in the near future.

… property backing

Jumbo has significant property asset holdings, owning the freehold of around half of its outlets. The BV of Jumbo's owned property assets (land and buildings) as of end June 2017 was c€470m, namely c25% of the current market cap. With such a significant asset base and an under leveraged balance sheet, we believe that Jumbo has numerous options to extract value from its property portfolio at some point in the future (though this is not part of mgt's near-term plans). In any case, the property-backing should provide valuation support to the stock even in periods of high risk attached to Greek equities.

… and resilient margins

Jumbo's gross margins have remained >52% over FY13-17 despite deflationary pressures from fiscal consolidation in Greece and more expensive sourcing of goods as a result of the USD appreciation (in 2016). This has been the case partly due to mgt's negotiating ability vis-à-vis its suppliers and partly as a result of the negative correlation between the oil price (transport costs) and the USD (sourcing cost). Effectively, FX gains have historically acted as an offset of rising transport and we believe the same will be the case in FY18e. On the opex side, mgt has alluded to limited opportunities for further savings but we expect Jumbo's focus on labour scheduling and better employee utilization to continue, leading to some cost leverage as sales momentum strengthens in 2018-19. Overall, we believe Jumbo is on track to deliver c11% net profit growth in 2018 vs. flat profits targeted by mgt. We remind investors that mgt's budget has in the past proved too pessimistic and that mgt's main underlying assumption (Greek sales flat) is not in sync with GDP macroeconomic projections (>2% growth).

Valuation

Jumbo shares stand c8% higher than their level 12 months ago, with the price effectively adjusting for the growth delivered in FY17 (thereby trading on similar 1-year forward valuation multiples). As a consequence, the stock's discount vs. EU retailers has widened somewhat relative to its level last year and stands at a striking level (>30%). This is the case notwithstanding the fact that Jumbo offers a comparable (or in some cases superior) growth profile and enjoys a stronger balance sheet than its broad peer group. On that basis, we find the current valuation quite compelling, especially as we feel there is limited earnings risk. Our PT values the stock at c16x CY2018e PE, namely still >10% discount to the current valuation of EU retailers.

Valuation

As we have repeatedly argued, Jumbo does not really have any direct peers given the unique product mix. The European retail sector itself is quite diverse, comprising stocks with different growth prospects, margin trends, degree of maturity etc. As a result, the following table is presented solely to put Jumbo's valuation into some context within the broad European retail space.

Compared to the peer group, Jumbo is currently trading at a glaringly lower valuation. This is despite the fact that it enjoys a superior operating profit growth profile and it offers the potential for even higher operating leverage than the current c10% 3-year EPS CAGR suggests if it were to gear up the balance sheet. As an illustration, Jumbo stands on a 1.1x net cash/EBITDA position whereas most peers' net leverage is in excess of 1x EBITDA.

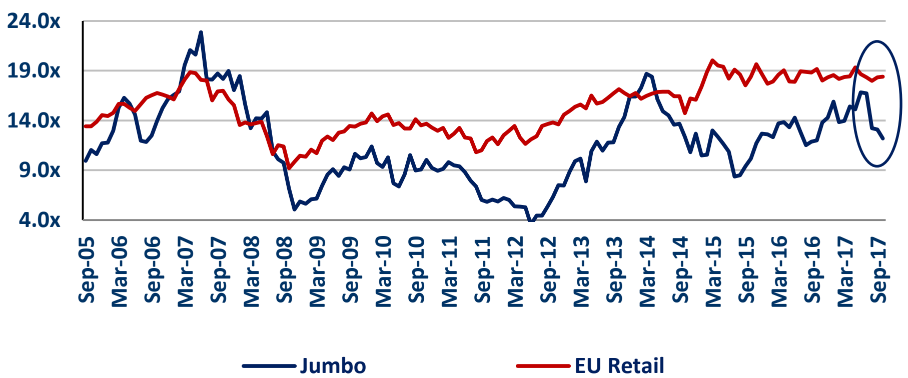
Jumbo broad peer group	PE		EV/EBITDA		Div. yield	ROA	EPS	EBITDA
	CY18e	CY19e	CY18e	CY19e	CY18e	2018e	3-year	3-year
Company							CAGR	CAGR
Adidas	23.6x	20.1x	13.9x	12.0x	2%	10%	24%	21%
Carrefour	13.7x	11.9x	5.9x	5.4x	4%	2%	8%	4%
Casino	14.1x	12.2x	9.2x	8.6x	6%	1%	3%	1%
Colruyt	17.9x	17.4x	8.5x	8.3x	2%	9%	0%	0%
Debenhams	8.3x	8.0x	3.7x	3.7x	7%	3%	-3%	2%
Dixons Carphone	6.8x	6.7x	4.2x	4.1x	6%	4%	0%	0%
Halfords Group	10.8x	10.2x	6.6x	6.3x	6%	7%	-6%	2%
H&M	17.7x	16.2x	9.9x	9.0x	5%	19%	4%	6%
Kering	22.2x	19.7x	14.8x	13.4x	2%	8%	23%	19%
M&S	12.6x	12.2x	5.9x	5.9x	5%	6%	3%	3%
Metro	16.1x	14.0x	3.9x	3.7x	3%	3%	10%	2%
Mothercare	8.6x	7.5x	3.7x	3.4x	NA	6%	11%	8%
Next	12.3x	12.2x	9.2x	9.2x	6%	24%	1%	-1%
Puma	30.1x	24.4x	13.5x	11.4x	0%	6%	52%	34%
WH Smith	18.5x	17.3x	11.8x	11.3x	2%	25%	5%	4%
European Retail	**18.0x**	**16.4x**	**8.9x**	**8.3x**	**4%**	**8%**	**10%**	**5%**
Jumbo	**12.2x**	**11.1x**	**7.2x**	**6.4x**	**3%**	**11%**	**10%**	**8%**

Source: Eurobank Equities Research, BBG

Valuation looks quite compelling, especially on a relative basis vs. the EU retail sector

The chart below displays how Jumbo's relative valuation has evolved over the last 12 years. The stock has traded at a long-run 1-year forward PE discount of c25% relative to the EU sector. On an absolute basis, the multi-year average stands near 11.5x. By consequence, the stock does not appear undervalued in the context of its historic average. However, we stress that the long-term average is dragged down by ultra low valuations (as low as 4x PE) during periods of elevated Greek risk (e.g. 2012, 2015). Ignoring these data points, the stock seems to have established a trading range between 10x and 16x over the last 3 years, which would make the current valuation look quite compelling.

Jumbo PE history vs. EU retailers

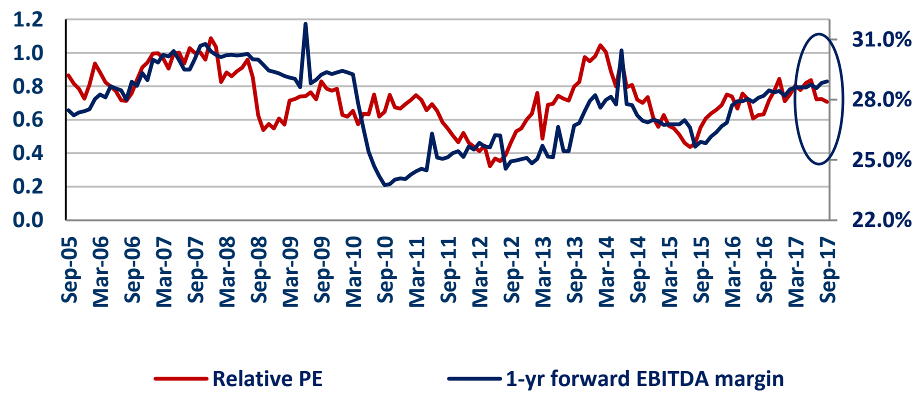


Source: Eurobank Equities Research, Bloomberg

Valuations vs. fundamentals disconnect

For investors not enthused by the widening of Jumbo's discount relative to the EU sector, it might be interesting to emphasize the disconnect between valuation and fundamentals. We exemplify this in the following chart, where we present Jumbo's relative valuation (Jumbo PE vs. that of the EU retail index). As the figure depicts, in general Jumbo's PE valuation has been driven by margin expectations, with the correlation being quite close in the last 4 years. More recently, however, there has been a fundamental disconnect (especially after the placement of a 3.5% stake by the main shareholder and group Chairman in June 2017): margin expectations have been on the rise but the share price and the relative valuation have been moving in opposite directions. We argue that this disconnect between fundamentals and valuation will not continue for long and believe the shares will rerate as investors start to price-in Jumbo's healthy margin progression.

Correlation between Jumbo's relative valuation (vs. EU sector) and margin expectations disrupted recently



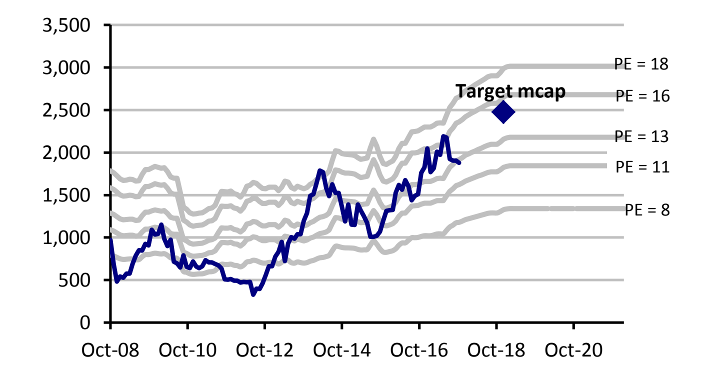
Source: Eurobank Equities Research, Bloomberg

Our PT values Jumbo at c16x PE and <10x EV/EBITDA on 2018e, quite reasonable in the context of the current valuation of top quality retailers

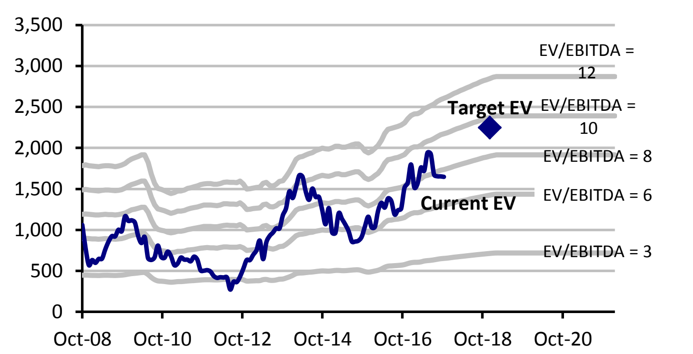
In absolute terms, the peak for Jumbo's market cap and EV has been close to €2.2bn and €2bn respectively and has translated to c16x PE and c10x EV/EBITDA. We show this in the charts below, along with the EV and market cap implied by our price target. Given Jumbo's c8-10% EBITDA and EPS CAGR, our PT effectively assigns a similar multiple (c16x PE and c10x EV/EBITDA) on 1-year forward earnings.

We believe that placing Jumbo on a near-peak valuation could be justified by: 1) the fact that EU retail stands on markedly higher PE valuation; 2) Retail stocks with double-digit EBITDA CAGR normally trade on EV/EBITDA multiples in excess of 9x and PE in excess of 20x; 3) Jumbo enjoys a far superior financial position than most EU retailers; and 4) Jumbo has a successful track record of growing sales and profits, even in a recessionary environment.

Jumbo market cap (in EURmn) and PE (1-year forward)



Jumbo EV (in EURmn) and EV/EBITDA (1-year forward)



Source: Bloomberg, Eurobank Equities Research

As far as the basis of our valuation is concerned, we derive our PT using a DCF of which the main assumptions are a WACC of 8.9%, medium term EBIT CAGR of c3.5% and long-term growth rate of 1%. It still incorporates sustainable NOPAT margins of c18% from c19.5% in 2019e, as we expect gross margins to fade towards c50% (albeit still above management's long-term guidance of 48% provided in the past). Our DCF assumes cash conversion (OCF/EBITDA) of c75% in the medium term, in sync with levels delivered in the recent past. A summary of our DCF can be seen below:

Jumbo DCF valuation

EURmn (FY to end June)	2018	2019	2020	2021	2022	2023	2024	2025	...	2028
NOPAT	143.6	155.9	167.3	183.5	186.8	198.3	199.8	201.0	...	203.0
NOPAT margin	19.5%	19.7%	19.6%	19.9%	19.3%	19.6%	18.9%	18.1%	...	17.8%
Depreciation	23.7	25.2	26.8	28.4	29.7	31.6	31.8	32.0	...	32.3
Working Capital change (increase)	(26.6)	(11.0)	(13.7)	(15.8)	(6.0)	(6.0)	(6.0)	(6.0)	...	(6.0)
Capex	(49.6)	(48.3)	(59.2)	(46.9)	(28.3)	(31.6)	(31.8)	(32.0)	...	(32.3)
Unlevered FCF (UNFCF)	**91.1**	**121.9**	**121.3**	**149.2**	**182.3**	**192.3**	**193.8**	**195.0**	**...**	**197.0**
PV of UNFCF	91.1	112.0	102.3	115.5	129.6	125.6	116.2	107.3	…	84.0
Sum of PV of UNFCF	1,183.8									
PV of Terminal Value	1,063.1									
Enterprise Value	**2,246.9**									
Net cash (debt)	206.8									
Equity value	**2,453.8**									
Number of shares (mn)	136.1									
Value per share (FY end)	18.0 €	19.1 €	20.2 €							
12-month fair value ex div.	**18.2 €**									

Source: Eurobank Equities Research

DCF – sensitivity to perpetuity growth and WACC assumptions

		Perpetuity growth (%)						
	€/share	**-3.0%**	**-2.0%**	**-1.0%**	**0.0%**	**1.0%**	**2.0%**	**3.0%**
WACC (%)	**6.9%**	18.6	19.5	20.5	21.9	23.8	26.4	30.4
	7.9%	16.9	17.5	18.3	19.3	20.6	22.3	24.7
	8.9%	15.5	15.9	16.5	17.3	**18.2**	19.3	20.9
	9.9%	14.3	14.6	15.1	15.6	16.3	17.1	18.2
	10.9%	13.3	13.6	13.9	14.3	14.8	15.4	16.2
	11.9%	12.4	12.6	12.9	13.2	13.6	14.0	14.6
	12.9%	11.6	11.8	12.0	12.3	12.6	12.9	13.3

Source: Eurobank Equities Research

FY’17 results overview

Jumbo results summary									
EURmn	**H1'16**	**H1'17**	**% change**	**H2'16**	**H2'17**	**% change**	**FY'16**	**FY'17**	**% change**
Sales	**371.8**	**401.9**	**8.1%**	**265.8**	**279.5**	**5.2%**	**637.6**	**681.4**	**6.9%**
of which:									
Greece	*265.2*	*275.0*	3.7%	*193.7*	*195.5*	0.9%	*458.9*	*470.5*	2.5%
Cyprus	*45.8*	*47.0*	2.7%	*33.1*	*33.6*	1.6%	*78.9*	*80.7*	2.3%
Bulgaria	*32.3*	*40.1*	24.3%	*19.7*	*24.5*	24.8%	*51.9*	*64.7*	24.5%
Romania	*28.4*	*39.7*	*39.5%*	*19.4*	*25.9*	*33.4%*	*47.9*	*65.6*	*37.0%*
COGS	180.2	196.2		119.5	129.8		299.6	325.9	
Gross profit	**191.6**	**205.7**	**7.4%**	**146.3**	**149.8**	**2.3%**	**337.9**	**355.5**	**5.2%**
margin	*51.5%*	*51.2%*	*-0.3pps*	*55.1%*	*53.6%*	*-1.5pps*	*53.0%*	*52.2%*	*-0.8pps*
Operating costs	-83.8	-87.9	4.9%	-68.4	-71.6	4.7%	-152.1	-159.4	4.8%
% of sales	*22.5%*	*21.9%*	*-0.7%*	*25.7%*	*25.6%*	*-0.1%*	*23.9%*	*23.4%*	*-0.5%*
Other income/ (expenses)	-2.3	-0.6		0.2	-0.7		-2.1	-1.3	
EBITDA	**105.5**	**117.3**	**11.2%**	**78.2**	**77.5**	**-0.9%**	**183.7**	**194.8**	**6.0%**
EBITDA margin	*28.4%*	*29.2%*		*29.4%*	*27.7%*		*28.8%*	*28.6%*	
Depreciation	-11.2	-11.3		-11.4	-11.7		-22.7	-23.1	
Net interest income (expense)	0.7	1.1		1.2	0.7		1.8	1.8	
PBT - adj.	**94.9**	**107.1**	**12.8%**	**67.9**	**66.5**	**-2.2%**	**162.9**	**173.5**	**6.5%**
Other/exceptionals	1.9	-0.1		0.4	-0.1		2.2	-0.2	
PBT - reported	**96.8**	**107.0**	**10.5%**	**68.3**	**66.5**	**-2.7%**	**165.1**	**173.5**	**5.0%**
Tax	-24.3	-25.6		-19.6	-16.9		-43.9	-42.5	
Net profit - reported	**72.5**	**81.4**	**12.3%**	**48.7**	**49.6**	**1.7%**	**121.3**	**131.0**	**8.0%**
EPS - reported (EUR)	**0.53**	**0.60**	**12.3%**	**0.36**	**0.36**	**1.7%**	**0.89**	**0.96**	**8.0%**
FCF	**129.7**	**100.0**		**-45.3**	**-27.0**		**84.4**	**73.0**	
Net cash	**281.2**	**258.9**		**258.5**	**206.8**		**258.5**	**206.8**	
Inventory	152.6	207.8		196.8	239.2		196.8	239.2	
Average EUR/USD	1.10	1.10		1.12	1.08		1.11	1.09	
Freight rates % change yoy (EEe)	*-27.0%*	*-6.0%*		*-28.5%*	*20.0%*		*-28.0%*	*7.0%*	

Source: Company, Eurobank Equities Research

Gross margin compression intensified in H2 and was coupled with subdued top line performance in Greece…

Jumbo had a relatively lukewarm finish to FY17, reporting results slightly below market estimates (EBITDA €194.8m vs. consensus of €196.7m) as a result of a more pronounced gross margin compression (-1.5pps in H2 vs. our -0.7pps expectation). This meant that H2 EBITDA was slightly down yoy at €77.5m, c2.4% lower than consensus. Seeking to alleviate concerns about current trading, mgt revealed that Q1 trading was very robust, with sales posting an impressive 12% rise yoy. On the dividend front, the BoD decided to propose a €0.18 per share final DPS, taking the total FY17 DPS to €0.36.

In more detail, H2 sales of €279.5m (+5.2% yoy) were already pre-released driven by 0.9% growth in Greece (like-for-like), 25% in Bulgaria and 33% in Romania (propelled by the operation of 1 extra store). Across the various product categories, seasonal and home products grew 7% in the full year, while toys’ sales were down -11%. Jumbo has lately been focusing on haberdashery and novelty items which now account for c7.5% of the mix.

On the margin front, Jumbo suffered a c1.5bps gross margin decline in H2 (following c30bps compression in H1) as a result of the higher transport costs. Overall, for FY17 Jumbo reported revenues €681.4m (+6.9% yoy) and EBITDA €194.8 (+6% yoy). Net profit amounted to €131m, +8% yoy and 8% higher than the number envisaged by mgt at the start of the financial year.

On the cash flow front, Jumbo converted c57% of EBITDA into operating cash flow (OCF €110m vs. €119m in FY16) managing to deliver €72m of FCF (€84m in FY17). Cash conversion in FY17 was dragged down by increased working capital investment, as Jumbo seems to have been building up inventory in view of the 4 new stores’ scheduled roll-out this year. Jumbo’s net cash position amounted to €207m as of end June 2017, a bit lower than our €226m estimate due to the aforementioned stocking-up of inventory.

As far as the main feedback from the analyst meeting is concerned, we point out the following:

- **2018 sales guidance:** Mgt is guiding for 6-9% top line growth. This will be driven by c50% growth in Romania, 25% growth in Bulgaria, 4-5% in Cyprus and a flattish performance in Greece according to mgt's budget.
- **2018 cost guidance:** Mgt expects a flattish bottom line performance. This assumes a slight contraction in the gross margin (driven by transport costs) and some pressure on the opex side. Note however that mgt's budget is predicated on a €/$ rate below spot, namely 1.12-1.15. This leaves room for gross margins to be flat or even higher yoy.
- **Current trading:** Q1 sales were up 12% as per mgt's comment in the press release. Focusing on the Greek operations, run rates were positive in both July and August but momentum has faded since mid August, with revenue growth flattening (i.e. becoming in line with the budget).
- **Product mix:** mgt suggested that the product mix is near the equilibrium, effectively implying limited room for margin gains in the future. That being said, it did emphasize that baby products (which bear margin close to c45% we believe) are likely to become even less important in the mix.
- **Capex and store roll-out plans:** For 2018, mgt is planning to roll out 3 stores in Romania and one in Greece. The capex envisaged for 2018 is €45-50m (in line with our assumption).
- **E-shop:** e-commerce in Greece is gaining momentum with the number of SKUs now approaching 24K compared with just 3K upon launch of the particular distribution channel.
- **Long-term:** mgt is targeting the roll-out of 3 stores per annum on average, pointing to capex of c€50m. Effectively, 1/3 of profits will be paid out as dividend, 1/3 will go to the tax authorities and 1/3 is likely to be spent as capex (though the latter may occasionally fluctuate). On the margin front, mgt reiterated its expectation that margins will trend down in the long-term, especially when one takes into account the shifting geographic mix.
- **Hurdle rates:** Mgt suggested that its target in Romania is for payback period of just 2 years.
- **Convertible bond issuance to be proposed at the upcoming AGM:** Mgt's believes that the 3.5% cost embedded in the existing bond loan is too high. On that basis, it is clearly aiming to lower the financing costs and this is the main reason it intends to propose the issuance of a convertible. The cash proceeds will be used to finance the investment plan in Romania (store network to go from 8 stores currently to 25 stores in the next 5 years) and to build an extra cash cushion. Mgt also wants to retain the optionality of potentially speeding up its investment plan in Romania if opportunities arise.

Top line outlook

I. Like for like trends remain healthy…

Volume-driven growth in sales per store

Jumbo has an impressive sales track record managing to sustain positive growth even during periods of unprecedented challenges facing the Greek business (>70% of the revenue mix). Underpinning this performance has been the expansion of the network, as Jumbo added 4-7 stores per annum over 2011-2015 taking advantage of space availability in Greece at the peak of the crisis and opportunities for capacity growth in Romania.

That being said, sales growth has also been supported by healthy like-for-like performance. Although the latter is not formally disclosed, looking at the average group sales per store, one can see that this has turned positive since 2016. This is all the more remarkable given the negative geographic mix effect, as store densities in Romania and Bulgaria are c70-80% of the respective figure achieved in Greece. Instrumental in the growth in the average sales per store has been Jumbo's low-ticket product offering, which has enabled it to benefit from down-trading dynamics in Greece, thereby enjoying high customer footfall. The latter has translated into higher volumes given Jumbo's low average selling price. The replacement of smaller stores with larger ones (as explained in the next page) has also boosted sales per store recently.

Operating performance

EURm	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales	342.7	404.0	467.8	487.3	490.0	494.3	502.2	541.8	582.5	637.6	681.4
yoy change	21.8%	17.9%	15.8%	4.2%	0.5%	0.9%	1.6%	7.9%	7.5%	9.4%	6.9%
Number of stores (year end)	39	41	44	45	52	58	62	66	72	71	73
Average sales per store	8.6	10.1	11.0	11.0	10.1	9.0	8.4	8.5	8.4	8.9	9.5
% change yoy	18.7%	17.9%	9.0%	-0.5%	-7.8%	-11.0%	-6.9%	1.2%	-0.3%	5.6%	6.1%

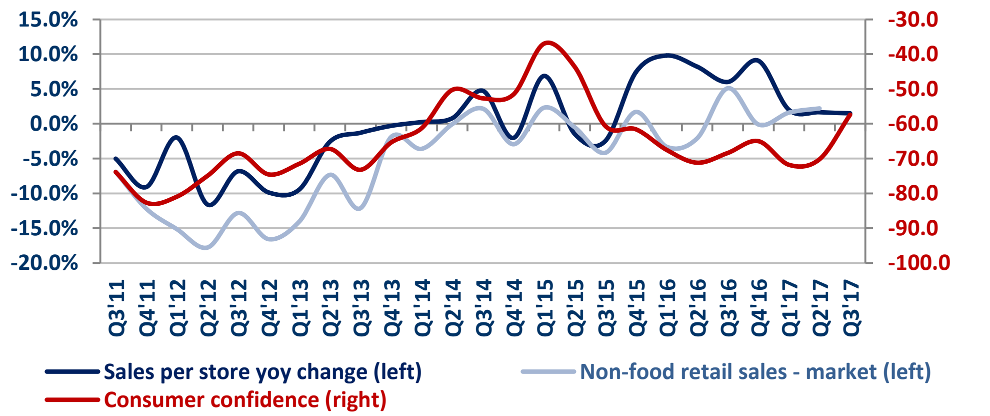
Source: Eurobank Equities Research

2-4% group organic growth is in sync with weighted average GDP growth in Jumbo's territories

Looking ahead, we believe Jumbo will be able to sustain c2-4% annual organic growth in all regions where it operates. This is in broad sync with the average real GDP growth rate forecast by the IMF for Jumbo's markets. In more detail:

- **Greece:** This remains Jumbo's most relevant market as it still accounts for c69% of group revenues. With consumer confidence remaining on an upward trajectory for 6 straight months reaching 2.5-year highs in September, macro is set to pose fewer challenges for Jumbo's Greek business in 2018. We also argue that consumer spending will continue to be cushioned by money under-the-mattress. By implication, we expect Jumbo to deliver c3% growth in domestic sales per store over 2019-2021e following c1% in 2018e.

Jumbo Greece – sales per store and consumer confidence (calendar quarters)



Source: IOBE, Company data, Eurobank Equities Research

- **Romania:** Real GDP dynamics in Romania surpassed even the most optimistic forecasts in calendar Q2'17. Underpinning disposable income has been the VAT rate cut and the rapid rise in real wages coupled with strengthening consumer sentiment. Although there are some concerns on the fiscal side (leading to a rise in fuel excise taxes as of September), our economists believe Romania is set to enjoy c4% GDP growth in 2018 and c6.5% growth in employee compensation. Against this background, we believe Jumbo will be able to sustain at least 3% growth in sales per sqm.

- **Bulgaria:** Labour market improvements coupled with high real wage growth and falling unemployment (6%, lowest since Q1'09) have underpinned robust GDP growth run rates in 2017 (c3.5%). We anticipate private consumption dynamics to remain strong as the economy benefits from a more expansionary fiscal policy stance, accelerated EU funds absorption in the coming quarters, a vibrant export oriented manufacturing sector, and a rebounding real-estate market. The aforementioned points lend weight to the view that Jumbo's store density will grow at least in the low single-digits (3% incorporated in our numbers over 2019-2021e).

- **Cyprus:** After a three year recession in 2012-2014 and a cumulative drop of 10.5% of GDP, the Cypriot economy recovered in 2015, with growth gaining further momentum in both 2016 (+2.8%) and 2017e (+3.5%). From a demand point of view, final consumption continues to showcase robust trends (+4.1% yoy in Q2'17) driven by strong sentiment improvement, a flourishing tourism sector, enhanced labour market conditions, property market stabilization, the impact from fiscal relaxation, and normalization of banking sector conditions. On the other hand, there remain several unfinished structural reforms in the areas of privatizations, public and health sectors, while the stock of bad loans remains high (NPEs c47% in Dec 2016), thereby posing risks to short-term growth, especially ahead of the Presidential elections in 2018. On that basis, our medium-term estimates for Jumbo are predicated on organic growth c2%, namely lower than the forecast GDP growth.

Macro data				
Bulgaria	**2015**	**2016**	**2017e**	**2018e**
Real GDP (% yoy)	3.6	3.4	3.6	3.5
Inflation (% yoy)	-0.1	-0.8	1.6	1.7
Unemployment rate (%)	9.2	7.6	6.3	5.8
Compensation of employees/head (% yoy)	5.6	3.9	4.1	4.5
Cyprus	**2015**	**2016**	**2017e**	**2018e**
Real GDP (% yoy)	1.7	2.8	3.5	3.1
Inflation (% yoy)	-1.5	-1.2	1.0	1.5
Unemployment rate (%)	15.0	13.1	11.5	10.0
Compensation of employees/head (% yoy)	-1.1	-0.6	0.7	1.1
Romania	**2015**	**2016**	**2017e**	**2018e**
Real GDP (% yoy)	3.7	4.8	5.5	4.0
Inflation (% yoy)	-0.6	-1.6	1.4	3.1
Unemployment rate (%)	6.7	5.9	5.3	5.2
Compensation of employees/head (% yoy)	0.9	10.3	9.5	6.5

Source: EC, IMF, Eurobank Research

II. … and are underpinned by reasonable capacity growth

Mature store estate in Greece, but selling space still growing slightly through network upgrades

Selling space has to a great extent matured in Greece, with the number of stores in operation showcasing limited variation over 2013-2017 (50-52 stores). In the last 6-7 years, management has pivoted towards increasing focus on the hypermarket concept, opening large stores with gross space area of c10-15K sqm. This has been coupled with the closure of small points of sale (c5K sqm) resulting in zero net openings in the last four years. That being said, the store upgrade program has led to an increase in the average store size, resulting in a small increase in selling space.

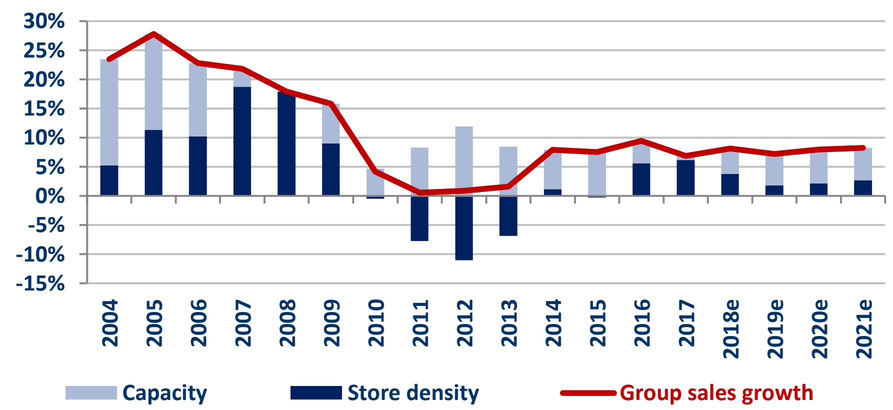
Romania capacity set to triple in the next 5 years (to 25 stores); we incorporate 20 stores by 2021e

As far as international operations are concerned, Romania provides the main avenue for growth given the favourable demographic trends and urbanisation profile. Management was previously targeting a network of 18-20 stores in Romania, but recently upgraded this guidance to 25 stores in the next 5 years. This compares with just 8 stores now, pointing to 3-4 stores being added annually in the country. Our numbers assume Jumbo's network will reach 20 stores by 2021e. We assume no more additions in Cyprus and just one new store Bulgaria in FY20.

4-6% capacity-led growth; 2-4% organic growth; high single-digit growth at group level

At group level, we envisage net space growth of approximately 4-6% per annum over 2018-2021e. Coupled with c2-4% organic growth, we expect Jumbo to sustain 7-8% top line growth at group level.

Jumbo sales growth breakdown



Source: Company data, Eurobank Equities Research

Below we lay out our divisional estimates across Jumbo's geographic segments.

Jumbo estimates by country					
EURmn	**FY'16**	**FY'17**	**FY'18e**	**FY'19e**	**FY'20e**
Greece					
Sales	458.9	470.5	480.1	504.2	528.3
% change	*4.8%*	*2.5%*	*2.0%*	*5.0%*	*4.8%*
Number of stores	51	51	52	53	54
EBITDA	123.9	124.1	131.4	140.7	144.3
margin	*27.0%*	*26.4%*	*27.4%*	*27.9%*	*27.3%*
Cyprus					
Sales	78.9	80.7	83.9	85.6	87.3
% change	*5%*	*2%*	*4%*	*2%*	*2%*
Number of stores	5	5	5	5	5
EBITDA	27.4	28.0	29.5	30.1	31.0
margin	*34.8%*	*34.7%*	*35.2%*	*35.2%*	*35.5%*
Bulgaria					
Sales	51.9	64.7	78.5	80.8	85.4
% change	*15%*	*24%*	*21%*	*3%*	*6%*
Number of stores	8	9	9	9	10
EBITDA	16.1	19.3	23.4	24.3	25.3
margin	*31.0%*	*29.9%*	*29.8%*	*30.0%*	*29.6%*
Romania					
Sales	47.9	65.6	94.4	119.5	151.9
% change	*97%*	*37%*	*44%*	*27%*	*27%*
Number of stores	7	8	11	14	17
EBITDA	16.2	23.5	31.0	37.9	47.6
margin	*33.9%*	*35.8%*	*32.8%*	*31.7%*	*31.3%*
Group EBITDA	**183.7**	**194.8**	**215.3**	**233.0**	**248.2**
Margin	*28.8%*	*28.6%*	*29.2%*	*29.5%*	*29.1%*
Source: Company, Eurobank Equities Research.					

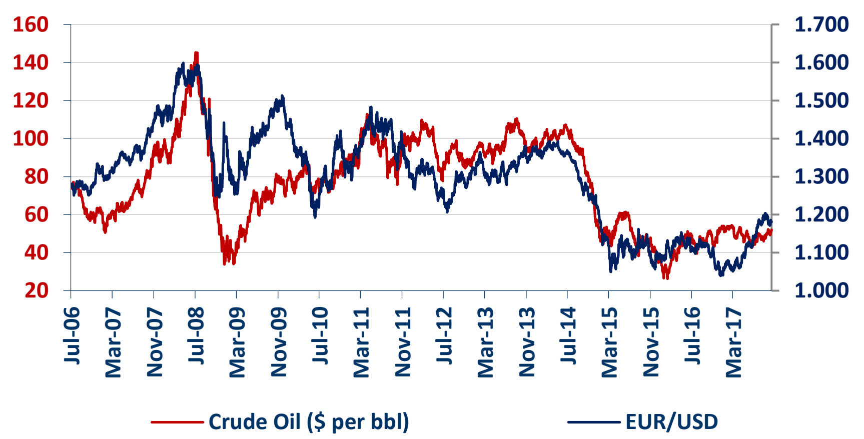
Cost outlook

I. Currency has switched into a tailwind for 2018…

FX impact and transport costs normally moving in opposite directions, thereby limiting the variation in Jumbo's gross margin

As we displayed in past reports, Jumbo's gross margin has showcased impressive resilience in the last decade ranging between 52% and 54%. We have argued that one reason for this – besides mgt's negotiating ability vis-à-vis its suppliers – has been the inverse relationship between the USD (EUR/USD rate affects sourcing costs for Jumbo) and commodity prices (inflicting transport costs).

Weak USD (lower sourcing costs) usually related with high oil price (higher transport costs)



Source: Eurobank Equities Research, Bloomberg

The following table is illustrative of this dynamic as manifested in Jumbo's gross margin evolution over 2008-17. Effectively, the table suggests that FX gains have historically acted as an offset of rising transport costs (or vice-versa). The two drivers have been simultaneous headwinds in just a limited number of years (e.g. 2011, 2012, 2017).

Jumbo gross margin drivers

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Gross margin	54.4%	54.4%	54.1%	53.2%	53.2%	52.3%	53.1%	53.2%	53.0%	52.2%
yoy	1.2%	-0.1%	-0.3%	-0.9%	0.0%	-0.9%	0.8%	0.0%	-0.2%	-0.8%
EUR/USD	1.47	1.37	1.39	1.36	1.34	1.29	1.36	1.20	1.11	1.09
yoy	12.7%	-6.7%	1.3%	-1.9%	-1.8%	-3.4%	4.9%	-11.4%	-7.7%	-1.8%
Oil price (USD/bbl)	96.9	70.3	75.2	89.5	95.0	92.2	101.3	69.4	42.0	48.5
yoy	52.5%	-27.5%	7.1%	18.9%	6.1%	-2.9%	9.8%	-31.5%	-39.4%	15.3%
CCFI				1,040.9	1,038.9	1,154.4	1,083.4	1,026.3	741.0	755.4
yoy					-0.2%	11.1%	-6.1%	-5.3%	-27.8%	1.9%

Source: Bloomberg, Eurobank Equities Research. Red shade indicates positive impact for Jumbo's margins.

FX has now turned into a tailwind for Jumbo

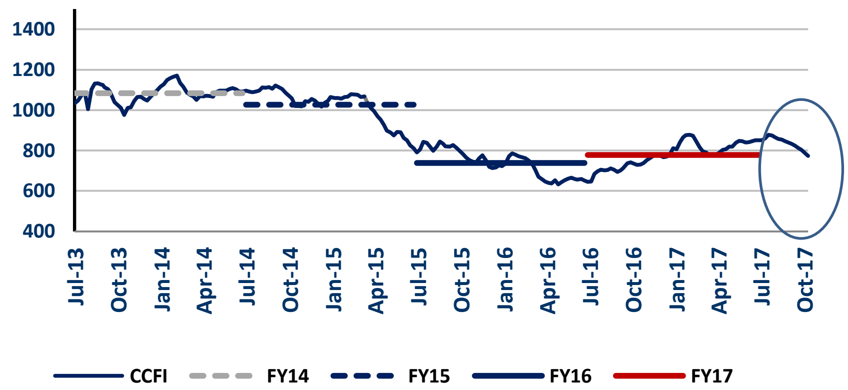
As far as FX is concerned, this moved from being a significant headwind since 2015 to being a small tailwind in 2018e following the c7% rally of the EUR against the USD since mid-May 2017. Beside central bank policy prospects, other factors providing support to the EUR are the removal of political risks (as opposed to political dysfunction in the US) and improved fundamentals in the euro zone. Against this background, consensus estimates point to a EUR/USD near 1.2 in 2018e, namely c2% higher than the spot rate.

II. … only partly offset by higher transport costs

Container shipping companies have pointed to relatively "disciplined" capacity growth, implying a mildly upward trajectory for freight rates

Transport costs currently make up c20% of Jumbo's COGS, we estimate. They reflect primarily the cost of shipping products from Asia into Greece. Freight costs declined substantially in 2015 as a result of lower oil prices and overcapacity in the freight industry. Rates recovered in 2016-17 as demand outpaced supply but since the summer we have actually seen some pressure on the back of a significant step-up in capacity delivered since June. Looking ahead, Maersk seems to have pointed to "disciplined" supply growth likely to be more in sync with demand. In the absence of capacity-driven pressures (no new orders of vessels), we understand that freight rates are set to remain on a mildly upward trajectory, something which is likely to be reflected in the guise of higher transport costs for Jumbo.

Containerized freight indices point to an upward trend for transport costs



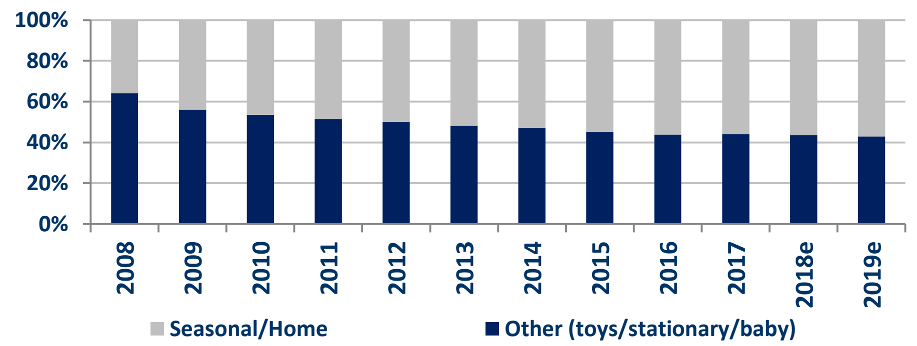
Source: Eurobank Equities Research, Bloomberg. FY13-17 are averages for the CCFI.

III. We expect product mix to remain margin-accretive…

Product mix shift could add c40bps to the gross margins in 2018e

Although mgt seems to suggest that there is limited scope for further margin gains stemming from the product mix as this is approaching "equilibrium", we reiterate our view that the ongoing shift away from the traditional toy category to home/seasonal products will continue to have an incipient positive impact on gross margins for a few more years. On our estimates, were we to assume that seasonal/home products increase c9% in FY18 (at the top of the mgt guidance) while toys remain flat and other products grow c4.5% (so that group sales growth ends up at the low-end of the guided range), gross margins would increase by c40bps ceteris paribus.

Jumbo mix by product category (% of sales)

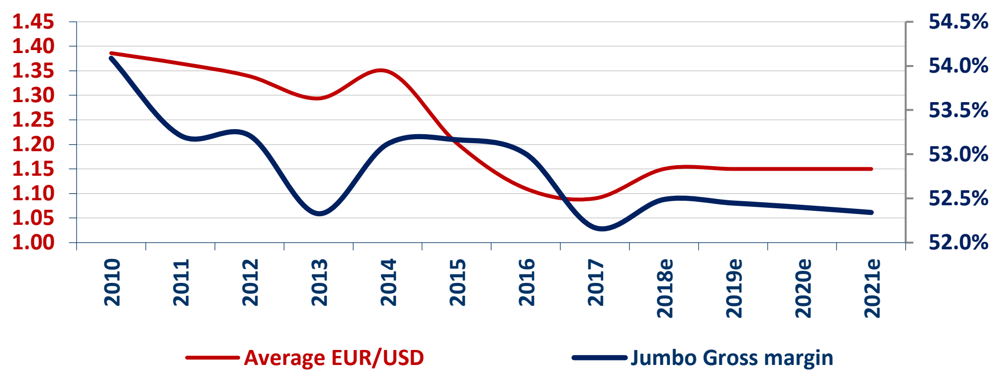


Source: Eurobank Equities Research, Company data

IV. … and now envisage 30bps gross margin expansion in FY18e

With transport costs likely to be more than offset by FX tailwinds and product mix benefits, we are instilled with confidence that gross margins will not contract in FY18e as mgt's guidance seems to suggest. In fact, on our new numbers Jumbo's gross margins will grind slightly higher in FY18e assuming a EUR/USD rate of 1.15. Looking further out, we see margins staying broadly flat through to 2021e.

Jumbo gross margin evolution



Source: Eurobank Equities Research, Company data

Earnings outlook

I. High-single profit CAGR sustainable in our view

We envisage a dent to cost leverage as variable lease agreements lead to rising rental costs; but still expect at least high single digit profit growth

Given our expectation for high single-digit sales growth in the coming years and an outlook for flattish gross margins, we believe Jumbo will sustain at least high-single-digit EBIT growth over 2018-21e, with growth being more pronounced in 2018e driven by the stronger top line growth embedded in our numbers. This is hardly overambitious, in our view, as it incorporates just limited cost leverage stemming mostly from payroll savings (more efficient use of personnel in 2018-19e). We anticipate occupancy costs to improve only slightly as % of sales post 2018e as variable rental agreements lead to a rise in operating lease costs, which we expect will move in broad tandem with sales growth of leased stores.

We thus envisage a c75bps expansion in EBIT margins over 2017-2020 translating to annual EBIT CAGR of c9%.

Jumbo operating performance										
EURm	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
Sales	**490.0**	**494.3**	**502.2**	**541.8**	**582.5**	**637.6**	**681.4**	**736.9**	**790.1**	**852.9**
yoy change	0.5%	0.9%	1.6%	7.9%	7.5%	9.4%	6.9%	8.1%	7.2%	7.9%
Gross profit	**260.7**	**263.0**	**262.8**	**287.8**	**309.7**	**337.9**	**355.5**	**386.8**	**414.4**	**446.9**
Gross margin	53.2%	53.2%	52.3%	53.1%	53.2%	53.0%	52.2%	52.5%	52.4%	52.4%
Payroll	-62.2	-63.5	-61.0	-65.8	-68.3	-69.1	-74.8	-79.8	-84.5	-94.7
% of sales	12.7%	12.9%	12.2%	12.1%	11.7%	10.8%	11.0%	10.8%	10.7%	11.1%
Occupancy costs/other	-53.3	-56.0	-61.1	-66.0	-73.3	-77.7	-79.2	-84.3	-89.5	-95.7
% of sales	10.9%	11.3%	12.2%	12.2%	12.6%	12.2%	11.6%	11.4%	11.3%	11.2%
Store contribution	**145.2**	**143.5**	**140.6**	**156.1**	**168.1**	**191.1**	**201.4**	**222.7**	**240.4**	**256.4**
Store operating margin	29.6%	29.0%	28.0%	28.8%	28.9%	30.0%	29.6%	30.2%	30.4%	30.1%
Admin costs and advertising	-25.3	-26.4	-25.4	-29.0	-30.1	-30.1	-29.6	-31.2	-32.7	-35.1
EBIT	**119.9**	**117.0**	**115.2**	**127.1**	**138.0**	**161.0**	**171.7**	**191.5**	**207.8**	**221.4**
EBIT margin	24.5%	23.7%	22.9%	23.5%	23.7%	25.3%	25.2%	26.0%	26.3%	26.0%
EBIT growth	-9.1%	-2.4%	-1.6%	10.4%	8.6%	16.7%	6.7%	11.5%	8.5%	6.6%

Source: Company, Eurobank Equities Research

II. … underpinned by robust store economics ("Jumbonomics")

High-teens returns on invested capital underpinned by robust margins

Jumbo enjoys high returns as a result of the combination of robust gross margins and high store productivity (i.e. sales per store). Although NOPAT margin has retreated from >20% in the pre-crisis years (partly due to the higher taxation), it remains in the high-teens thereby underpinning a c17% ROIC. Of note, invested capital turns were on a downward trajectory over 2007-2013 as Jumbo faced a challenging domestic environment with relatively subdued LFL growth rates, but more recently the situation improved leading to an uptick in returns. This trajectory was interrupted in 2017 but we expect the recovery in Greek LFL to lead to ROIC gains.

Jumbo returns											
FY to end June	2007	2008	2009	2010a	2011a	2012a	2013a	2014a	2015a	2016a	2017a
NOPAT margin	20.9%	21.4%	21.3%	16.5%	19.1%	19.3%	18.8%	18.3%	18.2%	18.5%	19.0%
Invested capital turnover (x)	1.17	1.07	1.07	1.02	0.93	0.86	0.81	0.87	0.88	0.94	0.88
ROIC	24.4%	22.8%	22.9%	16.9%	17.7%	16.6%	15.2%	15.8%	16.0%	17.3%	16.8%

Source: Company, Eurobank Equities Research

"Jumbonomics"

Store metrics validate the observation of healthy returns on capital and point to a period of less than 5 years on average required for Jumbo to recover the investment cost related to a new freehold store. We illustrate this in the table below, where we present the P&L of an owned store for a period of 10 years, assuming flattish gross margins (close to 52.5%) while also allocating a portion of admin costs to capture the incremental central costs which might be associated with the opening of a new store. Assuming only tepid growth in sales density in the first four years (and flat sales density thereafter), the c34% EBITDA margin implies a <5 years payback period and an IRR close to 20% over a 10-year period (assuming c€14-15m initial investment). Note that the analysis below is presented solely for illustration purposes only, since Jumbo's mgt has alluded to even stricter criteria for store openings in Romania pointing to a targeted payback period of 2 years.

Store economics years 1-10

EUR '000s	1	2	3	4	5	6	7	8	9	10
Sales per store	9,365	9,665	9,899	10,142	10,142	10,142	10,142	10,142	10,142	10,142
growth	1.6%	2.1%	1.4%	4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gross profit	4,915	5,069	5,187	5,308	5,308	5,308	5,308	5,308	5,308	5,308
Gross margin	52.5%	52.4%	52.4%	52.3%	52.3%	52.3%	52.3%	52.3%	52.3%	52.3%
Payroll	-1,014	-1,033	-1,099	-1,125	-1,125	-1,125	-1,125	-1,125	-1,125	-1,125
% of sales	10.8%	10.7%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%
Occupancy costs/ other	-676	-693	-709	-722	-722	-722	-722	-722	-722	-722
% of sales	7.2%	7.2%	7.2%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%
Share of central costs	-55	-55	-56	-56	-59	-59	-59	-59	-59	-59
% of sales	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
EBITDA owned store	**3,170**	**3,287**	**3,322**	**3,404**	**3,402**	**3,402**	**3,402**	**3,402**	**3,402**	**3,402**
Owned store margin	33.9%	34.0%	33.6%	33.6%	33.5%	33.5%	33.5%	33.5%	33.5%	33.5%

Source: Eurobank Equities Research

For a leased shop the respective EBITDA margin would be weighed down by the associated rental expense (mid-single digit percentage of sales, we estimate) but, on the other hand, the initial investment required would also be lower (working capital).

In any case, the high store profitability substantiates a case for rising profit margins and continuing delivery of healthy returns on capital, which will edge up to a high-teens level post 2019 on a lease adjusted basis (post tax).

Below we display a summary of our projections for Jumbo over 2017-2021.

Jumbo operating assumptions

EURm unless otherwise stated	2015	2016	2017	2018e	2019e	2020e	2021e
Number of stores (year end)	72	71	73	77	81	86	90
Average store density	8.4	8.9	9.5	9.8	10.0	10.2	10.5
yoy	-0.3%	5.6%	6.1%	3.8%	1.8%	2.1%	2.7%
of which Greece	8.3	8.8	9.2	9.3	9.6	9.9	10.2
yoy	1.4%	6.3%	4.5%	1.0%	3.0%	2.8%	2.8%
Group sales	**582.5**	**637.6**	**681.4**	**736.9**	**790.1**	**852.9**	**923.2**
yoy	7.5%	9.4%	6.9%	8.1%	7.2%	7.9%	8.2%
Greece	437.9	458.9	470.5	480.1	504.2	528.3	553.3
yoy	2.9%	4.8%	2.5%	2.0%	5.0%	4.8%	4.7%
Cyprus	75.0	78.9	80.7	83.9	85.6	87.3	89.0
yoy	12.2%	5.1%	2.3%	4.0%	2.0%	2.0%	2.0%
Bulgaria	45.3	51.9	64.7	78.5	80.8	85.4	94.7
yoy	12.0%	14.5%	24.5%	21.4%	3.0%	5.7%	10.9%
Romania	24.3	47.9	65.6	94.4	119.5	151.9	186.2
yoy	175.1%	97.1%	37.0%	44.0%	26.6%	27.1%	22.5%
Gross profit	**309.7**	**337.9**	**355.5**	**386.8**	**414.4**	**446.9**	**483.2**
Gross margin	53.2%	53.0%	52.2%	52.5%	52.4%	52.4%	52.3%
Payroll costs (excl. admin)	-68.3	-69.1	-74.8	-79.8	-84.5	-94.7	-102.5
% of sales	11.7%	10.8%	11.0%	10.8%	10.7%	11.1%	11.1%
Other opex	-103.4	-107.8	-108.8	-115.5	-122.2	-130.8	-139.7
% of sales	17.8%	16.9%	16.0%	15.7%	15.5%	15.3%	15.1%
EBIT	**138.0**	**161.0**	**171.8**	**191.5**	**207.8**	**221.4**	**241.1**
margin	23.7%	25.3%	25.2%	26.0%	26.3%	26.0%	26.1%

Source: Company, Eurobank Equities Research

III. … while guidance is too cautious as always

Actual performance has consistently exceeded company guidance

Mgt's guidance calls for 6-9% top line growth in FY18e partly driven by the roll-out of 4 new stores (3 in Romania and 1 in Greece). Despite the healthy revenue growth, mgt anticipates flattish net profit yoy, envisaging a compression in gross margins as a result of the higher transport costs.

Although we do expect a dent to profit growth from the increased transport costs – as we argued in the previous section – this will be more than offset by the FX tailwind assuming the EUR/USD stabilizes near current levels for the remainder of the year. We also stress that mgt has in the past proved too conservative in its guidance, basing it on too pessimistic assumptions especially with respect to the EUR/USD. Against this background, we note that mgt's guidance is predicated on a EUR/USD range 1.12-1.15.

The aforementioned point is validated by comparing Jumbo's actual performance with the guidance provided by mgt at the start of each financial year. As one can see, with the only exception of 2015 (at the peak of the "Grexit" debate) Jumbo has not only outperformed the guidance but it has also exceeded our own projections. This instills us with confidence that Jumbo will deliver net profit growth in excess of 10% in FY18e.

Guidance history

Net profit in EURm	FY14	FY15	FY16	FY17	FY18e
Guidance at annual analyst meeting	75.0	90-95	78-88	121.3	131.0
Actual delivered	101.2	104.9	121.3	131.0	
Eurobank Equities estimate at the time of guidance (start of FY)	95.7	108.4	103.5	128.5	145.5
Actual vs. guidance	35%	13%	46%	8%	
Actual vs. Eurobank Equities estimate	6%	-3%	17%	2%	

Source: Company, Eurobank Equities Research

Main assumptions underpinning mgt guidance

	FY14	FY15	FY16	FY17	FY18e
Mgt guidance					
Sales (yoy %)	2-4%	4-6%	0-4%	4-7%	6-9%
Gross margins (bps yoy)	-150	-150	NA	NA	Slightly down
Actual result					
Sales (yoy %)	7.9%	7.5%	9.4%	6.9%	
Gross margins (bps yoy)	79	5	-16	-84	

Source: Company, Eurobank Equities Research

Estimate update

c11% EPS growth in FY18e

We have made limited changes to our estimates following Jumbo's FY17 results and the feedback from the annual analyst meeting. Our top line estimates for FY18 have been edged up slightly but we stand below the upper end of the guided range (we envisage sales growth +8%). On the profitability side, we expect the freight rate headwind to be more than offset by the FX tailwind thus leading to slightly higher gross margins in FY18e. We anticipate flattish gross margins thereafter. Overall, the small upgrade to our sales estimate is broadly offset by the lower profit base (as FY17 numbers came in a bit below our estimates), thereby leading to broadly unchanged projections over FY18-20e.

Estimate changes

		FY18e	FY19e	FY20e
New	**Sales**	736.9	790.1	852.9
	EBITDA	215.3	233.0	248.2
	PBT	193.4	213.0	228.0
	Net profit adj.	145.5	161.2	173.9
Previous	**Sales**	732.9	781.0	829.1
	EBITDA	218.0	235.2	250.6
	PBT	196.8	214.2	230.7
	Net profit adj.	146.3	159.8	172.6
% change	**Sales**	1%	1%	3%
	EBITDA	-1%	-1%	-1%
	PBT	-2%	-1%	-1%
	Net profit adj.	-1%	1%	1%

Source: Eurobank Equities Research

Our EPS estimates stand c3-4% above consensus

Below we contrast our forecasts with consensus estimates. As the table displays, we stand c2% above consensus at EBITDA level for FY18e, presumably factoring in higher gross margins as we have updated our estimates for the stronger EUR. In general, we stand c3-4% above consensus at EPS level for FY18-19e.

Eurobank Equities vs. consensus

		FY18e	FY19e
Eurobank Equities estimates	**Sales**	736.9	790.1
	EBITDA	215.3	233.0
	PBT	193.4	213.0
	Net profit adj.	145.5	161.2
Consensus	**Sales**	739.4	745.7
	EBITDA	210.9	230.1
	PBT	190.0	207.3
	Net profit adj.	141.2	154.8
% diff	**Sales**	0%	6%
	EBITDA	2%	1%
	PBT	2%	3%
	Net profit adj.	3%	4%

Source: Eurobank Equities Research, Bloomberg

Interim results and divisional breakdown

Jumbo P&L									
EURmn	**FY'15**	**Q1'16**	**Q2'16**	**H1'16**	**H2'16**	**FY'16**	**H1'17**	**H2'17**	**FY'17**
Sales	**582.5**	**152.6**	**219.1**	**371.8**	**265.8**	**637.6**	**401.9**	**279.5**	**681.4**
% change	7.5%	4.9%	12.0%	9.0%	10.1%	9.4%	8.1%	-30.4%	6.9%
Gross profit	309.7	73.2	118.4	191.6	146.3	337.9	205.7	149.8	355.5
margin	*53.2%*	*48.0%*	*54.0%*	*51.5%*	*55.1%*	*53.0%*	*51.2%*	*53.6%*	*52.2%*
Operating costs	-148.0	-39.3	-44.4	-83.8	-68.3	-152.1	-86.9	-72.2	-159.4
% of sales	25.4%	25.8%	20.3%	22.5%	25.7%	23.9%	21.6%	25.8%	23.4%
Other income/(expenses)	-2.4	-1.0	-1.3	-2.3	0.2	-2.1	-1.6	0.0	-1.2
EBITDA	**159.3**	**32.9**	**72.6**	**105.5**	**78.2**	**183.7**	**117.3**	**77.5**	**194.8**
EBITDA margin	*27.3%*	*21.5%*	*33.1%*	*28.4%*	*29.4%*	*28.8%*	*29.2%*	*27.7%*	*28.6%*
Depreciation	-21.2	-5.6	-5.6	-11.2	-11.4	-22.7	-11.3	-11.7	-23.1
Net interest income (expense)	1.7	0.1	0.5	0.7	-1.0	-0.4	1.1	0.7	1.8
PBT	**137.0**	**29.2**	**67.6**	**96.8**	**68.3**	**165.1**	**107.0**	**66.5**	**173.5**
Tax	-32.1	-7.4	-16.9	-24.3	-19.6	-43.9	-25.6	-16.9	-42.5
Tax rate	23.4%	25.3%	25.0%	25.1%	28.6%	26.6%	23.9%	25.4%	24.5%
Net profit - adj	**106.9**	**20.5**	**50.7**	**71.1**	**48.5**	**119.6**	**81.5**	**49.7**	**131.1**
Net profit - reported	**104.9**	**21.8**	**50.7**	**72.5**	**48.7**	**121.3**	**81.4**	**49.6**	**131.0**
EPS - reported (EUR)	**0.77**	**0.16**	**0.37**	**0.53**	**0.36**	**0.89**	**0.60**	**0.36**	**0.96**
Inventory	197.8	178.3	152.6	152.6	196.8	196.8	207.8	239.2	239.2
Average EUR/USD	**1.20**	**1.11**	**1.10**	**1.10**	**1.12**	**1.11**	**1.10**	**1.08**	**1.09**
CCFI % change yoy	-5.0%	-26.0%	-28.0%	-27.0%	-28.5%	-28.0%	-6.0%	20.0%	7.0%

Source: Company, Eurobank Equities Research

Jumbo divisional sales breakdown									
EURmn	**FY'15**	**Q1'16**	**Q2'16**	**H1'16**	**H2'16**	**FY'16**	**H1'17**	**H2'17**	**FY'17**
Greece									
Sales	437.9	111.7	153.5	265.2	193.7	458.9	275.0	195.5	470.5
growth	*2.9%*	*-1.6%*	*7.4%*	*3.4%*	*6.7%*	*4.8%*	*3.7%*	*0.9%*	*2.5%*
% change in sales per store	*1.9%*	*-0.6%*	*11.6%*	*2.5%*	*9.8%*	*6.3%*	*7.5%*	*1.8%*	*4.5%*
Cyprus									
Sales	75.0	20.0	25.8	45.8	33.1	78.9	47.0	33.6	80.7
growth	*12.2%*	*9.1%*	*2.8%*	*5.5%*	*4.6%*	*5.1%*	*2.7%*	*1.6%*	*2.3%*
Bulgaria									
Sales	45.3	12.4	19.9	32.3	19.7	51.9	40.1	24.5	64.7
growth	*12.0%*	*11.8%*	*13.6%*	*12.9%*	*17.4%*	*14.5%*	*24.3%*	*24.8%*	*24.5%*
Romania									
Sales	24.3	8.6	19.9	28.4	19.4	47.9	39.7	25.9	65.6

Source: Company, Eurobank Equities Research. Geographic segment EBITDA is pre-central costs.

Brief company description

Jumbo is Greece's largest retailer of toys, baby items, seasonal and decoration items, books and stationery. It operates 51 stores in Greece, 5 in Cyprus, 9 in Bulgaria and another 8 in Romania. Having started as a specialist of toy products in 1986, Jumbo has evolved into more than simply a specialist retailer of toys and baby products. The group has now become one of the biggest retail chains in Greece and is considered to be a "one-stop" destination for consumers, who can also find books and stationery as well as seasonal and household products in its shops. Jumbo generated c69% of sales in Greece in FY17, and this figure is likely to fall to c62% by 2020, on our estimates.

Risks and sensitivities

- **Macroeconomic environment:** The main risk for Jumbo is its high exposure to the Greek consumer demand with c69% of its sales being Greek-based. Therefore, any significant decline in economic activity would put pressure on consumer expenditure negatively affecting Jumbo's profitability. We estimate that each 1% movement in domestic sales is worth c€2m on group EBITDA.
- **Seasonality:** Jumbo generates c28% of its annual turnover in December and another c10% in each of Easter and early September. This seasonality requires merchandise purchases to be made well in advance; as a result, overstocking could result in products sitting on the shelf for longer than expected, eventually leading to inventory markdowns.
- **USD cost base:** The group imports >80% of its products from China and pays for these in US Dollars (USD), so currency movements can have a significant impact on earnings. We estimate that a 5% change in the USD/EUR rate would impact the group's EBITDA by c6.5%.
- **Reliance on Chairman:** The Chairman Mr. Vakakis, has guided the group through its evolution from a toy retailer into a hypermarket and through its international expansion in both Cyprus and Bulgaria. Any decision on his behalf to step down could result in uncertainty about the group's future strategy. In addition, given that the Vakakis family controls c27% of the voting rights, there might be a stock overhang were a portion of this stake to be sold in the future.

Group Financial Statements

Balance Sheet					
FY to end June (EUR mn)	2016a	2017a	2018e	2019e	2020e
Non-current Assets					
Property, Plant & Equipment	498.8	514.9	537.3	557.1	586.1
Investment property	5.7	5.4	5.4	5.4	5.4
Other Long-term assets	26.0	26.0	26.0	26.0	26.0
Total Non-current Assets	**530.5**	**546.2**	**568.7**	**588.5**	**617.5**
Inventories	196.8	239.2	280.0	300.2	324.1
Trade Receivables	32.6	34.6	37.4	40.1	51.1
Other Receivables	46.7	73.5	49.0	49.9	51.1
Cash & Equivalents	394.7	366.0	392.0	464.8	532.5
Securities	8.2	0.0	0.0	58.9	58.9
Current assets	**678.9**	**713.3**	**758.4**	**914.0**	**1,009.9**
Total Assets	**1,209.4**	**1,259.6**	**1,327.1**	**1,502.4**	**1,627.4**
Share Capital & Premium	119.6	119.6	119.6	119.6	119.6
Reserves	796.0	842.0	914.1	1,020.9	1,134.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total Equity	**915.6**	**961.7**	**1,033.7**	**1,140.6**	**1,254.3**
LT Loans	144.2	144.4	0.0	200.0	200.0
Provisions	21.1	19.6	19.6	19.6	19.6
Long Term Liabilities	**165.3**	**164.0**	**19.6**	**219.6**	**219.6**
ST Loans	0.2	14.8	141.1	0.0	0.0
Trade Payables	39.1	39.8	81.1	86.9	93.8
Other Payables	89.3	79.2	51.6	55.3	59.7
Current liabilities	**128.6**	**133.9**	**273.7**	**142.2**	**153.5**
Total Equity & Liabilities	**1,209.4**	**1,259.6**	**1,327.1**	**1,502.4**	**1,627.4**

Source: Company, Eurobank Equities Research

P&L					
FY to end June (EUR mn)	2016a	2017a	2018e	2019e	2020e
Turnover	**637.6**	**681.4**	**736.9**	**790.1**	**852.9**
change	*9.4%*	*6.9%*	*8.1%*	*7.2%*	*7.9%*
Gross Profit	**337.9**	**355.5**	**386.8**	**414.4**	**446.9**
Gross margin	*53.0%*	*52.2%*	*52.5%*	*52.4%*	*52.4%*
Selling, Administrative & Other Expenses	-152.1	-159.4	-170.5	-180.4	-197.7
Other Income (net)	-2.1	-1.2	-1.0	-1.0	-1.0
EBITDA - adjusted	**183.7**	**194.8**	**215.3**	**233.0**	**248.2**
change	*15.3%*	*6.0%*	*10.5%*	*8.2%*	*6.5%*
EBITDA margin	*28.8%*	*28.6%*	*29.2%*	*29.5%*	*29.1%*
Depreciation	-22.7	-23.1	-23.7	-25.2	-26.8
EBIT	**161.0**	**171.7**	**191.5**	**207.8**	**221.4**
change	*16.7%*	*6.6%*	*11.5%*	*8.5%*	*6.6%*
EBIT margin	*25.3%*	*25.2%*	*26.0%*	*26.3%*	*26.0%*
Net Financial Expense / Income	1.9	1.8	1.9	5.3	6.6
Extraordinary	2.2	-0.2	0.0	0.0	0.0
Earnings Before Tax	**165.1**	**173.5**	**193.4**	**213.0**	**228.0**
change	*20.5%*	*5.0%*	*11.5%*	*10.1%*	*7.0%*
EBT margin	*25.9%*	*25.5%*	*26.2%*	*27.0%*	*26.7%*
Recurring tax	43.9	42.5	47.9	51.8	54.1
Recurring Tax Rate	26.6%	24.5%	24.8%	24.3%	23.7%
Corporate levy	0.0	0.0	0.0	0.0	0.0
Earnings After Tax - reported	**121.3**	**131.0**	**145.5**	**161.2**	**173.9**
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit - adjusted	**119.6**	**131.1**	**145.5**	**161.2**	**173.9**
change	*11.8%*	*9.6%*	*11.0%*	*10.8%*	*7.9%*
Net Profit margin	*18.8%*	*19.2%*	*19.7%*	*20.4%*	*20.4%*
EPS - adjusted	**0.88**	**0.96**	**1.07**	**1.18**	**1.28**
DPS	**0.63**	**0.36**	**0.40**	**0.44**	**0.48**

Source: Company, Eurobank Equities Research

Cash Flow Statement					
FY to end June (EUR mn)	**2016a**	**2017a**	**2018e**	**2019e**	**2020e**
EBIT	161.0	171.7	191.5	207.8	221.4
Depreciation and Amortization	22.7	23.1	23.7	25.2	26.8
Changes in Working Capital	-23.1	-41.6	-26.6	-11.0	-13.7
Net Interest	1.3	1.4	1.9	5.3	6.6
Tax	-42.8	-44.7	-47.9	-51.8	-54.1
Other	0.2	0.5	0.0	0.0	0.0
Net Inflows (Outflows) from Operating Activities	**119.2**	**110.4**	**142.6**	**175.5**	**187.0**
Capex	-34.7	-38.0	-49.6	-48.3	-59.2
Other investing inflow (outflow)	0.1	1.1	0.0	0.0	0.0
Net Inflows (Outflows) from Investing Activities	**-34.6**	**-36.8**	**-49.6**	**-48.3**	**-59.2**
Free Cash Flow	**84.6**	**73.5**	**93.0**	**127.2**	**127.9**
Free Cash Flow (adj.)	**84.5**	**72.4**	**93.0**	**127.2**	**127.9**
Net dividends paid	0.0	-124.5	-49.0	-54.3	-60.2
Net debt (cash)	**-258.5**	**-206.8**	**-250.9**	**-323.7**	**-391.4**

Source: Company, Eurobank Equities Research

Ratios					
FY to end June	**2016a**	**2017a**	**2018e**	**2019e**	**2020e**
P/E	14.9	13.5	12.2	11.1	10.2
P/BV	2.0	1.9	1.7	1.6	1.4
P/Sales	2.9	2.7	2.5	2.3	2.1
EV/EBITDA	8.5	8.1	7.2	6.4	5.7
EV/Sales	2.2	2.1	2.5	2.3	2.1
EBIT/Interest expense	NM	NM	NM	NM	NM
Net Debt/EBITDA (net cash)	-1.2	-1.1	-1.3	-1.5	-1.7
Dividend Yield	4.6%	2.6%	2.9%	3.2%	3.5%
ROE	14.0%	14.3%	14.7%	14.7%	14.5%
Free Cash Flow yield	4.2%	4.4%	5.9%	6.8%	7.6%
Dividend payout ratio	71.7%	37.4%	37.4%	37.4%	37.4%

Source: Company, Eurobank Equities Research

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12-month Rating History of Jumbo

Date	Rating	Stock price	Target price
20/10/2017	Buy	€ 13.80	€ 18.20
19/09/2017	Buy	€ 13.61	€ 18.20
28/08/2017	Buy	€ 14.10	€ 18.20
16/06/2017	Buy	€ 16.00	€ 18.20
01/03/2017	Buy	€ 13.35	€ 16.10
16/12/2016	Buy	€ 15.10	€ 16.00

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Stock Ratings	Coverage Universe		Investment Banking Clients	
	Count	Total	Count	Total
Buy	12	46%	2	17%
Hold	7	27%	1	14%
Sell	2	8%	0	0%
Restricted	2	8%	0	0%
Under Review	3	12%	1	33%
Total	26	100%		

Analyst Stock Ratings:

Buy:	Based on a current 12-month view of total shareholder return (percentage change in share price to projected target price plus projected dividend yield), we recommend that investors buy the stock.
Hold:	We adopt a neutral view on the stock 12-months out and, on this time horizon, do not recommend either Buy or Sell.
Sell:	Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.
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