



Jumbo

General Retail

Equity – Greece

Overweight

Target price (EUR)	20.00
Share price (EUR)	12.56
Potential return (%)	59

Reuters	BABr.AT
Bloomberg	BELA GA
Market cap (EURm)	1,709
Free float (%)	77

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Earnings beat on gross margin surprise

- **FY net income grows 15% y-o-y to EUR151m (PSe EUR142m) thanks to solid SEE and a 1.9pp gross margin hike in H2...**
- **... as Jumbo weathers well the erratic freight rates moves and the EUR/USD fluctuations**
- **Net cash jumps 39% y-o-y to a staggering EUR287m (or EUR2.1/sh) on robust EUR110m FCF generation (6.4% FCFY)**

Retail at its finest! Jumbo once again brilliant as FY (to June 30) net income hit a new record rising 15% y-o-y to EUR151.1m (vs PSe EUR142.8m). The earnings beat mostly mirrors an impressive gross margin recovery of 191bps y-o-y to 55.5% (smashing our call of 52.5%) in fiscal H2, vs -85bps in H1, despite burdened by higher freight costs (which account for 20-25% of COGS). This gross margin rebound, along with robust growth rates in Romania and Bulgaria, drove H2 net up 22% y-o-y to EUR60.7m, 16% ahead of PSe.

Looking ahead, Jumbo said 1Q19 sales growth decelerated to a modest 6% y-o-y, held back by downbeat domestic sales momentum on worsening market conditions owing to tough y-o-y comps (+5% in 1Q18 vs +1% in 2Q18). Jumbo sees FY19e sales up 5% to 6% y-o-y at EUR791-798.5m, underpinned by high double-digit growth rates in Romania, 11% rise in Bulgaria, with Cyprus ops growing at single-digits. Despite a still frail consumer confidence in Greece, Jumbo FY19 sales guidance seems overly cautious (as ever), in our view. We stick to our forecasts calling for 8.7% y-o-y sales increase to EUR818.5m (see table on page 3), as we pencil-in (prudently enough) a marginal growth of 0.4% in Greece (ex-SEE franchise) compared to +3% in FY18, with net income rising 5% y-o-y to EUR158.6m. This leaves Jumbo trading at a decade-low **10.8x PE and 6.0x EV/EBITDA**.

Following a store opening (13,600 sq. m. in Romania) in 1Q19, Jumbo plans three additional rollouts in FY19 - 2 in Romania and 1 in Northern Greece. Hence, Jumbo should count 79 outlets: Greece 52, Romania 13, Bulgaria 9 and Cyprus 5 vs 75 currently.

Jumbo FY/H2 2018 at a glance (Twelve months ending 30 June, EURm)

Key P&I items	FY17a	FY18a	y-o-y ch.	FY18e (a)	vs (e)	2H17a	2H18a	y-o-y ch.	2H18e (a)	vs (e)
Sales	681.4	753.3	11%	753.3	0%	279.5	310.3	11%	310.4	0%
Gross Profit	355.5	395.1	11%	386.9	2%	149.8	172.2	-250%	163.9	5%
Gross Margin	52.2%	52.5%	29bps	51.4%	110bps	53.6%	55.5%	191bps	52.8%	267bps
EBITDA	194.8	221.3	14%	212.2	4%	77.4	91.9	19%	82.9	11%
EBITDA Margin	28.6%	29.4%		28.2%		27.7%	29.6%		26.7%	
EBT	173.5	197.9	14%	190.4	4%	66.5	80.2	21%	72.7	10%
EBT Margin	25.5%	26.3%		25.3%		23.8%	25.8%		23.4%	
Taxation	(42.5)	(46.8)	10%	(47.6)	-2%	(16.9)	(19.5)	16%	(20.4)	-4%
Effective Tax Rate	24.5%	23.6%		25.0%		25.4%	24.3%		27.9%	
Net Profit	131.0	151.1	15%	142.8	6%	49.6	60.7	22%	52.4	16%
Net Margin	19.2%	20.1%		19.0%		17.7%	19.6%		16.9%	

Source: Company data/Pantelakis Securities estimates

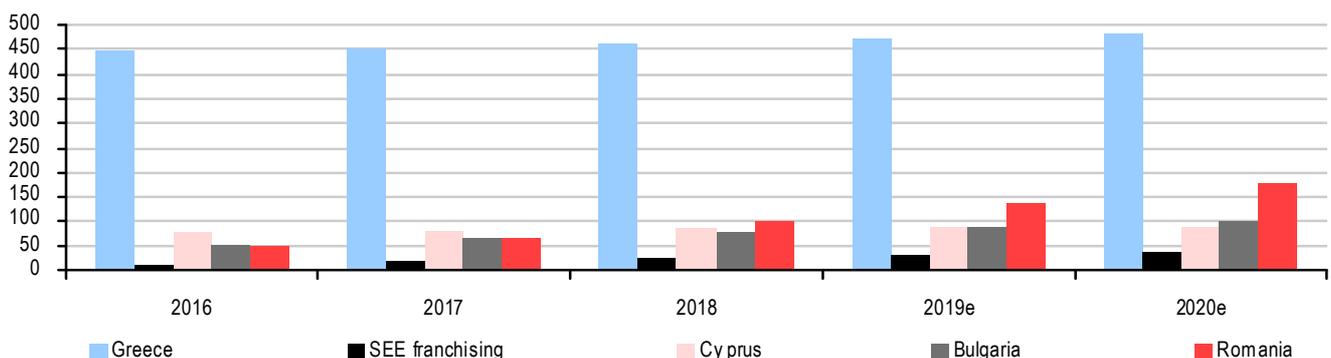
The stock will trade **ex-remaining DPS of EUR0.2172** (PSe 1 cent below our call) for FY18 on 13 December (already paid EUR0.1728 as interim dividend last March).

Recall that best-in-class Romania ops grew by a whopping 53% y-o-y to EUR100.6m (FY sales pre-announced on 10 July), now making up 13% of group total against less than 10% a year ago, courtesy of two new store openings, strong macro backdrop, growing brand equity and higher average ticket. Bulgaria, in turn, soared 21% to EUR78.1m solely on booming consumer sentiment. Sales in Greece - ie ex-SEE franchise business (Albania, Kosovo, FYROM and Serbia) which rose 25% y-o-y to EUR26m - advanced 3% to EUR462.9m (c62% of total), up 4.3% to EUR194m vs +2% in 1H18. Likewise, Cyprus ops gained momentum in the second half as well, +8% y-o-y to EUR36.2m, pulling FY sales 6% higher to EUR85.7m. In this context, FY18 average sales per sq. m. picked up to EUR1,564 (+5.5% y-o-y), reflecting increases of c3% in Greece (EUR1,647), 6% in Cyprus (to EUR2,328), 15% in Romania (to EUR1,295) and 17% in Bulgaria (to EUR904), respectively.

Surprising to the upside, FY gross margin appeared remarkably resilient, inching up 29bps to 52.5%, coming 110bps above our expectations. Bucking the trend, Jumbo weathers well the erratic freight rates movements and the EUR/USD fluctuations (given time-lags involved), defending gross margin nicely, thanks to a six-month-plus stock-up cushion period, cash-rich position and strong bargaining power over suppliers. In fact, freight rates, on average, surged 53% y-o-y through July-December 2017, up by a lesser 25% over January-June 2018, rising further in the past three months, indicating a rather bleak, *ceteris paribus*, transportation cost outlook for Jumbo in the coming quarters. Moreover, FY18 group EBITDA posted a growth of 14% y-o-y to EUR221.3m (PSe EUR212.2m) owing also to some overheads containment - opex +9% to EUR174.3m (in line) easing at 23.1% of sales compared to 23.4% a year ago - stemming from a steady progress at the staff expenses level, as network expansion in Romania (lower wages) reduces average payroll cost. In H2 terms, group EBITDA advanced 19 y-o-y EUR91.9m (11% better than expected), on 11% sales growth to EUR310.4m

End-June 2018 net cash jumped 39% y-o-y to EUR287.3m from EUR206.8m a year ago, representing 17% of market cap (or EUR2.1/sh), on the back of a solid EUR109.9m FCF (implying FCFY 6.4% vs 2.5% in FY17) aided by WC improvements (down to 31.8% of sales vs 34.3% in the previous year).

Jumbo: Fiscal 2016-20e sales geographical breakdown (Twelve months ending 30 June, EURm)



Source: Company data/Pantelakis Securities estimates

Jumbo fiscal 2016-20e sales/ sq. m. per country of operation (Twelve months ending 30 June)

		2016a	2017a	2018a	2019e	2020e
Greece	Sales (EURm)	458.9	470.5	489.0	503.6	520.0
	y-o-y ch.	4.8%	2.5%	3.9%	3.0%	3.2%
	<i>Ex-franchise sales (EURm)</i>	<i>446.4</i>	<i>449.6</i>	<i>462.9</i>	<i>471.2</i>	<i>481.9</i>
	y-o-y ch.	4.5%	0.7%	3.0%	1.8%	2.3%
	Number of stores	51	51	51	52	53
	Selling space (sq. m.) year-end	281,003	281,003	281,003	287,003	293,003
	Selling space (sq. m.) weighted average	283,690	281,003	281,003	284,753	290,753
	Sales per sq. m. (EUR)	1,618	1,674	1,740	1,769	1,788
	y-o-y ch.	3.4%	3.5%	3.9%	1.6%	1.1%
	<i>Ex-franchise sales per sq. m. (EUR)</i>	<i>1,574</i>	<i>1,600</i>	<i>1,647</i>	<i>1,655</i>	<i>1,657</i>
	y-o-y ch.	3.1%	1.7%	3.0%	0.4%	0.2%
L-F-L sales growth y-o-y	3.8%	3.2%	3.9%	1.5%	3.2%	
<i>Ex-franchise L-F-L sales growth y-o-y</i>	<i>3.6%</i>	<i>1.4%</i>	<i>3.0%</i>	<i>0.3%</i>	<i>2.3%</i>	
Cyprus	Sales (EURm)	78.9	80.7	85.7	87.7	89.3
	y-o-y % ch.	5.1%	2.3%	6.2%	2.4%	1.8%
	Number of stores	5	5	5	5	5
	Selling space (sq. m.) year-end	36,800	36,800	36,800	36,800	36,800
	Sales per sq. m. (EUR)	2,143	2,192	2,328	2,384	2,427
	y-o-y % ch.	-5.4%	2.3%	6.2%	2.4%	1.8%
	L-F-L sales growth y-o-y	-2.8%	2.3%	6.2%	2.4%	1.8%
Bulgaria	Sales (EURm)	51.9	64.7	78.1	87.7	100.8
	y-o-y ch.	14.6%	24.5%	20.8%	12.4%	14.9%
	Number of stores	8	9	9	9	10
	Selling space (sq. m.) year-end	79,000	86,333	86,333	86,333	93,667
	Selling space (sq. m.) weighted average	79,000	83,583	86,333	86,333	90,917
	Sales per sq m (EUR)	658	774	904	1,016	1,109
	y-o-y ch.	14.6%	17.6%	16.9%	12.4%	9.1%
L-F-L sales growth y-o-y	14.6%	20.3%	18.4%	12.4%	11.1%	
Romania	Sales (EURm)	47.9	65.6	100.6	139.4	180.2
	y-o-y ch.	97.1%	37.0%	53.3%	38.6%	29.2%
	Number of stores	7	8	10	13	16
	Selling space (sq. m.) year-end	58,000	68,667	86,200	106,867	128,867
	Selling space (sq. m.) weighted average	55,667	58,444	77,658	96,672	118,172
	Sales per sq. m. (EUR)	860	1,123	1,295	1,442	1,525
	y-o-y ch.	13.3%	30.5%	15.4%	11.3%	5.7%
L-F-L sales growth y-o-y	43.8%	33.5%	29.7%	21.0%	13.0%	
Group	Sales (EURm)	637.6	681.4	753.3	818.5	890.3
	y-o-y ch.	9.4%	6.9%	10.5%	8.7%	8.8%
	<i>Ex-franchise sales (EURm)</i>	<i>625.1</i>	<i>660.5</i>	<i>727.2</i>	<i>786.1</i>	<i>852.2</i>
	y-o-y ch.	9.3%	5.7%	10.1%	8.1%	8.4%
	Number of stores	71	73	75	79	84
	Selling space (sq. m.) year-end	454,803	472,803	490,336	517,003	552,336
	Selling space (sq. m.) weighted average	455,156	459,830	481,794	504,558	536,642
	Sales per sq m (EUR)	1,401	1,482	1,564	1,622	1,659
	y-o-y ch.	2.0%	5.8%	5.5%	3.8%	2.3%
	<i>Ex-franchise sales per sq. m. (EURm)</i>	<i>1,373</i>	<i>1,436</i>	<i>1,509</i>	<i>1,558</i>	<i>1,588</i>
	y-o-y ch.	1.8%	4.6%	5.1%	3.2%	1.9%
	L-F-L sales growth y-o-y	4.2%	6.1%	7.2%	5.3%	4.1%
	<i>Ex-franchise L-F-L sales growth y-o-y</i>	<i>4.0%</i>	<i>4.9%</i>	<i>6.7%</i>	<i>4.7%</i>	<i>3.8%</i>

Source: Company data/Pantelakis Securities estimates

Disclosure appendix

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Neutral (Hold)	17%	(0% of these provided with Investment Banking Services)
Underweight (Sell)	6%	(0% of these provided with Investment Banking Services)
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01/03/2017	Rating: Overweight	Price: EUR13.35	Target Price: EUR15.00
21/10/2017	Rating: Overweight	Price: EUR13.70	Target Price: EUR18.30
31/01/2018	Rating: Overweight	Price: EUR16.30	Target Price: EUR20.00
11/07/2018	Rating: Overweight	Price: EUR13.56	Target Price: EUR20.00

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