

27 January 2000

Babyland Toys

Retailing

Greece

Upgraded from Add to

Buy

Current price GRD3,000

Target price GRD4,000

Weightings

Stock rel to its Greek sector

Under	Neutral	Over
-------	---------	------

Greek sector rel to ASE General

Under	Neutral	Over
-------	---------	------

Reuters RIC BABr.AT

Key Data

Market cap (GRDbn)	62,208
Market cap (USDm)	187,769
Free float (%)	41.26
No. of shares	20,736,000
EV (GRDbn)	66,947
BVPS (GRD)	512
Net debt/Equity (%)	45
Next event	6-month results

Price performance (%)

	Absolute	Rel to ASE
1m	15.2	17.5
3m	-2.4	6.4
12m	201.5	85.8
YTD	-6.4	4.9

Analyst +30 1 3361+

Spiros N. Tsangalakis 102

spiros.tsangalakis@hsbcib.com

Sales +30 1 3361+

Saki Michalarakos 123

Luca Focardi 128

Irene Papoutsaki 127

Dimitris Poulakis 118

Konstantinos Peppas 154

Titos Ieronymakis 117

Thanassis Drogossis 177

Master of the Game

- Dominant position in the domestic toys market
- Aggressive expansion of the "Jumbo" network
- Excellent earnings growth potential

Investment Case

Babyland, established in 1986, is the largest toys & babies apparel retailer in the Greek market, commanding a market share of 23%. The company's sales network consists of 17 "Jumbo" superstores throughout Greece and 1 in Cyprus. Approximately 90% of Babyland's revenues derive from its retail network, while the balance comes from wholesale activities (i.e. exclusive representation of foreign labels in the Greek market).

The Greek toys market is forecast to grow in line with inflation. Persisting low birth rates coupled with the tight incomes policy linked to Greece's convergence efforts have resulted in the consolidation of the sector, with large players growing at the expense of small stores, which are gradually forced out of the market. The toys market exhibits intense seasonality, with 50% of sales being generated during Christmas and Easter. We expect Babyland to grow faster than the toys sector and steadily increase its market share to around 35% over the next 3 years on the back of an aggressive store development programme. Earnings are forecast to grow at a CAGR of 39.7% over the 1999-2002 period.

Recommendation & Valuation

Babyland trades 30% off its 1999 highs, at 34.9 times its 2000e EPS or a 8.1% discount to the ASE market's PER of 38.0x and a 39.5% discount to the Commercial/Retail Sector (57.7x). Furthermore, the company's EV/Sales and EV/EBITDA multiples are at significant discount to both the market and the sector. Given the company's excellent growth potential and leading position in the domestic market, we firmly recommend the stock as a Buy, with a target price of GRD4,000, representing a 33% upside from current levels.

Year to 30 Jun	Group turnover (GRDm)	Reported profit (GRDm)	Net profit (GRDm)	EPS (GRD)	Tax rate (%)	PER (x)	Net Div (GRD)	Yield (%)	EBITDA (GRDm)	EV/EBITDA (x)	EV/Sales (x)
99	21,310	1,506	956	55	36.5	54.2	18	0.58	3,507	19.7	3.24
00e	28,342	2,530	1,584	86	35.0	34.9	24	0.80	4,623	14.5	2.36
01e	37,128	3,589	2,213	107	35.0	28.1	31	1.03	5,977	11.4	1.84
02e	48,267	5,052	3,119	150	35.0	19.9	41	1.37	7,774	8.5	1.37

Note: Reported is profits before taxes and minorities

2000 Valuation multiples

	PER	EV/Sales	EV/EBITDA
Babyland	34.9	2.4	14.5
Retail Sector	57.7	5.2	24.5
Athens Stock Exchange	38.0	8.4	23.7

Source: HSBC Pantelakis Securities

Strategy

Babyland's growth strategy is focused on the further development of its network of outlets, the expansion into new activities and the introduction of franchising. More specifically, the company envisages the operation of 3-4 new outlets per year between 2000 and 2002. Moreover, the introduction of franchising will allow Babyland to expand its network of "Jumbo" outlets to cover the whole country, reducing both the investment outlay and risk, while boosting wholesale revenues. The company is looking to open some 30 Jumbo stores in smaller towns through the method of franchising. On top of that, the co-operation agreement with one of the largest super-market chains in Greece, Veropoulos, will further enhance Babyland's top line growth. The agreement relates to the operation of Jumbo shops within two Veropoulos' outlets, but is expected to be gradually extended. Note that the Veropoulos chain counts 170 super-markets throughout Greece. As a result of its aggressive network expansion strategy, Babyland's market share is expected to grow from 23% currently to 35% within the next 3 years.

In addition, the firm aims to expand its activity in the Balkan region as well as in Cyprus. Babyland's subsidiary in Cyprus, Jumbo Investments, engages primarily in wholesale activities, which account for 2/3 of its revenues. The company currently operates one superstore in Nicosia, while it plans to open a second one in Limassol within 2000. Note that there is no other organised toys chain operating in Cyprus. Jumbo Investments is seeking a listing on the Cyprus Stock Exchange in 1H00. IPO proceeds are estimated at GRD400m and will be used to finance the company's expansion. As far as the Balkans are concerned, Babyland is considering the operation of a Jumbo outlet in FYROM together with Veropoulos.

Finally, the company is considering its expansion through co-operation agreements into other retail activities, such as cosmetics, leisure, sports, taking advantage of its extensive retail network.

Latest changes and events

Babyland has been trading ex-rights since January 26. The company seeks to raise GRD5.18bn through a 2-for-10 rights issue at GRD1,500 per share. GRD1.5bn will be allocated to the construction of a new store in N. Efkarpia, Thessaloniki. Additionally, GRD2.5bn will finance Babyland's participation (22%) in the construction and operation of a 29,000m² commercial/entertainment centre in the centre of Thessaloniki (GEK <GEKr.AT> has a 50% participation and Hermes <HRM.AT> 28%). The

commercial centre, which is scheduled to be operational in 2H00, will also house a Jumbo mega-store. Finally, GRD1.84bn will be used to finance working capital needs.

Summary Financial Data

Current price Upgraded to a RIC	GRD 3000 Buy BABr.AT			Babyland Toys				Retailing	Market Capitalisation										
Year to 31 Dec	1996	1997	1998	1999	2000e	2001e	2002e	Year to 31 Dec	1996	1997	1998	1999	2000e	2001e	2002e	GRDm	62208	USDm	188
Per share data (GRD)								Source & application of funds (GRDm)											
EPS	32	29	33	55	86	107	150	Net profit pre-minorities	398	371	509	956	1644	2333	3284				
CFPS	40	47	70	121	165	189	257	Depreciation & amort.	100	246	576	1128	1449	1714	2201				
BVPS	128	175	234	248	512	593	711	Equity raising	0	689	1200	11	5184	0	0				
DPS	0	10	10	18	24	31	41	Subsidies / Other	0	11	0	-71	5	0	0				
EPS growth (%)	-	-10.1	13.7	68.5	55.3	24.2	40.9	Total sources	498	1317	2285	2166	8282	4047	5484				
Year-end shares (m)	12.5	14.4	17.3	17.3	20.7	20.7	20.7	Capital expenditure	968	1780	992	4018	5942	3036	3339				
Average shares (m)	12.5	13.7	15.5	17.3	18.4	20.7	20.7	Working capital change	-286	-102	2220	2151	1532	-307	-488				
Valuation data								Profit & loss (GRDm)											
EV / Sales (x)	8.01	5.48	4.32	3.24	2.36	1.84	1.37	Sales	8007	11862	15333	21310	28342	37128	48267				
EV / EBITDA (x)	74.7	48.1	35.0	19.7	14.5	11.4	8.5	COGS	-4754	-6978	-8961	-11823	-16098	-21163	-27512				
P/E (x)	93.4	103.9	91.3	54.2	34.9	28.1	19.9	EBITDA	858	1354	1895	3507	4623	5977	7774				
P/CF (x)	74.7	64.0	42.8	24.9	18.2	15.8	11.7	Depreciation & amort.	-100	-246	-576	-1128	-1449	-1714	-2201				
P/BV (x)	23.4	17.1	12.8	12.1	5.9	5.1	4.2	EBIT	758	1108	1319	2379	3175	4263	5573				
Yield (%)	0.00	0.35	0.35	0.58	0.80	1.03	1.37	Associates											
ROE (%)	-	19.2	15.5	23.0	21.3	19.3	23.1	Financials (net)	-258	-391	-487	-594	-645	-674	-521				
ROCE (%)	-	22.1	17.2	19.3	16.1	16.7	19.1	Exceptionals (net)	1	-84	-32	-280	0	0	0				
Balance sheet (GRDm)								Profit margins (%)											
Shareholders' Funds	1599	2520	4048	4282	10615	12306	14739	EBITDA	10.7	11.4	12.4	16.5	16.3	16.1	16.1				
Minorities								EBIT	9.5	9.3	8.6	11.2	11.2	11.5	11.5				
Provisions	5	4	14	50	55	60	66	EAT	5.0	3.3	3.3	4.5	5.6	6.0	6.5				
LT debt	168	803	1917	6644	6322	5626	3822	Ratios											
Other LT liabilities	33	68	69	6	0	0	0	Sales growth (%)	-	48	29	39	33	31	30				
Trade creditors	2329	3963	4315	4982	7649	9049	12960	Net profit growth (%)	-	-1	29	88	66	40	41				
ST debt	1781	2121	2308	1612	1196	2304	2313	Tax rate (%)	20	38	36	37	35	35	35				
Other ST liabilities	410	704	840	1288	1654	2001	2452	Ch(WC) / Ch(Sales) (%)	-	-3	64	36	22	-3	-4				
Total current liabilities	4520	6788	7463	7882	10500	13355	17726	Creditor days	179	207	176	154	173	156	172				
Total Liabilities	6360	10257	13571	19077	27716	31582	36601	Debtor days	26	35	17	12	10	9	8				
Intangible assets								Inventory days	152	149	162	155	152	148	140				
Goodwill								Working capital days	72	62	77	82	64	68	50				
Land, buildings, plant & equipment	2211	3761	4225	7126	11619	12941	14079	Net debt (GRDm)	1902	2852	4102	6750	4739	6052	3978				
Associates								Net debt / equity (%)	119	113	101	158	45	49	27				
Other LT assets	40	43	75	88	88	88	88	Equity / tot. liabilities (%)	25	25	30	22	38	39	40				
Fixed assets	2251	3804	4300	7215	11708	13029	14168												
Inventories	3339	4829	6818	9055	11801	15054	18457												
Trade debtors	575	1141	727	711	800	950	1100												
Other ST receivables	102	187	1456	421	463	510	561												
Cash & equivalents	47	72	123	1507	2780	1879	2157												
Total current assets	4064	6230	9124	11694	15844	18392	22275												
Total assets	6360	10257	13571	19077	27716	31582	36601												

Source: HSBC Pantelakis Securities

Investment Recommendation Criteria

All recommendations are made on a 12 month basis with the company share price expected to perform relative to the ASE General Index as follows:

Expected Share Price Relative Performance	Recommendation
Over +15%	BUY
Between +5% and +15%	ADD
Between -5% and +5%	HOLD
Between -5% and -15%	REDUCE
Over -15%	SELL

This document has been issued by HSBC Pantelakis Securities SA for the information of its institutional and professional customers and those of its affiliates only; it is not intended for and should not be distributed to retail customers. If it is received by a customer of an affiliate of HSBC Pantelakis Securities SA, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate.

This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC Pantelakis Securities SA has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC Pantelakis Securities SA makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Department of HSBC Pantelakis Securities SA only and are subject to change without notice.

HSBC Pantelakis Securities SA and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC Pantelakis Securities SA and its affiliates may have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments) and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

In the UK this document may only be distributed to persons of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended). It may be distributed in the United States solely to "major US institutional investors" (as defined in Rule 15a-6 of the US Securities Exchange Act of 1934); such recipients should note that any transactions effected on their behalf will be undertaken through HSBC Securities (USA) Inc. in the United States. In Australia, this publication has been distributed by HSBC Securities Australia Limited. It may not be reproduced or further distributed in whole or in part for any purpose.

HSBC Pantelakis Securities SA (registered in Greece No 23572/06/B/91/14) is regulated by the Capital Markets Committee and is a member of both the Athens Stock Exchange and the Athens Derivatives Exchange ("market maker type A"). (10/99)

HSBC Pantelakis Securities S.A.

6 Dragatsaniou Street
105 59 Athens
Greece

Telephone: +30 1 33 11 500
Fax: +30 1 32 13 926