

Jumbo

Buy

Upgraded from Hold

Price: EUR 16.0
Price target: EUR 19.5
(from EUR 21.5)

Self-fulfilling prophecy

The Consumer Discretionary sector is under severe pressure, as companies face store closures and deteriorating consumer appetites. Among the (relative) winners, we see Jumbo as one of the players that should be able to weather the storm, due to: 1) its strong balance sheet 2) the defensive nature of its business as a discounter; and 3) its proven track record. However, we have lowered our 2020E estimates and expected store rollout, as Jumbo is not immune to the impact of COVID-19. We do believe that it is well-prepared to absorb the hit and survive the crisis without any major scars. We have upgraded the stock to BUY, with a new 12M PT of EUR 19.5/share (vs. EUR 21.5 previously), offering 22% upside to the current price. The stock trades at 8.1x on our 2020E EV/EBITDA numbers, but we believe that it offers a good entry point for a company with prudent balance sheet management, which is likely to benefit from the crisis, while sitting on EUR 600m of cash (as of December 2019).

Self-fulfilling prophecy. The most frequent question asked when it comes to Jumbo is: "why does it keep so much cash?". Its cash pile exceeded EUR 600m as of December 2019, and it has enjoyed a net cash position since 2012. Management's answer to the question has always been the same – "saving for a rainy day" – and now it has rained. We believe that Jumbo is currently one of the safest bets in our Greek retail universe, with a balance sheet strong enough to endure a prolonged period of headwinds and a proven track record in times of prolonged crisis, demonstrating a resilient profile in terms of top-line growth.

Lowering our estimates for 2020E. We have fine-tuned our estimates, assessing the potential COVID-19 impact due to 56 days' closure of >50% of its network, and lower disposable income in consumer pockets. We anticipate a three-year revenue CAGR of 4.0%, with negative sales dynamics of 7.6% in 2020E, then rebounds of 12% yoy in 2021E and 9% in 2022E. We pencil 210bps of erosion into the gross profit margin, vs. FY July-December 2019, to account for the unsold Easter inventory, despite record low oil prices, which typically affect freight rates and the transportation of inventory from Asia. We anticipate a gross profit margin of 50.1% for the year, rising to 50.7% in both 2021E and 2022E. At the net income level, we estimate a 22% contraction yoy to EUR 128m for 2020E, with a rebound of 23% yoy in 2021E to EUR 156m, and a strong 2022E at EUR 175m (+12% yoy).

Network rollout. Management has cautioned on the suspension of capex and the store rollout until there is more visibility on the COVID-19 situation. We have reduced our rollout estimates for the year to one store in Romania by end-2020E. Management has set a Romanian network rollout target of 11 stores within the next five years, which we take into account in our estimates.

Valuation. Our valuation is 100% DCF weighted, given that Jumbo lacks directly comparable peers (but we include a peer table as a sanity check). We see 22% upside potential vs. the current market price. On our numbers, Jumbo trades at a P/E of 17.1x in 2020E, falling to 13.9x in 2021E and 12.5x in 2022E. Its multiples are also attractive on an EV/EBITDA basis, trading at 8.1x in 2020E, 6.4x in 2021E and 5.5x in 2022E, on our estimates.

Expected events

EGM	25 June
Cash distribution	30 June

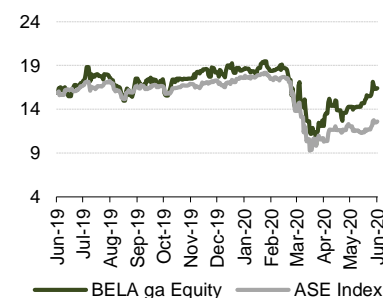
Key data

Market cap	EUR 2.2bn
Free float	76%
3M ADTV (EUR m)	1.8
Shares outstanding	136m
Major shareholder	Vakakis family
Reuters code	BABr.AT
Bloomberg code	BELA GA Equity
ASE index	678

Price performance

52-w range	10.0-18.7
52-w performance	-13%

Jumbo 12M share price performance



Year	Sales (EUR m)	EBITDA (EUR m)	Adj. Net (EUR m)	Adj. EPS (EUR)	EPS growth	P/E (x)	EV/ EBITDA	ROE (%)	DPS (EUR)	Divid. yield (%)
FY16/17	681	195	131	0.96	8%	13.6	8.0	14%	0.36	2.5%
FY17/18	753	221	151	1.11	15%	12.7	7.3	15%	0.39	2.8%
FY18/19	812	238	163	1.20	8%	12.9	7.5	15%	0.47	3.1%
2020E	751	205	128	0.94	-22%	17.1	8.1	10%	0.33	2.1%
2021E	839	242	156	1.15	23%	13.9	6.4	12%	0.40	2.5%
2022E	913	266	175	1.28	12%	12.5	5.5	12%	0.45	2.8%

Analysts: Fani Tzioukalia; Lukasz Wachelko, CFA
E-mail: fani.tzioukalia@wood.com, lukasz.wachelko@wood.com

Athens: +30 211 10 69449
Website: www.wood.com

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Closing Prices as of 08 June 2020

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Requests for permission to make copies of any part of this report should be mailed to:

WOOD & Company Financial Services a.s.
Palladium, Namesti Republiky 1079/1a,
110 00 Prague 1 – Czech Republic
tel.: +420 222 096 111
fax: +420 222 096 222
<http://www.wood.cz>

Company snapshot – BUY, PT EUR 19.5

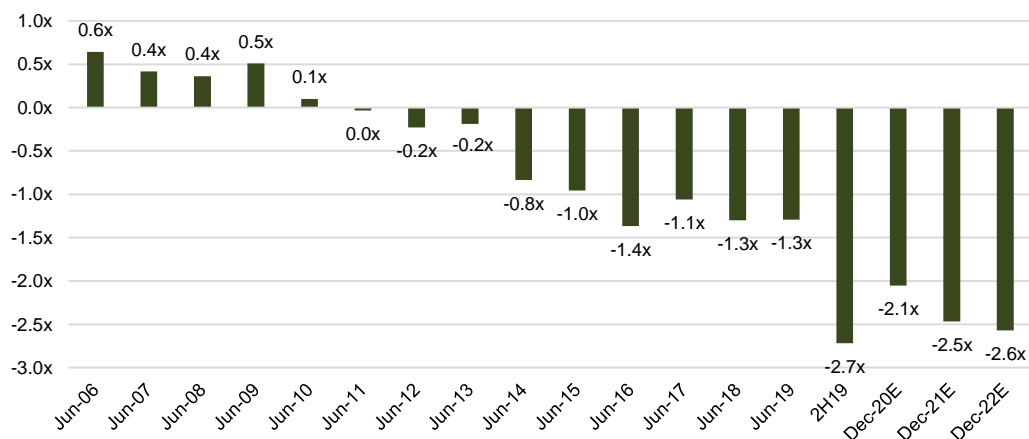
Jumbo											
BUY		SHARE PRICE PERFORMANCE			COMPANY DESCRIPTION						
Bloomberg ticker	BELA GA				<p>Jumbo S.A. retails toys, baby products and stationery items. The company operates a chain of retail stores, and imports and wholesales toys to other retailers. Jumbo is present in four countries (Greece, Cyprus, Bulgaria and Romania), and has franchise agreements for Jumbo stores in FYROM, Albania and Kosovo.</p>						
Closing price (EUR)	16.0										
Price target (EUR)	19.5										
Upside to PT	20.0%										
Shares outstanding (m)	136.1										
Market cap (EURm)	2,177										
Free float	76.0%										
Average daily turnover (EURm)	1.8										
52 Week performance	-13.0%										
52 Week Range (EUR)	10.0-18.7										
RATIOS											
PER SHARE RATIOS					VALUATION RATIOS						
EPS	FY17/18	FY18/19	FY20E	FY21E	FY22E	EV/EBITDA	FY17/18	FY18/19	FY20E	FY21E	FY22E
BVPS	1.11	1.20	0.94	1.15	1.28	P/E	7.3x	7.5x	8.1x	6.4x	5.5x
DPS (year of payout)	7.79	8.54	9.54	10.36	11.24	P/BV	12.7x	12.9x	17.1x	13.9x	12.5x
	0.39	0.47	0.33	0.40	0.45	EV, EURm	1.8x	1.8x	1.7x	1.5x	1.4x
FINANCIAL RATIOS					FCF BREAKDOWN						
Gross profit margin	FY17/18	FY18/19	FY20E	FY21E	FY22E	EBIT	FY17/18	FY18/19	FY20E	FY21E	FY22E
EBITDA margin	52.5%	52.2%	50.1%	50.7%	50.7%	EBIT	197	212	168	203	225
EBIT margin	29.4%	29.3%	27.3%	28.8%	29.1%	NOPAT	150	164	134	133	160
Net margin	26.1%	26.2%	22.3%	24.2%	24.7%	Depreciation	23	25	26	37	39
ROE	20.1%	20.1%	17.0%	18.6%	19.1%	Change in WC	-6	-65	45	-43	-26
Adjusted ROE	15.0%	14.7%	10.4%	11.6%	11.9%	Capex	-42	-44	-23	-40	-50
Asset Turnover	0.6x	0.6x	0.5x	0.5x	0.5x	FCF	122	74	102	172	142
Equity Multiplier	1.3x	1.3x	1.4x	1.4x	1.3x						
Adjusted Net Margin	20%	20%	17%	19%	19%						
ROIC	19%	19%	14%	17%	18%						
COMPANY FINANCIALS											
INCOME STATEMENT, EURm					BALANCE SHEET, EURm						
Revenues	FY17/18	FY18/19	FY20E	FY21E	FY22E	PPE	FY17/18	FY18/19	FY20E	FY21E	FY22E
Greece	753	812	751	839	913	Investment in associates	542	562	563	564	574
Cyprus	489	506	460	491	511	Total non-current assets	6	8	7	7	7
Bulgaria	86	88	81	90	98	Inventories	570	589	696	697	706
Romania	78	86	79	87	98	Trade accounts receivable	248	290	329	299	325
COGS	101	133	130	172	206	Cash and cash equivalents	33	40	64	44	48
EBITDA (IFRS 16 adjusted)	-395	-424	-376	-426	-463	Total current assets	437	507	697	822	906
EBIT	221	238	205	242	266	Total equity and liabilities	792	921	1,123	1,198	1,312
FBI	197	212	168	203	225	Shareholders equity	1,058	1,161	1,297	1,409	1,529
Net profit	198	211	161	198	221	LT Debt	0	199	199	199	199
	-47	-48	-34	-42	-46	Other LT liabilities	26	19	14	14	14
	151	163	128	156	175	Total non-current liabilities	34	226	321	321	321
						Trades payables	40	42	82	46	50
						Tax liabilities	50	51	63	63	63
						ST loans	150	0	0	0	0
						Total current liabilities	270	122	201	164	168
						Total equity and liabilities	1,362	1,509	1,819	1,894	2,018
CASH FLOW STATEMENT, EURm											
CF from operations	FY17/18	FY18/19	FY20E	FY21E	FY22E						
Depreciation & amortisation	217	175	162	256	240						
WCR change	-5	-7	-10	-10	-10						
CF from investments	0	0	6	8	8						
Capex	-47	-49	-34	-42	-46						
CF from fin. activities	164	119	125	212	192						
Dividends to shareholders	-42	-44	-23	-40	-50						
	-48.0	-55.4	-38.1	-38.4	-44.6						
OPERATIONS											
Store count	FY17/18	FY18/19	FY20E	FY21E	FY22E	Rev per avg sqm (EUR)	FY17/18	FY18/19	FY20E	FY21E	FY22E
Greece	75	79	81	85	89	Greece	1,100	1,122	984	1,051	1,080
Cyprus	51	51	52	52	53	Cyprus	1,244	1,287	1,132	1,200	1,230
Bulgaria	5	5	5	5	6	Bulgaria	1,616	1,653	1,537	1,537	1,537
Romania	9	9	9	9	9	Romania	632	693	637	701	764
	8	10	13	15	17		857	936	702	843	876
	2018	2019	2020E	2021E	2022E						
Total Selling space (sqm)	698,000	749,500	775,500	821,329	870,071						
Greece	393,200	406,200	406,200	415,200	415,200						
Cyprus	53,000	53,000	53,000	64,000	64,000						
Bulgaria	123,500	123,500	123,500	123,500	133,500						
Romania	128,300	166,800	192,800	218,629	257,371						

Investment case

The Consumer Discretionary sector is under severe pressure, as companies face store closures and deteriorating consumer appetites. Among the (relative) winners, we see Jumbo as one of the players that should be able to weather the storm, due to: 1) its strong balance sheet 2) the defensive nature of its business as a discounter; and 3) its proven track record. However, we have lowered our 2020E estimates and expected store rollout, as Jumbo is not immune to the impact of COVID-19. We do believe that it is well-prepared to absorb the hit and survive the crisis without any major scars. We have upgraded the stock to BUY, with a new 12M PT of EUR 19.5/share (vs. EUR 21.5 previously), offering 22% upside to the current price. The stock trades at 8.1x on our 2020E EV/EBITDA estimates, but we believe that this offers a good entry point for a company with prudent balance sheet management, which is likely to benefit from the crisis, while sitting on EUR 600m of cash.

Self-fulfilling prophecy. The most frequent question asked when it comes to Jumbo is: “why does it keep so much cash?”. Its cash pile exceeded EUR 600m as of December 2019, and it has enjoyed a net cash position since 2012. Management’s answer to this question has always been the same – “saving for a rainy day” – and now it has rained. We believe that Jumbo is one of the safest bets in our Greek retail universe currently, with a balance sheet strong enough to endure a prolonged period of headwinds. The IFRS 16 adjusted net debt/EBITDA for FY July-December 2019 stood at -2.0x; while, in conjunction with the suspension of the majority of capex and mitigation measures, it should be able to navigate the COVID-19 challenges, in our view.

Strong cash buffers to support the business



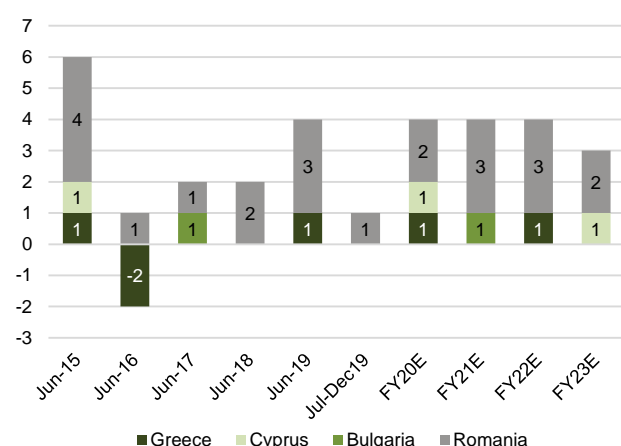
Source: Company data, WOOD Research

Flexible business model, with low cash burn. Based on our understanding, the company has a very flexible business model in terms of operating costs, with a c.EUR 20m monthly cash burn, and without including the deployment of government support packages or any renegotiation on the opex side. Management has confirmed its intention to utilise government easing measures, in order to alleviate expenses in the P&L. In Greece, these include 60% of rental payments for the period the stores are closed, and a EUR 800/per person (pp) subsidy for store employees; while Romania is offering a subsidy of 75% of basic salaries for workers who are technically unemployed (furloughed temporarily). We expect stable operating expenses vs. 2019, at EUR 200m, with cost containment primarily on marketing expenses, store employees and rental fees. The latter accounts for less than EUR 10m on an annualised basis, with most rental fees being calculated on a revenue sharing basis.

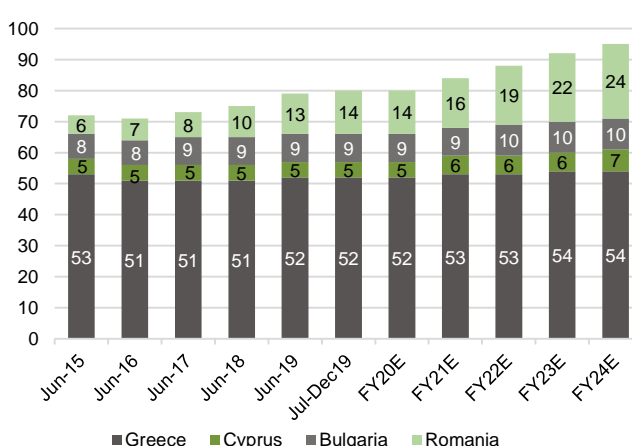
Network rollout. Management has cautioned for the suspension of capex and the store rollout until there is more visibility on the COVID-19 situation. Taking into consideration the capex suspension, we have reduced our initial expectations of three new stores in 2020E in Greece, Cyprus and Romania; and limited the rollout to one store in Romania by end-2020E. We have cut our 2020 capex expectations to EUR 23m, vs. EUR 48m previously, to account for: i) the launch of a new store in Romania, an e-commerce store in Cyprus by the end of the year, and a new online platform in Romania at the beginning of 2021E; and ii) the expansion of warehouse facilities to support the growing network and e-commerce needs. For 2021E, we expect one new owned stores in Romania, following management’s guidance for 11 store openings within five years. We also include one leased store in Cyprus, planned initially for 2020E, and one in Greece. On our numbers, the next store opening in Bulgaria would be in 2022E, given that Greece, Cyprus and Bulgaria have already reached the plateau phase of network development. Jumbo’s current network comprises 80 stores, 52 of which are located in Greece, 9 in

Bulgaria, 5 in Cyprus and 14 in Romania. After its five-year guidance period, Romania should reach 24 stores.

Romania: 11 stores within the next five years...



Total of 81 stores in 2020



Source: Company data, WOOD Research

COVID-19 impact. The coronavirus outbreak has hit consumer discretionary and non-essential retail stores hard, as countries moved ahead with national lockdowns to contain the situation. As a result, Jumbo saw its Greek and Cypriot retail network closed for two months, with little online exposure in Greek territory and zero in Cyprus. Things looked a little brighter in Romania and Bulgaria, with the majority of stores remaining open, but these witnessed 50-60% declines in turnover for the same period, as non-essential movement was restricted because of the soaring numbers of cases. The retail trade in Greece resumed gradually, from 4 May, with Jumbo’s stores reopening on 11 May and management confirming, during the AGM, that the first signs of store traffic were quite encouraging. Due to its cross-border diversification, and different measures adopted in the countries of its operations, we anticipate revenues to remain broadly resilient, confirming our view that Jumbo was, and remains, a defensive play in the region.

The initial concern associated with Jumbo was its Chinese exposure on the supply-side front. Although this has now receded, the problem has shifted from supply to demand, with consumer confidence plunging in April and May 2020. Although management has stressed that we might see some suppliers exiting the market, we no longer see supply chain disruption as a significant risk factor, as the majority of Chinese production got back to business from March. With demand the most important component of the equation, we see an increase in Jumbo’s market share as a plausible scenario, as numerous SMEs may not survive the prolonged period of store closures and suppressed consumer demand. We are confident, therefore, that the company should emerge as a winner from the crisis, as it has done in the past, despite all four economies where it operates facing a downturn in 2020E. We attribute this to the brand loyalty around its name, as well as the “discount retailer” profile, with a strategic product mix in place to serve a family’s everyday needs.

e-commerce: is the risk becoming real? The enforcement of social distancing, lockdowns and other measures in response to the COVID-19 pandemic has led consumers to ramp up their online shopping, social media use, internet telephony and teleconferencing, and the streaming of videos and films. We believe the threat of e-commerce for Jumbo’s business is now closer than ever, as consumer behaviour has adjusted abruptly during the pandemic, and customers have become more acquainted with the online sales of both staples and discretionary products. We believe that a portion of consumers who have become more tech-savvy during the lockdowns will continue to shop online. In the case of Jumbo (and Fourlis’ IKEA), this discourages impulse buying, by adhering to the targeted shopping list. Despite being a traditional bricks&mortar business, management is aware of the growing trend towards e-commerce, and is working to launch e-stores in both Cyprus and Romania, with the latter being in the expansion phase currently. Although Greece has already a mature e-shop, online shopping has not managed to recover the losses from bricks&mortar. This appears to be negative for the 2020E numbers, but positive for the long-term investment thesis on the company, proving customers’ loyalty to its physical stores.

Macro – will Jumbo survive again? Jumbo’s sales were resilient throughout the Greek recession, with low single-digit growth generating a buffer for the top line. Even though the company is likely to see a downturn in all four countries of operation this time around, we believe the 2020E GDP recession should be short lived, and we see a U-shaped recovery in Greece and Romania as a plausible scenario. We estimate 2021E GDP growth of 5% in Romania and 4.7% yoy in Greece. With the spike in unemployment

across the region, and lower disposable incomes, consumers are likely to become more price conscious and shift to discounting retailers that offer a smart product mix, in our view.

As explained in our recently published EME Macro/Strategy ESI [report](#), according to the EU Commission's ESI data, the May surveys for Romania delivered a nice bounce in the industrial sector, the retail space and even construction. The improvement in economic confidence was matched by a sizeable improvement in hiring appetite. Against this backdrop, the EU Commission's recommendations on reforms appear rather loose, to us, which could open the door to a better performance in 2021E.

Romania: macro forecasts

	2018	2019	2020E	2021E	2020Econs	2021Econs
Real GDP growth	4.5%	4.2%	-5.9%	5.2%	-3.4%	3.0%
Inflation	4.6%	3.8%	3.1%	4.1%	3.0%	3.2%
Policy rate, eop	2.50%	2.50%	1.00%	1.00%	2.50%	2.50%
EUR/RON, avg.	4.7	4.7	4.8	4.9	4.9	5.0
Fiscal balance in % of GDP	-2.9%	-4.3%	-7.5%	6.0%	-4.2%	-4.0%
Current account in % of GDP	-4.5%	-4.8%	-4.0%	-4.0%	-4.6%	-4.4%

Source: Bloomberg, ADA Economics in association with WOOD Research

For Greece, the picture is less bright, with the May survey delivering a negative message. The industrial, retail and services confidence indices dropped sharply in the month: an unusual pattern, given that most countries saw a big downwards adjustment in April and only a mild drop in May. Construction and consumer confidence were roughly stable relative to April.

What should we make of this? We believe the weak performance in May should be viewed in a historical context: the surveys signal a sharp worsening of economic conditions, but the situation is better than the recent crises in 2015, 2012 and 2008. This is in contrast with every other country, where the surveys are signalling that the economy is as bad as, or worse than, 2008-09. The tourism industry is critical for Greece; thus, further downside may materialise. We believe, however, that the conditions are in place for a meaningful gradual recovery; thus, overall, we see Greece as the only country in our universe where the consensus GDP forecasts are -7.3% in 2020 and a rebound of 5% in 2021E.

Greece: macro forecasts

	2018	2019	2020E	2021E	2020E cons	2021E cons
Real GDP growth	1.9%	1.9%	-4.3%	4.7%	-7.3%	5.0%
Inflation	0.6%	0.3%	-0.9%	0.5%	-0.1%	0.9%
Policy rate (ECB), eop	-0.40%	-0.50%	-0.50%	-0.50%	0.00%	0.00%
EUR/USD, avg.	1.18	1.12	1.14	1.07	1.1	1.2
Fiscal balance in % of GDP	1.0%	0.7%	-5.9%	-3.9%	-6.4%	-3.3%
Current account in % of GDP	-2.9%	-2.2%	-2.0%	-2.0%	-1.8%	-1.7%

Source: Bloomberg, ADA Economics in association with WOOD Research

Estimates changes: resilient revenues for 2020E, with a rebound in 2021E

Cutting our revenues estimates by 15.5% for 2020-22E. We have fine-tuned our forecasts downwards, to account for the COVID-19 impact and the sales drop due to the store closures in Greece and Cyprus, and the restricted traffic in Romania and Bulgaria. We have also adjusted our FY to match the calendar year, following the company's decision to change its fiscal year to January-December.

Jumbo: financial forecasts update

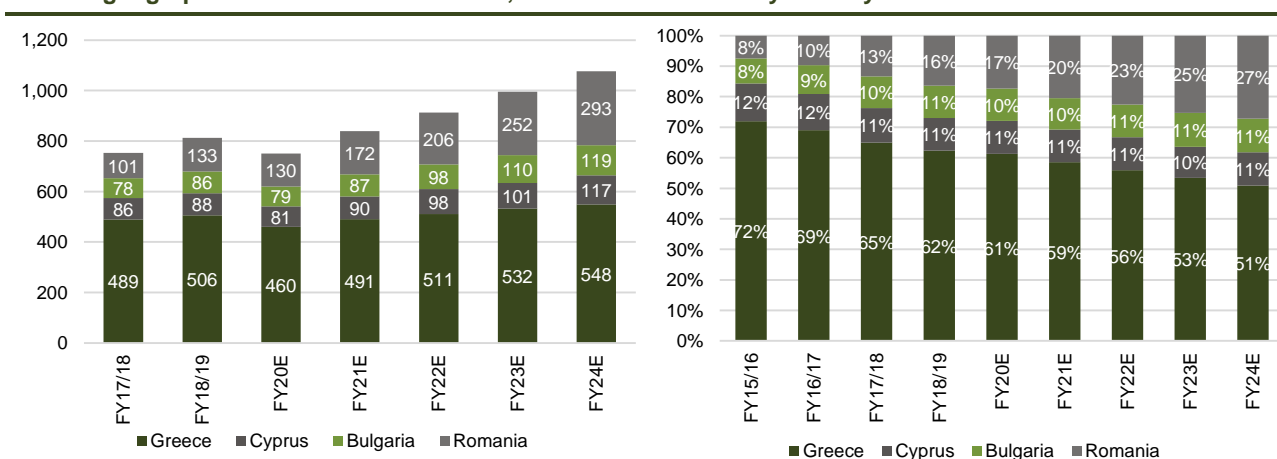
EUR m	2020E			2021E			2022E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Sales	888	751	-15.5%	971	839	-13.6%	1,047	913	-12.8%
Gross profit	461	376	-18.4%	503	426	-15.4%	542	463	-14.6%
EBITDA	261	205	-21.4%	289	242	-16.3%	312	266	-14.7%
EBIT	234	168	-28.3%	260	203	-22.0%	281	225	-19.8%
Net income	185	128	-31.1%	206	156	-24.0%	224	175	-22.0%
Adjusted EPS (EUR)	1.36	0.94	-31.1%	1.52	1.15	-24.3%	1.65	1.28	-22.2%
Gross margin	51.9%	50.1%	-179bp	51.8%	50.7%	-108bp	51.8%	50.7%	-106bp
EBITDA margin	29.4%	27.3%	-206bp	29.8%	28.2%	-156bp	29.8%	28.2%	-160bp

Source: WOOD Research

We have cut our sales estimates by 15.5% to EUR 751m for 2020E, -13.6% for 2021E and 12.8% for 2022E. We now estimate a three-year revenue CAGR of 4.0%, with negative sales dynamics of 7.6% in 2020E, followed by yoy rebounds of 11.8% in 2021E and 8.8% in 2022E. More specifically, we expect the 2020E revenues to contract by 7.6% yoy, to EUR 751m, with the traditionally-stronger July-December period partially recovering the losses from the lockdown and the lost Easter season, which normally accounts for 10-15% of the company's annual turnover. We believe the more lenient measures adopted in Romania and Bulgaria, which saw only shopping malls closing, should alleviate the losses from the Greek and Cypriot network, which remained closed for 56 days, with the Greek online platform providing only marginal support. We expect Greek and Cypriot revenues to suffer the highest contraction in 2020E, with Greece ending the year at EUR 459m, down 9% yoy, and Cyprus down 8%, at EUR 81m.

We believe Romania and Bulgaria should demonstrate a more resilient profile. For Bulgaria, we estimate a mid-single-digit drop in sales of 7% yoy. Our growth assumptions for Romania remain in positive territory in 2020E, however: we expect sales to drop 2% yoy, as 2020E benefits from the new 14,000sqm store that opened in Brasov in November 2019, and the market dynamics in the country remain defensive.

Jumbo: geographic breakdown of revenues, EUR m ...and % by country



Source: Company data, WOOD Research

Gross and EBITDA margin pressure. On the gross profit margin level, we pencil in 210bps of erosion vs. the previous year, to account for the unsold Easter inventory, despite the record-low oil prices that typically affect freight rates and the transportation of inventory from Asia. We anticipate a gross profit margin for the year of 50.1%, rising to 50.7% in 2021E and 2022E, on the back of further product mix improvements (no overstocking in toys) and the benefits of early purchasing within 2H20E.

We expect effective cost containment to result in marginally lower operating expenses on a yoy basis, driven primarily by lower marketing and advertising spend, as well as the deployment of government subsidies on rental and employees costs (primarily in the Greek and Cypriot networks, as almost all the stores in Romania and Bulgaria are owned by the company).

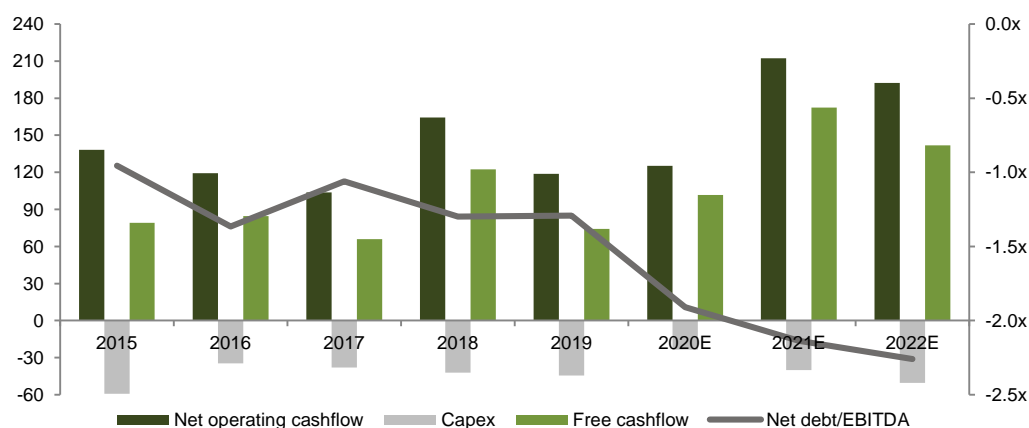
We see the three-year EBITDA CAGR at 4.0%, compromised by the 2020E performance. We have adjusted our estimates to account for IFRS 16, and expect 2020E EBITDA of EUR 205m, bouncing back to EUR 242m in 2021E (+18% yoy) in 2021E. For 2022E, we see 10% yoy growth, to EUR 266m, resulting in a three-year CAGR of 4.0%. We see the depreciation and amortisation rising to EUR 37m in 2020E from EUR 26m in FY18/19, including a EUR 10m IFRS 16 effect from lease payments. Operating profitability (EBIT) is therefore down 21% yoy, to EUR 167m, climbing back to EUR 203m in 2021E, up 22% on yoy terms, and reaching EUR 225m in 2022E (+11% yoy). We forecast the net financial result to be negative in 2020E, at -EUR 6m, gradually easing to -EUR 4m in 2022E, including a stable EUR 3m interest paid on leases (IFRS 16 effect).

Net income to drop 22% yoy in 2020E, then recover from losses in 2021E. We set our weighted tax rate at 21%, vs. 23% in the previous fiscal year, to account for the corporate tax reduction on Greek revenues. We estimate net income of EUR 128m for 2020E, down 22% yoy, with a rebound of 23% yoy in 2021E to revenues of EUR 160m, and a strong 2022E, at EUR 175m (+12% yoy).

Despite the COVID-19 challenges, Jumbo remains financially sound. The company remains one of our top picks in the Greek universe, when it comes to balance sheet strength. The retailer has been consistently reporting a net cash position, with the FY July-December 2019 net debt/EBITDA ending at -2.1x. We anticipate 2020E leverage of -1.9x, with net cash of -EUR 392m (EUR -498m, non IFRS 16 adjusted).

With respect to the company's free cash flow in 2020E, we expect FCF conversion of 43%, which translates into EUR 101m of free cash flow to the firm, accounting for the increase in the cash conversion cycle to 150 days, due to higher inventories and capex of EUR 23m.

Resilient cash flow generation and balance sheet



Source: WOOD Research, company data

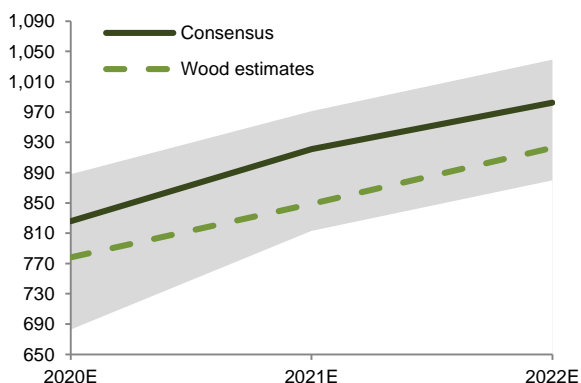
We believe that dividend distribution for FY20E remains highly likely, and we assume a gross DPS of EUR 0.33. This does not incorporate the previous guidance for a dividend increase of 20% for FY July-December 2019 and FY20E, however, leaving upside risk for our DPS estimates, should management decide to move ahead with higher distribution. We note that the 20% higher DPS has been applied to the July-December 2019 financial year already, with a total distribution of EUR 0.282 per share (gross).

WOOD vs. the consensus

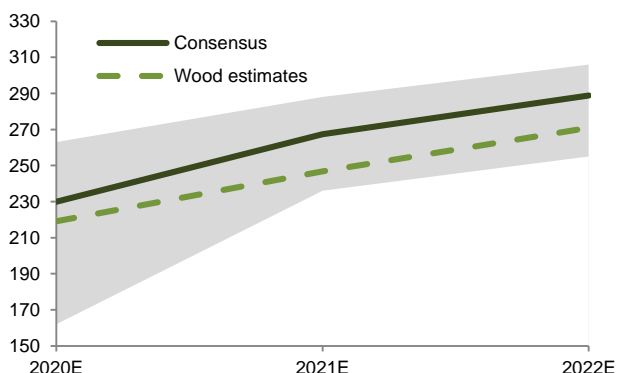
Our estimates look more conservative compared with the street, but we attribute this to the probability that the consensus is not fully updated for the potential COVID-19 impact.

WOOD vs. the consensus

Sales estimates

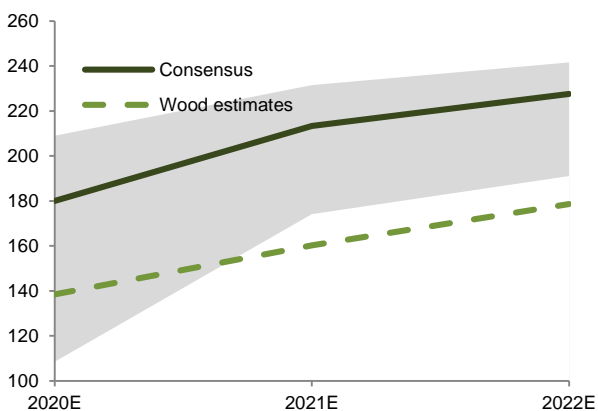


EBITDA estimates

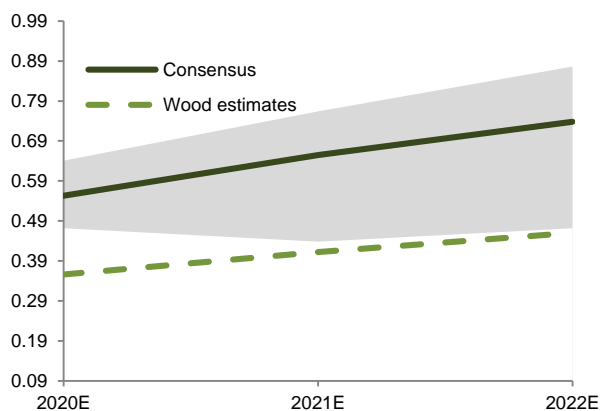


Source: WOOD Research, Bloomberg, company data

Net income estimates



DPS estimates



Source: WOOD Research, Bloomberg, company data

Risks

Upside

- ✓ **A faster macroeconomic recovery in Greece** could improve consumer confidence and increase consumer spending, resulting in higher sales for the core country, which holds the operating leverage.
- ✓ **FX fluctuations** in favour of the EUR against the USD could boost the company's gross profit margin (GPM), as c.80% of its cost of goods sold (COGS) is USD-denominated and pegged to the EUR/USD relationship.
- ✓ **A decline in transportation costs** may also contribute to a better GPM.
- ✓ **A faster expansion of Jumbo stores in Romania than expected.** Following management's recent guidance on the Romanian expansion, we allow for 11 store openings within the next five years. A more aggressive expansion plan could accelerate the sales growth potential we see in Romania. In addition, there could be upside risks, should the company choose to explore expansion in other Balkans countries, where it could enjoy prosperous growth, as it has in Romania.

Downside

- ✓ **Macroeconomic downturn across the regions.** The COVID-19 pandemic is very likely to cause a downturn in the global economy for 2020E. In the absence of any pharmaceutical solution, a second wave of cases and lockdowns would be highly likely to further deteriorate our 2020E estimates and delay any potential recovery expected in 2021E, leaving the economies in recession.
- ✓ **FOREX movements.** A weaker EUR vs. the USD could affect the company's GPM significantly, as 80% of its products are supplied from China and the Yuan is pegged to the USD. We note that Jumbo uses a natural hedge and increases early stocking when the FX rates are favourable (i.e., when the EUR is stronger).
- ✓ **Higher transportation costs** could hurt the GPM, as these account for c.20% of Jumbo's COGS. Potential inflationary pressures in China could also compromise inventory prices.
- ✓ **Store network expansion.** Any slowdown in Jumbo's store network expansion in Romania could have a negative impact on our anticipated top-line growth.
- ✓ **Competition considerations.** Despite the highly competitive historical and gross margin levels, which seem to discourage other players, any potential recovery in the domestic market could attract old/new players looking to exploit favourable conditions and disrupt Jumbo's "monopoly" in Greece. Reaching Jumbo's scale, and becoming an equal competitor, would require a great deal of effort and capital, and years of preparation, however. Romania appears to be a more competitive environment, as it includes other established players: Noriel Group, controlled by Romanian shareholders and Axxess Capital, has more than 45 stores in the country and is considered among the leaders in the market. Jumbo is also competing against Maxi toys, which entered the Romanian market a year after Jumbo, with Nicoro Trading the main distributor. Consequently, Jumbo's aggressive expansion may require greater competitive tactics in order to gain the targeted market share.
- ✓ **Corporate governance.** In light of a recent incident with a listed Greek consumer discretionary company, we take a more conservative view on corporate governance, encompassing broader aspects that could hurt our investment case. Taking this into account, Jumbo seems to be heavily dependent on the Chairman, Mr. Apostolos Vakakis, who has been managing the company for more than 20 years, and who is responsible for its strategy and expansion. We believe that the level of dependence on Mr. Vakakis is a potential risk for the company's future management. During the 6 November 2019 AGM, 43.3% of the represented shares (c.48.6m shares) and votes went against the elected BOD, which comprises the same members as before, for a two-year term of service. The result raised some concerns with respect to the shareholders' view on the governance of the company, which we believe is attributable to the growing concern over ESG metrics, which are becoming a prerequisite for sustainable investing.

Valuation

We have lowered our 12M PT for Jumbo, to EUR 19.5/share (from EUR 21.5), due to our lower revenue assumptions, based on our understanding of the COVID-19 impact on the company's profitability. Despite the recent rerating from the March lows, and with clear visibility on store closures, we believe there is still value which is not yet reflected in the current market price, with 22% upside potential to our 12M PT. We thus upgrade the stock to BUY, from Hold.

We have decided to base our valuation 100% on our DCF analysis, as we believe the company lacks directly-comparable peers for accurate comparison and valuation purposes. We do include a peer comparison table as a sanity check, however. On a peer basis, for 2020-22E, the retailer trades at a double-digit discount on both P/E and EV/EBITDA, on our estimates.

Jumbo: valuation summary

	Weight	Equity value (EURm)	Per share (EUR)	Upside/downside
DCF	100%	2,440	19.5	21%
Peer group comparison	0%			
Weighted average target value			19.5	
Current price (EUR)			16.0	
<i>Upside/downside</i>			22.1%	
Expected dividend yield			2.55%	
Total return potential			24.7%	

Source: WOOD Research

DCF

Our DCF model yields a 12M PT of EUR 19.5/share, using the following assumptions:

- ✓ Our explicit forecasts for December 2020-29E.
- ✓ A terminal value of 1.5%.
- ✓ A risk free rate of 4.0%, vs. 3.5% previously.
- ✓ A WACC of 8.3%, based on an ERP of 5.0% and a levered beta of 1.0x vs. 0.94x before.

Jumbo: DCF valuation

Year-end December (EUR m)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Sales	751	839	913	996	1,076	1,148	1,225	1,299	1,372	1,449
EBIT	168	203	225	251	275	292	312	328	343	358
- Tax	-35	-43	-47	-53	-58	-61	-65	-69	-72	-75
<i>Tax rate (%)</i>	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
NOPAT	133	160	178	198	217	231	246	259	271	283
+ Depreciation & provisions	37	39	41	43	45	47	49	51	54	56
- Capex (IFRS 16 adjusted)	-35	-51	-62	-54	-41	-48	-41	-41	-42	-43
- WC change	-54	14	-26	-29	-28	-25	-27	-26	-26	-27
= FCF	81	162	131	157	192	204	227	243	257	269
Discount factor	92%	84%	78%	71%	66%	60%	55%	51%	47%	43%
Discounted FCF	75	137	102	112	126	123	126	124	120	115
EV (EURm)	2,870									
o/w PV of disc. FCF 2020-2028E	1,159									
o/w PV of terminal value	1,711									
Total EV	2,870									
- Net debt (end 2019)	-438									
+ Associates	7									
- Minorities	0									
Fair value of equity (EURm)	2,440									
Number of shares (millions)	136.1									
12M target (EUR)	19.5									

Source: WOOD Research

Jumbo: WACC calculation

[A] Debt/capital ratio (%)	8%
[C] Equity/capital ratio (%)	92%
Cost of debt:	
Marginal cost of debt (%)	3.7%
x Marginal tax rate (%)	21%
[B] Cost of debt (post tax) (%)	2.9%
Cost of equity:	
Beta	1.0
x Equity risk premium (%)	5.0
+ Risk free rate (%)	4.0
[D] Cost of equity (%)	9.0
[A x B] + [C x D] = WACC:	8.3%

Source: WOOD Research, Bloomberg

Jumbo: DCF sensitivity tables

		LT g						
		0.00%	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%
WACC	6.8%	19.5	20.6	21.9	23.4	25.3	27.6	30.5
	7.3%	18.6	19.5	20.6	21.9	23.4	25.3	27.6
	7.8%	17.8	18.6	19.5	20.6	21.9	23.4	25.3
	8.3%	17.0	17.8	18.6	19.5	20.6	21.9	23.4
	8.8%	16.4	17.0	17.8	18.6	19.5	20.6	21.9
	9.3%	15.8	16.4	17.0	17.8	18.6	19.5	20.6
	9.8%	15.3	15.8	16.4	17.0	17.8	18.6	19.5

		LT g						
		0.00%	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%
WACC	Upside/downside to PT	0%	6%	12%	20%	29%	41%	55%
	6.8%	-5%	0%	6%	12%	20%	29%	41%
	7.3%	-9%	-5%	0%	6%	12%	20%	29%
	7.8%	-13%	-9%	-5%	0%	6%	12%	20%
	8.3%	-16%	-13%	-9%	-5%	0%	6%	12%
	8.8%	-19%	-16%	-13%	-9%	-5%	0%	6%
	9.3%	-21%	-19%	-16%	-13%	-9%	-5%	0%
	9.8%							

		RFR						
		2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%
Beta	0.79	21.6	21.6	21.6	21.6	21.6	21.6	21.6
	0.84	21.0	21.0	21.0	21.0	21.0	21.0	21.0
	0.90	20.5	20.5	20.5	20.5	20.5	20.5	20.5
	1.00	19.5	19.5	19.5	19.5	19.5	19.5	19.5
	1.10	18.7	18.7	18.7	18.7	18.7	18.7	18.7
	1.20	18.1	18.1	18.1	18.1	18.1	18.1	18.1
	1.30	17.4	17.4	17.4	17.4	17.4	17.4	17.4

		RFR						
		2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%
Beta	Upside/downside to PT	11%	11%	11%	11%	11%	11%	11%
	0.73	8%	8%	8%	8%	8%	8%	8%
	0.78	5%	5%	5%	5%	5%	5%	5%
	0.83	0%	0%	0%	0%	0%	0%	0%
	0.94	-4%	-4%	-4%	-4%	-4%	-4%	-4%
	1.04	-8%	-8%	-8%	-8%	-8%	-8%	-8%
	1.14	-11%	-11%	-11%	-11%	-11%	-11%	-11%
	1.24							

Source: WOOD Research

Peer comparison table

Company	Last price (LCU)	MCap (USD m)	EV/EBITDA (x)			P/E (x)		
			2020E	2021E	2022E	2020E	2021E	2022E
Jumbo (WOOD)	16.1	2,529	8.1	6.4	5.5	17.1	13.9	12.5
Jumbo (Consensus)			8.4	8.4	7.2	14.6	14.6	12.1
Developed								
Dunelm	1,130	2,895	15.5	14.2	13.0	28.0	28.0	23.9
Stockman	1.2	125	11.3	7.1	6.9	13.7	13.7	10.7
WH Smith	1,173	1,889	n.a.	15.6	12.5	n.a.	n.a.	23.5
Emerging								
Detsky Mir	765	951	7.0	5.3	4.6	20.6	20.6	13.8
BIM	69.0	6,208	11.0	9.5	8.5	25.4	25.4	21.9
CCC	70.0	4,163	6.4	5.6	5.1	9.5	8.5	7.0
BIM			11.0	9.5	8.5	34.3	25.4	21.9
ULKER			6.4	5.6	5.1	9.5	8.5	7.0
Average								
Developed			13.4	12.3	10.8	20.8	20.8	19.4
Emerging			9.0	7.4	6.6	23.0	23.0	17.8
All			9.8	9.0	8.0	20.1	18.6	16.2
Premium/discount			-19%	-28%	-30%	-36%	-13%	-14%

Source: Bloomberg, WOOD Research

Financials

Income statement

	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	Dec-20E	Dec-21E	Dec-22E
Revenues	583	638	681	753	812	751	839	913
<i>Revenue growth</i>	8%	9%	7%	11%	8%	-8%	12%	9%
COGS	-273	-300	-326	-358	-388	-374	-414	-450
Gross profit	310	338	355	395	424	376	426	463
<i>Gross profit growth</i>	8%	9%	5%	11%	7%	-11%	13%	9%
Gross margin	53.2%	53.0%	52.2%	52.5%	52.2%	50.1%	50.7%	50.7%
Distribution expenses	-146	-153	-161	-177	-188	-184	-197	-210
<i>yoy</i>	6%	4%	5%	10%	6%	-2%	7%	7%
% of revenues	-25%	-24%	-24%	-23%	-23%	-24%	-23%	-23%
Administrative expenses	-23	-22	-22	-22	-23	-23	-24	-26
<i>yoy</i>	8%	-3%	-3%	4%	5%	-2%	6%	5%
% of revenues	-3.9%	-3.5%	-3.2%	-3.0%	-2.9%	-3.1%	-2.9%	-2.8%
Other operating income/(expenses), net	-2	-2	-1	0	0	-2	-2	-2
<i>yoy</i>	49%	-13%	-45%	-138%	-165%	0%	0%	0%
% of revenues	-0.4%	-0.3%	-0.2%	0.1%	0.0%	-0.2%	-0.2%	-0.2%
EBITDA (IFRS 16 adjusted)	159	183	195	221	238	205	242	266
<i>EBITDA growth</i>	9%	15%	6%	14%	8%	-14%	18%	10%
EBITDA margin	27.3%	28.8%	28.6%	29.4%	29.3%	27.3%	28.8%	29.1%
Depreciation & amortisation	-21	-22	-23	-25	-26	-37	-39	-41
EBIT	138	161	172	197	212	168	203	225
Net financial result	-1	4	2	1	-1	-6	-5	-4
Pre-tax profit	137	165	173	198	211	161	198	221
Taxes	-32	-44	-42	-47	-48	-34	-42	-46
<i>Tax rate</i>	23%	27%	24%	24%	23%	21%	21%	21%
Net income (100%)	105	121	131	151	163	128	156	175
Minority interests	0	0	0	0	0	0	0	0
Net income shareholders' part	105	121	131	151	163	128	156	175
<i>Net income growth</i>	4%	16%	8%	15%	8%	-22%	23%	12%
Net margin	18.0%	19.0%	19.2%	20.1%	20.1%	17.0%	18.6%	19.1%
Adjusted net income	105	121	131	151	163	128	156	175

Source: Company data, WOOD Research

Key ratios, per share data

	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	Dec-20E	Dec-21E	Dec-22E
Sales growth	7.5%	9.4%	6.9%	10.5%	7.8%	-7.6%	11.8%	8.8%
Gross profit growth	7.6%	9.1%	5.2%	11.2%	7.3%	-11.2%	13.1%	8.8%
EBITDA growth	8.7%	15.2%	6.3%	13.5%	7.6%	-13.9%	17.9%	10.0%
EBIT growth	8.5%	16.7%	6.7%	14.4%	8.1%	-21.1%	21.0%	11.0%
Net income growth	3.5%	15.7%	8.0%	15.3%	7.8%	-21.7%	22.7%	11.7%
Adjusted EPS growth	2.4%	15.7%	8.0%	15.3%	7.7%	-21.7%	22.7%	11.7%
Gross margin	53.2%	53.0%	52.2%	52.5%	52.2%	50.1%	50.7%	50.7%
EBITDA margin	27.3%	28.8%	28.6%	29.4%	29.3%	27.3%	28.8%	29.1%
EBIT margin	23.7%	25.3%	25.2%	26.1%	26.2%	22.3%	24.2%	24.7%
Net margin	18.0%	19.0%	19.2%	20.1%	20.1%	17.0%	18.6%	19.1%
ROCE	16.0%	17.2%	17.4%	18.9%	18.6%	13.9%	17.1%	18.2%
ROE	13.6%	14.2%	14.0%	15.0%	14.7%	10.4%	11.6%	11.9%
Adjusted EPS (EUR)	0.77	0.89	0.96	1.11	1.20	0.94	1.15	1.28
DPS (EUR)	0.34	0.00	0.36	0.39	0.47	0.33	0.40	0.45
Payout	44%	0%	37%	35%	39%	35%	35%	35%
BVPS (EUR)	5.9	6.7	7.1	7.8	8.5	9.5	10.4	11.2

Source: Company data, WOOD Research

DuPont analysis

(EURm)	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	Dec-20E	Dec-21E	Dec-22E
ROE	13.6%	14.2%	14.0%	15.0%	14.7%	10.4%	11.6%	11.9%
Adjusted ROE	13.6%	14.2%	14.0%	15.0%	14.7%	10.4%	11.6%	11.9%
Asset turnover	0.5x	0.6x	0.6x	0.6x	0.6x	0.5x	0.5x	0.5x
Equity multiplier	1.4x	1.3x	1.3x	1.3x	1.3x	1.4x	1.4x	1.3x
Adjusted net margin	18.0%	19.0%	19.2%	20.1%	20.1%	17.0%	18.6%	19.1%
ROE (DuPont)	13.6%	14.2%	14.0%	15.0%	14.7%	10.4%	11.6%	11.9%
Average invested capital	659	689	744	793	882	953	940	975
Reported EBIT	138	161	172	197	212	168	203	225
Taxes on EBIT	-32	-43	-42	-46	-49	-35	-43	-47
<i>Effective tax rate (P&L)</i>	23%	27%	24%	24%	23%	21%	21%	21%
NOPAT	106	118	130	150	164	133	160	178
ROIC	16.0%	17.2%	17.4%	18.9%	18.6%	13.9%	17.1%	18.2%

Source: Company data, WOOD Research

Balance sheet

	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	Dec-20E	Dec-21E	Dec-22E
Cash and cash equivalents	299	395	366	437	507	697	822	906
Blocked deposits	1	1	0	0	0	0	0	0
Inventories	198	197	239	248	290	329	299	325
Receivables	16	33	35	33	40	64	44	48
Other current assets	45	55	73	74	84	33	33	33
Total current assets	558	680	713	792	921	1,123	1,198	1,312
Net PPE	498	499	515	542	562	563	564	574
Intangible assets	0	0	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0	0	0
Investment property	6	6	5	5	3	2	2	2
Investments in associates	10	8	9	6	8	7	7	7
Other non-current assets	18	17	17	17	16	8	8	8
Total non-current assets	532	530	546	570	589	696	697	706
Total assets	1,090	1,209	1,260	1,362	1,509	1,819	1,894	2,018
Trade payables	51	39	40	40	42	82	46	50
Tax liabilities	40	51	49	50	51	63	63	63
Accrued and other current liabilities	0	0	0	0	0	0	0	0
ST loans	3	0	15	150	0	0	0	0
Other	29	38	30	30	29	47	47	47
Total current liabilities	123	129	134	270	122	201	164	168
LT loans	144	144	144	0	199	199	199	199
Provisions	0	0	0	0	0	0	0	0
Employee benefit plans	6	7	7	8	9	9	9	9
Other non-current liabilities	20	14	13	26	19	14	14	14
Total non-current liabilities	170	165	164	34	226	321	321	321
Minority interest	0	0	0	0	0	0	0	0
Shareholders' equity	797	916	962	1,058	1,161	1,297	1,409	1,529
Total liabilities & equity	1,090	1,209	1,260	1,362	1,509	1,819	1,894	2,018
Net debt/(cash)	-152	-250	-207	-287	-308	-498	-623	-707
Net debt/equity	-19%	-27%	-22%	-27%	-27%	-38%	-44%	-46%
Net debt/EBITDA	-1.0x	-1.4x	-1.1x	-1.3x	-1.3x	-1.9x	-2.1x	-2.3x

Source: Company data, WOOD Research

Cash flow statement

	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	Dec-20E	Dec-21E	Dec-22E
Pre-tax income	137	165	173	198	211	161	198	221
Depreciation & amortisation	21	22	23	25	26	37	39	41
Net financial income/expense	-2	-4	2	1	-1	6	5	4
Associate adjustments	0	0	0	0	0	0	0	0
Other non-cash items in P&L	0	0	0	0	0	0	0	0
WCR change	1	1	-38	-6	-65	-43	14	-26
Other	10	-24	-6	-1	3	0	0	0
Cash flow from operations	168	161	154	217	175	162	256	240
Interest paid	-7	-6	-5	-5	-7	-10	-10	-10
Interest received	9	8	0	0	0	6	8	8
Tax paid	-32	-43	-45	-47	-49	-34	-42	-46
Net operating cash flow	138	119	104	164	119	125	212	192
Capex	-59	-35	-38	-42	-44	-23	-40	-50
Disposals of operating assets	3	0	1	1	1	0	0	0
Acquisitions of operating assets	0	0	0	0	0	0	0	0
Disposals of other assets	0	0	0	0	0	0	0	0
Proceeds/(acquisitions) of financial assets	-6	0	14	7	2	0	0	0
Cash flow from investing activities	-63	-35	-22	-34	-41	-23	-40	-50
Capital related movements	0	0	0	0	0	0	0	0
Debt related movements	-19	-3	15	-10	49	0	0	0
Dividends to shareholders	-46	0	-121	-48	-55	-38	-45	-55
Other dividends	0	0	-3	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Cash flow from financing activities	-64	-3	-110	-58	-7	-41	-48	-58
Impact of exchange/perimeter	0	0	0	-1	-1	0	0	0
Change in cash	11	81	-29	71	70	60	125	84
Net debt (cash) beginning of period	-122	-152	-250	-207	-287	-438	-498	-623
Net debt (cash) end of period	-152	-236	-207	-288	-308	-498	-623	-707
Free cash flow	79	85	66	122	74	102	172	142
% of sales	13.6%	13.3%	9.7%	16.2%	9.1%	13.5%	20.5%	15.5%
FCF conversion	50%	46%	34%	55%	31%	50%	71%	53%

Source: Company data, WOOD Research

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		21/06/2019	EUR 20.0
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10/06/2020	BUY	10/06/2020	EUR 19.5

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CONTACTS

Czech Republic

namesti republiky 1079/1a
Palladium
110 00 Praha 1
Czech Republic
Tel +420 222 096 111
Fax +420 222 096 222

Romania

Metropolis Center
89-97 Grigore Alexandrescu St.
010624 Bucharest 1
Tel.: +40 316 30 11 81

Poland

Skylight Zlote Tarasy
Zlota 59
00 120 Warszawa
Poland
Tel +48 22 222 1530
Fax +48 22 222 1531

UK

City Point, 11th Floor
1 Ropemaker Street
London EC2Y 9HT

Tel +44 20 3530 0691

Italy

Via Luigi Settembrini, 35
20124 Milan
Italy

Tel +39 02 36692 500

Kristen Andrasko

Head of Equities
+420 222 096 253
kristen.andrasko@wood.com

Bloomberg page
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www.wood.com

Research

Co-Head of Research/ Head of Research Poland

Marta Jezewska-Wasilewska
+48 22 222 1548
marta.jezewska-wasilewska@wood.com

Utilities/Mining/Pharma

Bram Buring
+420 222 096 250
bram.buring@wood.com

Energy

Jonathan Lamb
+44 20 3530 0621
jonathan.lamb@wood.com

Consumer/Real Estate

Jakub Caithaml
+420 222 096 481
jakub.caithaml@wood.com

Consumer

Jakub Mician
+420 222 096 320
jakub.mician@wood.com

Co-Head of Research/Head of Greek Research

Alex Boulougouris
+30 211 106 9447
alex.boulougouris@wood.com

EMEA TMT & Industrials/Turkey

Atinc Ozkan
+90 542 202 3632
atinc.ozkan@wood.com

Financials/Turkey

Can Demir
+44 20 3530 0623
can.demir@wood.com

Energy/Utilities

Ondrej Slama
+420 222 096 484
ondrej.slama@wood.com

Romania

Stefan Lungu
+44 203 530 0694
stefan.lungu@wood.com

Head of Consumer/Industrials

Lukasz Wachelko
+48 22 222 1560
lukasz.wachelko@wood.com

Russia & CIS Region

Ildar Davletshin
+44 203 530 0631
ildar.davletshin@wood.com

Poland/TMT

Piotr Raciborski
+48 22 222 1551
piotr.raciborski@wood.com

Poland

Pawel Wieprzowski
+48 22 222 1549
pawel.wieprzowski@wood.com

Greece

Fani Tzioukalia
+30 211 106 9449
fani.tzioukalia@wood.com

Macroeconomics

Raffaella Tenconi
+44 20 3530 0685
raffaella.tenconi@wood.com

Macroeconomics

Alessio Chiesa
+44 75177 06102
alessio.chiesa@wood.com

Metals/Mining

Andy Jones
+44 20 3530 0629
andrew.jones@wood.com

Consumer/Industrials

Gabriela Burdach
+48 22 222 1545
gabriela.burdach@wood.com

Financials

David Lojkasek
+420 222 096 256
david.lojkasek@wood.com

Sales

Head of Sales

Kristen Andrasko
+420 222 096 253
kristen.andrasko@wood.cz

Grzegorz Skowronski
+48 22 222 1559
grzegorz.skowronski@wood.com

Jan Koch
+48 22 222 1616
jan.koch@wood.com

Jarek Tomczynski
+44 203 530 0688
jarek.tomczynski@wood.com

Piotr Kopec
+48 22 222 1615
piotr.kopec@wood.com

Kostas Tsigkourakos
+30 694 082 5810
kostas.tsigkourakos@wood.com

Ioana Pop
+44 20 3530 0693
ioana.pop@wood.com

Tatiana Sarandinaki
Brasil Plural in association with WOOD&Co.
1 212 388 5613
tsarandinaki@wood-brasilplural.com

Sales Trading and Execution Services

Zuzana Mora
+420 222 096 283
zuzana.mora@wood.com

Ermir Shkurti
+420 222 096 847
ermir.shkurti@wood.com

Vladimir Vavra
+420 222 096 397
vladimir.vavra@wood.com

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