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Haitong Bank in a report from 2nd July (08:16) upgrades Dino from Sell to NEUTRAL and FV from PLN 70.0 to PLN 95.1 on higher LfLs and margins. As for Eurocash, analysts remain Neutral but have cut FV from PLN26.7 to PLN23.5 on a slower profitability recovery. Haitong Bank's top pick remains Jerónimo Martins (JMT) with a BUY rating and a Eur16.0 FV, down from Eur17.0 due to the payment of a Eur0.605 DPS and the recent PLN weakness.

Valuation Methodology

Jerónimo Martins: analysts derive a fair value through a sum-of-the-parts enterprise value, from which they deduct net debt, minorities and financial investments to derive a target value. The larger components of the enterprise value and Hebe are valued through a DCF with cash flows in local currency and a local discount rate, with the final value being translated to Eur at the spot rate. In the case of Ara analysts value it at a target EV/Sales for year-end.

Dino: based on a DCF analysts arrive at PLN 107.9 per share, which has a 75% weight in our valuation, while based on the peer valuation it is PLN 56.7, which they weight at 25%. Analysts use a smaller weight for the peer valuation as it captures only the next 3 years of the company's development. The final value is PLN 95.1, which offers 8.5% downside potential.

Eurocash: based on a DCF analysts arrive at PLN 26.0 per share, which has a 75% weight in their valuation, while based on the peer valuation it is PLN 16.3, which they weight at 25%. Analysts use a smaller weight for the peer valuation as it captures only the next 3 years of the company's development. The final value is PLN 23.5, which offers 8.8% upside potential.

Risks to Fair Value

Jerónimo Martins

1. Competitive environment in Portugal, which may shift as a result of different strategies from the retailers to respond to consumer retrenchment, with possible price wars, increased advertising, consolidation moves, etc.;
2. Economic outlook in Poland, as deviations may occur from the expected growth profile of the Polish economy and its respective consumption outlook;
3. Competitive environment in Poland, since the attractive growth profile of the economy may attract newcomers or lead incumbents to accelerate their growth, thus representing increased competition for Biedronka;
4. The recently introduced Sunday trading ban could lead to some short-term volatility in the LfL performance as it may take time for consumers to adjust;
5. New operation in Colombia, with little guidance provided by management and a business plan that still has to be fine-tuned, could bring surprises to JM's P&L in the early years;
6. Currency volatility: JM is exposed to exchange rate fluctuations of the Polish Zloty and Colombian peso against the Euro.

Eurocash

1. We see as the main downside risks: i) lower demand for Independent Wholesale products; ii) high transformation costs and longer than expected time necessary to integrate the retail segment; iii) increasing competition; iv) growing salary pressure; v) lower than expected like for like sales.
2. We see as the main upside risks: i) successful integration of Eko and Mila store chains; ii) project Fresh gaining profitability; iii) better than expected LfL; iv) potential M&A.

Dino

1. We see as the main downside risks:i) increased competition; ii) growing salary pressure; iii) slowing pipeline of acquired landbank; iv) smaller than expected LfL sales; v) potential cannibalization of sales.

2. We see as the main upside risks: i) higher than expected LFL; ii) expansion in petrol stations; iii) faster than expected store roll-out.

IMPORTANT DISCLOSURES

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