

Monday, 29 April 2024 | update

LPP: buy (reiterated)

LPP PW; LPP.WA | Retail, Poland

More Aggressive Roll-Out

We expect LPP to deliver solid results for Q1'24 as the Sinsay collection should be well received by consumers, leading to a rebound in Sinsay's LFL sales. This, coupled with continued positive gross margin trends (partly thanks to PLN appreciation vs. USD) and strict cost discipline, should push the operating profit up more than 60% y/y in Q1.

Assuming LPP maintained strict OPEX discipline in Q1, earnings prospects look more appealing. Despite an expected sharp increase in labor costs, we now believe the Company LPP will be able to maintain its EBIT margin broadly flat this year on the back of gross margin improvement coupled with a higher share of Sinsay in the sales mix, which will dilute the rent-to-sales ratio. Consequently, we have raised our 2024 EBIT margin assumption by around 50bps.

We keep our 2024 sales target at PLN 21.8bn (vs. LPP's guidance of PLN 21bn, revised from an initial forecast of PLN 20bn), as we think the Company wants to be on the safe side when it comes to the sales guidance and is understating the magnitude of the rebound in Polish consumer spending expected in H2'24, driven mainly by real wage growth.

Following Q4'23 results, LPP decided to revise upwards its store roll-out guidance for 2024-2026. The renewed guidance currently assumes that LPP will grow its sales area by around 90% over the next three years, which is a very ambitious and aggressive strategy. We opt for a more conservative approach, and we assume growth of around 80% in total retail area by 2026. Overall, the store roll-out is expected to be the main driver of LPP's revenues, which we believe will almost double by 2026.

Based on the accelerated store area growth plans, we have revised our EBITDA estimates for 2025 and 2026 around 6% and 13% higher, respectively.

LPP is offering a good risk/reward profile while the market significantly underestimates the EBITDA growth potential provided by the more ambitious growth plans (our EBITDA estimates are around 10%/20% higher than the market consensus for 2025 and 2026, respectively).

At ca. 7.3x 2024E EV/EBITDA, LPP is trading at a discount of around 30% to Inditex and H&M. We find LPP's growth profile attractive at current multiples as we believe the Company should be trading at higher ratios to accurately reflect its improved medium-term growth profile: over the next three years, LPP's EBITDA is expected to grow at an annual rate of 21% compared to 8% for ITX and H&M. As a result, we raise our target price for LPP to PLN 23,300 with a reiterated buy recommendation.

Core Expansion still in CEE

LPP has recently decided to significantly accelerate new store openings in the coming years – a strategy that is reminiscent of the ambitious but not entirely successful international expansion plans of other Polish companies. The difference with LPP's strategy is that it is focused primarily on markets where the Company already has a presence (CEE and the Baltics will account for around two-thirds of openings in 2024 while Western Europe will account for only around 6%). This should lead investors to assign a higher probability of success to LPP's growth ambitions.

(PLN m)	2022	2023	2024E	2025E	2026E
Revenue	15,926.6	17,406.2	21,801.9	27,395.8	33,918.7
EBITDA (adj.)	2,588.9	3,666.0	4,451.4	5,360.5	6,550.7
Margin	16.3%	21.1%	20.4%	19.6%	19.3%
EBIT	1,184.4	2,283.5	2,857.6	3,435.9	4,266.8
Net profit	486.7	1,607.1	2,162.9	2,612.3	3,259.0
P/E	59.2	18.0	13.3	11.0	8.9
P/S	1.8	1.7	1.3	1.1	0.9
P/B	7.2	6.1	5.0	4.2	3.5
EV/EBITDA	14.6	8.8	7.3	6.1	5.1
DPS	349.6	429.7	610.1	815.7	985.2
Dividend Yield	2.2%	2.8%	3.9%	5.2%	6.3%

current price	PLN 15,550
target price	PLN 23,300
mCap	PLN 28.9bn
free float	PLN 20.0bn
ADTV (3M)	PLN 129.9m

*Price as of April 26, 2024, 5:00 PM

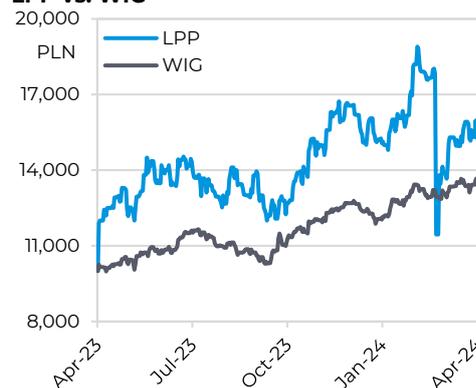
Shareholders

Semper Simul Foundation	31.2%
Others	68.8%

About LPP

LPP Group is Poland's leading fashion retailer and one of the largest companies on the fashion market in the CEE region. The Group operates both brick-and-mortar and e-commerce sales channels. In 2023/24, LPP generated PLN 17.4bn in revenue, 25% of which was attributable to online sales. LPP's geographic presence spans 39 countries, and its fashion labels include Reserved, Cropp, House, Mohito, and Sinsay.

LPP vs. WIG



Name	Target Price		Recommendation	
	new	old	new	old
LPP	23,300	20,000	buy	buy

Name	Current Price	Target Price	Upside
LPP	15,550	23,300	+49.8%

Forecast Update	2024E	2025E	2026E
Revenue	-0.2%	3.4%	11.0%
EBITDA	2.4%	5.5%	13.3%
Net Profit	4.2%	6.0%	14.1%
SG&A/Sales	-0.5 p.p.	-0.3 p.p.	-0.3 p.p.
Sales Area	4.3%	13.1%	20.6%

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List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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HOLD – we expect that the rate of return from an investment will range from 0% to +10%
SELL – we expect that an investment will bear a loss
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NAV - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following recommendations for LPP in the 12 months prior to this publication:
LPP (Janusz Pięta)

Rating	buy	buy	buy	buy	buy
Rating date	2024-01-26	2023-12-01	2023-10-02	2023-07-03	2023-04-03
Target price (PLN)	20000.00	18200.00	17100.00	17700.00	13700.00
Price on rating day	15,000.00	14,880.00	13,000.00	14,010.00	9,580.00

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