

# Retail



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## Retail Universe:

- Jerónimo Martins
- PPR
- Amazon
- Tesco
- Inditex

## This month's detailed company review:

- Amazon



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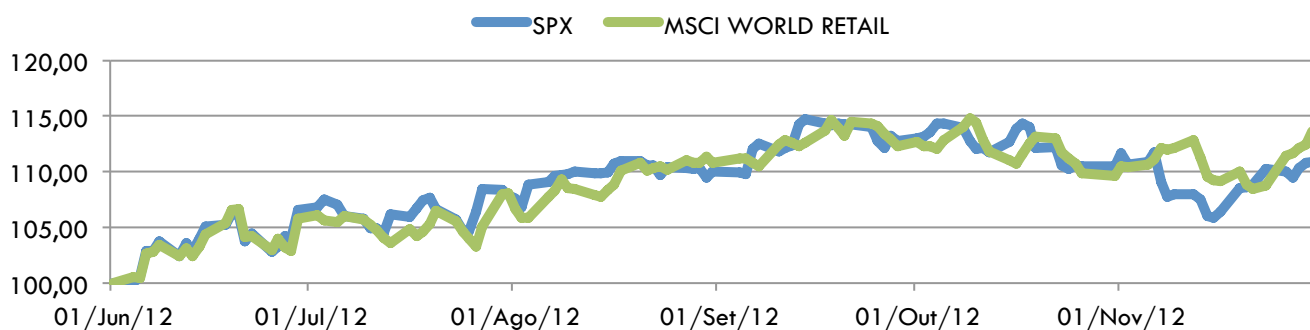
## 1. Sector Overview

- Decline in deal activity from Q2 to Q3, but with positive trend comparing to 2011. Consumer sentiment is improving, reflecting slight progress in household income.
- Although aggregation is still a major trend, companies (especially CPG) have started to divest or spin-off non-core operations and low growth businesses, focusing on profitable core operations
- Private equities have been behind nearly 30% of the retail deals in the US, with specially capital importance in the restaurant industry
- **Main Recent Deals:**
  - 3G Capital (PE) acquisition of Burger King – \$4bn. plus assumption of debt for 100% of Burger King Holdings. EV/EBIDTA = 8,86. EV/Sales = 1,58. \$24 p/share.
  - Walgreens acquisition of Alliance Boots - \$6,67bn (cash + stocks) for 45% of Alliance Boots from KKR (PE).
  - Richard Shulze (private investor) to buy Best Buy - \$7.64 bn. plus assumption of debt for 80% of Best Buy Co. Inc. \$24-\$26 per share. EV/EBIDTA = 3,96. EV/Sales = 0,18
  - CD&R (PE) acquired 100% of David's Bridal, wedding clothes retailer, for \$1,05bn from Leonard Green and TPG Capital (PE).

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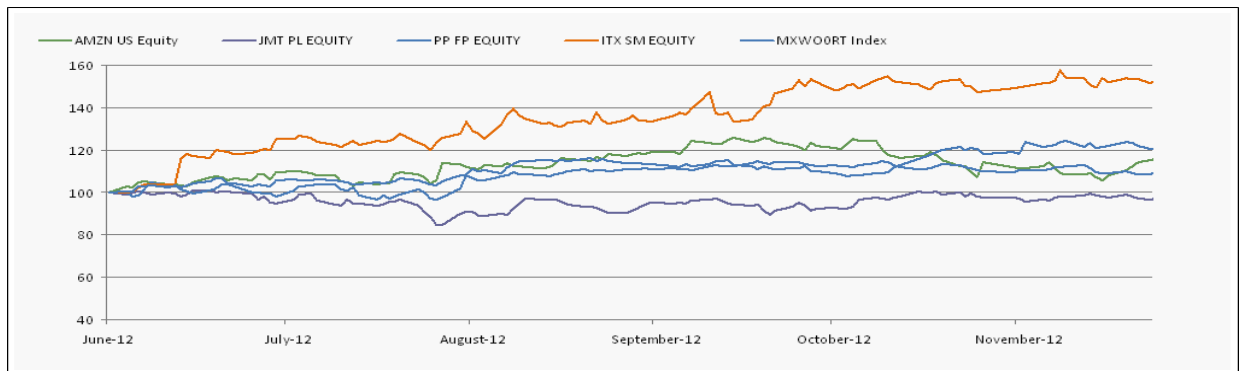
## Retail Sector vs. Overall market



- The differences in performance are only very minor between the MSCI World Retail and the S&P 500. However according to the chosen index, the retail sector has been slightly outperforming the S&P 500 since the beginning of November.

## 2. Universe News

### Share price over the last 6-month



Comparing to the MSCI World Retail, Inditex has been having the best performance, Amazon has been dropping recently, PPR has been improving lately and Jerónimo Martins has been constantly underperforming the Index .

#### JERÓNIMO MARTINS (Ticker: JMT:PL)

- News of Jerónimo Martins entering in Colombia boosted Q3 results – net profit per share €0.43 compared to €0,41 in 2011
- Diário Económico reveals that Goldman Sachs have Jerónimo Martins as a buy stock

Price (EUR):	↑ 14.50
Target price (EUR):	14.95
Up/downside:	3.1%
Performance 3M:	+11.07%
P/E Ratio:	25.20x
ROC/WACC:	0.86x

#### PPR (Ticker: PP:FP)

- PPR bought Italian suitmaker that made outfits for James Bond. This deals contributes to expansion and perforation into the group to start the business.
- PPR to spin-off FNAC in Italy to investment fund Orlando Italy

Price (EUR):	↑ 139.85
Target price (EUR):	147
Up/downside:	5.11%
Performance 3M:	+11.04%
P/E Ratio:	16.84x
ROC/WACC:	0.88x

#### INDITEX (Ticker: ITX:SM)

- CEO and founder Amancio Ortega said to have a fortune bigger than Warren Buffet's.
- Inditex young fashion chain, Pull&Bear is arriving in Germany in 2013, with a store opening in the main commercial street of Berlin

Price (EUR):	↑ 102,45
Target price (EUR):	102.9
Up/downside:	4.39%
Performance 3M:	+17,41%
P/E Ratio:	29.57x
ROC/WACC:	2.53x

#### TESCO (Ticker: TSCO:LN)

- The Office of Fair Trading will be looking into Tesco loyalty card after suspicious around online personal pricing
- Tesco has recently assigned a £1bn investment to enhance the online business and the convenience and recover from the recent underperformance.

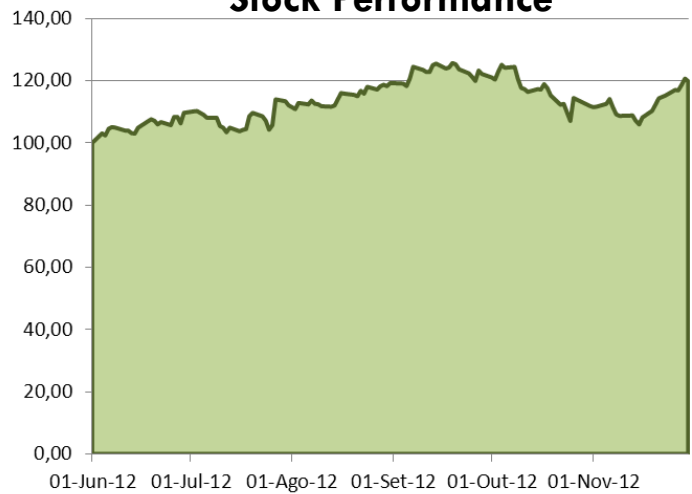
Share Price (GBP):	318.67
Target price (GBP):	360
Up/downside:	12.95%
Performance 3M:	-5.72%
P/E Ratio:	9.10x
ROC/WACC:	0.97x

### 3. Stock Analysis

#### Amazon.Com Inc.

- Overall weak 2012 Q3 results because of Q4 guidance below expectations. Although revenue growth was around 27%, it has been declining, shrinking margins across all regions and divisions since 2010, leading to first operational loss since 2013.
- Below expected performance as a result of unsuccessful increased scale due to low EBIT margins in new locations. Investors and analyst are concerned and advice selling the stocks.
- Jeff Bezos, CEO, said we would “love” to open physical stores if Amazon was able to make them distinctive, with something of traditional retail but also e-commerce. This would highly intensify the competition with Walmart, for example.
- Amazon announced that a \$1.5 M has been added to the KDO Select global fund during this holiday season. This fund is dedicated to independent authors and publishers that want to reach an audience bypassing some steps of the supply chain.
- Amazon’s new Kindle Paperwhite has been a great success with expectations of being sold out by the end of this month.

#### Stock Performance



Amazon.Com Inc	
Current Price (25/11/2012)	\$239.88
Median Target Price	\$270.78
Market Capitalisation	\$108,655.7 M
Return on Common Equity	0.52%
Dividend Yield	0,00%
Beta	1.2
Total Debt/Equity	25,1%
Relative Stock Price Performance	
AMZN US EQUITY YTD % Change	44.17%
NASDAQ GS	13.2%

Source: Bloomberg

- Even though both Amazon and NASDAQ had a recent drop, Amazon has been outperforming the Index. Yet, high correlation between both is easily observed.

#### Comparables Analysis

Company Name	Currency	Equity Value	Enterprise Value	EV/Sales			EV/EBITDA			P/E			EBITDA Margin		
				2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
AMAZON.COM INC	USD	113 040	109 691	2,0x	1,8x	1,4x	46,0x	34,8x	24,6x	470,9x	137,0x	67,9x	4,2%	5,1%	5,6%
EBAY INC	USD	68 167	63 550	4,3x	4,5x	3,9x	16,2x	13,7x	11,8x	25,8x	22,4x	19,1x	29,1%	32,8%	33,0%
GOOGLE INC-CL A	USD	228 005	187 424	4,4x	4,5x	3,6x	12,2x	10,2x	8,6x	21,1x	17,4x	14,9x	32,3%	44,0%	41,8%
YAHOO! INC	USD	22 306	19 987	-	4,5x	4,3x	13,9x	12,9x	11,9x	17,1x	13,0x	16,4x	28,9%	34,7%	36,6%
IAC/INTERACTIVEC	USD	4 063	3 629	1,6x	1,3x	1,1x	9,7x	7,7x	5,9x	23,3x	17,6x	12,9x	14,3%	16,8%	18,7%
AUTOZONE INC	INR	14 068	17 733	2,0x	1,9x	1,8x	9,6x	8,9x	8,6x	16,2x	13,8x	12,2x	21,4%	21,6%	21,5%
WAL-MART STORES	HKD	241 789	295 313	0,7x	0,6x	0,6x	8,2x	8,1x	7,7x	15,0x	14,6x	13,3x	7,7%	7,8%	7,7%
Mean				2,5x	2,7x	2,4x	16,5x	13,8x	11,3x	84,2x	33,7x	22,4x	19,7%	23,2%	23,6%
Median				2,0x	1,9x	1,8x	12,2x	10,2x	8,6x	21,1x	17,4x	14,9x	21,4%	21,6%	21,5%

**SELL**

- Amazon is not generating consensus among industry analyst. Many look at recent negative results as a sign of overexpansion and lost of sustainability. Other, still regard the business as highly valuable. We recommend selling Amazon stocks before negativity spreads around the market

Source: Bloomberg, Thomson Reuters