Retail
Sector Review – September & October

Retail Universe:
- Kering
- Inditex
- Tesco
- Jerónimo Martins

This month's detailed company review:
- Amazon

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1. Sector Overview

- The billionaire founder of the British home furnishings retailer Dunelm, Bill Adderley, bought a 3% stake in Marks and Spencer. He paid £244m snapping up 48.5m shares. Adderley invested in the company as a private investor and not as Dunelm group. This made him the biggest private shareholder in M&S. The operation took place just before the announcement of M&S results. Analysts think that the holding of the stake is more a play on recovery at M&S, rather than a basis for any corporate synergy. After the news came out, Dunelm price went down 1% to 885p.

- Starbucks was accused by the Chinese state television, China Central Television (CCTV) for charging more for its coffee in China than in other countries. The Chinese television also pointed out that Starbucks's margins in China would have been fatter than in other countries. The executives of the firm, trying to defend the chain from the criticisms, said that Starbucks is using " the right economic model".

- The world largest retailer by revenues, Walmart, announced its willingness to open 110 new stores in China. The US company already has 400 stores in the country. The chief executive of Walmart in China disclosed the plan of adapting the stores to the Chinese habits, for example to a daily shopping rather than a big weekly shopping as in the USA. The objective of the company is to improve profits in the Chinese market.

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Retail vs. Overall market
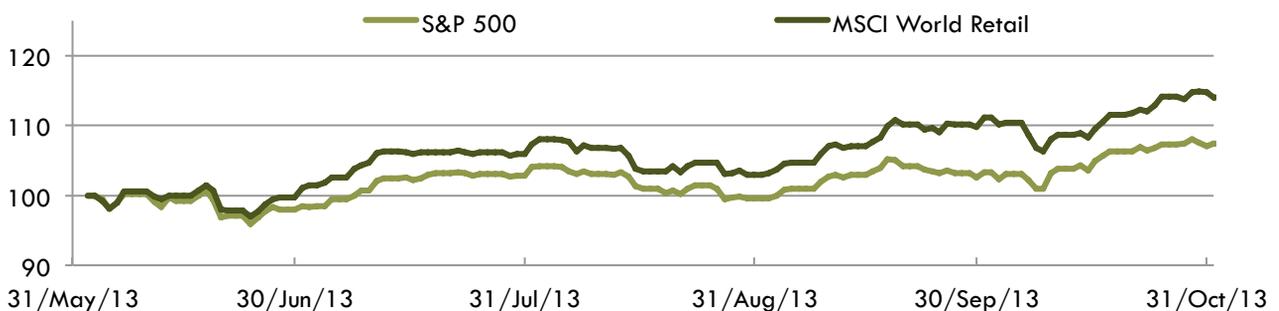
During September and October, the MSCI World Retail Index constantly outperformed the S&P 500. Moreover, it is visible the existence of a strong correlation between both indexes as their fluctuations proved to be quite parallel.

Source: Bloomberg (as of 02.11.2013)

3. Followed Companies

Kering (Ticker: KER FP)

- Kering announced disappointing third-quarter results with sales decreasing 1.5%, below analysts' estimates. This was the weakest performance since 3Q09, which was mainly due to an abrupt 7.6% decrease in the Sport & Lifestyle segment and to Gucci under-performing.

(EUR)
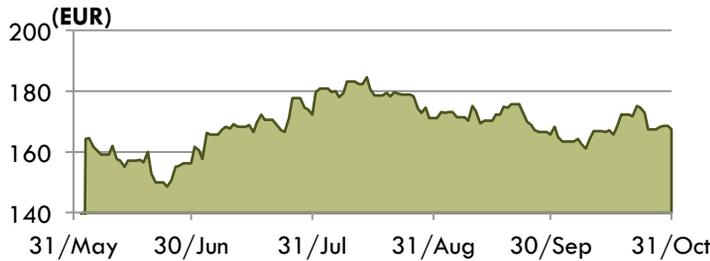
|		
Price (EUR):	↑	167,65
Target Price (EUR):		185,00
Up/downside:		10,3%
Performance 3M:		-3,0%
P/E Ratio:		15,1x
ROC/WACC:		0,9x

Inditex (Ticker: ITX SM)

- Inditex's stock price continues to rally, after the company announced a new increase in sales while Zara launched its online sales platform in Russia. The group opened 95 stores during the first six months, having now a total of 6.104 stores.

(EUR)

|		
Price (EUR):	→	119,50
Target Price (EUR):		118,00
Up/downside:		-1,3%
Performance 3M:		19,8%
P/E Ratio:		31,4x
ROC/WACC:		2,5x

Tesco (Ticker: TSCO LN)

- Tesco is stepping up its efforts to be the world's leading online grocery retailer by launching the first click-and-collect service in Asia which allows customers to collect their online food orders from supermarkets.

(GBX)
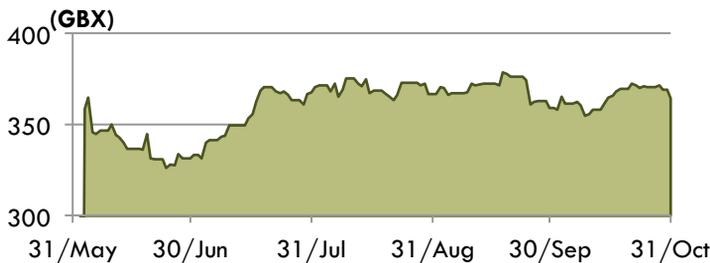
Price (GBP):	#NAME?
Target Price (GBP):	395,00
Up/downside:	#NAME?
Performance 3M:	#NAME?
P/E Ratio:	23,8x
ROC/WACC:	0,5x

Jerónimo Martins (Ticker: JMT PL)

- Despite reporting a 11.5% increase in revenues, with net income of €115 million, Jerónimo Martins's shares didn't meet analysts' expectations leading the stock to reach a one-year minimum of 13.61€ per share.

(EUR)
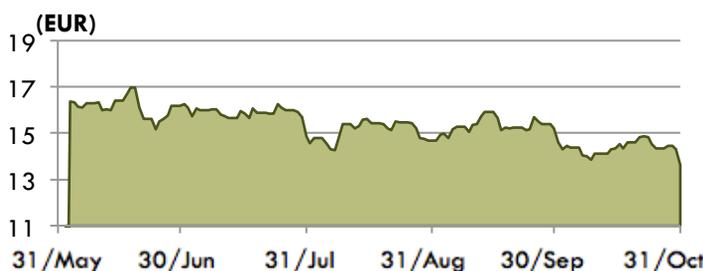
Price (EUR):	↑	13,62
Target Price (EUR):		16,65
Up/downside:		22,2%
Performance 3M:		-8,0%
P/E Ratio:		23,2x
ROC/WACC:		1,5x

Source: Bloomberg (as of 02.11.2013)

3. Stock Analysis: Amazon

Corporate News

- Amazon introduced Kindle First that offers pre-publication access to a limited number of new books every months as main differentiating point. The company had already announced the third generation of Kindle Fire, a thinner and lighter device than the previous ones, now with better graphics for video games;

- In the last month, Amazon introduced a new Paypal online payment feature in its online store. Furthermore, Amazon won a $600 million cloud-computing contract with CIA contributing to the bettering of the company's outlook.
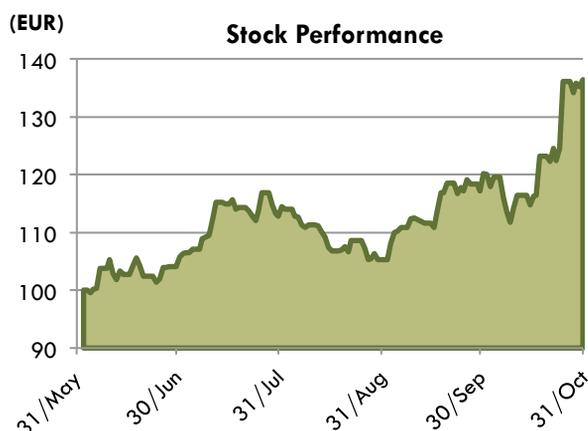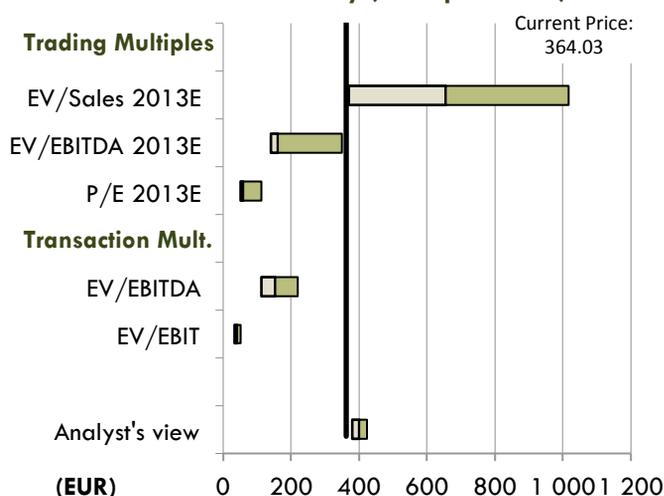
Market Performance

- Amazon's sales increased 24% in the third-quarter, to a total of $17.09 Billion, compared with $13.81 Billion in the same period, last year. However, EPS remained negative in $0.09, even though slightly higher than the negative $0.6 per share denoted last year;

- Shares soared after the earnings announcement to a record high of $368 per share, with at least 15 brokerage houses raising the company's price target. On the flip side, Thomson Reuters StarMine picked Amazon as one of the most overvalued stocks of the S&P 500.

Valuation Summary

- From the valuation summary, it is clear that the current stock price is in line with the trading multiples with the exception of the P/E, and below the transaction multiples. As for the target price, the current price is trading below the minimum stock price estimate, showing that analysts have high expectations concerning the company's growth and identify upside in it.

- The transaction multiples show a big discrepancy with regards to the current share price, the analysts views and the EV/Sales and EV/EBITDA multiples because the past deals considered relate to companies that are clearly not as valuable as Amazon. The P/E multiple is also not in line, but this is not very relevant as it is affected by leverage.

Stock Performance

(EUR)

Amazon (USD)	
Current Price (31/10/2013)	364,03
52-week high % change	-1,2%
Median Target Price	393,59
Market Capitalisation (mn)	164.327
Return on Common Equity	1,6%
Dividend Yield	0,0%
Beta (vs. S&P500)	1,4x
Total Debt/Equity	53,5%

Valuation Summary (Price per Share)

Comparable Analysis

Company Name	Currency	MCap (mn)	Enterprise Value (mn)	EV/Sales			EV/EBITDA			P/E		
				LTM	2013E	2014E	LTM	2013E	2014E	LTM	2013E	2014E
Amazon	USD	164.327	160.517	2,0x	2,1x	1,8x	44,7x	32,6x	23,2x	1282,2x	141,6x	76,0x
Barnes & Nobles	USD	861	1.365	0,2x	0,2x	0,2x	-274,5x	6,1x	7,0x	80,0x	N/A N/	N/A N/
Ebay	USD	67.241	61.501	4,3x	3,8x	3,3x	13,4x	11,4x	10,0x	25,2x	19,3x	16,5x
Google	USD	343.121	290.002	4,2x	6,1x	5,2x	16,8x	13,5x	11,2x	28,9x	23,3x	19,7x
Wal-Mart	USD	1.832	#N/A N/A	#N/A N/	n/a	n/a	n/a	n/a	n/a	17,8x	16,7x	15,3x
Mercado Libre	USD	5.959	5.773	11,0x	12,3x	10,0x	39,2x	34,2x	27,2x	54,4x	48,8x	38,7x
75th Percentile				4,3x	6,1x	5,2x	39,2x	32,6x	23,2x	73,6x	48,8x	38,7x
Median				**4,2x**	**3,8x**	**3,3x**	**16,8x**	**13,5x**	**11,2x**	**41,7x**	**23,3x**	**19,7x**
25th Percentile				2,0x	2,1x	1,8x	13,4x	11,4x	10,0x	26,2x	19,3x	16,5x

- Looking at the table two contrasting trends come to mind: Amazon has an EV/Sales below the average and an EV/EBITDA above the average for the peer group presented. Since Amazon had negative net income for the last few years, P/E will be negative. Such figures reflect the effect of the 0.91% Operating Margin, a rather low EBITDA Margin when compared with peers.

- Focusing on the comparable companies, Google and eBay present both the highest EV/Sales and EV/EBITDA figures. These results seem to suggest higher operating efficiencies as well as differences in Market Capitalization. In which concerns to P/E, Barnes & Nobles and Mercado Libre are set apart from the remaining peers, with P/E of 80.1x and 54.3x, respectively, both higher than the average for the peer group. The main explanation in this case, appears to be differences in investors' expectations who seem to perceive these two stocks as more of growth stocks.

Precedent Transactions

Announced Date	Target		Buyer		EV (EUR mn)	EV/EBITDA	EV/EBIT
	Company	Country	Company	Country			
22-Oct-12	Ancestry.com Inc	USD	Permira Holdings Ltd	UK	1 081	9,3x	12,5x
21-Feb-12	Alibaba.com Ltd	HK	Alibaba Group Holding	HK	1 778	26,5x	30,2x
27-Oct-11	Rue du Commerce	FRN	Altarea	FRN	49	16,5x	23,1x
03-Feb-11	Culture Convenience Club Co. Ltd.	JPN	MM Holdings Co Ltd	JPN	915	7,9x	11,6x
75th Percentile						19,0x	24,9x
Median						**12,9x**	**17,8x**
25th Percentile						8,9x	12,3x

- Globally, the precedent comparable transactions present valuations below the ones from the trading multiples, mainly the EV/Sales and EV/EBITDA. This is not very usual because it means that the normal effect from the premium that is paid in deals, is not enough to overcome the trading multiples of comparable companies. Yet, this may be simply explained if we look at the deals considered. These target companies are similar to Amazon in some aspects but they do not capture the full spectrum of operations of the on-line retailer giant, explaining the low valuations.

- Regarding the universe of comparable precedent transactions, it becomes clear that the most representative one would be the acquisition of the remaining capital of Alibaba.com by its major shareholder. This multiple applied to the current metrics of Amazon would bring the valuation to zones more in line with the current market price and analysts consensus. In fact, Alibaba.com and Rue du Commerce are the most similar companies to Amazon, which explains why their multiples are close to the trading multiples of the comparable companies.