

Retail & Consumer Goods

Sector Review – March



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Retail Universe:

- Amazon
- Inditex
- LVMH
- Tesco

This month's detailed company review:

- Jerónimo Martins

1. Sector Overview

- Oftentimes, periods of historically low interest rates, with high liquidity in the marketplace and with volatility stabilizing reveal themselves as attractive times for IPO activity. This might have been the rationale behind Watson & Co decision, which owns drugstores chains such as Watson in Asia and Superdrug and Kruidvat in Europe, to file for its IPO in early February. Rumors say the company could raise between US\$5 Billion and US\$6 Billion from a dual city IPO, to take place in the Hong Kong Stock Exchange and in the London Stock Exchange, soon becoming one of the world's largest IPOs since late 2012.
- Similarly, Alibaba Group, China's largest ecommerce company, has announced recently that it was seeking to pursue an initial public offering in the US, after its first intentions to list in Hong Kong. No details were given on size and specific timing of the transaction, although analysts expect the company to raise at least \$15 Billion, most probably by the second quarter of the current year.
- The board of Safeway, a US supermarket chain, has agreed to a \$9 Billion offer from an investment group led by Cerberus Capital Management, which represents a 17% premium over Safeway's price on the day of the announcement. The group plans to merge Safeway with the Albertsons supermarket chain, which it already owns, creating the third largest grocery retailer by revenues after Walmart and Kroger, with more than 2.300 stores in the US.



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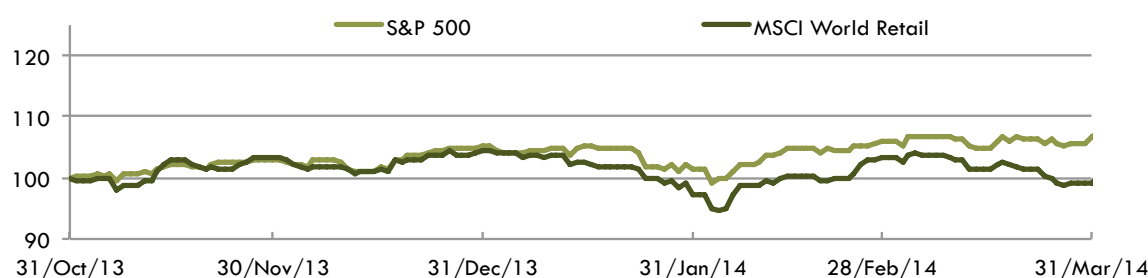
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Retail vs. Overall market



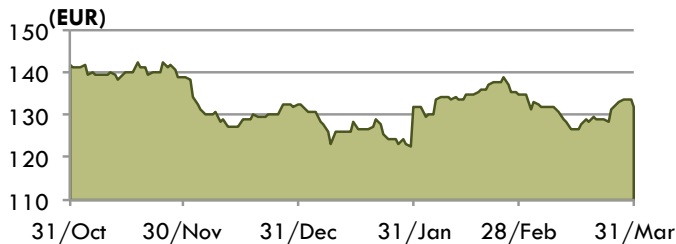
- After a slight decrease during January 2014, both S&P 500 and MSCI World Retail index seemed to improve. The MSCI World Retail index has been underperforming the S&P 500 since December 2013. It decreased during March 2014, while the S&P 500 was quite. The spread between the two indexes has been growing. However, it is observable the existence of a strong correlation between both indexes as their fluctuations proved to be quite parallel.

2. Followed Companies

LVMH

(Ticker: MC FP)

- After announcing a reshuffle of top management overseeing its watches and jewelry division, LVMH continues its efforts to boost this division after the group's acquisition of Bulgari in 2011. However, some analysts still claim the product mix is too thin and too expensive, which pressured the company's stock.

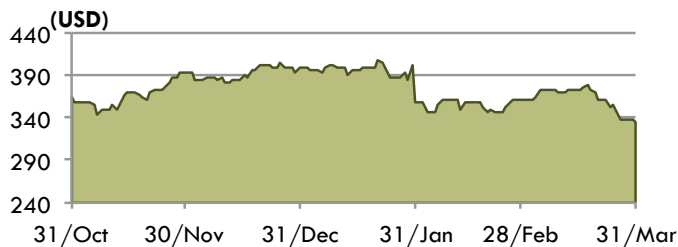


Price (EUR):	↑	134,40
Target Price (EUR):		154,40
Up/downside:		14,9%
Performance 3M:		8,3%
P/E Ratio:		19,6x
ROC/WACC:		0,2x

Amazon

(Ticker: AMZN US)

- Amazon will drop prices on most of its cloud computing services starting April 1st. The price cuts range from 10 to 65%, and took place a day after Google outlined major cuts in its own cloud services, which shows a trend of higher price competitiveness within this business.

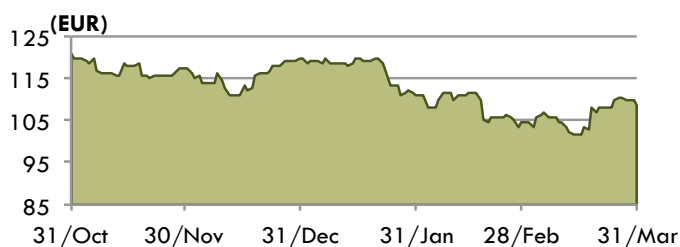


Price (USD):	↑	342,99
Target Price (USD):		435,00
Up/downside:		26,8%
Performance 3M:		-13,0%
P/E Ratio:		607,1x
ROC/WACC:		0,2x

Inditex

(Ticker: ITX SM)

- Inditex recently announced it is accelerating its international expansion plans through the launch of online offerings and by opening as many as 500 high street outlets. The group already launched a Zara website in Greece and is due to open Zara.com in Romania, South Korea and Mexico.

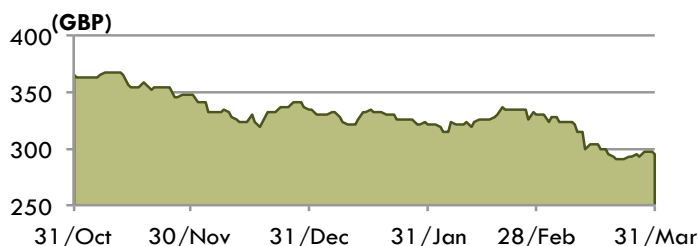


Price (EUR):	→	109,95
Target Price (EUR):		115,00
Up/downside:		4,6%
Performance 3M:		-1,3%
P/E Ratio:		28,8x
ROC/WACC:		2,7x

Tesco

(Ticker:TSCO LN)

- Tesco is pulling out of the highly competitive Irish insurance market as part of the company's strategy to focus on its core retail business. Tesco Bank will therefore cease to market home, pet and motor insurance products in this country, as its earnings have been hit by Aldi and Lidl.



Price (GBX):	↑	293,40
Target Price (GBX):		310,00
Up/downside:		5,7%
Performance 3M:		-8,4%
P/E Ratio:		19,2x
ROC/WACC:		0,4x

3. Stock Analysis: Jerónimo Martins

Corporate News

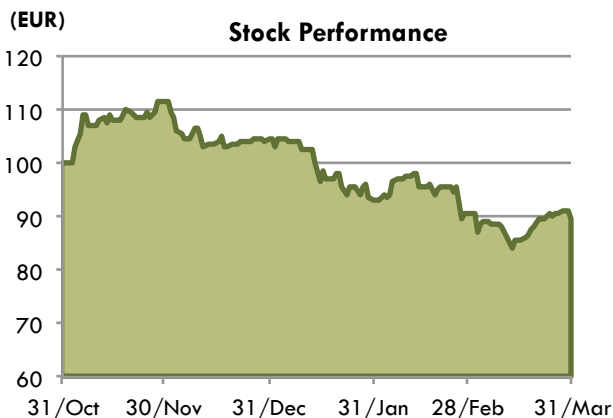
- Jerónimo Martins wants to keep prices at the lowest level possible at its chain in Poland in order to fend off competition there. The Polish retail market has become highly competitive and challenging. This has led JM to focus on consolidating its price leadership there.
- The company plans to invest € 2.2 Billion between 2014 and 2016 to expand its operations in Portugal, Poland and Colombia. In particular, it aims to reach 3,000 stores in Poland by 2015 and at least 200 stores in Colombia by 2016.

Market Performance

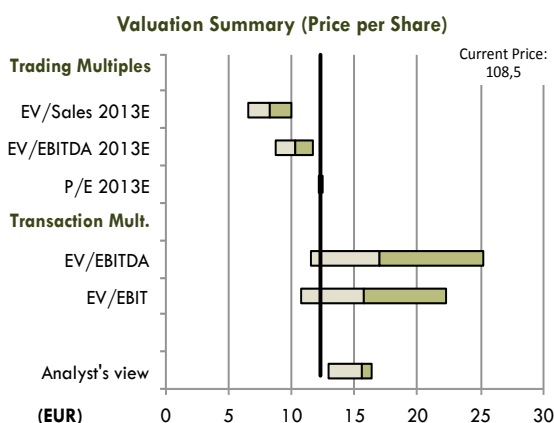
- The firm's stock price performance has been poor in the last months. The price has steadily decreased, reaching € 12.18 at the end of March, with the highest drop of 34.4% in the last 52 weeks.
- Looking at analysts' recommendations, they have been quite stable in the last months. In particular, analysts' current opinion is around a mean rating of 2.28, inside a range which goes from 1 (buy) to 5 (sell). Hence, the consensus is to currently hold the stock.

Valuation Summary

- From a valuation perspective, it seems clear that the current stock price is not in line with the EV/Sales and with the EV/EBITDA. However, it is approximately aligned with P/E trading multiples. The huge discrepancy denoted in the EV/Sales has its roots mainly from the high cost-intensive nature of retail business.
- As previously stated, analysts seem to be more optimistic on the fair price of the firm. Further, as regards transaction multiples, the current price is not in line with EV/EBITDA, while it is closer to EV/EBIT.



Jerónimo Martins (EUR)	
Current Price (31/03/2014)	12,18
52-week high % change	-34,4%
Median Target Price	14,82
Market Capitalisation (mn)	7 731
Return on Common Equity	29,5%
Dividend Yield	2,4%
Beta (vs. S&P500)	0,7x
Total Debt/Equity	42,1%



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
Jerónimo Martins	EUR	7 731	8 324	0,8x	0,6x	0,6x	10,8x	9,8x	8,6x	20,1x	18,2x	15,7x
Delhaize Group	EUR	5 446	6 950	0,3x	0,3x	0,3x	6,8x	5,2x	5,0x	16,4x	12,5x	11,7x
Kesko	EUR	3 190	3 307	0,3x	0,4x	0,3x	8,3x	8,3x	7,4x	-	18,1x	15,6x
Carrefour	EUR	20 677	25 460	0,4x	0,3x	0,3x	5,0x	6,5x	6,0x	25,6x	18,1x	15,7x
DIA	EUR	4 261	5 058	0,5x	0,5x	0,5x	8,3x	7,7x	7,2x	20,0x	18,1x	16,3x
Axfood	SEK	18 888	19 000	0,5x	0,5x	0,5x	9,6x	9,2x	8,8x	-	17,9x	17,1x
75th Percentile				0,5x	0,5x	0,5x	9,3x	9,0x	8,3x	21,5x	18,1x	16,2x
Median				0,4x	0,4x	0,4x	8,3x	8,0x	7,3x	20,1x	18,1x	15,7x
25th Percentile				0,3x	0,3x	0,3x	7,2x	6,8x	6,3x	19,1x	17,9x	15,6x

- Looking at the table Jerónimo Martins trades at multiples higher than the median of the comparables considered, both in terms of EV/Sales and EV/EBITDA. On the other hand, Jerónimo Martins's P/E is in line with the median of the peer group possibly indicating that the company is perceived as a mature one, with low expectations for future growth.
- Focusing on the comparable companies, Carrefour and DIA show the highest multiples in terms of P/E, meaning that those companies are more expensive than JM. However, they have much lower multiples in terms of EV/EBITDA, meaning that they could be undervalued compared to the Portuguese firm.

Precedent Transactions

Announced Date	Target		Buyer		EV (EUR mn)	EV/EBITDA	EV/EBIT
	Company	Country	Company	Country			
14-Mar-14	Olam International Ltd	SG	Temasek Holdings Pte Ltd	SG	6 761	11,6x	14,5x
15-Jul-13	Shoppers Drug Mart Corp	CAN	Lowblaw Cos Ltd	CAN	9 959	11,3x	15,4x
19-Jul-07	J Sainsbury PLC	UK	Delta Two Ltd	QA	13 611	12,7x	27,3x
04-Dec-06	RHM Ltd	UK	Premier Foods Ltd	UK	2 869	8,5x	11,1x
75th Percentile						11,9x	18,4x
Median						11,5x	15,0x
25th Percentile						10,6x	13,7x

- Globally, the precedent comparable transactions present valuations above the ones from the trading multiples, mainly the EV/Sales and EV/EBITDA. This is usual because of the premium which is usually paid in deals. In any case, it has to be considered that the target companies taken into consideration operate in different markets than JM. This might create some discrepancies in the valuation.
- Regarding the universe of comparable precedent transactions, it becomes clear that the most representative one would be the acquisition of RHM Ltd. by Premier Foods Plc. The multiples seem to be in line with the current ones of the Portuguese company. It has to be consider that those transaction multiples incorporate the premium paid by the buyer to acquire the target, which could be significant since it is an industrial buyer that might benefit from various synergies arising from the deal.