

Retail & Consumer Goods

Sector Review – May



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Retail Universe:

- LVMH
- Jerónimo Martins
- Inditex
- Tesco

This month's detailed company review:

- Amazon



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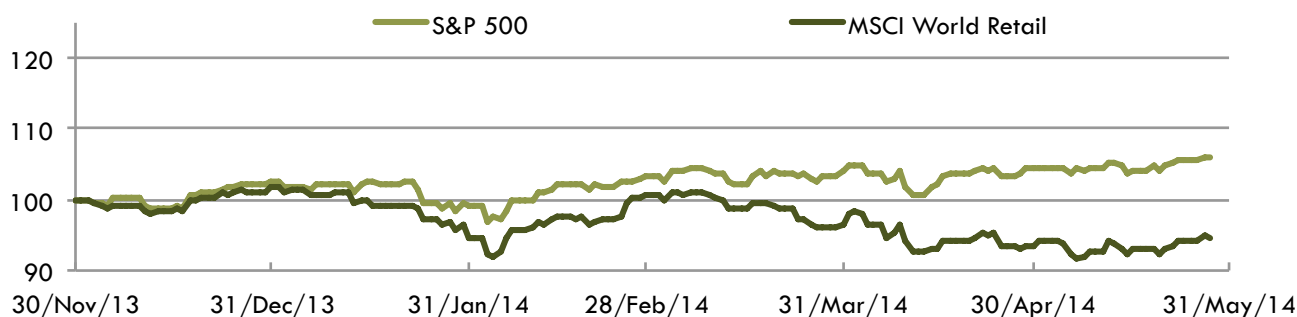


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1. Sector Overview

- According to a report from ReportBuyer, the worldwide demand for 3D printing is projected to rise more than 20% per year-to \$5 billions in 2017. The ease of prototyping new products with 3D printers will lead to more localized manufacturing, which will help reduce supply chain costs and create a better product, thereby strongly impacting the Retail sector. 3D printing can be seen as a factory in the cloud that allows a retailer to offer hundreds or thousands of additional SKUs to its customers without requiring more space for inventory.
- Abercrombie & Fitch reported smaller-than-expected losses in the latest quarter, with losses amounting to \$23.7 million from \$7.2 millions last year. A&F said in coming quarters it would focus on lowering average unit costs, revamping product lines and stores and invest in targeted marketing campaigns.
- Alistair McGeorge, the chairman of New Look who turned round the fashion retailer after a tumultuous period three years ago, is to step down from the group. Moreover, the company plans to sell off its French division after the fashion retailer took a writedown on the business that helped trigger a £55 millions annual pre-tax loss for the year ending March 29.
- Quiksilver saw its three brands (Quiksilver, Roxy and DC) all had sales drops, its wholesale turnover took a turn for the worse with net losses amounting to \$46 millions, more than the \$33 millions loss recorded in the same quarter last year. E-commerce was the only positive mention for the company, with online sales increasing 23% QoQ.

Retail Sector vs. Overall Market



- After observing a period of strong correlation, the MSCI World Retail index has been underperforming the S&P 500 since the beginning of 2014. The spread between the two indexes has been growing, while May contributed to this tendency.

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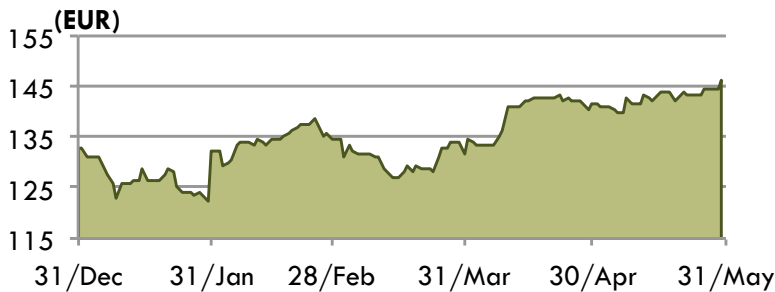
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2. Followed Companies

LVMH

(Ticker: MC FP)

- LVMH has been under severe pressure from its rival Hermès to sell its stake as biggest external shareholders in Hermès. Hermès is more than 70% family-owned and its CEO told the press that they want to remain independent and therefore do not want rivals in its capital.

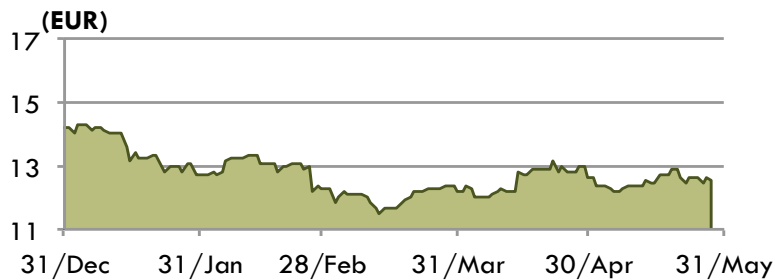


Price (EUR):	↑	144,20
Target Price (EUR):		157,00
Up/downside:		8,9%
Performance 3M:		6,9%
P/E Ratio:		21,1x
ROC/WACC:		0,3x

Jerónimo Martins

(Ticker: JMT PL)

- Jerónimo Martins was given authorization by the Polish Retail Regulator to go ahead and buy 11 Marcpol stores in this country. Such operation is part of retailer's plan to reach 3000 stores in this country by 2015, from the 2900 it holds now.

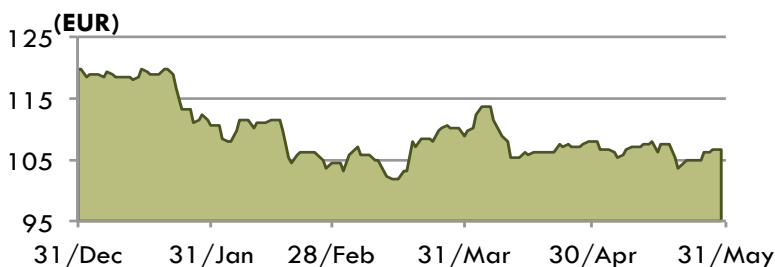


Price (EUR):	↑	12,52
Target Price (EUR):		14,43
Up/downside:		15,2%
Performance 3M:		1,7%
P/E Ratio:		21,1x
ROC/WACC:		1,1x

Inditex

(Ticker: ITX SM)

- Inditex is set to launch its first Stradivarius store in London, thereby entering one of the most competitive markets worldwide. In the last month, news came to public that Inditex was the 7th Spanish company with most subsidiaries in off-shore tax heavens.

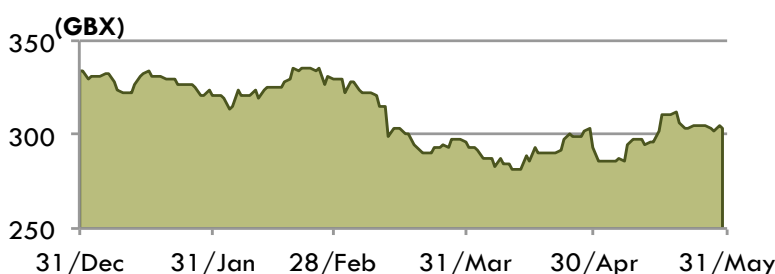


Price (EUR):	↑	106,65
Target Price (EUR):		119,00
Up/downside:		11,6%
Performance 3M:		2,3%
P/E Ratio:		27,6x
ROC/WACC:		2,5x

Tesco

(Ticker:TSCO LN)

- Tesco's sales fell by 3.8% in the three months up until the 24th of May on a like-for-like basis, the worst decline in a 30-year period. The CEO's plan is now to revive sales at Tesco's UK business by revamping stores and cutting prices on staple.

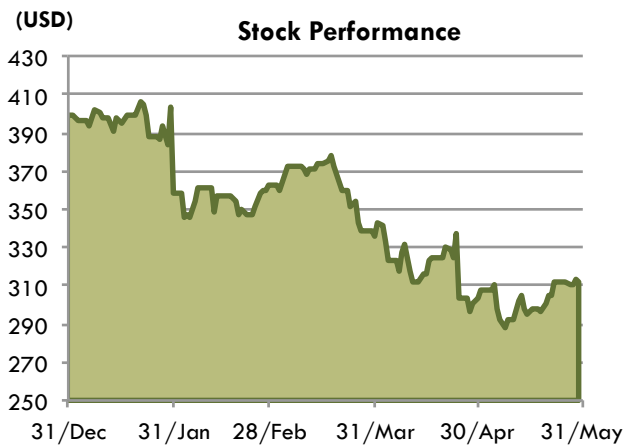


Price (GBX):	→	301,30
Target Price (GBX):		300,00
Up/downside:		-0,4%
Performance 3M:		-8,5%
P/E Ratio:		12,4x
ROC/WACC:		0,6x

3. Stock Analysis: Amazon

Corporate News

- Amazon announced both sales and net income growing compared to the same period in 2013. Sales went from \$ 16,070 millions to \$ 19,741 millions. Net income grew from \$ 82 millions to \$ 108 millions.
- In the last months, a dispute between Amazon and Hachette was going on. The technology company and the historical publisher are fighting about important issues in the book publishing industry. Amazon's objective is to remove all the barriers between writers and readers, so that anyone can publish everything and books become cheaper. This would clearly have a strong impact on the publishing industry.



Market Performance

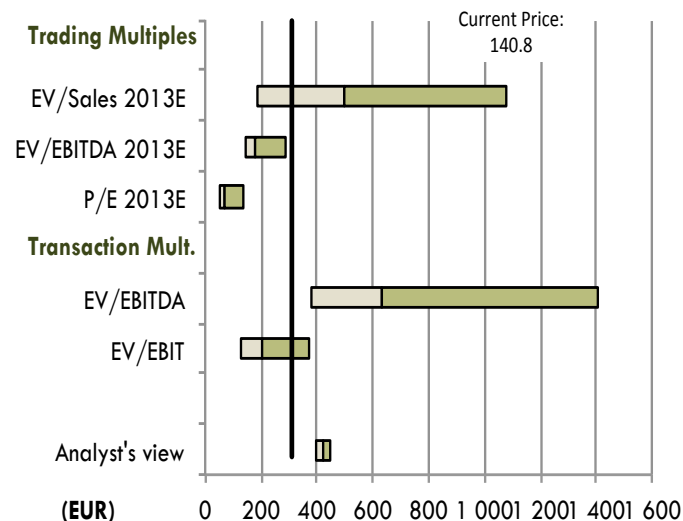
- Amazon recorded a steady decrease in the stock price since January 2014 from around \$ 400 to a minimum around \$ 290.
- Analyst sentiment towards AMAZON is generally positive. The stock price showed a slight recovery in the last month and analysts mainly recommend to buy or hold the stock.

Amazon (USD)	
Current Price (30/05/2014)	304,13
52-week high % change	-25,5%
Median Target Price	419,85
Market Capitalisation (mn)	141 810
Return on Common Equity	3,2%
Dividend Yield	-
Beta (vs. S&P500)	1,5x
Total Debt/Equity	32,7%

Valuation Summary

- From a valuation perspective, trading multiples seem to be generally aligned with the current stock price. P/E is currently lower than the actual market valuation, like EV/EBITDA on expected values. On the other hand, however, EV/Sales on expected values seems to be above of the current market price.
- Looking at the transaction multiples, EV/EBITDA is much higher than the current market valuation of the company. At the same time, EV/EBIT is slightly in line with the current market price.

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	141 810	137 075	1,9x	1,5x	1,3x	32,1x	21,2x	15,9x	501,1x	89,7x	51,3x
Barnes & Noble	USD	1 126	1 341	0,2x	0,2x	0,2x	10,9x	4,9x	5,9x	-	-	-
Ebay	USD	64 102	60 386	4,0x	3,3x	2,9x	12,3x	9,9x	9,0x	-	17,0x	14,9x
Google	USD	371 196	315 937	5,2x	6,0x	5,1x	16,9x	12,1x	10,2x	29,7x	20,8x	17,6x
Wal Mart	USD	249 079	303 723	0,7x	0,6x	0,6x	8,5x	8,1x	7,8x	16,0x	14,9x	13,7x
Mercado Libre	USD	3 754	3 548	8,2x	7,3x	6,2x	20,0x	22,1x	19,0x	-	40,1x	29,0x
75th Percentile				4,9x	5,4x	4,5x	19,2x	18,9x	14,5x	265,4x	40,1x	29,0x
Median				3,0x	2,4x	2,1x	14,6x	11,0x	9,6x	29,7x	20,8x	17,6x
25th Percentile				1,0x	0,8x	0,8x	11,2x	8,6x	8,1x	22,9x	17,0x	14,9x

- Looking at the table one can see Amazon trades at lower multiples than the median of the comparable firms considered, in terms of EV/Sales, which potentially can be a sign of Amazon's undervaluation. However the technology company trades at significantly higher multiples than the peers, in terms of EV/EBITDA and P/E. Such high multiples suggest actually a most likely overvaluation of Amazon, which finds itself in a high growth industry.
- When looking at the peer group, Mercado Libre, the leading Latin America website dedicated to e-commerce, has the second highest multiples in terms of P/E and EV/EBITDA, after Amazon. In terms of EV/Sales, it has the highest multiples. At the same time, looking at Barnes&Noble and Wal Mart, the two more traditional companies present the lowest values of multiples. This suggests that the market expects web-based firms to enjoy a steeper growth in the next years than those based on a more conservative business strategy.

Precedent Transactions

Announced Date	Target		Buyer		EV (EUR mn)	EV/EBITDA	EV/EBIT
	Company	Country	Company	Country			
01-Feb-08	Yahoo! Inc	US	Microsoft Corp	US	28 547	31,2x	60,8x
20-Apr-05	Ito-Yokado SHC Co Ltd	JP	Seven-Eleven Japan Co Ltd	JP	11 141	55,8x	177,1x
28-Feb-05	May Department Stores Co	US	Macy's Inc	US	12 527	8,8x	13,4x
16-May-00	Lycos Inc	US	Terra Networks	ES	15 307	226,3x	N/A
75th Percentile						98,4x	118,9x
Median						43,5x	60,8x
25th Percentile						25,6x	37,1x

- Globally, the precedent comparable transactions present valuations which differ a lot one from the other. This might arise from the different period of time when the transactions considered took place and from the discrepancies among the markets. Moreover, the 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.
- Regarding the comparable precedent transactions, it becomes clear that one of the most representative would be the acquisition of Yahoo Inc. by Microsoft Corp., because of the industry of the target and the year of the deal. Indeed, the EV/EBITDA multiple is perfectly in line with the current one of Amazon. However, it has to be considered that being a transaction multiple, it includes the premium paid. As a consequence, Amazon would still result to be slightly overvalued.