

EQUITY RESEARCH

PORTOBELLO RESULTS REVIEW Press release

BUY

TP 75.1€ (vs 86.0€)
Up/Downside: 200%

2022: Rapid Expansion... Perhaps Too Fast

FY 2022 saw continued revenue growth driven by an expansion of the retail network. Rapid growth and inflation have weighed on margins.

Yesterday, Portobello released its FY 2022 results, marked by continued growth and a slight drop in margins. Revenue amounted to €130m (vs. €133m estimated), up 52% yoy (+15% lfl estimated). Growth was driven by all of the group's divisions and was supported by the continued increase in new store openings (+10 stores opened during 2022). While the strong commitment to new openings is having a positive impact on the topline, it is also impacting margins. Thus, the EBITDA margin has been reduced to 14% (vs. an estimated 17.1%), a victim of the increased cost of goods, transport, utilities and personnel, which are necessary to support new openings and which are affected by the current inflationary environment. Despite the challenging retail environment (non-food retail sales volumes in Q4-22 stood at -3.3% yoy, source: ISTAT), it is worth noting that the group still manages to maintain strong sales volumes, relying on its advertising barter business model, which allows it to have the best prices on the market. Indeed, this model has proved even more effective in times of crisis, as consumers are more sensitive to prices. Furthermore, the group had to record non-recurring costs of approximately €6.4m, related to advertising purchased that was never received due to the supplier's liquidation. Excluding this non-recurring cost, the group would have increased its EBITDA margin to 18.9%, essentially stable vs. 2021 (19.3%). The retail network expansion, coupled with the effects of inflation, has led to an increase in working capital, particularly concerning inventories (-€12m), penalising net debt, which stands at €42m (vs. €26m estimated). However, around 70% of the investment in shops is accounted for in WC, so the increase is only related to the network's rapid expansion, and not to the business model. We expect net debt to decline slowly once the group is able to exploit the network's full potential. However, the challenging market environment is causing us to be more cautious regarding our future estimates. Therefore, we have adjusted our revenue and EBITDA margin estimates for 2023 to €170m (vs. €196m) and 16% (vs. 18.5%) respectively. However, the estimated values still imply a strong growth, given: 1) 10 new stores openings, which should be fully operational in 2023, and 2) the Eprice acquisition, which we expect to generate significant cost and commercial synergies, and above all, increase brand awareness. The latter is key to securing better and more regular barter deals in the future and increasing the group's profits.

Following the change in valuation and market parameters, we are adjusting our TP to €75.1 (vs. €86) and reiterating our BUY recommendation given the still strong growth expectations and the attractive valuation.

Key data

Price (€)	25.0
Industry	Retailers
Ticker	POR-IT
Shares Out (m)	3.237
Market Cap (m €)	80.9
Average trading volumes (k shares / day)	12.600

Ownership (%)

Fondateurs & Management	67.0
Free float	33.0

EPS (€)

	12/23e	12/24e	12/25e
Estimates	4.11	5.76	7.09
Change vs previous estimates (%)	-31.29	-28.70	-30.24

Performance (%)

	1D	1M	YTD
Price Perf	4.6	-7.1	-6.0
Rel FTSE Italy	2.8	-0.3	-12.7



TP ICAP Midcap Estimates	12/22	12/23e	12/24e	12/25e	Valuation Ratio	12/23e	12/24e	12/25e
Sales (m €)	129.9	169.9	203.2	230.6	EV/Sales	0.7	0.5	0.4
Current Op Inc (m €)	13.5	21.8	29.9	36.3	EV/EBITDA	4.4	3.1	2.3
Current op. Margin (%)	10.4	12.9	14.7	15.8	EV/EBIT	5.5	3.7	2.7
EPS (€)	2.18	4.11	5.76	7.09	PE	6.1	4.3	3.5
DPS (€)	0.00	0.00	0.00	0.00				
Yield (%)	0.0	0.0	0.0	0.0				
FCF (m €)	-21.7	3.5	8.7	13.9				

Analyst
Simone Mieli
simone.mieli@tpicap.com
33149241833

FINANCIAL DATA

Income Statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
Sales	62.7	85.5	129.9	169.9	203.2	230.6
Changes (%)	38.3	36.4	51.9	30.8	19.6	13.5
Gross profit	20.1	32.9	46.2	65.5	78.8	90.5
% of Sales	32.1	38.5	35.6	38.6	38.8	39.3
EBITDA	10.9	16.5	18.2	27.1	35.6	42.6
% of Sales	17.3	19.3	14.0	16.0	17.5	18.5
Current operating profit	8.6	13.9	13.5	21.8	29.9	36.3
% of Sales	13.7	16.2	10.4	12.9	14.7	15.8
Non-recurring items	-0.3	-0.6	0.0	0.0	0.0	0.0
EBIT	8.6	13.9	13.5	21.8	29.9	36.3
Net financial result	-0.3	-0.9	-1.3	-1.8	-1.8	-1.8
Income Tax	-2.3	-4.2	-4.5	-5.6	-7.8	-9.6
Tax rate (%)	28.1	32.3	37.0	27.9	27.9	27.9
Net profit, group share	6.0	8.9	7.7	14.5	20.2	24.9
EPS	2.12	2.74	2.18	4.11	5.76	7.09
Financial Statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
Goodwill	0.0	0.0	3.3	3.3	3.3	3.3
Tangible and intangible assets	3.7	7.3	6.3	7.5	9.3	11.4
Right of Use	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	1.4	1.1	4.6	4.6	4.6	4.6
Working capital	28.5	51.3	84.1	93.9	103.6	112.4
Other Assets	0.4	0.8	0.0	0.0	0.0	0.0
Assets	34.0	60.5	98.3	109.3	120.8	131.7
Shareholders equity group	16.1	35.0	42.9	57.4	77.6	102.5
Minorities	0.0	0.0	0.0	0.0	-0.0	-0.0
LT & ST provisions and others	0.1	0.0	0.0	0.0	0.0	0.0
Net debt	13.9	17.3	42.4	38.9	30.2	16.3
Other liabilities	0.2	1.1	1.7	1.7	1.7	1.7
Liabilities	34.0	60.5	98.3	109.3	120.8	131.7
Net debt excl. IFRS 16	13.9	17.3	42.4	38.9	30.2	16.3
Gearing net	0.9	0.5	1.0	0.7	0.4	0.2
Leverage	1.3	1.0	2.3	1.4	0.9	0.4
Cash flow statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
CF after elimination of net borrowing costs and taxes	9.5	9.5	15.9	19.7	25.9	31.1
Δ WCR	-14.8	-18.7	-32.4	-9.8	-9.7	-8.9
Operating cash flow	-5.3	-9.2	-16.5	9.9	16.2	22.2
Net capex	-2.8	-2.7	-5.1	-6.4	-7.5	-8.3
FCF	-8.1	-12.0	-21.7	3.5	8.7	13.9
Acquisitions/Disposals of subsidiaries	-0.6	-2.1	-3.3	0.0	0.0	0.0
Other investments	0.0	0.0	-0.3	0.0	0.0	0.0
Change in borrowings	10.2	3.3	25.8	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of leasing debt	0.0	0.0	0.0	0.0	0.0	0.0
Equity Transaction	0.1	10.0	-0.2	0.0	0.0	0.0
Others	0.0	-0.5	0.0	0.0	0.0	0.0
Change in net cash over the year	1.6	-1.2	0.4	3.5	8.7	13.9
ROA (%)	11.3%	10.2%	6.8%	9.7%	11.5%	11.8%
ROE (%)	36.9%	25.2%	17.8%	25.2%	26.1%	24.3%
ROCE (%)	21.7%	18.2%	10.3%	16.9%	20.5%	22.6%

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Analyst certifications

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Methodology

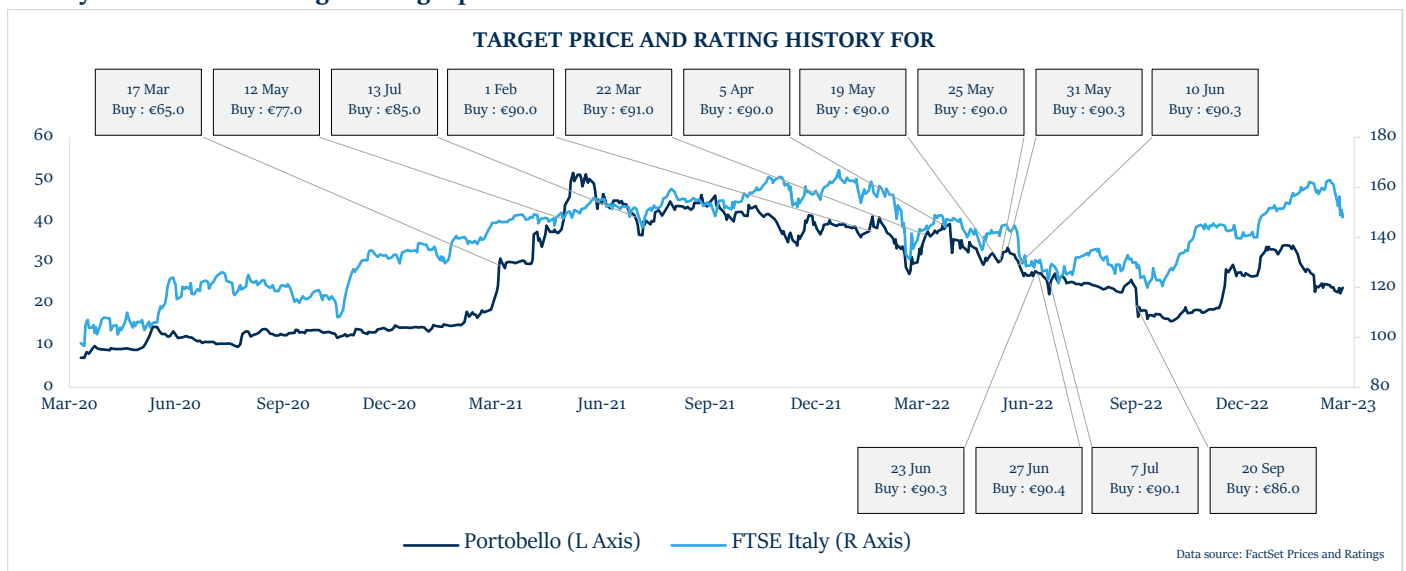
This Report may mention evaluation methods defined as follows:

1. DCF method: discounting of future cash flows generated by the company's operations. Cash flows are determined by the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined as the weighted average cost of the company's debt and the theoretical cost of its equity as estimated by the analyst.
2. Comparable method: application of market valuation multiples or those observed in recent transactions. These multiples can be used as references and applied to the company's financial aggregates to deduce its valuation. The sample is selected by the analyst based on the characteristics of the company (size, growth, profitability, etc.). The analyst may also apply a premium/discount depending on his perception of the company's characteristics.
3. Assets and liabilities method: estimate of the value of equity capital based on revalued assets adjusted for the value of the debt.
4. Discounted dividend method: discounting of estimated future dividend flows. The discount rate used is generally the cost of capital.
5. Sum of the parts: this method consists of estimating the various activities of a company using the most appropriate valuation method for each of them, then realizing the sum of the parts.

Conflict of Interests between TP ICAP Midcap and the Issuer

G. Midcap and the Issuer have agreed to the provision by the former to the latter of a service for the production and distribution of the investment recommendation on the said Issuer: Portobello

History of investment rating and target price - Portobello



Distribution of Investment Ratings

Rating	Recommendation Universe*	Portion of these provided with investment banking services**
Buy	84%	63%
Hold	14%	40%
Sell	1%	50%
Under review	1%	0%

Midcap employs a rating system based on the following:

Buy: Expected to outperform the markets by 10% or more over a 6 to 12 months horizon.

Hold: expected performance between -10% and +10% compared to the market over a 6 to 12 months horizon.

Sell: Stock is expected underperform the markets by 10% or more over a 6 to 12 months horizon.

The history of ratings and target prices for the Issuers covered in this report are available on request at <https://researchtpicap.midcapp.com/en/disclaimer>.

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