

Friday, July 21, 2023 | update

CCC: buy (resumed)

CCC PW; CCCP.WA | Retail, Poland

The Worst Is Behind CCC

Since our last recommendation, CCC has announced a cost-cutting program and the zloty has strengthened significantly against the US dollar. We believe an improved gross margin, together with savings on marketing and labor, will lead to a c.3pp y/y increase in EBITDA margin in 2023. The improved earnings, together with PLN 0.5bn raised via an equity issue, will help the CCC ex Modivo to deal with its debt issues. With this in mind, we believe the worst is now behind CCC.

We see an attractive risk/reward profile for CCC as the market underestimates the 2023 margin growth prospects in H2'23, and Modivo's potential destocking could result in positive surprises in 2024. CCC is currently trading at 25%/35% discounts to peers on EV/EBITDA'24/25 that are unjustified in our view given that the Group will almost triple its EBITDA in three years.

We resume coverage of CCC with a target price of PLN 63.90 and a buy recommendation.

Improving Consumer Confidence and Fiscal Stimulus

Consumer sentiment seems to us to be bottoming out. With nominal wage growth still high, as inflation eases, real disposable income in Poland is about to go up and boost retail spend in H2'23. The effect is expected to be even more pronounced in 2024, when real wage growth picks up on the back of a high minimum wage hike. In addition, in 2024 Polish consumer demand will receive another push from increased spending on welfare programs and a possible extension of mortgage loan holidays.

Margin Growth Fueled by Less Volatility in Commodity Markets, Weak USD and Cost Discipline

2023 is seeing a normalization in commodity prices, and sea freight rates have dropped below pre-pandemic levels. Added to this is low PPI in China and dollar's sharp decline vs. the PLN – all factors that will positively influence gross margin growth in 2023/24. For CCC Group's CCC business, we predict gross margin expansion by 2.5ppts y/y in 2023. After marketing and payroll cutbacks, this will have a positive impact on the year's EBITDA margin.

Improving Debt Ratios Lower the Risk Premium

A capital raise and negotiations with lenders have helped CCC (to the exclusion of the Modivo business) to successfully prevent covenant violations. For its part, Modivo has been able to get its banks to agree to exclude debt owed to Softbank from covenant calculations, coming closer to meeting the covenants. We expect CCC Group to bring its net debt/IAS 17 EBITDA ratio below 3x by the end of 2024, at which point investors should be prompted to reduce the risk premium they currently demand of CCC.

Potential Re-Rating Based on Modivo's IPO

Once market sentiment improves, CCC Group may pursue a public listing for its Modivo business. This would provide CCC with a cash injection that would allow it to simultaneously implement HalfPrice's ambitious investment plans, and pay dividends that drive a re-rating of its valuation.

current price	PLN 44.99
target price	PLN 63.90
mCap	PLN 3.1bn
free float	PLN 2.2bn
ADTV (3M)	PLN 9.1m

*Price as of July 20, 2023, 5:00 PM

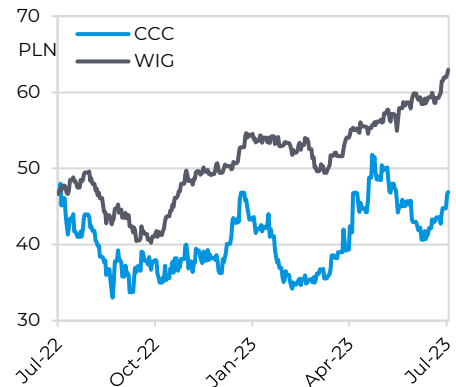
Shareholders

Ultron S.à r.l.	33.3%
AVIVA OFE	7.3%
NN PTE Funds	6.2%
Others	53.2%

About CCC

The CCC Group is the leader in footwear sales in the CEE region with a market share of approx. 20%. The Group owns CCC brick and mortar stores – selling mainly footwear, and HalfPrice – operating in the off-price segment. It also operates the online stores: ccc.eu, eobuwie.pl, Modivo, DeeZee, and halfprice.eu. In Q1'23LTM, the Group generated revenues of PLN 9.3bn, the largest part of which was generated from CCC (44%). eobuwie.pl was also a major revenue generator (33%) alongside Modivo (10%) and HalfPrice (10%).

CCC vs. WIG



	target price		recommendation	
	new	old	new	old
CCC	63.90	-	buy	-

	current price	target price	upside
CCC	44.99	63.90	+42.0%

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(PLN m)	2021	2022	2023E	2024E	2025E
revenue	7,541.7	9,123.2	10,127.4	12,039.4	13,878.5
EBITDA	581.4	533.2	878.5	1,189.6	1,479.7
margin	7.7%	5.8%	8.7%	9.9%	10.7%
EBIT	4.1	-51.3	185.4	436.1	664.4
net profit	-223.4	-417.6	-106.8	129.9	315.6
P/E	-	-	-	23.8	9.8
P/S	0.3	0.3	0.3	0.3	0.2
P/B	2.5	5.9	3.8	3.4	2.6
EV/EBITDA	10.2	12.3	7.8	5.9	4.8
DPS	0.00	0.00	0.00	0.00	0.00
Dyield	0.0%	0.0%	0.0%	0.0%	0.0%



List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
EBITDA margin - EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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The production of this recommendation was completed on July 21, 2023, 7:21 AM.
 This recommendation was first disseminated on July 21, 2023, 8:30 AM.

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NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following recommendations for CCC in the 12 months prior to this publication:

CCC (Janusz Pięta, Paweł Szpigel)

Rating	suspended	hold	hold	hold	hold
Rating date	2023-04-17	2023-04-03	2022-12-01	2022-10-03	2022-09-15
Target price (PLN)	-	37.90	36.40	35.00	38.00
Price on rating day	39.33	38.59	37.57	37.14	37.98

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