

Jeronimo Martins

Food Retail - Portugal

Stock vs Sector
Sector vs Market
Price (27 February 2008)
Target price

Underperform
Underperform
EUR5.50
EUR5.30 (-4%)

Market cap./Free float (EURm) 3,456.1/895.1
EV (EURm) 4,501
12-month high/low (EUR) 5.6/3.7
Reuters/Bloomberg JMT.LS/JMAR.PL
DJ STOXX50 3,301.0
Risk rating C

Per share data (EUR)	12/06	12/07e	12/08e	12/09e
EPS restated	0.16	0.21	0.23	0.27
EPS reported	0.18	0.23	0.23	0.27
EPS (IBES)	0.18	0.20	0.24	0.29
CFPS	0.32	0.38	0.45	0.53
Net dividend	0.09	0.11	0.11	0.14

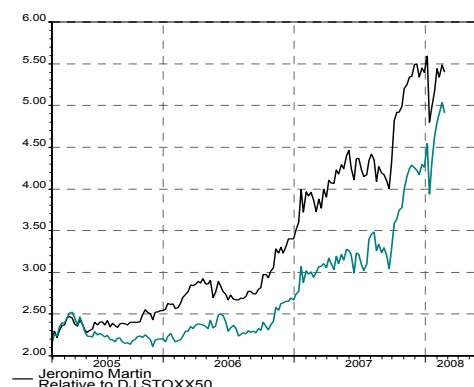
Stockmarket ratios*	12/06	12/07e	12/08e	12/09e
P/E (x)	17.6	21.0	24.1	20.1
P/E rel. DJ STOXX50 (%)	158.3	193.0	234.6	212.7
P/CF (x)	8.9	11.5	12.2	10.4
P/BVPS (x)	3.6	4.7	5.3	4.7
Net yield (%)	3.1	2.6	2.1	2.5
EV/Sales (x)	0.6	0.7	0.7	0.6
EV/EBITDA (x)	8.4	10.0	10.2	8.9
EV/EBIT (x)	12.6	15.4	16.4	14.1

* Yearly average prices for FY to end-12/06, 12/07

P&L highlights (EURm)	12/06	12/07e	12/08e	12/09e
Sales	4,407	5,361	6,823	7,641
Op. profit (loss)	212	240	274	318
Attrib. net profit (adj.)	102	131	144	172

Performance (%)	1-w	1-m	3-m	12-m
Absolute	(2)	4	1	40
Rel. DJ STOXX50	(4)	2	10	63
Rel. sector	(2)	5	11	55

Price relative to DJ STOXX50



Source: Datastream

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Margin squeeze higher than expected in Portugal

► Jeronimo Martins has published FY07 EBITDA below market expectations (margin down 60bp instead of 30bp expected), dragged down by the Portuguese retail and manufacturing operations, where raw material inflation led to a gross margin squeeze in a competitive environment where it could not be fully passed on to consumers.

► Despite a 40% increase in net financial costs, Jeronimo Martins managed to report net income close to market expectations thanks to a 43% cut in minority interests (linked to the Portuguese retail operations). We note however that before minorities, consolidated net earnings remained flat last year despite a stellar sales performance (+21%).

► We reiterate our Underperform rating ahead of the conference call at 10am London time. Management's guidance in the release does not provide for much visibility. We are likely to cut our forecasts and our target price (possibly below EUR5/share).

Facts. Jeronimo Martins published its FY07 results yesterday post market close. There will be a conference call (+44 207 162 0025) this morning at 10am (Lisbon/London time), i.e. 11am CET.

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When we analyse the EUR16m EBITDA shortfall compared with our EUR368m forecast, the bulk stems from 1) Portuguese retail (EUR10m shortfall) and 2) the Portuguese manufacturing operations (EUR6m shortfall). Our forecasts were spot on for Portuguese Cash & Carry and services, and the better-than-expected performance of Polish (EUR2m) and Madeira (+EUR1m) is more than offset by a EUR4m negative gap on consolidation adjustments that we need to clarify with the company.

In its release, as a rationale for margin deterioration in Portugal, management cited: 1) pre-opening costs (rents, personnel, training) as well as remodelling expenses (45-day closure of 28 Pingo Doce stores); 2) the weight of the 52 stores opened in Portugal over the last two years that have not matured yet in terms of profitability; 3) the raw material inflation that was felt more strongly from Q3 07 on; and 4) the continuous effort to increase competitiveness across all networks.

Looking at the 80bp loss in the group's gross margin (vs 40bp in our forecasts), it is clear that we had overestimated the group's ability to pass inflation on to Portuguese consumers in a timely fashion. At the group level, the SG&A share of sales was reduced by 20bp, which reflects the impressive cost dilution achieved by the Polish operations (on the back of like-for-like sales growth above 20%) that more than offset the probable deterioration in Portugal.

Important Notice:

Please refer to our complete disclaimer/disclosure notice available on www.exanebnpparibas.com/compliance.

Table 1: Jeronimo Martins - change in half-yearly EBITDA

EURm	H1 05	H2 05	FY05	H1 06	H2 06	FY06	H1 07	H2 07	FY07	H2 07e	FY07e
Retail mainland (store sales)	56.7	92.5	149.2	53.9	86.1	140.0	47.0	88.7	135.6	98.3	145.3
Margin (%)	8.0	10.3	9.7	7.0	8.4	8.2	5.4	7.6	7.0	8.5	7.5
Change (%)				(4.9)	(7.0)	(6.2)	(12.8)	3.0	(3.1)	14.2	3.8
Contribution (%)	43.6	51.9	48.4	41.4	45.6	43.9	33.1	42.3	38.6	43.5	39.5
Cash & Carry mainland	19.1	19.6	38.7	15.5	20.6	36.1	15.9	21.7	37.6	21.7	37.6
Margin (%)	6.9	6.5	6.7	5.5	6.4	6.0	5.4	6.5	6.0	6.5	6.0
Change (%)				(19.0)	5.2	(6.8)	2.5	5.1	4.0	5.1	4.0
Contribution (%)	14.7	11.0	12.6	11.9	10.9	11.3	11.2	10.3	10.7	9.6	10.2
Madeira	3.5	4.9	8.4	2.4	3.7	6.1	1.6	4.0	5.7	3.3	4.9
Margin	7.2	8.7	8.0	4.9	6.0	5.5	2.9	6.0	4.6	4.9	4.0
Change (%)				(30.7)	(25.1)	(27.4)	(33.7)	10.6	(7.1)	(9.6)	(19.2)
Contribution (%)	2.7	2.7	2.7	1.9	1.9	1.9	1.1	1.9	1.6	1.5	1.3
Poland	28.4	40.3	68.7	39.7	51.2	90.9	58.6	82.6	141.1	80.2	138.8
Margin	4.6	5.5	5.1	5.0	5.6	5.3	5.5	6.2	5.9	6.0	5.8
Change (%)				39.5	27.1	32.2	47.6	61.2	55.3	56.6	52.7
Contribution (%)	21.9	22.6	22.3	30.5	27.1	28.5	41.2	39.4	40.2	35.5	37.7
Manufacturing	21.2	21.5	42.7	19.3	25.7	45.0	19.8	15.0	34.7	20.9	40.6
Margin	17.6	17.8	17.7	15.5	20.0	17.8	16.0	12.2	14.1	17.0	16.5
Change (%)							2.3	(41.8)	(22.9)	(18.8)	(9.8)
Contribution (%)	16.3	12.0	13.8	14.9	13.6	14.1	13.9	7.1	9.9	9.2	11.0
Services	0.7	0.9	1.6	0.2	1.4	1.6	1.0	0.9	1.8	1.0	1.9
Margin	2.1	2.5	2.3	0.5	3.5	2.1	2.6	2.2	2.4	2.4	2.5
Change (%)							451.2	(38.5)	15.7	(31.3)	22.1
Contribution (%)	0.5	0.5	0.5	0.1	0.7	0.5	0.7	0.4	0.5	0.4	0.5
Other operations & adjustments	0.3	(1.3)	(1.0)	(1.0)	0.0	(0.9)	(1.8)	(3.4)	(5.1)	0.5	(1.3)
Total Group	129.9	178.4	308.3	130.0	188.7	318.8	142.0	209.4	351.4	225.8	367.8
Margin	7.3	8.7	8.1	6.4	7.9	7.2	5.9	7.1	6.6	7.7	6.9
Change (%)				0.1	5.8	3.4	9.2	11.0	10.2	19.7	15.4

Source: Company, Exane BNP Paribas estimates

Table 2: Jeronimo Martins - change in half-yearly P&L

EURm									H1 07/06	H2 07/06	FY07/06
EURm	H1 06	H2 06	FY06	H1 07	H2 07	FY07	H2 07e	FY07e	Change (%)	Change (%)	Change (%)
Sales	2,028	2,379	4,407	2,420	2,930	5,350	2,927	5,347	19.3	23.1	21.4
Gross margin	482	561	1,043	554	671	1,225	692	1,246	14.8	19.7	17.4
Other expenses	(351)	(371)	(722)	(409)	(460)	(869)	(466)	(875)			
Provisions	(1)	(1)	(3)	(3)	(2)	(4)	(0)	(3)			
EBITDA	130	189	319	142	209	351	226	368	9.2	11.0	10.2
Depreciation and amortisation	(52)	(55)	(107)	(60)	(67)	(127)	(70)	(130)			
EBIT	78	133	212	82	142	225	156	238	5.3	6.6	6.1
Net financial expenses	(21)	(22)	(42)	(24)	(35)	(59)	(21)	(46)			
Non-recurring items	(1)	21	20	2	20	22	14	17			
Profit before taxes	57	133	189	60	127	188	149	209	6.5	(4.0)	(0.8)
Tax	(9)	(30)	(38)	(15)	(22)	(37)	(27)	(42)			
Consolidated earnings	48	103	151	45	106	151	122	167	(5.1)	2.4	0.0
Minorities	(11)	(24)	(35)	(4)	(16)	(20)	(23)	(26)			
Group earnings	37	79	116	42	90	131	99	141	12.3	13.4	13.0
Adjustments	1	(15)	(14)	(2)	(15)	(16)	(10)	(12)			
Adjusted group earnings	38	64	102	40	75	115	89	129	5.8	17.5	13.2

Source: Company, Exane BNP Paribas estimates

Net financial costs surged by 40%, on the back of 1) the strong capex acceleration (35% increase to EUR469m vs EUR420m expected); 2) the increase in the average cost of debt (+100bp to 4.8%); and 3) the costs of the hedging policy against further rate hikes.

However, Jeronimo Martins managed to report net income close to market expectations (EUR131m vs EUR134me) thanks to a 43% cut in minority interests (linked to Portuguese retail operations).

All in all, consolidated net earnings before minorities remained flat last year at around EUR151m despite a stellar sales performance (+21%).

Poor visibility – Underperform rating reiterated, target price and forecasts likely to be cut

As the stock is still priced for perfection in our view, we reiterate our Underperform rating ahead of the conference call at 10am London time. Management's guidance in the release does not provide for much visibility: "solid evolution of sales and earnings" expected in 2008 (no quantitative targets). Pending the antitrust approval on the Plus deal, no integration will take place and management has not updated the market on its 3-year guidance, nor quantified potential synergies.

We are likely to cut our forecasts and our target price (possibly below EUR5/share). In the face of peaking market expectations that we flagged earlier, we expect earnings downgrades to materialize. The 9% increase in dividend is a bit shy of our own expectations (+13%).

28 February 2008

Forthcoming events

Date	Event
27 Feb. 2008	FY 2007 Results
30 Apr. 2008	Q1 2008 Results
31 Jul. 2008	H1 2008 Results
30 Oct. 2008	Q3 2008 Results

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US Law	French Law							
NO	NO	NO	NO	NO	NO	NO	NO	NO

Source: Exane

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Potential conflicts of interest: None.

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