

Jerónimo Martins

FY07 results first reaction - Manufacturing disappoints - ALERT

Jerónimo's 4Q results were characterised by a big earnings miss driven by Manufacturing and JMR: the bottom line was 18% below expectations.

- **Manufacturing** EBITDA €15m in 2H vs JPMe €23m (with EBITDA margin down 700bp in 2H). The division saw high input cost inflation in various food categories that it was evidently unable to pass on. We have no visibility from the statement as to whether this is set to continue into 2008 and will seek clarification in the analyst meeting.

JMR EBITDA in the 2H came in at €9m vs JPMe €4m, implying a c50bp lower margin in the period than expected (8.3% vs 8.8%). The 52 stores opened in the last two years, representing about one-fifth of total stores, have weighed on margins as did pre-opening expenses, closures for refurbishments and continued heavy price investments.

Poland and Cash & Carry were bang in line with expectations with EBITDA of €3m and €2m in the 2H respectively.

- **Cash flow generation** was considerably stronger than expected. Working capital days increased from 54 in 2006 to 58 in 2007, giving a cash inflow increase from working capital of €196m (JPMe €21m). Thus, despite €469m capex (JPMe €431m), invested capital only rose €70m and net debt came in €73m lower than expected at €79m.

Net profit att. To JM (excluding non-recurrent items) was 18% below expectations at €38m vs JPMe €46m.

Share price reaction will clearly be negative. The key question for the analyst meeting at 10am London-time (dial in +44 207 162 0025) is whether the problems at Manufacturing will recur in 2008. Earnings estimates for 2008 are bound to be revised downwards however, the only question is by how much. Some comfort can be drawn from the fact that Poland remains on track and seems ever more immersed in the virtuous circle of capital-light growth (note that the €200m capex at this division was

Overweight

€5.39

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Food Retail

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almost entirely offset by the group NWC cash inflow Biedronka drove). We also note management's intention to "leverage progressively the increases in sales into earnings": this is an inflexion point we have been waiting some time for.

Profit & Loss Account, € million

	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	JPM€
Net sales	1,150	1,230	1,136	1,284	1,389	1,542	1,539
EBITDA	85	103	64	78	100	109	124
Depreciation	(27)	(28)	(29)	(30)	(32)	(35)	(33)
EBIT	58	75	35	48	68	74	92
Net financial results	(14)	(8)	(11)	(14)	(18)	(17)	(12)
Non recurrent items	(0)	21	1	2	14	6	(0)
EBT	44	88	25	36	65	63	80
Income tax	(7)	(22)	(4)	(11)	(11)	(11)	(17)
Net income	37	66	21	25	54	52	62
Minority interests	(7)	(17)	(2)	(1)	(8)	(8)	(17)
Net income attr to JM	29	49.6	18	23	46	43	46
Attrib income ex-non recurrent items						38	46

Source: Company data, JPMorgan estimates

EBITDA margins by format

EBITDA margin	1Q06	2Q06	1H06	3Q06	4Q06	2H06	2006	1Q07	2Q07	1H07	3Q07	4Q07	2H07	2007
Retail Mainland - store sales			7.0%			9.2%	8.2%			5.4%			8.3%	7.0%
Cash & carry mainland			5.5%			6.5%	6.0%			5.4%			6.6%	6.0%
Madeira			4.8%			6.1%	5.5%			2.9%			6.9%	4.6%
Poland			5.0%			5.6%	5.3%			5.5%			6.2%	5.9%
Agency														
Manufacturing & services			12.7%			15.7%	14.2%			12.8%			9.9%	11.3%
manufacturing			16.1%			19.5%	17.8%			16.0%			12.4%	14.1%
services			0.5%			3.5%	2.1%			2.6%			2.1%	2.4%
JM consolidated	6.4%	6.4%	6.4%	7.4%	8.5%	8.0%	7.2%	5.6%	6.1%	5.9%	7.2%	8.1%	7.7%	6.9%

Source: Company data, JPMorgan estimates

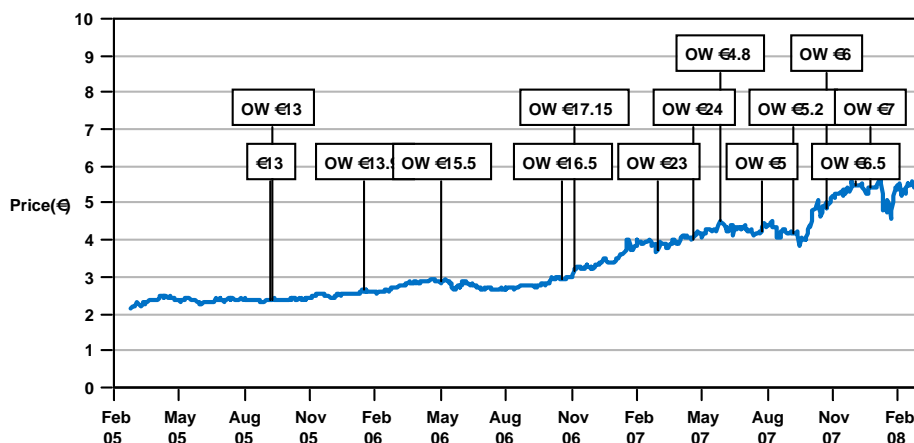
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Jerónimo Martins (JMT.LS) Price Chart



Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.

Initiated coverage Sep 09, 2005. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.

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