

Portobello SpA

H122 results

Offering value in tough times

Portobello demonstrated strong revenue growth in H122 as it executed its retail-focused expansion strategy. Significantly, given the greater pressures on consumer discretionary income, the more established stores grew on an underlying basis, according to management. It believes the value-based retail offer is well positioned for more difficult economic times. Lower profitability reflects price investment to drive footfall and upfront investment in new trading space. Our operational estimates are unchanged, but our DCF-based valuation reduces to €115/share (€121/share previously) to reflect a higher bond yield and net debt position.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/20	62.7	8.3	1.96	0.0	9.8	N/A
12/21	85.5	13.0	2.61	0.0	7.3	N/A
12/22e	137.9	17.8	3.33	0.0	5.7	N/A
12/23e	211.0	28.0	5.07	0.0	3.8	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

H122 results: Revenue growth, margin dilution

Portobello's revenue grew by 81% year-on-year in H122 to €48.8m, with all divisions contributing strong growth. According to management, like-for-like growth in more established stores was positive. Investment to drive footfall and the upfront costs in retail space growth diluted profitability margins. Management believes the former is temporary and the latter should improve as trading space matures. Relative to revenue, free cash flow consumption was broadly stable as lower profitability and higher capital investment were offset by lower investment in working capital. More debt funding led to an increase in the net debt position to €27.6m (€17.3m end FY21).

Forecasts: Operational forecasts maintained

Our operational forecasts for FY22 and FY23 are unchanged despite the more challenging economic background, given the strong revenue performance in H122 and lower assumed revenue growth for H222 (52% versus 81% in H122). H2 is typically a seasonally more important period given the inclusion of the festive period, and Retail should benefit from the continued expansion of its store portfolio and maturing trading at existing stores. We have yet to incorporate forecasts for the recently acquired [ePrice](#) due to uncertainty about its accounting treatment (consolidation or equity accounting), which will be clarified in the next few months.

Valuation: Discount to peers and DCF valuation

Portobello's share price has been weak, as have the share prices of many [consumer-facing companies](#) due to increased macroeconomic uncertainty. Portobello continues to trade at a significant discount to its global peers, albeit valuation comparison is complicated by Portobello not yet reporting using International Financial Reporting Standards. Our DCF-based valuation reduces to €115/share (€121/share previously) to take account of a higher Italian bond yield, Portobello's higher net debt position and the acquisition of ePrice.

Retail

23 September 2022

Price €19.1

Market cap €67m

Net debt (€m) at 30 June 2022 27.6

Shares in issue 3.5m

Free float 33%

Code POR

Primary exchange Euronext STAR Milan

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (18.7) (28.5) (55.7)

Rel (local) (16.6) (27.9) (46.9)

52-week high/low €43.7 €17.0

Business description

Portobello aims to build a national Italian retail presence (from 29 current stores) via a rapid roll-out of own-stores and franchises. It uses a combination of barter (own and third-party media) and cash purchases to source branded products from its suppliers.

Next events

FY22 results March 2023

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H122 results: Strong revenue growth, lower margin

Income statement

Portobello's H122 results demonstrated strong y-o-y revenue growth of c 81% to €48.8m, while gross profit grew by c 44% to €19.1m (H121 €13.2m) and EBITDA declined by 12% to €6.4m (H121 €7.3m). Against a deteriorating economic backdrop, all of Portobello's revenue streams grew.

Exhibit 1: Summary income statement

€m	H121	H221	FY21	H122
- Media	14.9	39.6	54.6	24.6
Growth y-o-y	(11%)	50%	27%	64%
- Retail	3.5	8.0	11.5	9.8
Growth y-o-y	59%	134%	105%	180%
- B2B	8.6	10.8	19.4	14.5
Growth y-o-y	92%	13%	37%	68%
Revenue	27.0	58.5	85.5	48.8
Growth y-o-y	16%	49%	36%	81%
- Other revenue	2.4	0.3	2.7	0.2
Value of Production	29.4	58.7	88.2	49.0
Gross profit	13.2	19.7	32.9	19.1
Gross margin	44.9%	33.5%	37.3%	38.9%
EBITDA	7.3	9.2	16.5	6.4
EBITDA margin	24.9%	15.7%	18.7%	13.1%
Net finance costs	(0.2)	(0.7)	(0.9)	(0.4)
PBT	6.2	7.4	13.0	4.3
Tax	(1.8)	(2.4)	(4.2)	(1.6)
Tax rate	29.7%	32.1%	32.3%	36.2%
PAT	4.4	5.0	8.8	2.7

Source: Portobello, Edison Investment Research

Ongoing expansion of the store base, increasing average size of newer stores and maturing previously opened stores led to c 180% year-on-year growth in Retail revenue to €9.8m (H121: €3.5m). The company added six new stores in the period, ranging in average size from 780sqm to 1,500sqm, which compares with the company's first stores opened, which were typically 200–250sqm. According to management, the stores opened before the start of the year have bucked industry-wide malaise by growing revenue.

Exhibit 2: Retail performance

	H121	H122	FY21	H122
Retail revenue (€m)	3.5	8.0	11.5	9.8
Stores at period end	14	21	21	27
Space at period end (sqm)	5,000	12,988	12,988	20,000
Sales per average store (Euro '000)	249	407	657	407
Sales per average square metre (€)	700	890	1,280	592

Source: Portobello, Edison Investment Research

Against a COVID-affected H121, when revenue declined by 11%, Media revenue grew by 64% year-on-year to €24.6m. Portobello's B2B revenue grew by 68% to €14.5m.

Increased promotional activity to attract more customers and initial cost investment in the new (larger) stores opened during the period before they reached trading maturity (EBITDA break-even in six months) led to the decline in gross margin (by 6pp to 38.9% in H122) and EBITDA margin (by 11.7% pp to 13.1% in H122).

Further down the P&L, the net finance charge doubled to €0.4m as Portobello's gross debt position increased (see below), and the effective tax rate increased to 36.2% from 29.7% in H121, which benefitted from tax credits.

Cash flow and balance sheet: Investing for future growth

Portobello's free cash flow consumption of €9.3m increased from €4.9m in H121. In absolute terms, the delta in operating cash flow was a reduction of €2.9m, mainly due to working capital investment increasing by €2.7m to €12.4m and lower absolute net income, which declined by c €2m to €2.7m. Capital investment in tangible and intangible assets grew from €1.3m to €2.9m. Relative to revenue, free cash flow consumption was broadly stable as lower net income and higher capital investment were offset by lower investment in working capital.

Portobello raised two new tranches of debt (€5m each) to help fund its store expansion plans so that by the period end, the net debt position had increased from €17.3m (end FY21) to €27.6m.

ePrice acquisition: Opportunity to be quantified

Following the period end, the acquisition of a 50% stake in ePrice Operations was completed. ePrice is one of Italy's leading online shops (fourth placed by market share, according to management) which specialises in the sale of high-tech products and household appliances. Subject to the level of internal investment by the two parties (Portobello and Riba Mundo Tecnologia) in the transaction in the coming weeks, Portobello's shareholding is likely to reduce, therefore the accounting treatment for the acquisition, ie whether it will be partially consolidated or accounted for as an associate, will be determined. Therefore in the near term, we have not consolidated ePrice's operating results in our estimates, but have included the initial investment by Portobello, half of approximately €6m, in our cash flow forecasts.

Forecasts: Operating forecasts unchanged

Our operating forecasts for Portobello in FY22 and FY23 are unchanged. We assume a similar rate of growth in space for Retail in H222 (c 8,000sqm), as that added in H122 (c 7,000sqm). The second half of the year should be seasonally more important than the first half due to the inclusion of the festive period and Black Friday, and Portobello should benefit from the maturing store profile. We make changes to our estimated net finance charge to account for the higher gross debt position, which includes the recent investment in ePrice.

Valuation: Discount to global peers

The share prices of consumer-facing companies performed poorly throughout H122 and into Q322 as the macroeconomic outlook deteriorated and pressures on consumer discretionary income increased.

As highlighted in our [initiation](#), Portobello's business model is unique in the public markets, with a combination of media and retail assets and the use of barter to source products. As such, there is no direct peer with which to compare its valuation. In addition, financial reporting under Italian GAAP rather than IFRS means that enterprise value-based multiples are not meaningful, given for example there is no capitalisation of lease liabilities. In addition, under Italian GAAP, lease costs are expensed through the income statement and EBITDA is lower than under IFRS.

The peer valuation table below shows that Portobello continues to trade at a significant discount to other general merchandise and electricals retailers, which have a range of product exposure and are more mature.

Exhibit 3: Peer valuation

	Year-end	Share price (local ccy)	Currency	Market cap (local m)	EV (local m)	Sales growth 2022 (%)	Sales growth 2023 (%)	EBIT margin 2022 (%)	EBIT margin 2023 (%)	EPS growth 2022 (%)	EPS growth 2023 (%)	P/E 2022 (x)	P/E 2023 (x)
B&M European Value Retail SA	Mar	333.0	GBP	3,368	5,428	2	6	11.4	10.7	(11)	(3)	9.0	9.3
Ceconomy AG	Sep	1.4	EUR	676	2,971	0	1	1.2	1.5	(38)	22	3.9	3.2
Dunelm Group PLC	Jun	790.5	GBP	1,611	1,896	8	2	12.7	11.9	4	(8)	10.3	11.2
Fnac Darty SA	Dec	30.7	EUR	835	2,475	(0)	1	3.0	3.1	1	6	6.2	5.9
Maisons du Monde SA	Dec	9.0	EUR	396	1,043	(7)	6	5.0	6.1	(57)	50	13.9	9.2
Puuiilo Oyj	Jan	5.1	EUR	440	519	N/A	8	15.3	14.5	N/A	3	13.1	12.7
Tokmanni Group Oyj	Dec	12.0	EUR	718	1,023	2	5	8.1	8.3	(13)	9	10.8	9.8
Unieuro SpA	Feb	11.3	EUR	237	204	(2)	(1)	1.7	1.6	(40)	(15)	6.9	8.0
Westwing Group SE	Dec	6.0	EUR	125	111	(17)	8	(6.7)	(2.0)	(353)	(52)	N/A	N/A
European median						(0)	5	5.0	6.1	(25)	3	9.7	9.2
Dollar General Corp	Jan	240.3	USD	54,200	59,065	10	6	9.3	9.3	12	10	21.0	19.1
Dollar Tree Inc	Jan	141.9	USD	31,770	34,500	6	6	8.1	8.5	25	15	19.7	17.1
US median						8	6	8.7	8.9	18	12	20.3	18.1
Total median						1	6	8.1	8.3	(12)	6	10.5	9.5
Portobello SpA	Dec	19.1	EUR	67	95	61	53	13.8	13.9	28	52	5.7	3.8

Source: Refinitiv, Edison Investment Research. Note: Priced at 22 September 2022.

Our updated DCF-based valuation reduces to €115/share (€121/share previously) to take account of the higher Italian bond yield (from 1.9% to 4.2%), Portobello's higher net debt position and the acquisition value of ePrice. Our estimated WACC has increased to 12.5% (from 12%).

Exhibit 4: Financial summary

	€'m	2020	2021	2022e	2023e
31-December		IAB	IAB	IAB	IAB
INCOME STATEMENT					
Revenue		62.7	85.5	137.9	211.0
Value of production		64.0	88.2	139.4	212.5
Cost of Sales		(42.6)	(52.6)	(91.3)	(134.9)
Gross Profit		20.1	32.9	46.6	76.1
EBITDA		10.9	16.5	22.2	34.0
Operating profit (before amort. and excepts.)		8.6	13.9	19.0	29.3
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0
Exceptionals		0.0	(0.6)	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0
Reported operating profit		8.6	13.3	19.0	29.3
Net Interest		(0.3)	(0.9)	(1.2)	(1.3)
Exceptionals		0.0	0.0	0.0	0.0
Profit Before Tax (norm)		8.3	13.0	17.8	28.0
Profit Before Tax (reported)		8.3	12.5	17.8	28.0
Reported tax		(2.3)	(4.2)	(5.7)	(9.0)
Profit After Tax (norm)		6.0	8.8	12.1	19.0
Profit After Tax (reported)		6.0	8.3	12.1	19.0
Minority interests		0.0	(0.0)	(0.0)	(0.1)
Discontinued operations		0.0	0.0	0.0	0.0
Net income (normalised)		6.0	8.8	12.0	19.0
Net income (reported)		6.0	8.2	12.0	19.0
Average Number of Shares Outstanding (m)		2.8	3.1	3.4	3.5
EPS - basic normalised (€)		2.15	2.84	3.52	5.40
EPS - normalised fully diluted (€)		1.96	2.61	3.33	5.07
EPS - basic reported (€)		2.15	2.66	3.52	5.40
Dividend (€)		0.00	0.00	0.00	0.00
Revenue growth (%)		38.3	36.4	61.3	53.0
Gross Margin (%)		31.5	37.3	33.4	35.8
EBITDA Margin (%)		17.0	18.7	15.9	16.0
Normalised Operating Margin		13.4	15.7	13.6	13.8
BALANCE SHEET					
Fixed Assets		5.1	8.4	18.0	23.7
Intangible Assets		2.9	5.3	6.1	5.4
Tangible Assets		0.7	2.0	6.8	13.1
Investments & other		1.4	1.1	5.1	5.1
Current Assets		47.4	78.2	108.6	139.4
Stocks		16.4	43.9	61.0	72.6
Debtors		2.6	4.3	8.5	15.0
Cash & cash equivalents		2.6	2.5	3.2	5.6
Other (Including prepaid advertising)		25.7	27.5	35.9	46.2
Current Liabilities		(23.9)	(36.9)	(50.5)	(68.0)
Creditors (including deferred income)		(15.8)	(23.6)	(35.7)	(50.0)
Tax and social security		(3.7)	(7.0)	(8.5)	(11.8)
Short term borrowings		(4.3)	(6.2)	(6.2)	(6.2)
Other		0.0	0.0	0.0	0.0
Long Term Liabilities		(12.5)	(14.7)	(28.6)	(28.6)
Long term borrowings		(12.2)	(13.5)	(27.4)	(27.4)
Other long term liabilities		(0.3)	(1.1)	(1.1)	(1.1)
Net Assets		16.1	35.0	47.5	66.5
Minority interests		0.0	0.0	0.1	0.1
Shareholders' equity		16.1	35.0	47.6	66.6
CASH FLOW					
Operating Cash Flow		10.9	16.5	22.2	34.0
Working capital		(14.8)	(23.8)	(17.6)	(14.1)
Exceptional & other		(0.3)	(0.9)	(0.0)	(0.1)
Tax		(0.8)	(0.9)	(4.2)	(5.7)
Net operating cash flow		(5.0)	(9.2)	0.3	14.1
Capex		(2.8)	(2.7)	(8.3)	(10.4)
Acquisitions/disposals		(0.6)	(2.1)	(4.0)	0.0
Net interest		(0.3)	(0.5)	(1.2)	(1.3)
Equity financing		0.1	10.0	0.0	0.0
Borrowings		10.2	3.3	13.9	0.0
Dividends		0.0	0.0	0.0	0.0
Other		0.0	1.0	0.0	0.0
Net Cash Flow		1.6	(0.2)	0.7	2.5
Opening cash		1.0	2.6	2.4	3.1
FX		0.0	0.0	0.0	0.0
Closing cash		2.6	2.4	3.1	5.6
Closing net debt/(cash)		13.9	17.3	30.5	28.0

Source: Portobello, Edison Investment Research

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