

Ceconomy AG

Germany | Retail | MCap EUR 1,205m

5 April 2023

UPDATE



Consumer spending remains subdued; rating down to SELL

SELL (HOLD)

Target price	EUR 2.10 (2.10)
Current price	EUR 2.48
Up/downside	-15.5%



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What's it all about?

Ceconomy started off the fiscal year 22/23 with a solid start, but consumer spending remains curbed by inflation and the war in Ukraine. While the positive outlook scenario seems likely and should be supported by ongoing cost, liquidity and organizational improvements, this is more than fully reflected in valuation after the recent share price recovery. With unchanged PT of EUR 2.10, we downgrade our rating from HOLD to SELL.

IMPORTANT. Please refer to the last page of this report for "Important disclosures" and analyst(s) certifications.

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Germany | Retail | MCap EUR 1,205m | EV EUR 3,397m

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Consumer spending remains subdued, down to SELL

Consumer spending remains curbed. Recent data for February 2023 from the Federal Statistical Office (Destatis) show that the real (price-adjusted) turnover of retail in Germany declined by 1.3% m/m, and even fell by 7.1% compared to February 2022. The relevant subsegments containing consumer electronics declined by 9.7% in February (real, y/y), and by 7.1% y/y in the first two months of 2023. Looking ahead, consumer confidence remains depressed, even though the trough has been passed. According to GfK and HDE, consumers are apparently expecting a soft landing for the German economy, less severe than feared just a few weeks ago. However, consumer spending remains curbed by factors such as inflation and impacts of the war in Ukraine.

Solid start. Ceconomy's Q1 22/23 figures, published in February, showed a solid start with revenues 3.1% higher than a year ago at EUR 7.1bn. Adjusted for currency and M&A, Ceconomy reported a growth of 4.9%. Gross margin declined by 0.2 percentage points to 17.0%, due to lower product margin in an intensified competitive market environment. Adjusted EBIT was reported with EUR 224m (-18.3% yoy), impacted by higher personnel, energy and location costs. The positive of the company's two forecast scenarios for FY 22/23, aims for a slight increase in sales (currency adjusted) and a clear increase in adj. EBIT, subject to an at least stable environment.

Divesting Swedish operations. In February, Ceconomy announced the sale of its struggling Swedish business to Power Retail Sweden in return for a minority stake of 20% in Power Sweden. In the past, Ceconomy has taken a similar approach with struggling businesses and sold them to competitors in return for a shareholding, e.g. in France (Fnac Darty) and Russia (M.video).

Conclusion: While the positive outlook scenario seems likely and should be supported by ongoing cost, liquidity and organizational improvements, this is more than fully reflected in valuation after the recent share price recovery. With unchanged PT of EUR 2.10, we downgrade our rating from HOLD to SELL.

Ceconomy AG	2020	2021	2022	2023E	2024E	2025E
Sales	20,831	21,361	21,768	21,659	21,876	22,095
<i>Growth yoy</i>	-2.9%	2.5%	1.9%	-0.5%	1.0%	1.0%
EBITDA	991	947	866	945	1,015	1,093
EBIT	-80	326	105	207	260	265
Net profit	-232	232	126	132	170	178
Net debt (net cash)	786	1,007	1,860	1,413	1,110	623
Net debt/EBITDA	0.8x	1.1x	2.1x	1.5x	1.1x	0.6x
EPS reported	-0.65	0.65	0.31	0.27	0.35	0.37
DPS	0.00	0.17	0.00	0.07	0.09	0.09
<i>Dividend yield</i>	0.0%	6.8%	0.0%	2.7%	3.5%	3.7%
Gross profit margin	18.1%	17.1%	17.5%	17.2%	17.3%	17.3%
EBITDA margin	4.8%	4.4%	4.0%	4.4%	4.6%	4.9%
EBIT margin	-0.4%	1.5%	0.5%	1.0%	1.2%	1.2%
ROCE	-2.2%	7.8%	2.7%	6.0%	7.1%	7.0%
EV/EBITDA	2.5x	2.8x	3.9x	3.1x	2.6x	2.0x
EV/EBIT	-31.3x	8.2x	32.4x	14.1x	10.1x	8.1x
PER	-3.8x	3.8x	7.9x	9.1x	7.1x	6.8x
FCF yield	134.2%	50.4%	22.0%	33.5%	24.2%	40.3%

Source: Company data, AlsterResearch



Source: Company data, AlsterResearch

High/low 52 weeks 3.51 / 1.10
Price/Book Ratio 1.7x

Ticker / Symbols

ISIN DE0007257503
WKN 725750
Bloomberg CEC:GR

Changes in estimates

		Sales	EBIT	EPS
2023E	old	21,659	207	0.27
	Δ	0.0%	0.0%	0.0%
2024E	old	21,876	260	0.35
	Δ	0.0%	0.0%	0.0%
2025E	old	22,095	265	0.37
	Δ	0.0%	0.0%	0.0%

Key share data

Number of shares: (in m pcs) 485.20
Book value per share: (in EUR) 1.47
Ø trading volume: (12 months) 620,000

Major shareholders

Convergenta 29.0%
Haniel 16.7%
Meridian Stiftung 11.1%
Free Float 36.5%

Company description

Ceconomy AG is a Germany-based company engaged in consumer electronics retail under the MediaMarkt and Saturn brand names. Its subsidiary Deutsche Technikberatung provides professional assistance with installing, connecting and troubleshooting electronic devices.

Investment case in six charts

Portfolio

operating business



Investments



Post-pandemic ambitions

CECONOMY operates in an attractive market

Our financial ambition for FY 22/23

162 €bn

Market opportunity in FY 22/23 in CECONOMY's home countries

- ▶ Market share gains
- ▶ Gross margin uplift
- ▶ Ongoing EBIT margin improvement
- ▶ Return to normalized CAPEX level
- ▶ Positive FCF development

Resizing store formats

Our new store portfolio approach



CORE (c.1,200-3,000sqm)
Availability, advice, service

c.1,750sqm¹



LIGHTHOUSE (>3,000sqm)
Inspiration and showroom

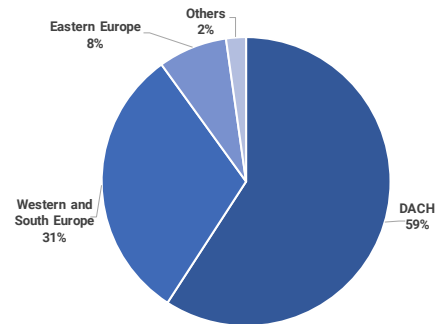


SMART (c.70-500sqm)
Convenience (Pick-up)



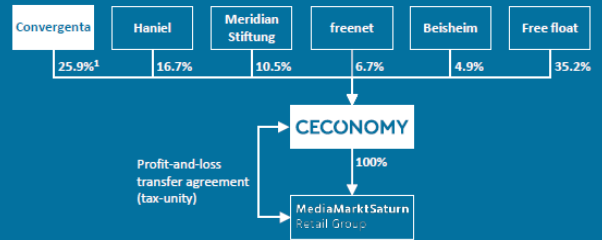
SHOP-IN-SHOP (c.400-1,100sqm)
Proximity

Revenue by segments



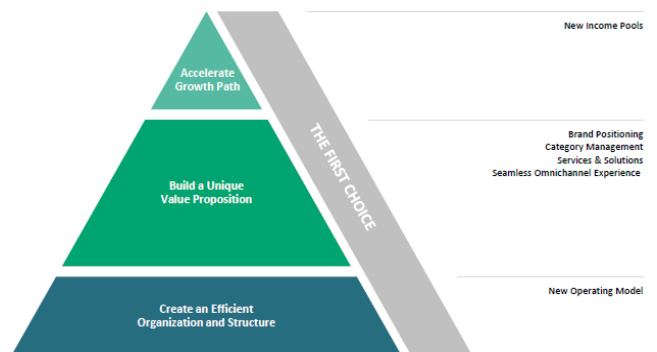
MediaSaturn transaction settles long-term issues

Post-closing situation based on voting rights



▶ MediaMarktSaturn fully consolidated, with shift of Convergenta's share to majority shareholders in P&L and B/S

Implementing new strategy



Valuation

DCF Model

The DCF model results in a **fair value of EUR 2.12** per share:

Top-line growth: We expect Ceconomy AG to continue benefitting from structural growth. Hence our growth estimates for 2023-30E is in the range of 0.4% p.a. The long-term growth rate is set at 1.0%.

EBIT margins should remain low in this sector. We assume a slow recovery to pre-crisis levels of c. 1-2%. However, we model conservative margins in the long run.

WACC. The averaged 1-, 3- and 5-year historical equity beta is calculated as 1.60. Unlevering and correcting for mean reversion yields an asset beta of 0.86. Combined with a risk free rate of 3.0% and an equity risk premium of 6.0% this yields cost of equity of 11.7%. With pre-tax cost of borrowing at 6.0%, a tax rate of 30% and target debt/equity of 1.0 this results in a long-term WACC of 8.0%.

DCF (EUR m) (except per share data and beta)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Terminal value
NOPAT	186	221	228	170	179	74	61	61	
Depreciation & amortization	738	755	828	817	763	469	537	502	
Change in working capital	39	-156	-39	-56	64	-46	55	-61	
Chg. in long-term provisions	-29	4	4	1	1	0	0	0	
Capex	-433	-438	-442	-443	-444	-444	-489	-489	
Cash flow	501	387	579	489	563	54	165	13	189
Present value	479	340	466	375	400	36	102	8	107
WACC	9.4%	9.1%	9.1%	7.9%	7.9%	7.7%	7.7%	7.7%	8.0%

DCF per share derived from	
Total present value	2,313
Mid-year adj. total present value	2,406
Net debt / cash at start of year	1,860
Financial assets	812
Provisions and off b/s debt	332
Equity value	1,026
No. of shares outstanding	485.2
Discounted cash flow / share	2.12
upside/(downside)	-14.8%

DCF avg. growth and earnings assumptions	
Planning horizon avg. revenue growth (2023E - 2030E)	0.4%
Terminal value growth (2030E - infinity)	1.0%
Terminal year ROCE	2.4%
Terminal year WACC	8.0%

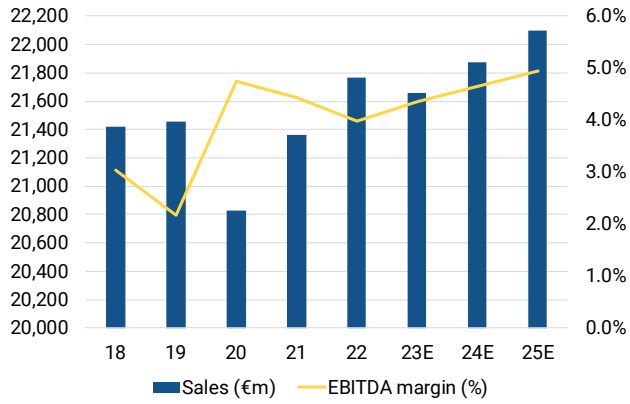
Terminal WACC derived from	
Cost of borrowing (before taxes)	6.0%
Long-term tax rate	30%
Equity beta	1.60
Unlevered beta (industry or company)	0.86
Target debt / equity	1.0
Relevered beta	1.46
Risk-free rate	3.0%
Equity risk premium	6.0%
Cost of equity	11.7%

Share price	2.48
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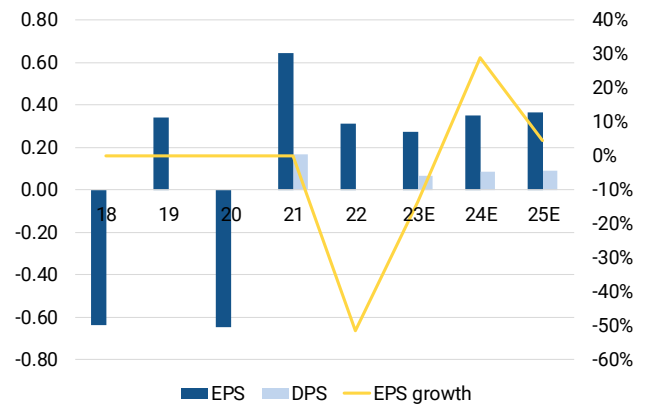
Sensitivity analysis DCF								
Change in WACC (%-points)		Long term growth					Share of present value	
		1.0%	0.5%	1.0%	1.5%	2.0%		
2.0%		1.8	1.9	1.9	1.9	1.9	2023E - 2026E	71.8%
1.0%		2.0	2.0	2.0	2.0	2.0	2027E - 2030E	23.6%
0.0%		2.1	2.1	2.1	2.1	2.2	terminal value	4.6%
-1.0%		2.2	2.2	2.3	2.3	2.3		
-2.0%		2.4	2.4	2.5	2.5	2.5		

Financials in six charts

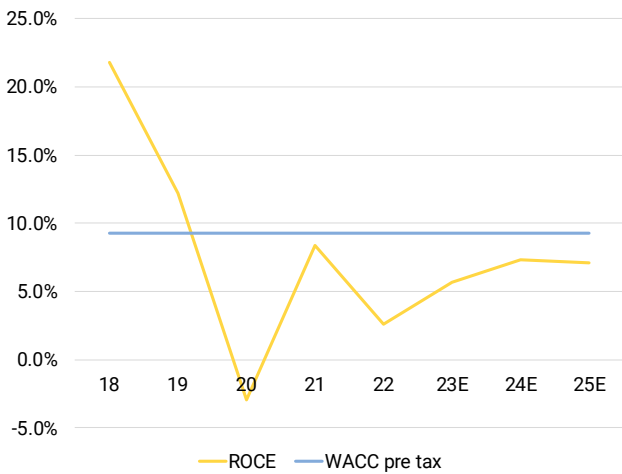
Sales vs. EBITDA margin development



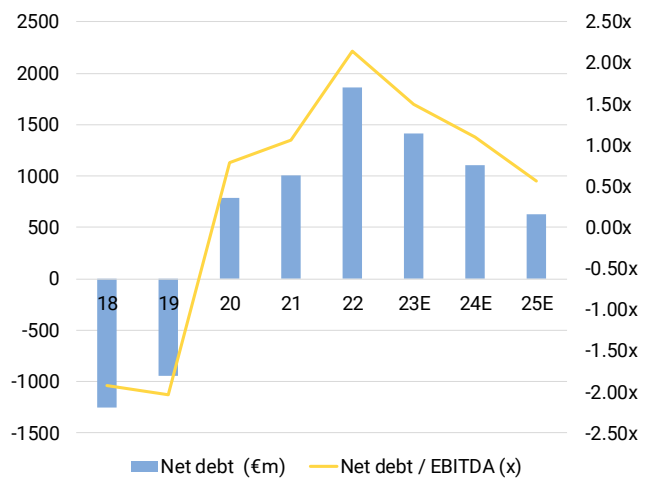
EPS, DPS in EUR & yoy EPS growth



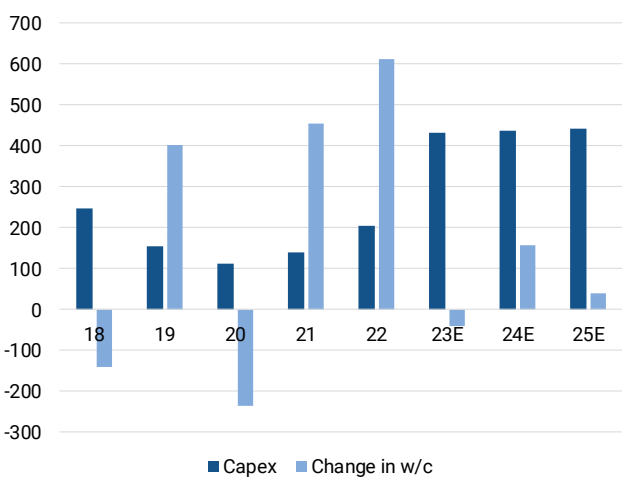
ROCE vs. WACC (pre tax)



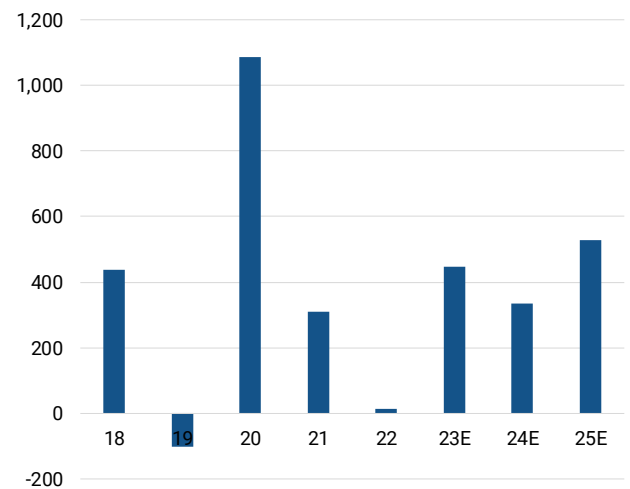
Net debt and net debt/EBITDA



Capex & chgn in w/c requirements in EURm



Free Cash Flow in EURm



Source: Company data; AlsterResearch

Financials

Profit and loss (EUR m)	2020	2021	2022	2023E	2024E	2025E
Sales	20,831	21,361	21,768	21,659	21,876	22,095
Sales growth	-2.9%	2.5%	1.9%	-0.5%	1.0%	1.0%
Cost of sales	17,052	17,705	17,961	17,933	18,093	18,272
Gross profit	3,779	3,656	3,807	3,726	3,782	3,822
SG&A expenses	2,974	2,962	3,375	3,465	3,500	3,535
Research and development	0	0	0	0	0	0
Other operating expenses (income)	135	-350	-356	54	22	22
EBITDA	991	947	866	945	1,015	1,093
Depreciation	723	693	662	713	734	810
EBITA	-53	351	126	232	282	283
Amortisation of goodwill and intangible assets	27	25	21	26	21	18
EBIT	-80	326	105	207	260	265
Financial result	-45	-30	-56	-60	-60	-58
Recurring pretax income from continuing operations	-125	296	49	147	200	207
Extraordinary income/loss	0	0	0	0	0	0
Earnings before taxes	-125	296	49	147	200	207
Taxes	93	53	-81	15	30	29
Net income from continuing operations	-218	243	130	132	170	178
Result from discontinued operations (net of tax)	5	10	0	0	0	0
Net income	-213	253	130	132	170	178
Minority interest	-19	-21	-4	0	0	0
Net profit (reported)	-232	232	126	132	170	178
Average number of shares	359.42	359.42	400.78	485.20	485.20	485.20
EPS reported	-0.65	0.65	0.31	0.27	0.35	0.37

Profit and loss (common size)	2020	2021	2022	2023E	2024E	2025E
Sales	100%	100%	100%	100%	100%	100%
Cost of sales	82%	83%	83%	83%	83%	83%
Gross profit	18%	17%	17%	17%	17%	17%
SG&A expenses	14%	14%	16%	16%	16%	16%
Research and development	0%	0%	0%	0%	0%	0%
Other operating expenses (income)	1%	-2%	-2%	0%	0%	0%
EBITDA	5%	4%	4%	4%	5%	5%
Depreciation	3%	3%	3%	3%	3%	4%
EBITA	-0%	2%	1%	1%	1%	1%
Amortisation of goodwill and intangible assets	0%	0%	0%	0%	0%	0%
EBIT	-0%	2%	0%	1%	1%	1%
Financial result	-0%	-0%	-0%	-0%	-0%	-0%
Recurring pretax income from continuing operations	-1%	1%	0%	1%	1%	1%
Extraordinary income/loss	0%	0%	0%	0%	0%	0%
Earnings before taxes	-1%	1%	0%	1%	1%	1%
Taxes	0%	0%	-0%	0%	0%	0%
Net income from continuing operations	-1%	1%	1%	1%	1%	1%
Result from discontinued operations (net of tax)	0%	0%	0%	0%	0%	0%
Net income	-1%	1%	1%	1%	1%	1%
Minority interest	-0%	-0%	-0%	0%	0%	0%
Net profit (reported)	-1%	1%	1%	1%	1%	1%

Source: Company data; AlsterResearch

Balance sheet (EUR m)	2020	2021	2022	2023E	2024E	2025E
Intangible assets (excl. Goodwill)	102	125	152	126	105	88
Goodwill	524	524	524	524	524	524
Property, plant and equipment	2,588	2,440	2,376	2,096	1,800	1,432
Financial assets	643	814	812	812	812	812
FIXED ASSETS	3,857	3,903	3,864	3,559	3,241	2,856
Inventories	2,949	3,111	3,176	3,193	3,222	3,254
Accounts receivable	488	361	440	439	479	424
Other current assets	1,472	1,376	1,546	1,546	1,546	1,546
Liquid assets	1,637	1,860	913	887	1,240	1,727
Deferred taxes	0	0	0	0	0	0
Deferred charges and prepaid expenses	52	56	59	108	109	110
CURRENT ASSETS	6,598	6,764	6,134	6,174	6,596	7,061
TOTAL ASSETS	10,455	10,667	9,998	9,733	9,838	9,916
SHAREHOLDERS EQUITY	487	713	590	722	859	995
MINORITY INTEREST	61	44	2	2	2	2
Long-term debt	1,850	2,111	2,184	2,200	2,200	2,200
Provisions for pensions and similar obligations	513	462	332	303	306	309
Other provisions	109	113	125	124	126	127
Non-current liabilities	2,472	2,686	2,641	2,628	2,632	2,636
short-term liabilities to banks	573	756	589	100	150	150
Accounts payable	5,996	5,470	5,340	5,355	5,304	5,256
Advance payments received on orders	35	23	16	16	16	16
Other liabilities (incl. from lease and rental contracts)	604	612	464	541	503	486
Deferred taxes	33	29	65	65	65	65
Deferred income	194	334	291	303	306	309
Current liabilities	7,435	7,224	6,765	6,381	6,345	6,283
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	10,455	10,667	9,998	9,733	9,838	9,916

Balance sheet (common size)	2020	2021	2022	2023E	2024E	2025E
Intangible assets (excl. Goodwill)	1%	1%	2%	1%	1%	1%
Goodwill	5%	5%	5%	5%	5%	5%
Property, plant and equipment	25%	23%	24%	22%	18%	14%
Financial assets	6%	8%	8%	8%	8%	8%
FIXED ASSETS	37%	37%	39%	37%	33%	29%
Inventories	28%	29%	32%	33%	33%	33%
Accounts receivable	5%	3%	4%	5%	5%	4%
Other current assets	14%	13%	15%	16%	16%	16%
Liquid assets	16%	17%	9%	9%	13%	17%
Deferred taxes	0%	0%	0%	0%	0%	0%
Deferred charges and prepaid expenses	0%	1%	1%	1%	1%	1%
CURRENT ASSETS	63%	63%	61%	63%	67%	71%
TOTAL ASSETS	100%	100%	100%	100%	100%	100%
SHAREHOLDERS EQUITY	5%	7%	6%	7%	9%	10%
MINORITY INTEREST	1%	0%	0%	0%	0%	0%
Long-term debt	18%	20%	22%	23%	22%	22%
Provisions for pensions and similar obligations	5%	4%	3%	3%	3%	3%
Other provisions	1%	1%	1%	1%	1%	1%
Non-current liabilities	24%	25%	26%	27%	27%	27%
short-term liabilities to banks	5%	7%	6%	1%	2%	2%
Accounts payable	57%	51%	53%	55%	54%	53%
Advance payments received on orders	0%	0%	0%	0%	0%	0%
Other liabilities (incl. from lease and rental contracts)	6%	6%	5%	6%	5%	5%
Deferred taxes	0%	0%	1%	1%	1%	1%
Deferred income	2%	3%	3%	3%	3%	3%
Current liabilities	71%	68%	68%	66%	64%	63%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100%	100%	100%	100%	100%	100%

Source: Company data; AlsterResearch

Cash flow statement (EUR m)	2020	2021	2022	2023E	2024E	2025E
Net profit/loss	-80	326	105	132	170	178
Depreciation of fixed assets (incl. leases)	1,071	621	761	713	734	810
Amortisation of goodwill	0	0	0	0	0	0
Amortisation of intangible assets	0	0	0	26	21	18
Others	-28	-42	-34	-29	4	4
Cash flow from operations before changes in w/c	963	905	832	841	930	1,010
Increase/decrease in inventory	0	0	0	-17	-29	-32
Increase/decrease in accounts receivable	0	0	0	1	-40	56
Increase/decrease in accounts payable	0	0	0	15	-51	-48
Increase/decrease in other w/c positions	235	-455	-613	40	-36	-15
Increase/decrease in working capital	235	-455	-613	39	-156	-39
Cash flow from operating activities	1,198	450	219	880	773	971
CAPEX	-112	-141	-206	-433	-438	-442
Payments for acquisitions	0	0	-1	0	0	0
Financial investments	-156	-141	102	0	0	0
Income from asset disposals	20	19	40	0	0	0
Cash flow from investing activities	-248	-263	-65	-433	-438	-442
Cash flow before financing	950	187	154	447	336	530
Increase/decrease in debt position	-515	-17	-586	-473	50	0
Purchase of own shares	0	0	0	0	0	0
Capital measures	0	0	0	0	0	0
Dividends paid	-24	-21	-104	0	-33	-43
Others	-59	-38	-83	0	0	0
Effects of exchange rate changes on cash	-44	-12	-62	0	0	0
Cash flow from financing activities	-642	-88	-835	-473	17	-43
Increase/decrease in liquid assets	308	99	-681	-26	353	487
Liquid assets at end of period	1,484	1,582	769	743	1,096	1,583

Source: Company data; AlsterResearch

Regional sales split (EURm)	2020	2021	2022	2023E	2024E	2025E
Domestic	10,160	9,739	9,801	9,832	9,908	9,985
Europe (ex domestic)	10,671	11,622	11,967	11,828	11,968	12,109
The Americas	0	0	0	0	0	0
Asia	0	0	0	0	0	0
Rest of World	0	0	0	0	0	0
Total sales	20,831	21,361	21,768	21,659	21,876	22,095

Regional sales split (common size)	2020	2021	2022	2023E	2024E	2025E
Domestic	48.8%	45.6%	45.0%	45.4%	45.3%	45.2%
Europe (ex domestic)	51.2%	54.4%	55.0%	54.6%	54.7%	54.8%
The Americas	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asia	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rest of World	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total sales	100%	100%	100%	100%	100%	100%

Source: Company data; AlsterResearch

Ratios	2020	2021	2022	2023E	2024E	2025E
Per share data						
Earnings per share reported	-0.65	0.65	0.31	0.27	0.35	0.37
Cash flow per share	3.33	1.25	0.55	0.83	0.60	1.00
Book value per share	1.35	1.98	1.47	1.49	1.77	2.05
Dividend per share	0.00	0.17	0.00	0.07	0.09	0.09
Valuation						
P/E	-3.8x	3.8x	7.9x	9.1x	7.1x	6.8x
P/CF	0.7x	2.0x	4.5x	3.0x	4.1x	2.5x
P/BV	1.8x	1.3x	1.7x	1.7x	1.4x	1.2x
Dividend yield (%)	0.0%	6.8%	0.0%	2.7%	3.5%	3.7%
FCF yield (%)	134.2%	50.4%	22.0%	33.5%	24.2%	40.3%
EV/Sales	0.1x	0.1x	0.2x	0.1x	0.1x	0.1x
EV/EBITDA	2.5x	2.8x	3.9x	3.1x	2.6x	2.0x
EV/EBIT	-31.3x	8.2x	32.4x	14.1x	10.1x	8.1x
Income statement (EURm)						
Sales	20,831	21,361	21,768	21,659	21,876	22,095
yoy chg in %	-2.9%	2.5%	1.9%	-0.5%	1.0%	1.0%
Gross profit	3,779	3,656	3,807	3,726	3,782	3,822
Gross margin in %	18.1%	17.1%	17.5%	17.2%	17.3%	17.3%
EBITDA	991	947	866	945	1,015	1,093
EBITDA margin in %	4.8%	4.4%	4.0%	4.4%	4.6%	4.9%
EBIT	-80	326	105	207	260	265
EBIT margin in %	-0.4%	1.5%	0.5%	1.0%	1.2%	1.2%
Net profit	-232	232	126	132	170	178
Cash flow statement (EURm)						
CF from operations	1,198	450	219	880	773	971
Capex	-112	-141	-206	-433	-438	-442
Maintenance Capex	0	0	0	477	481	486
Free cash flow	1,086	309	13	447	336	530
Balance sheet (EURm)						
Intangible assets	626	649	676	650	629	612
Tangible assets	2,588	2,440	2,376	2,096	1,800	1,432
Shareholders' equity	487	713	590	722	859	995
Pension provisions	513	462	332	303	306	309
Liabilities and provisions	3,045	3,442	3,230	2,728	2,782	2,786
Net financial debt	786	1,007	1,860	1,413	1,110	623
w/c requirements	-2,594	-2,021	-1,740	-1,739	-1,619	-1,595
Ratios						
ROE	-43.7%	35.5%	22.0%	18.3%	19.8%	17.9%
ROCE	-2.2%	7.8%	2.7%	6.0%	7.1%	7.0%
Net gearing	161.4%	141.2%	315.3%	195.7%	129.2%	62.7%
Net debt / EBITDA	0.8x	1.1x	2.1x	1.5x	1.1x	0.6x

Source: Company data; AlsterResearch

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