



GROUP OF COMPANIES

University of Piraeus

VALUATION ANALYSIS
CFA Research Challenge 2018

Kalapothakos Nikolaos
Kapsiotis Filippos
Kerma Rey
Papadopoulou Georgia
Stylianios Panagiotis

Athens, March 2018



Recommendation

Share Price





Recommendation

Share Price



Current Price as
of 8/3 : €5.58



Recommendation

Share Price

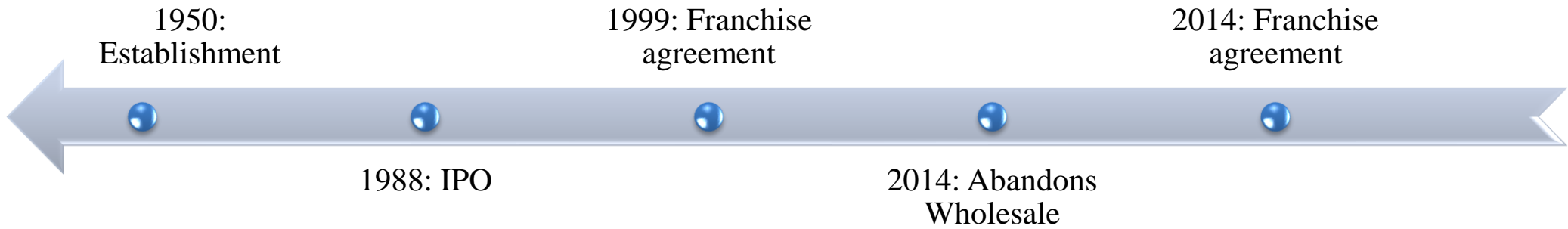




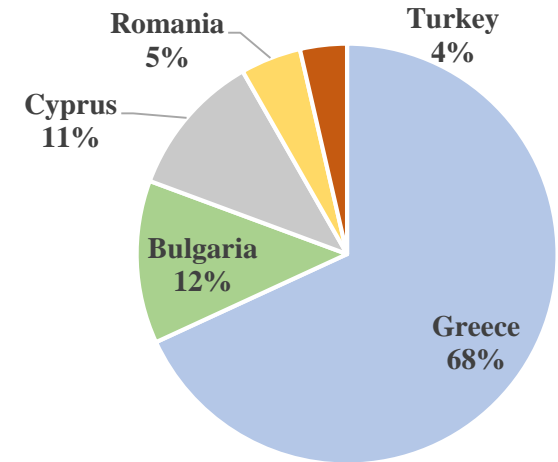
Recommendation

Share Price





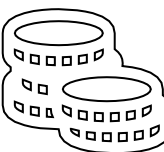
Revenue by country 2016A



- **5 operating countries**
- **7 IKEA stores**
- **128 Intersport & Athlete's Foot stores**
- **178 expected stores by 2022**

Company Analysis 

Business Description 

Valuation 

Financial Analysis 

Risks 

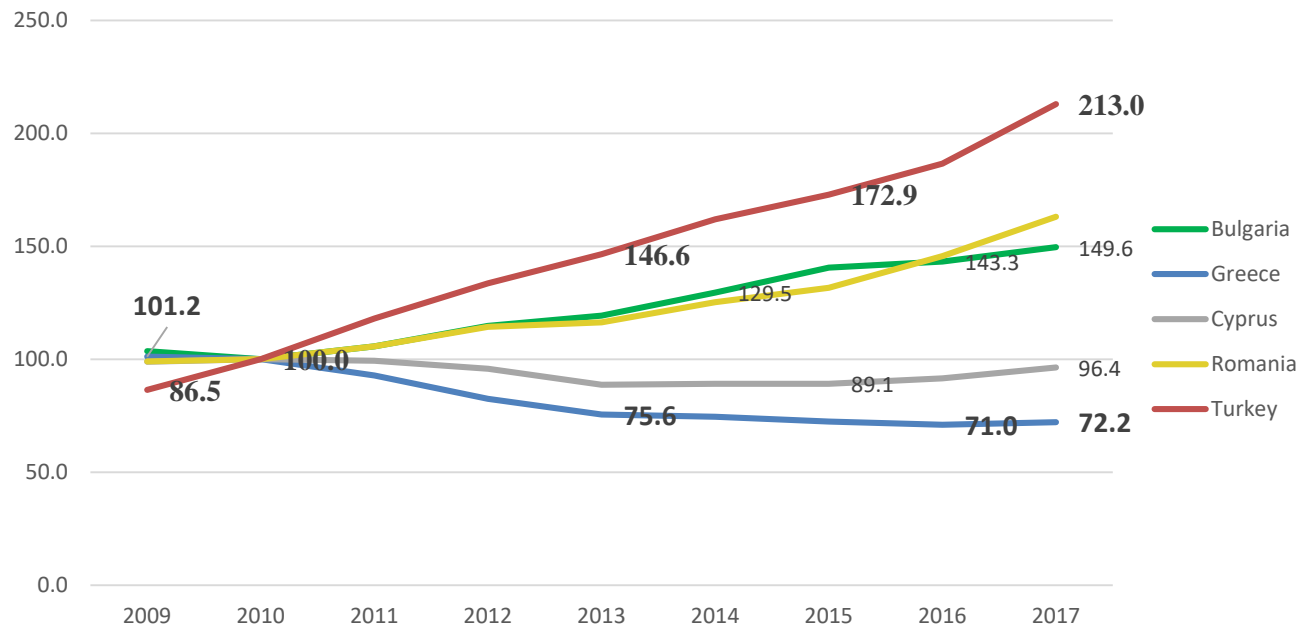


Business Description



Key Drivers

Retail Sales Index



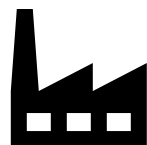
Key Points

- Significant deterioration in Greece's retail index
- Turkey, Romania and Bulgaria on the rise

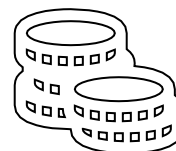
Company
Analysis



Business
Description



Valuation



Financial
Analysis



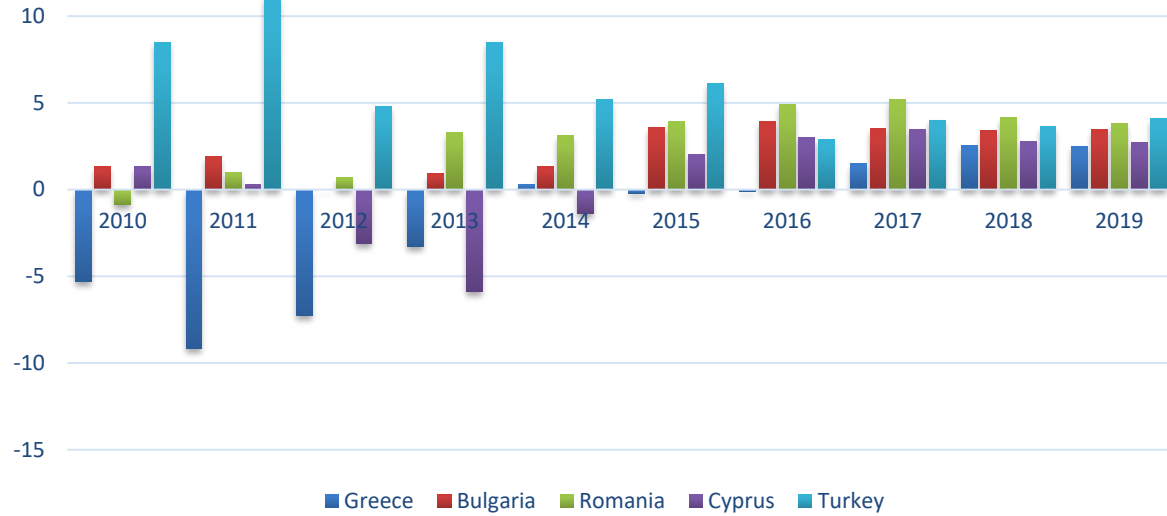
Risks





Macro Drivers

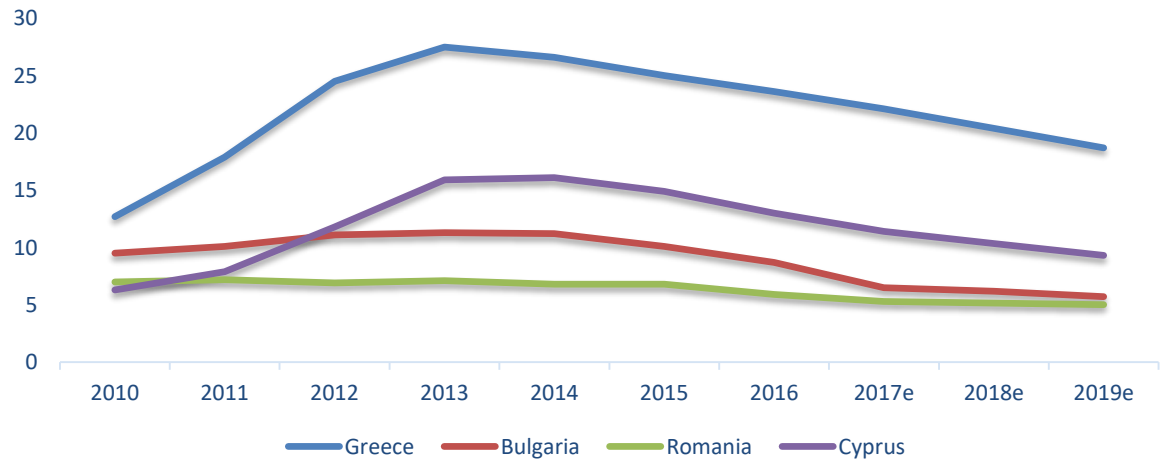
GDP Growth Rates



Key Points

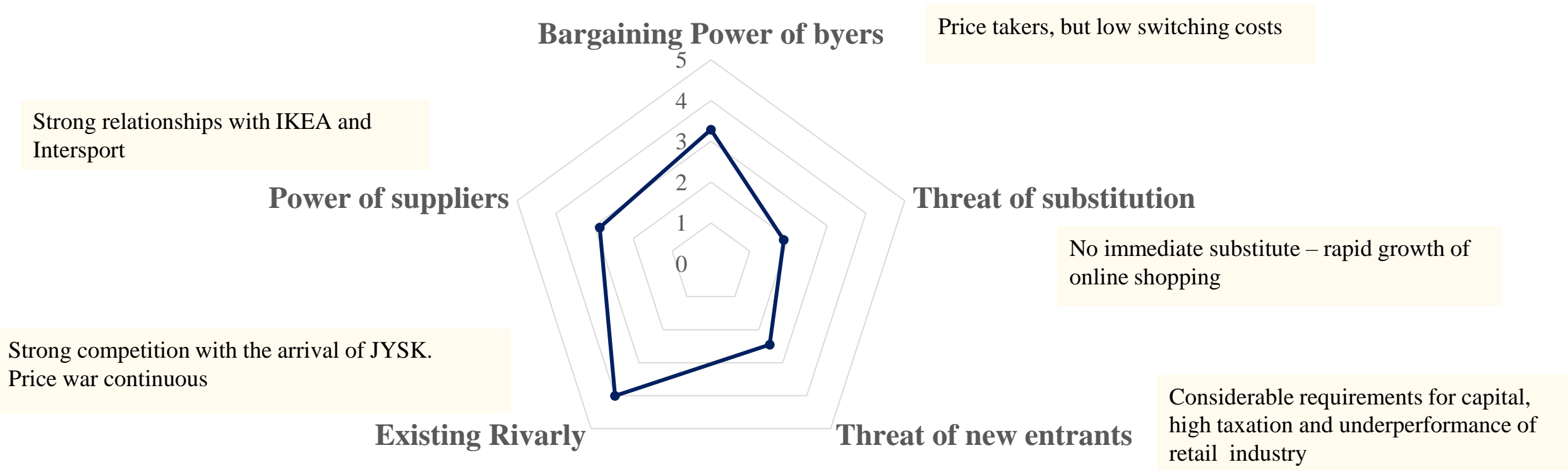
- GDP growth rates return to positive levels for Greece
- High correlation (more than > 0.70) with retail sales
- Although unemployment is still high in Greece, it started to downfall

Unemployment Rates





Porter's Five Forces



- **Bargaining Power of Byers – Moderate**
- **Threat of Substitution – Very Low**
- **Threat of New Entrants – Low**
- **Existing Rivalry – High**
- **Power of Suppliers – Moderate**

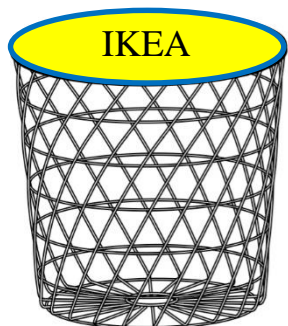




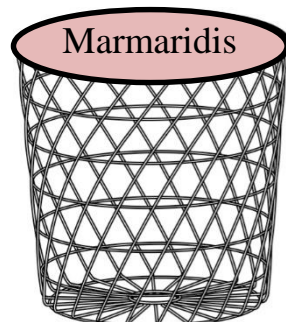
Basket Comparison

Companies	IKEA	MARMARIDIS	JYSK	PRAKTIKER
No. of Goods	7/7	4/7	6/7	7/7

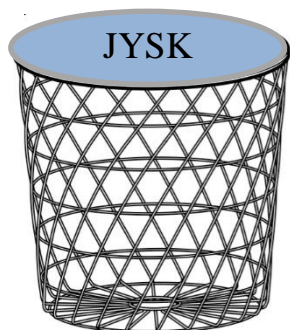
€1352



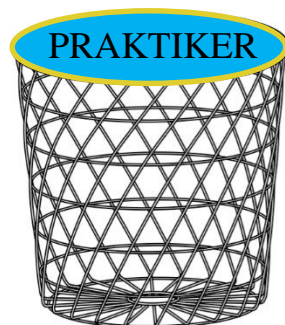
€1372



€1367



€1443



Key Points

- We chose 7 common goods frequently seen in students apartments
- We calculated the average price of these 7 goods for each company
- Summing these individuals prices we ended up with these representative baskets
- Ikea offers the widest variety of products in the lowest prices.

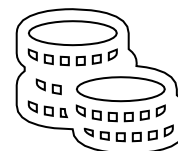
Company
Analysis



Business
Description



Valuation

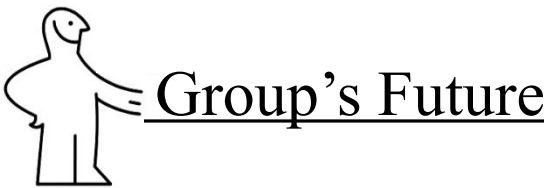


Financial
Analysis



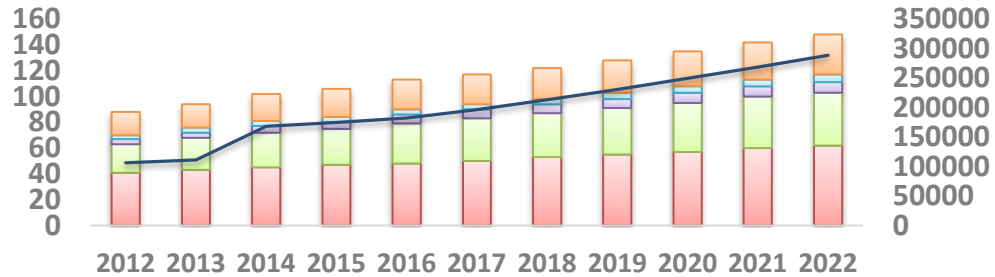
Risks





Group's Future

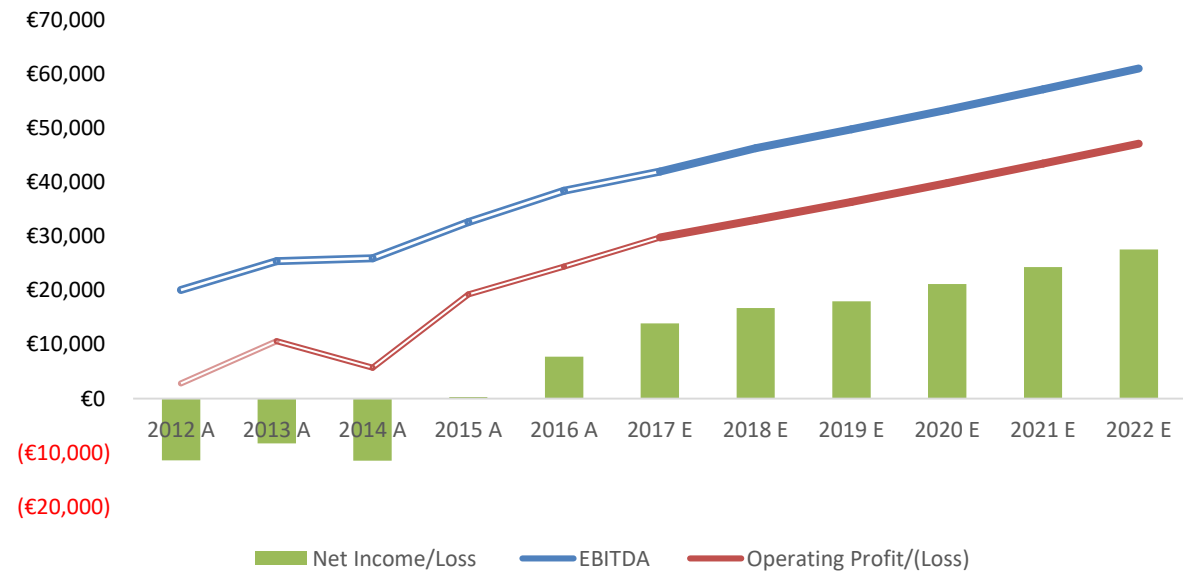
Intersport's Store Expansion Plan



■ Greece
 ■ Romania
 ■ Bulgaria
 ■ Cyprus
 ■ Turkey
 — sales

Key Points

- Intersport's 5Y CAGR: 10.2%
- IKEA'S 5Y CAGR: 3%
- Chain of stores (Intersport & Athlete's Foot: 178 stores by 2022
- Strategic expansion in Turkey, with a total of 46 store
- Net Income (2022E): € 27 mil.



■ Net Income/Loss
 — EBITDA
 — Operating Profit/(Loss)



Valuation

Discounted Cash Flows to the Firm Model

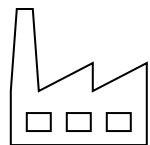
BUY

12-month target price of
€7.43

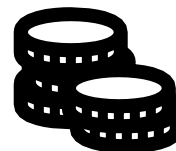
Company
Analysis



Business
Description



Valuation



Financial
Analysis



Risks



 Terminal Growth Rate



3.45%



2.9%



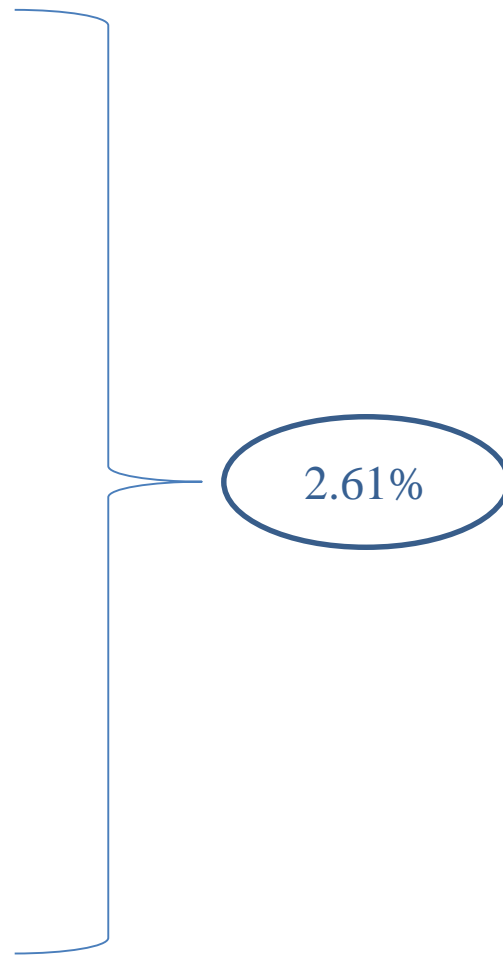
2.17%



4.3%



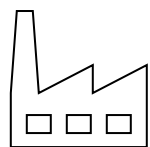
3.9%



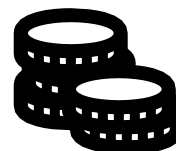
Company Analysis



Business Description



Valuation

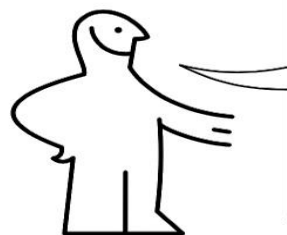


Financial Analysis



Risks





WACC Calculation

Company
Analysis



Business
Description



Valuation

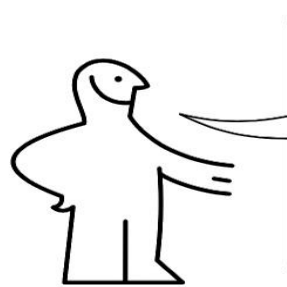


Financial
Analysis

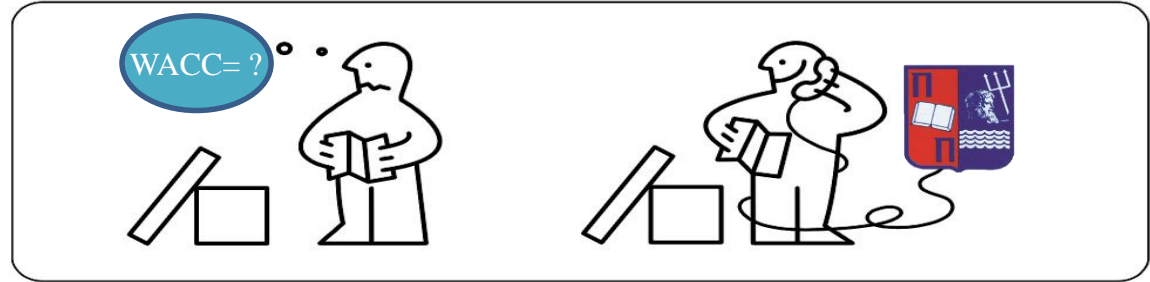


Risks





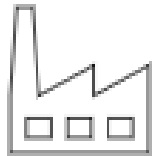
WACC
Calculation



Company
Analysis



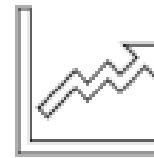
Business
Description



Valuation

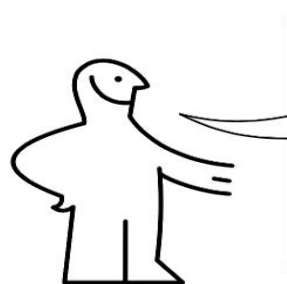


Financial
Analysis

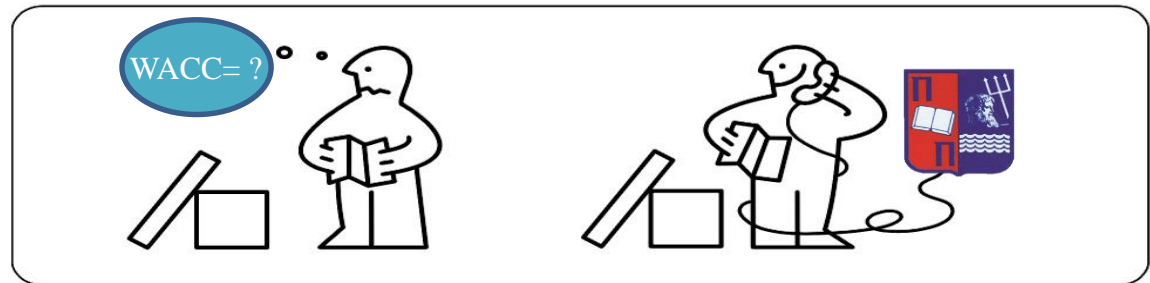


Risks





WACC
Calculation



Stage A.

Risk free	Beta	Market Risk Premium
0.76%	0.978	13%

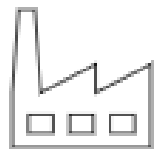
Cost of Equity

13.47%

Company Analysis



Business Description



Valuation

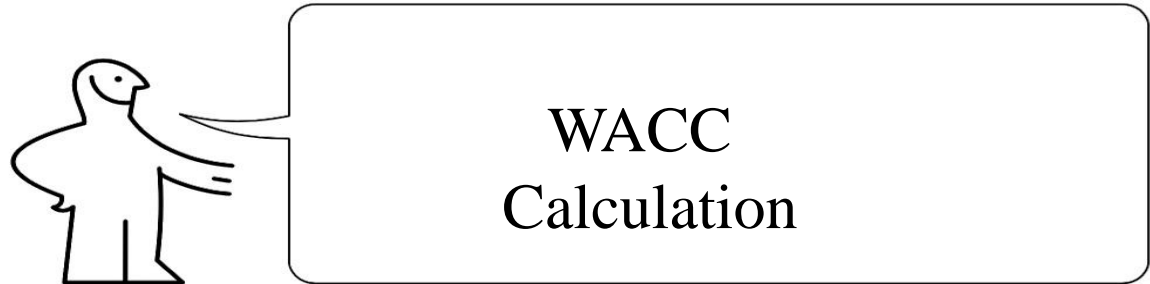


Financial Analysis

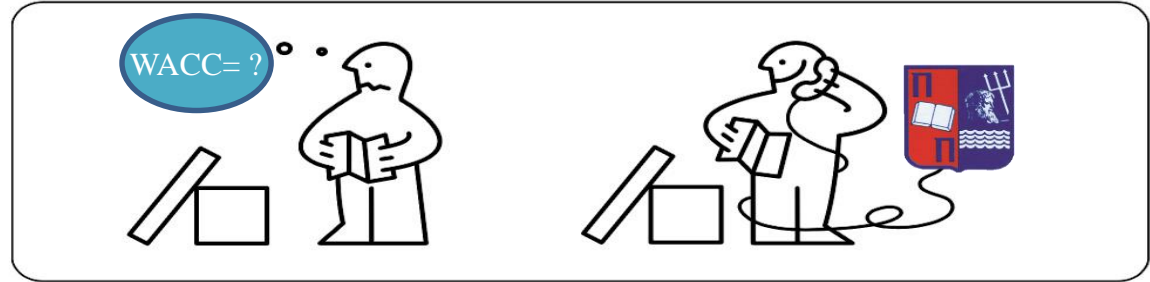
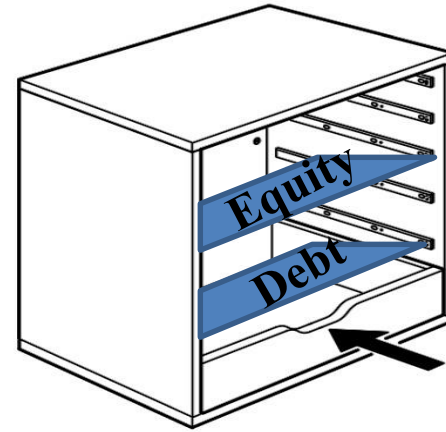


Risks





Stage B.



Stage A.

Risk free	Beta	Market Risk Premium	Tax Rate	Weighted Average Interest rate
0.76%	0.978	13%	29%	4.98%

Cost of Equity

13.47%

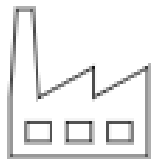
Cost of Debt

3.53%

Company Analysis



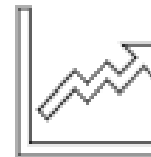
Business Description



Valuation

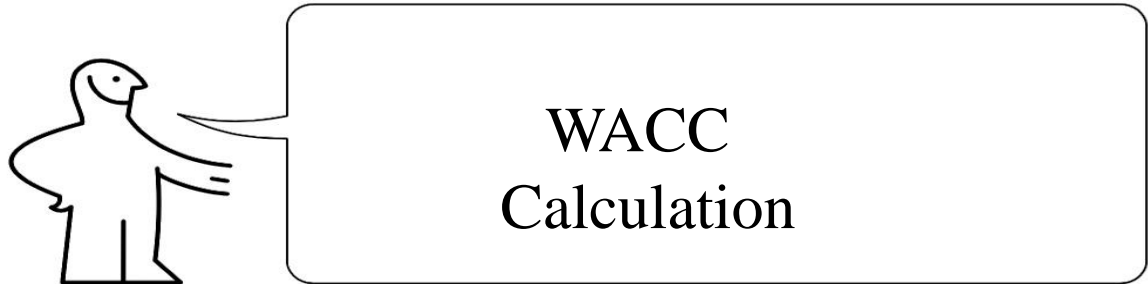


Financial Analysis

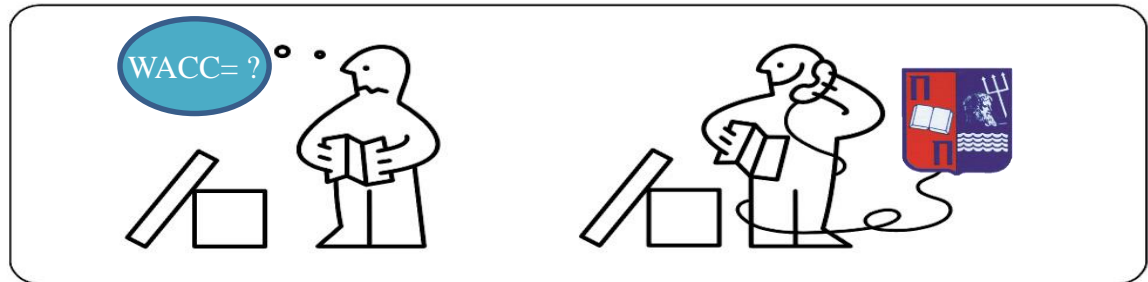


Risks

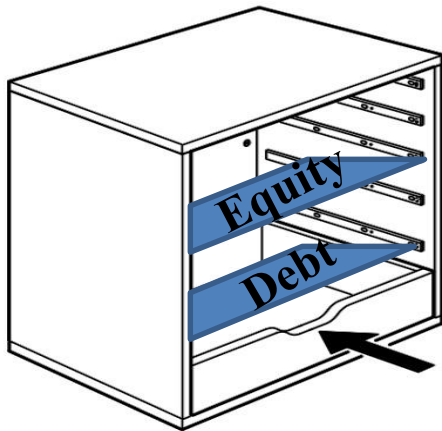




WACC Calculation



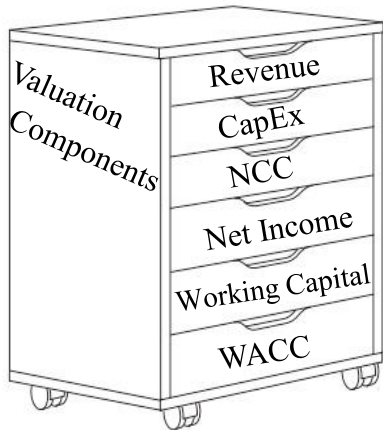
Stage B.



Stage A.


Risk free	Beta	Market Risk Premium	Tax Rate	Weighted Average Interest rate
0.76%	0.978	13%	29%	4.98%


Stage C.




Cost of Equity
13.47%

Cost of Debt
3.53%

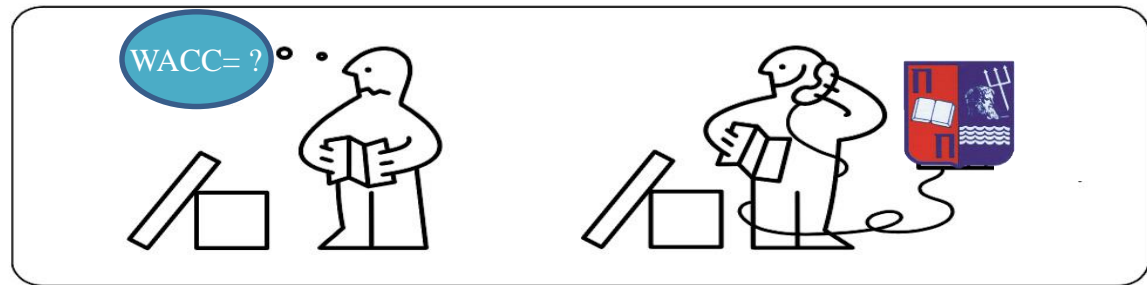
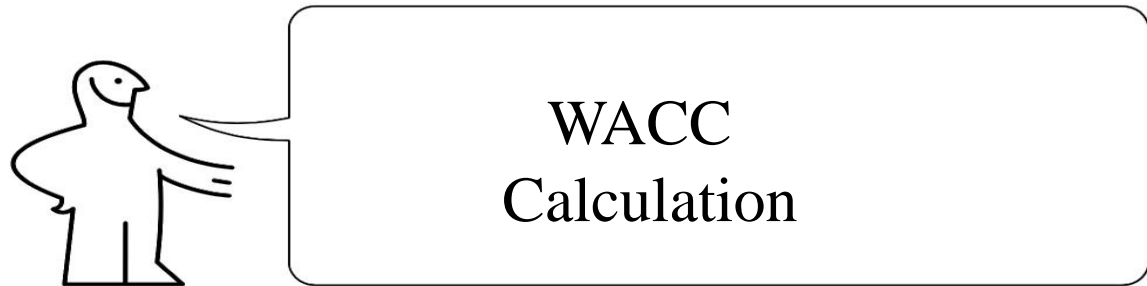
Company Analysis 

Business Description 

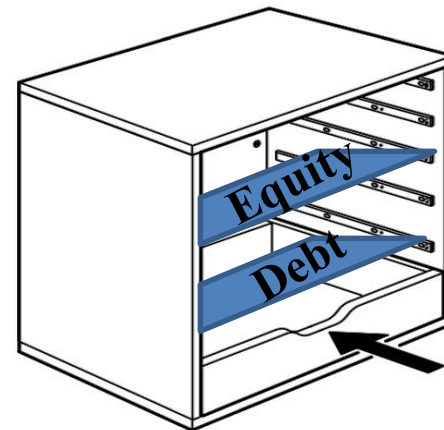
Valuation 

Financial Analysis 

Risks 



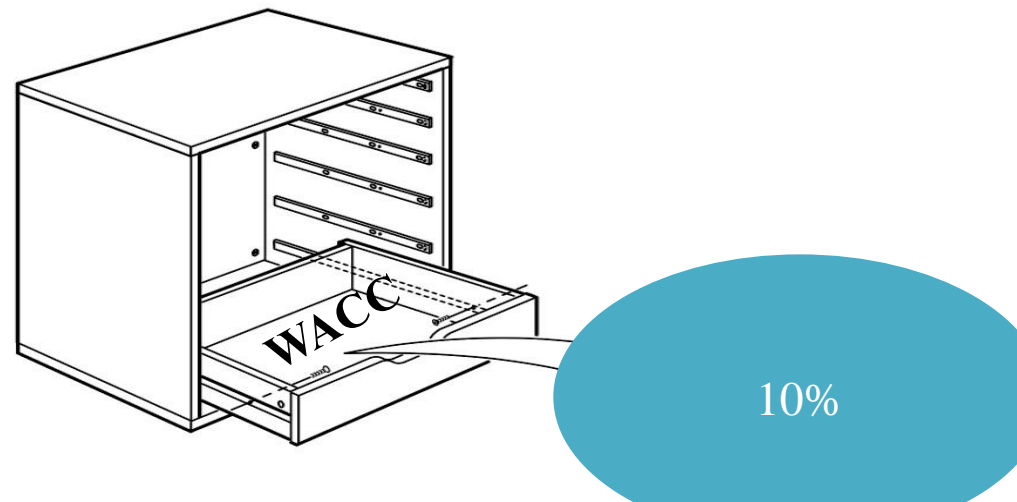
Stage B.



Stage A.

Risk free	Beta	Market Risk Premium	Tax Rate	Weighted Average Interest rate
0.76%	0.978	13%	29%	4.98%

Stage C.



Cost of Equity
13.47%

Cost of Debt
3.53%

Company Analysis

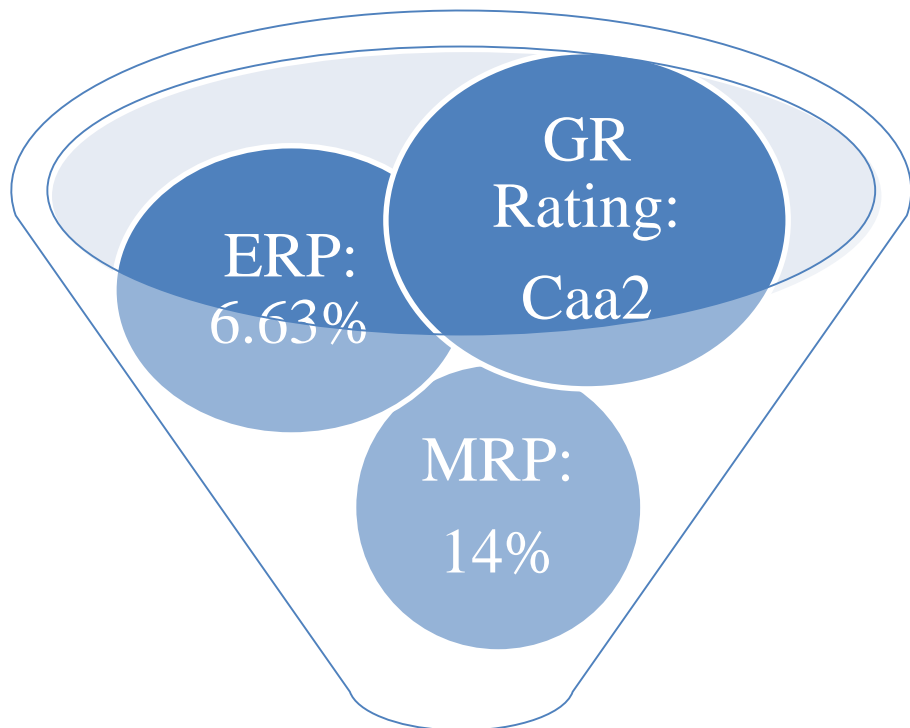
Business Description

Valuation

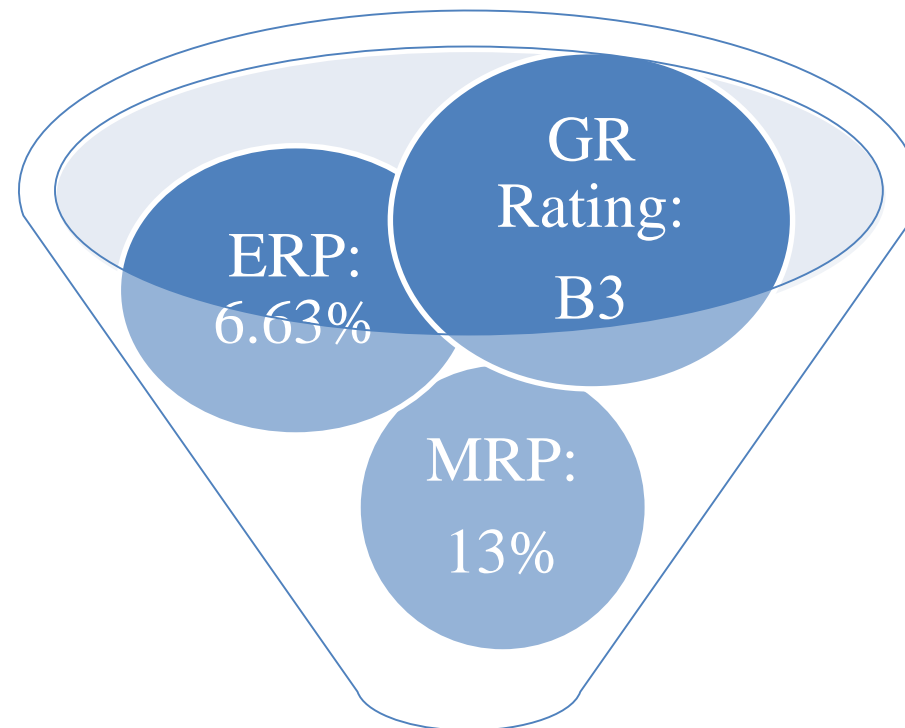
Financial Analysis

Risks

 Rating Upgrade

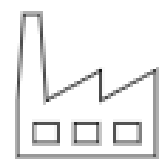


12-month target price:
€6.96




12-month target price:
€7.43

Company Analysis 

Business Description 

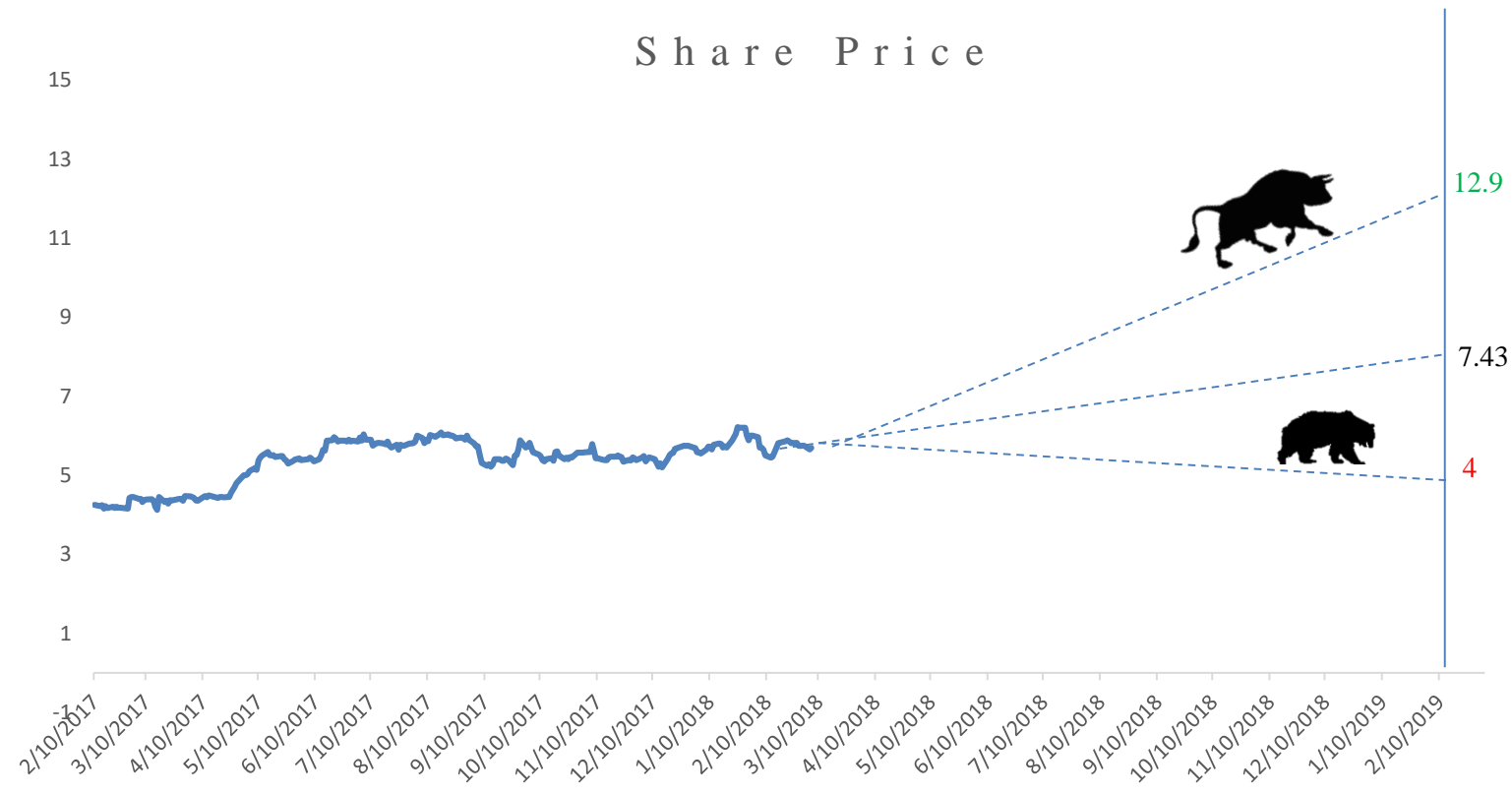
Valuation 

Financial Analysis 

Risks 



Scenario Analysis



Bull Case Assumptions

- $g=3.88\%$
- $MRP=11\%$
- Sales growth rate= 7%

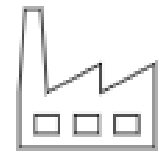
Bear Case Assumptions

- $g=2\%$
- $MRP=14\%$
- Sales growth rate= 4%

Company Analysis



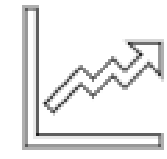
Business Description



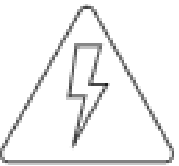
Valuation



Financial Analysis



Risks





Financial Analysis



Key Ratios

Companies	EBIT Margin	Net Income Margin	Gross Margin
Fourlis	5.70%	1.80%	42.51%
Praktiker	3%	2%	34%
Leroy Merlin	-9%	-12%	33%
Marmaridis	12%	4%	47%
Sato	-17%	-17%	35.23%
Average	-3%	6%	38%

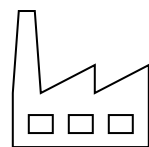
Key Points

- Better operating margins
- Profitability ratios going upwards

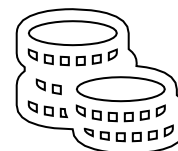
Company
Analysis



Business
Description



Valuation



Financial
Analysis



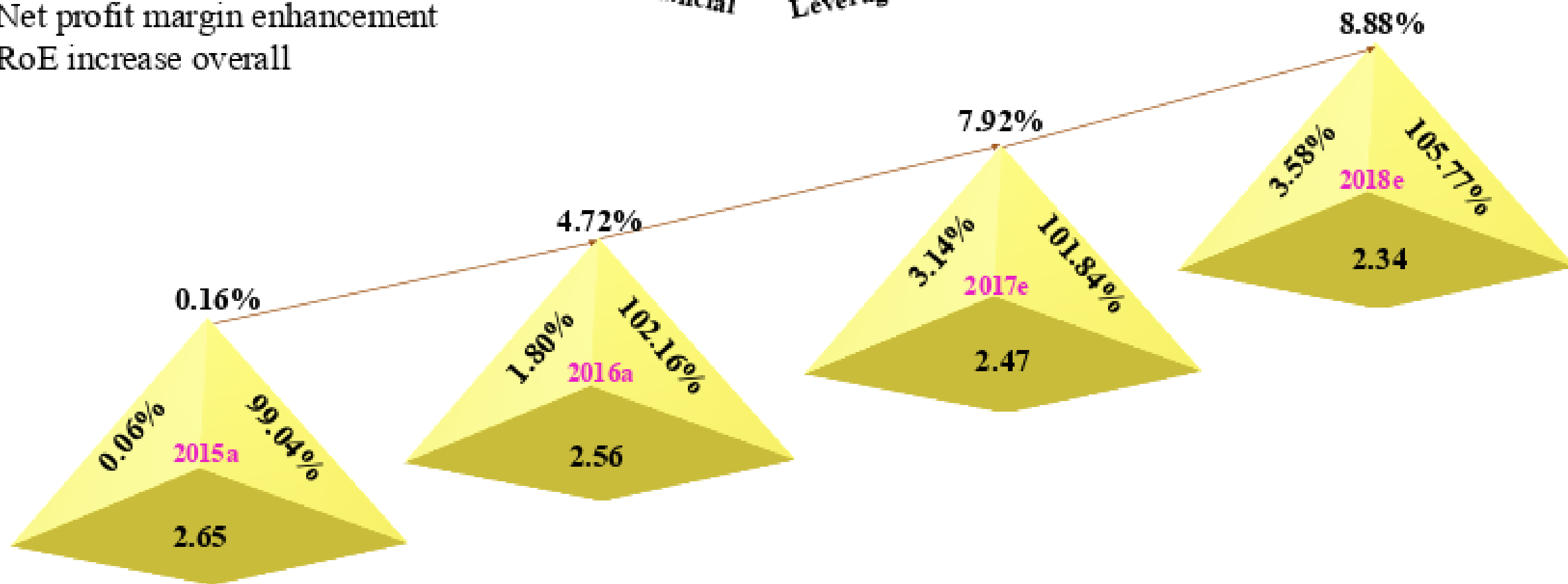
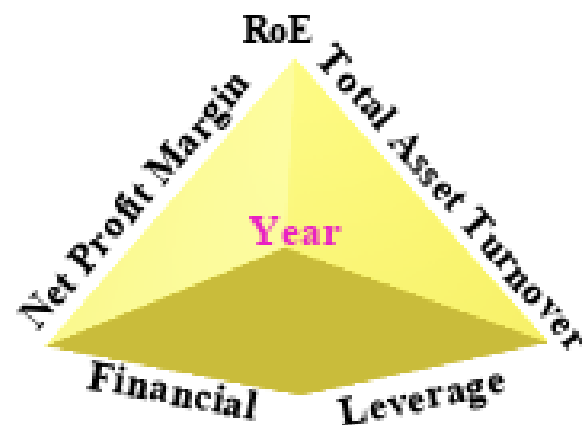
Risks





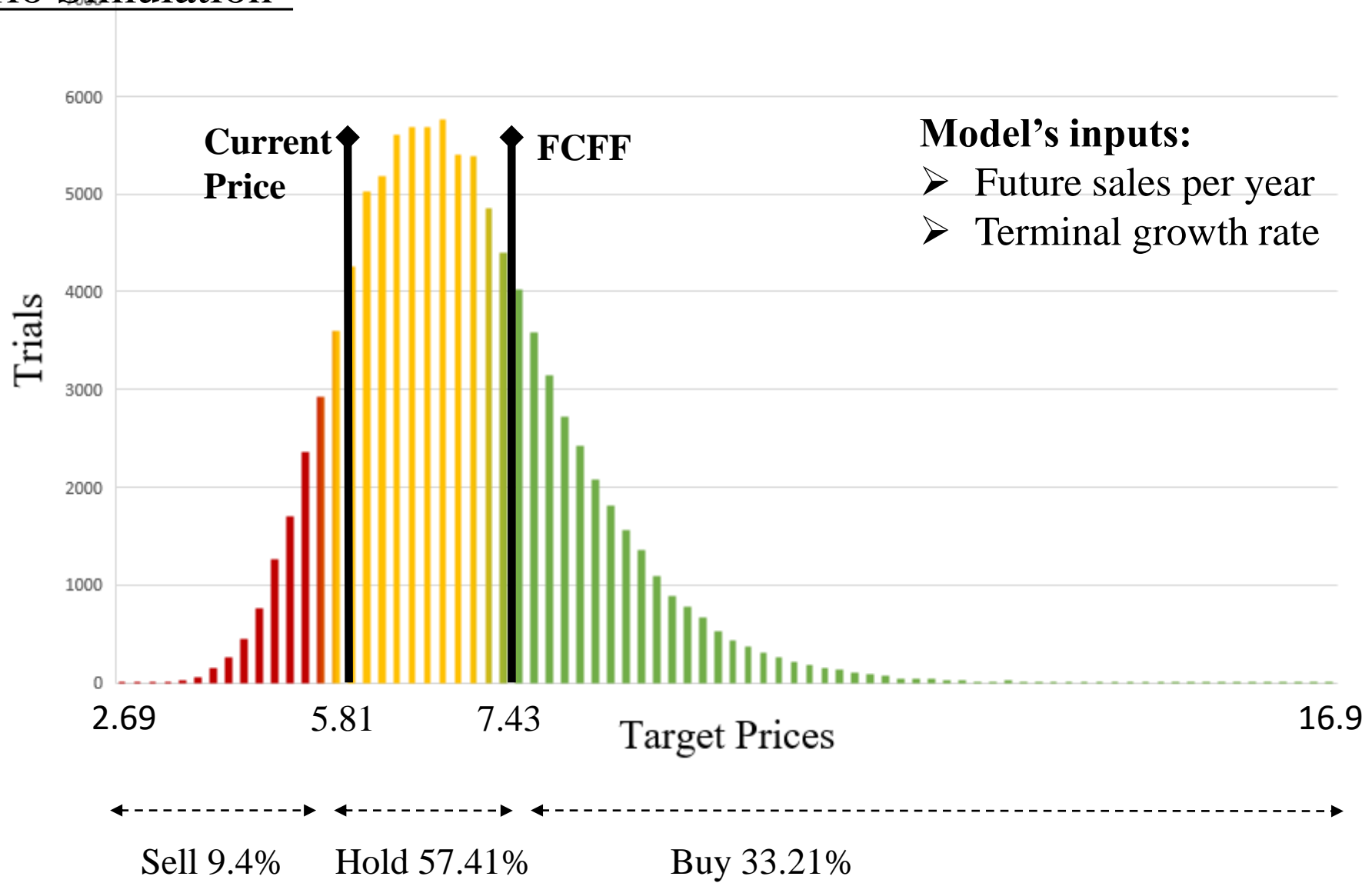
RoE Decomposition (DuPont)

- Leverage main RoE's component
- Tremendous increase in 2016
- Net profit margin enhancement
- RoE increase overall





Monte Carlo Simulation

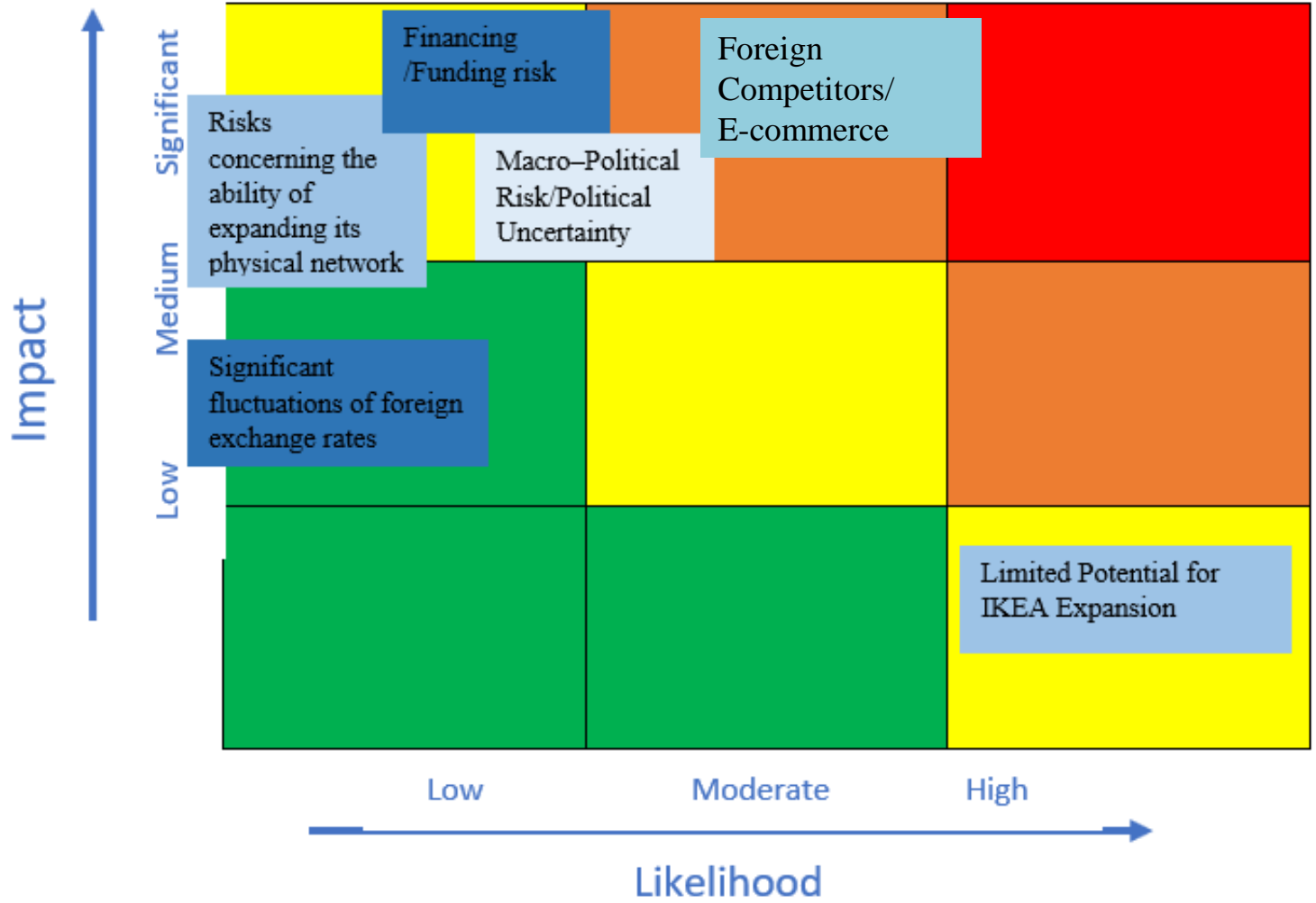


Risks





Most Important Risks



Business Risks

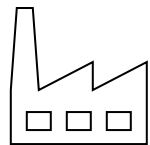
Market Risks

Other Risks

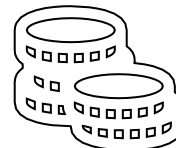
Company Analysis



Business Description



Valuation



Financial Analysis



Risks





1st Risk

Risk about the expansion of the physical network



**Foreign competitors/
E-commerce**

**Financing/Funding
Risk**

1

New stores our crucial for our valuation since it is based on a L-F-L model

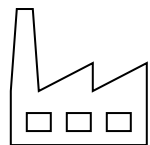
2

Management constantly achieves and surpasses its goals

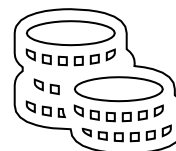
Company Analysis



Business Description



Valuation

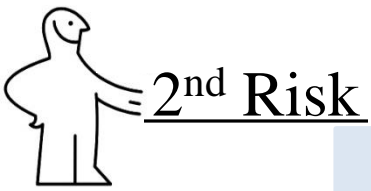


Financial Analysis



Risks





2nd Risk

Risk about the expansion of the physical network

**Foreign competitors/
E-commerce**



**Financing/Funding
Risk**

1

Fourlis can lose market share from foreign competitors and/or E-commerce

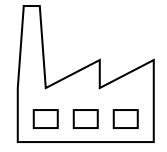
2

The group must improve its e-commerce part

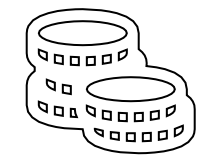
Company Analysis



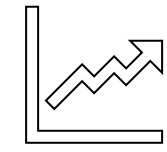
Business Description



Valuation



Financial Analysis



Risks





3rd Risk

Risk about the expansion of the physical network

**Foreign competitors/
E-commerce**

**Financing/Funding
Risk**



1

Lack of sufficient funds can bring the group to its knees

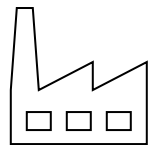
2

However, management is very effective

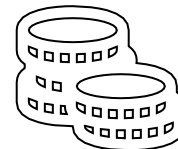
Company
Analysis



Business
Description



Valuation



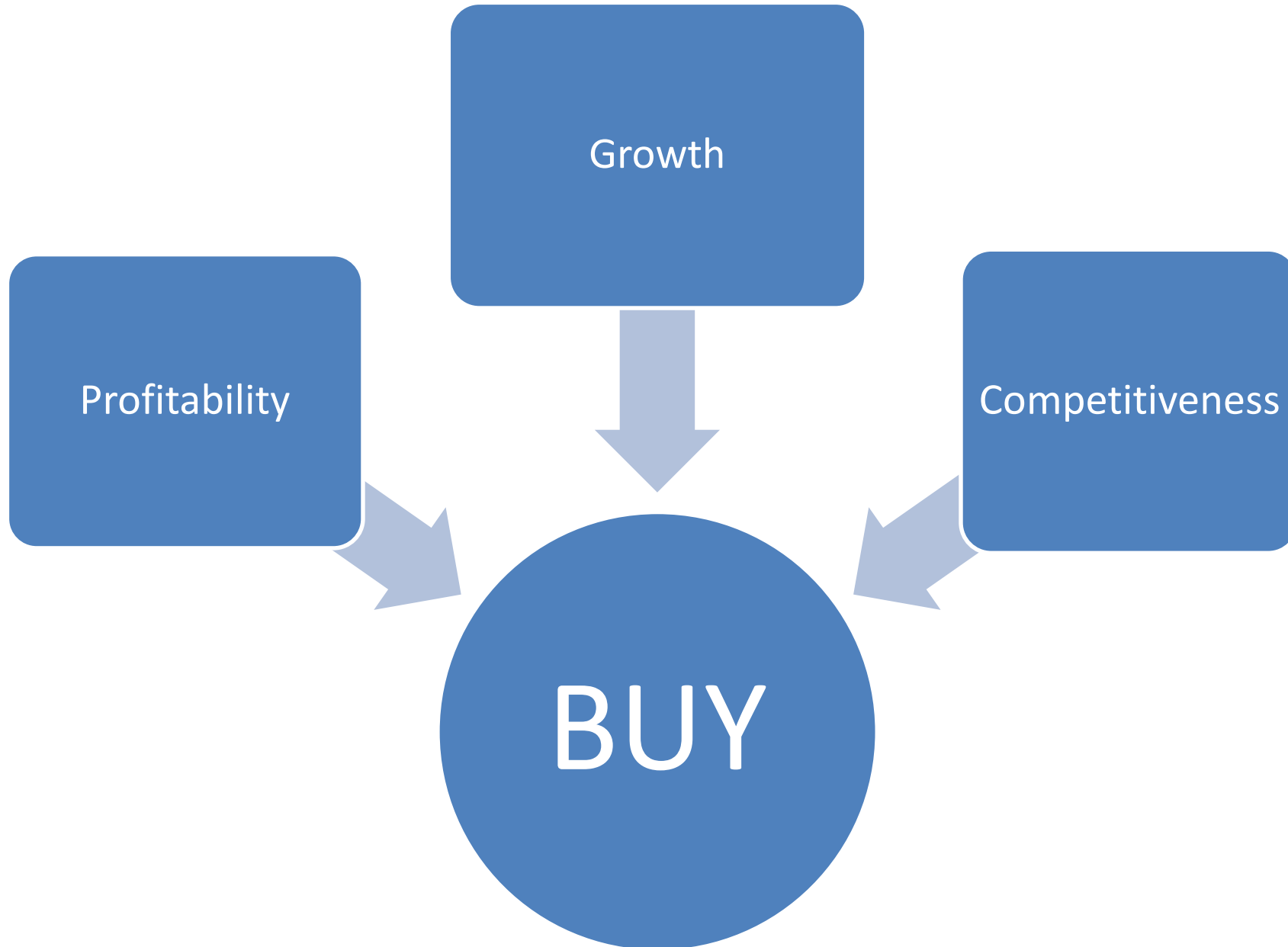
Financial
Analysis



Risks



Conclusion





Q&A - Appendices

Why use Moving Average for Beta?

- Beta is not a constant number
- Beta Changes with market conditions & company's status

Calculations

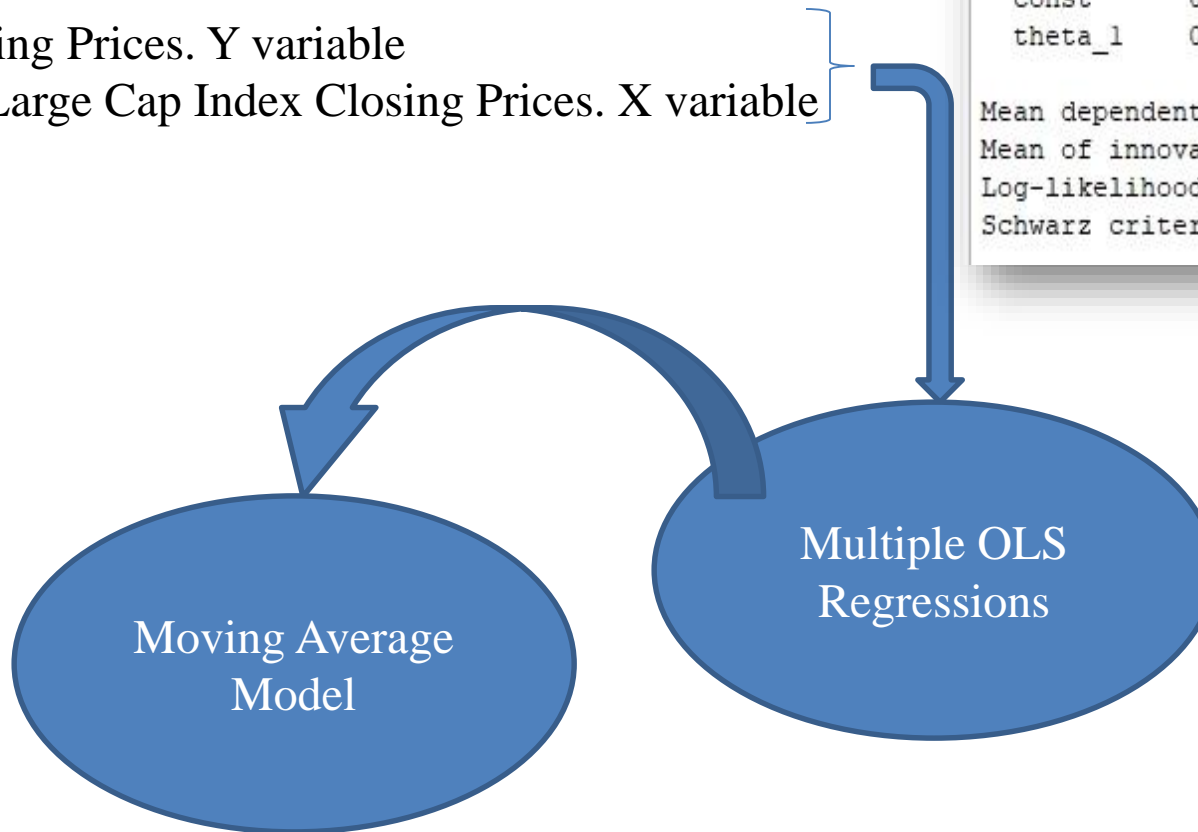
- Furlis Closing Prices. Y variable
- FTSE ASE Large Cap Index Closing Prices. X variable

Program's Output

```
Model 912: ARMA, using observations 31-940 (T = 910)
Estimated using Kalman filter (exact ML)
Dependent variable: rollingBetas
Standard errors based on Hessian
```

	coefficient	std. error	z	p-value	
const	0.000905986	2.42213e-05	37.40	3.31e-306	***
theta_1	0.978498	0.00632261	154.8	0.0000	***

Mean dependent var	0.000906	S.D. dependent var	0.000717
Mean of innovations	8.11e-07	S.D. of innovations	0.000370
Log-likelihood	5899.236	Akaike criterion	-11792.47
Schwarz criterion	-11778.03	Hannan-Quinn	-11786.96

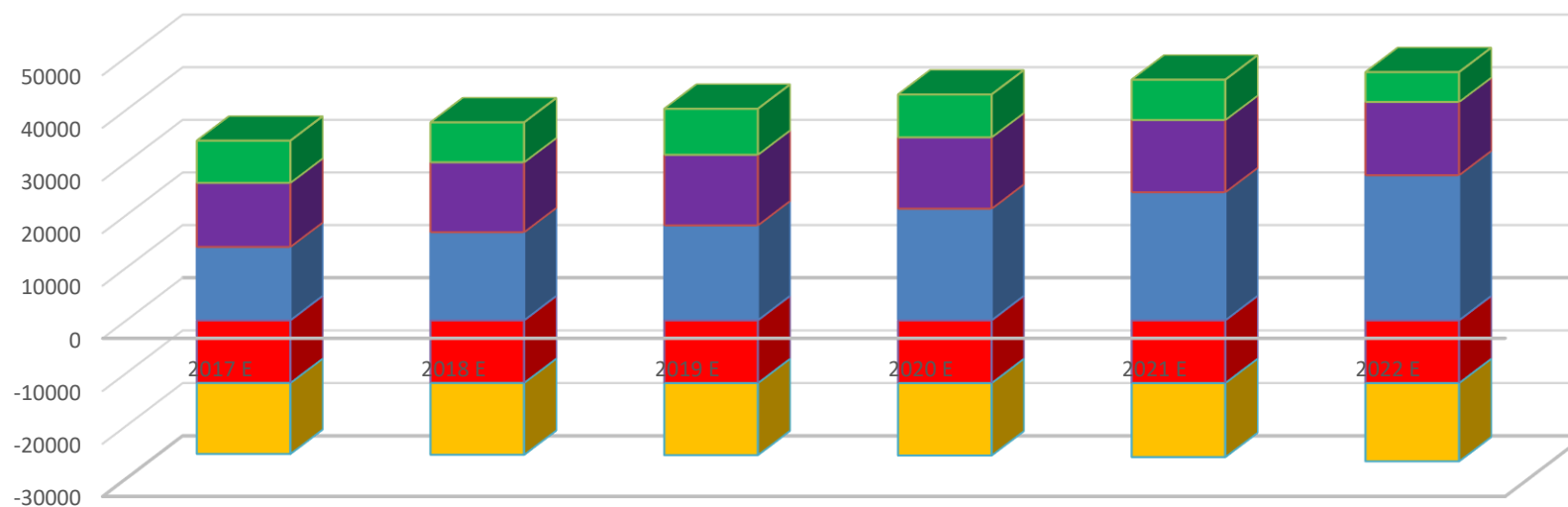


Why did we use only DFCFF model?

- There are not public direct competitors
- Discounting Free Cash Flows only with Cost of Equity can be problematic

Years	2017E	2018E	2019E	2020E	2021E	2022E
NET INCOME	€ 13,905	€ 16,701	€ 18,000	€ 21,156	€ 24,287	€ 27,531
NET NON-CASH CHARGES	€ 12,167	€ 13,281	€ 13,413	€ 13,564	€ 13,731	€ 13,915
INTEREST EXPENSE*(1-TAX RATE)	€ 8,011	€ 7,582	€ 8,727	€ 8,139	€ 7,656	€ 5,670
INVESTMENT IN FIXED CAPITAL	€ (11,893)	€ (11,881)	€ (11,908)	€ (11,916)	€ (11,900)	€ (11,901)
INVESTMENT IN WORKING CAPITAL	€ (13,457)	€ (13,629)	€ (13,672)	€ (13,728)	€ (14,053)	€ (14,854)
FREE CASH FLOW TO THE FIRM	€ 8,733	€ 12,054	€ 14,561	€ 17,214	€ 19,721	€ 20,361

■ Net Income ■ Net NonCash charges (NCC) ■ Int*(1-taxrate)
■ Inv in fixed capital ■ Inv in working capital



Sales Breakdown

Year	2016 A	2017 E	2018 E	2019 E	2020 E	2021 E	2022 E
Intersport Revenue	136.489 €	151.371 €	169.013 €	186.870 €	205.414 €	225.597 €	246.569 €
IKEA Revenue	290.856 €	291.644 €	298.014 €	305.796 €	316.315 €	327.214 €	338.270 €
Total Revenue	427.345 €	443.015 €	467.027 €	492.667 €	521.730 €	552.811 €	584.839 €

