

Monday, 27 November 2023 | update

Allegro: buy (reiterated)

ALE PW; ALE.WA | e-Commerce, Poland

A Long Way To Go...

Allegro reported solid financial results for Q3 2023 in Poland. The outlook for Q4 and for FY2024 is good. Firstly, we do not expect the higher delivery rates agreed with InPost to hurt EBITDA margins, and, secondly, Poland is poised for a recovery in consumer spending in 2024 thanks to real wage growth and various state-sponsored welfare programs (credit holidays, 800+, zero VAT on food, electricity price freeze, etc.). A slowing inflation, together with rising household spending, will make a great environment for Allegro to grow in 2024.

On the other hand, Allegro has strengthened its focus on international growth. The Company wants to invest in the development of allegro.cz and in other 'Mall Group markets,' mainly Slovakia, Slovenia, Hungary, and Croatia. The key to win market share abroad is to invest in brand awareness and offer SMART! subscription plans which, on the downside, entail much higher costs to cover free delivery. Taking this into account, we have lowered our EBITDA forecasts for Allegro's international business (we now expect break even at best in 2026), resulting in an 11% reduction in the overall 2024 EBITDA estimate.

Our new target price for Allegro at PLN 35.30 implies 19% fundamental upside potential and warrants a reiterated buy recommendation. That said, we want to point out that, at 14.6x and 11.8x EV/EBITDA'23/'24, ALE is trading at a significant premium to its peers (at c.51-52%). This is partly justified by Allegro's significantly higher EBITDA growth relative to the peer group, with EBITDA CAGR 2023-25 at 17% vs. 14% peers, although note that the growth expected of InPost is even faster at 24%. That is why we would currently pick InPost over Allegro, which currently also faces a sentiment-chilling potential share supply from major shareholders.

Strong 3Q'23 Results in Poland, a Solid Balance Sheet

The Polish business of Allegro is thriving. In 3Q 2023, adj. EBITDA increased by >32% and the EBITDA margin grew by 3.8pp. Allegro added 660k of new active buyers Poland in the period compared to 3Q'22, and the Polish GMV in Q3 totaled PLN 13.27bn (up 10.5% y/y). The average spend per active buyer registered a y/y rise of 7.3%, outpacing Poland's nominal retail sales growth which came in at 3.0%. To us, this is clear evidence of Allegro's strong value proposition to the Polish customers. Allegro also improved its Take Rate in 3Q as a result of changes to rate cards and co-financing introduced in July'23. CAPEX was down by almost a half in 3Q, and coupled with earnings growth this resulted in a leverage decrease to 2.17x.

Painful and Long Development Abroad

We have significantly revised our expectations for Allegro's foreign markets. We now expect EBITDA of PLN -423m in 2024 and PLN -305m in 2025. In our view, a turnaround in the Czech Republic will take a long time. First of all, the macroeconomic situation there is difficult. Secondly, Mall Group is not showing signs of regaining strength anytime soon. More importantly, we believe that Allegro will deploy the SMART! subscription formula, which includes free delivery options, in the Czech market to attract more customers, giving rise to additional upward pressure on costs. Finally, we should not forget that Allegro has already announced an intention to expand in the other 'Mall markets,' and the use of the SMART! program to attract customers is the most likely way to gain market share in these markets as well.

(PLN m)	2021	2022	2023E	2024E	2025E
Revenue	5,352.9	9,004.9	10,265.0	11,576.5	13,184.8
EBITDA (adj.)	2,068.5	2,152.8	2,487.4	2,962.6	3,621.5
margin	38.6%	23.9%	24.2%	25.6%	27.5%
EBIT	1,472.9	-1,182.1	1,342.6	1,885.6	2,589.4
Net profit	1089.6	-1916.8	757.2	1266.3	1879.8
P/E	28.8	-16.3	41.4	24.7	16.7
P/S	5.9	3.5	3.1	2.7	2.4
P/B	3.3	3.5	3.2	2.8	2.7
EV/EBITDA (adj.)	16.9	17.5	14.6	11.8	9.5
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

current price	PLN 29.64
target price	PLN 35.30
mCap	PLN 35.9bn
free float	PLN 14.2bn
ADTV (3M)	PLN 79.7m

*Price as of November 24, 2023, 5:00 PM

Shareholders

Cidinan S.à r.l.	21.6%
Permira VI Investment Platform Ltd	24.9%
Others	39.7%

About Allegro

Allegro is the owner of Poland's biggest e-commerce platform, allegro.pl, and it runs the country's leading price comparison site, ceneo.pl. As of January 2023, Allegro had the sixth-biggest online presence in Poland with 20.3 million real users and a reach of 68.3%. Allegro's 2022 revenue amounted to PLN 9 billion, the vast majority of which came from the allegro.pl platform. Advertising and the price comparison engine were also fairly significant revenue generators.

ALE vs. WIG



company	target price		recommendation	
	new	old	new	old
Allegro	35.30	41.10	buy	buy

company	current price	target price	upside
Allegro	29.64	35.30	+19.1%

forecast update*	2023E	2024E	2025E
	revenue	-9.6%	-11.0%
EBITDA (adj.)	-4.0%	-11.2%	-11.1%

*ex. Mall Group

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List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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The production of this recommendation was completed on November 27, 2023, 7:42 AM.
 This recommendation was first disseminated on November 27, 2023, 8:30 AM.

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NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following recommendations for Allegro in the 12 months prior to this publication:

Allegro (Paweł Szpigiel)

Rating	buy	buy	buy	buy	buy
Rating date	2023-10-02	2023-07-03	2023-05-11	2022-12-01	2022-11-03
Target price (PLN)	41.10	42.60	40.70	30.00	31.00
Price on rating day	32.24	32.00	33.97	22.35	23.30

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