

9<sup>th</sup> November 2015

# GORENJE D.D.

[www.gorenje.si](http://www.gorenje.si)

**White Goods**

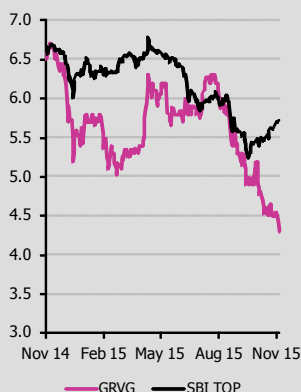
**LJSE ticker: GRVG**  
**Bloomberg: GRVG SV**

**Target price:**  
**4.0 EUR**

**Previous target price:**  
**4.9 EUR, SELL (28.8.2015)**

**Recommendation:**  
**SELL**

**12 months stock  
performance in EUR**



**4.26% European  
market share.**

**Ambitious new  
management plan and  
strategy for 2015-  
2020.**

**Cyclical industry.**

**Panasonic strategic  
partnership.**

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## Stock data as of 09.11.2015

Market price (EUR)	4.30	Market Cap (EUR)	105.1
52 week range (EUR)	4.3-6.7	No. of Shares	24.4
Avg. daily trade vol., EUR(k)	57.06	Free float	62%
Average daily % of stock traded	0.041%	Dividend yield	1.4%

Price performance	3 months	12 months	Multiples:	TTM	2015F
			P/E	neg.	neg.
price change in %	-28.3%	-33.8%	EV/Sales	0.4	0.4
SBI TOP index change in %	-4.5%	-14.0%	EV/EBITDA	6.6	6.0
relative to SBI TOP index in %	-25.0%	-23.1%	EV/EBIT	17.7	13.8

## Key figures (According to International Accounting Standards) Consolidated data in EURm

### Income statement:

million €	FY2013	FY2014	FY2015	FY2016
Sales	1,240.5	1,251.3	1,221.1	1,197.5
Growth yoy	-1.8%	0.9%	-2.4%	-1.9%
EBITDA	78.2	85.6	80.5	91.4
Margin	6.3%	6.8%	6.6%	7.6%
EBIT	36.3	42.5	34.7	44.9
Margin	2.9%	3.4%	2.8%	3.7%
Net income	-25.2	1.0	-7.5	7.2
Growth				
<b>EPS</b>	<b>-0.9</b>	<b>0.1</b>	<b>-0.1</b>	<b>0.3</b>

### Balance sheet:

million €	FY2013	FY2014	TTM
Investments	31.9	27.4	26.0
Cash	38.6	35.8	23.2
Debt	397.4	367.6	424.5
Net debt	358.8	331.8	375.4
Equity	380.7	377.4	360.8
Assets	1,148.1	1,102.4	1,161.6
D/E	104.4%	97.4%	117.7%
ROE	-6.6%	0.3%	-3.4%
ND/EBITDA	4.6	3.9	5.2

## Recent news and outlook revision:

- For 2015 Gorenje planned revenues of EUR 1.22bn, EBITDA of EUR 91.4m, EBIT of EUR 41.7m and net profit of EUR 6.1m. In 9M15 Gorenje realized 71.5% of planned revenues, 55.6% of EBITDA, 39.2% of EBIT and posted a loss. Therefore in 9M15 report Gorenje maintained revenues projections, but lowered its plan for EBITDA (EUR 80.7m) and net loss (EUR 7.8m).
- Gorenje also published a new strategic plan 2015-2020. The Group plans sales revenue CAGR of 6.2% in 2015-2020 period (EUR 1,562m by 2020). 92% of the sales should be generated in core Home segment. This plan is based on assumption overseas segment sales will surge from EUR 114m in 2015 to EUR 196m in 2020 or 14% of all sales in Home segment. Also this plan is based on assumption Asko brand sales will more than double to EUR 206m in 2020 with total premium product sales to total sales share increasing to 30%. This should translate into EBIT margin of 4.5% (3.4% achieved in 2014) or EUR 70m and EBITDA of 9.0% (2.1 p.p higher from 2014). Net debt to EBITDA ratio should decrease below comfortable 2.5.

## Valuation commentary:

- 9M15 results are below our expectations on the revenue and on the net income side. We therefore lowered our estimates regarding bottom line (EBITDA by only EUR 1.0m; net loss for the year). We must also note Gorenje was so far quite unsuccessful regarding achieving its guidance and while some of the current problems are unfortunately outside Gorenje management influence sphere, it's likely 2015 will add another guidance miss to already bad track record.
- While on a first glance new 2015-2020 strategy looks bright, and the only (but crucial) weak point being bad track record regarding delivery, it's actually even disappointing regarding cash flow generation. EBITDA is supposed to spiral from EUR 80.7 (estimated for 2015) to EUR 140m by 2020, however management also mentions free cash flow will amount to EUR 20m in 2019. This means 120m is covered by net financial expenses (net debt in absolute terms will slightly increase given the data), taxes and especially CAPEX. This is confirmed by a planned surge in D&A expenditure and possibly by hinted new plant outside EU in 4-5 years (Brazil, Asia, Russia?). However, this implies shareholders will need to wait for strong cash generation another 5 years as net CAPEX will grow side in side with strong NOPAT growth. True, after 5 years, shareholders could reap the substantial benefit through significant reduction in CAPEX (which seems to be at 5.5-6.0% of sales versus regular 3.5-4.0%) thereby lifting free cash flow generation, but only if guidance is delivered. Past deliveries are not encouraging.
- We could say that Gorenje raised the growth potential given our past model projections, but also inherent risks that come with CAPEX overhaul. Patience is thin and therefore we are sceptical investors will up the ante before better quarterly or even annually result dynamic is actually established.
- Target price additionally lowered to EUR 4.0, while sell recommendation remains in place as we see return/risk still unfavourable. A complete overhaul of valuation will be done in FY2015 report.
- It is true however that given operational and financial leverage of Gorenje, shares could pose a significant sentiment upside for speculative investors betting on cyclical recovery.

## 9M15 Results

### Results again below our expectations with loss of EUR 9.4m in 9M15

million €	9M14	9M15	YoY	3Q14	2Q15	3Q15	QoQ	YoY
Sales	915.0	875.2	-4.3%	310.3	289.8	317.5	9.5%	2.3%
EBITDA	63.9	50.8	-20.5%	21.5	17.9	17.2	-4.1%	-20.2%
Margin	7.0%	5.8%		6.9%	6.2%	5.4%		
EBIT	31.7	16.3	-48.5%	10.5	6.3	5.6	-11.1%	-47.0%
Margin	3.5%	1.9%		3.4%	2.2%	1.8%		
Net income	3.8	-9.5		0.8	-4.8	-2.5		
Margin	0.4%	-1.1%		0.3%	-1.7%	-0.8%		

Revenues decreased by 4.3% YoY and spread on East and West Europe.

Although recognizably 3Q points to a better trend.

Margins consequently contracted.

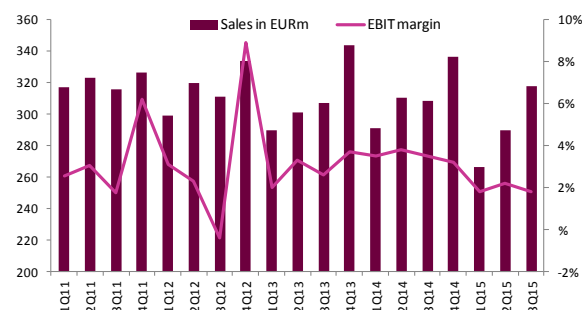
Net loss recorded as Gorenje disappointed.

Net debt position increased, but affected by seasonal dynamic.

- In 9M15 Gorenje Group sales revenues amounted to EUR 875.2m which is 4.3% less versus 9M14. Achieved revenues were slightly below our expectations of EUR 891.3m. Slight relief is that in 3Q15 revenues amounted to EUR 317.4m and increased by 2.3% YoY.
- Eastern Europe region had a 53.1% stake in total sales, down by 6.5% YoY to EUR 454.0m. Western Europe sales represented 38.6% of all sales, down by 2.6% YoY. Sales volume outside Europe increased by 1.1% YoY and amounted to EUR 83.1m.
- In business segment Home sales revenues (86.4% of total sales) decreased by 3.4% YoY to EUR 756.1m, which is mainly the consequence of exchange rate fluctuations. Excluding effects of exchange rate fluctuations revenues would stood at 9M14 level. In Western Europe sales declined by 3.2%, while in Eastern Europe sales were down 4.6% YoY (+3.3% excluding FX impact). On the other hand sales increase was recorded outside Europe +1.1% YoY (-1.2% excluding FX impact). Again 3Q15 YoY respective growth rates are mostly better: -3.5% for Western Europe, but +4.4% for Eastern Europe and nice 36.3% growth for other markets.
- In business segment Portfolio Investments revenues decreased by 10.1% YoY to EUR 119.1m, mostly due to lower sales of coal and medical equipment and machine and tool manufacture.

Sales in mio EUR	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
Portfolio	53.4	52.6	33.7	52.2	49.6	38.0	34.7	53.1	48.3	46.9	37.2	47.3	44.0	41.0	34.1
Home	239.9	260.5	270.5	300.3	239.8	262.7	272.3	290.3	242.4	263.1	271.3	289.1	224.0	248.8	283.3

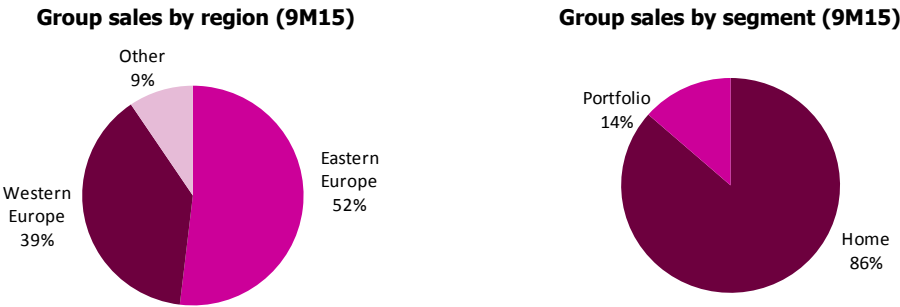
- COGS stood at EUR 683.2m and was slightly lower versus 9M14. Therefore gross margin deteriorated by 2.5 p.p. Labor cost remained at the same level than in 9M14 and amounted to EUR 171.2m, while average number of employees stood at 10,544, which is 12 more than in the same period last year. D&A costs increased by EUR 2.3m to EUR 34.5m. Other operating expenses were almost in line with 9M14 an amounted to EUR 15.0m.
- Consequently EBITDA margin decreased by 1.2 p.p. to 5.8%, while EBITDA itself decreased by 20.5% YoY to EUR 50.8m. EBIT decreased by 48.5% YoY to EUR 16.3m, while EBIT margin decreased by 1.6 p.p. The deterioration is mainly the consequence of lower contribution margin at the level of cost of goods and material due to political and economic instability in Russia and strengthening of the USD against EUR (affected profitability of appliances that are not manufactured in-house and acquired in USD). Currency ratio had a negative impact on the margins in the amount of EUR 6.3m.
- In business segment Home a positive EBIT was generated in the amount of EUR 12.0m, which represents a decrease by EUR 14.3m YoY. In business segment Portfolio Investments EBIT amounted to EUR 4.3m, which represent a decrease of EUR 1.1m.
- Net financial expenses improved a bit, namely from EUR 24.8m in 9M14 to EUR 23.7m.
- Net loss stood at EUR 9.4m, which represents deterioration compared to 9M14, when net profit was at EUR 4.0m. In 3Q15 net loss stood at EUR 2.5m. Achieved bottom line was below our expectations. However without negative effects of USD strengthening over the EUR and the negative impact caused by Russia, the Group would achieve a positive net income.
- Reported net financial debt stood at EUR 401.4m and was higher compared to 9M14. Reported net debt to EBITDA ratio is at 5.5 (including only cash items).
- In 9M15 negative net cash flow from operating activities was recorded in the amount of EUR 23.9m versus negative EUR 6.4m in the same period last year, due to operations and working capital changes. Additionally net cash used in investing activities was negative in the amount of EUR 38.7m, EUR 7.0m more than in 9M14. We note that NWC improved, as it lowered from 32.7% of sales in 9M14 to 31.9% in 9M15. This was expected as management promised working capital optimization.
- CAPEX amounted to EUR 45.3m, which is EUR 10.9m more compared to the same period last year.
- Regarding negative operating cash flow and net debt to EBITDA ratio of 5.5 we should however note that 4Q is seasonally strong quarter. EBITDA is now guided at EUR 90.7, gross debt at EUR 340m.



Brief Company profile

Top5 shareholders:	
KAD	16.4%
IFC	11.8%
Panasonic Corp	9.5%
KDPW - Fiduciary	8.1%
Home Products Europe	4.4%

Gorenje is a manufacturer of white goods and has approximately 4.24% of European market share. Around 90% of its products are sold under its own brand name. Its production capacity is 3.6m large household appliances, while employing little less than 10.500 employees. In recent years, Gorenje grew organically and through acquisitions, the largest being ATAG in 2008 and Asko in 2010. But at the same time Gorenje divested several non-core assets including Interior Design Division in 2013. Unconsolidated South-East European and East European markets represent a great opportunity for Gorenje’s future growth, while Gorenje is also targeting mature West-European and Overseas markets through improving perception of its brand name and acquired brand names. In July 2013 it entered strategic alliance with Panasonic Corporation.



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