

Thursday, 11 May 2023 | update

## Allegro: buy (reiterated)

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

### Macroeconomic resilience and good prospects for margin improvement in Poland

Since our last update in November, Allegro's share price has skyrocketed by 46%, outperforming the broad market by >20pp. Allegro has fulfilled our predictions by implementing two initiatives: hiking the fees SMART! program members, and adjusting the terms of free courier delivery. The changes had no negative effects on customer churn – in fact, 23% of the customer base migrated to the updated SMART! service in the month-and-a-half between 21 November and 31 December 2022. Such a positive response will, in our view, motivate Allegro to make further changes to the customer-side service terms, with Amazon's poor performance in Poland and Shopee's exit providing an additional boost. Hence, we believe that net delivery costs vs. GMV after peaking in 2023 will not further negatively impact profitability in the future. In addition, we appreciate the new CEO's focus on cost savings, while at the same time we have seen numerous layoffs among global technology companies since the beginning of the year. Our updated model for Allegro assumes a greater focus on mitigating cost inflation, which, together with further changes in customer service terms, should positively impact the EBITDA margins of Allegro's Polish business (we assume a 3.4pp improvement over the 2022-25 period). We also want to highlight Allegro's resilience amid an economic slowdown Poland. We have raised our 2023-2024 adj. EBITDA forecasts for the Polish business by 5% and 10%, respectively. Allegro is trading at a >20% premium to the peer group on EV/EBITDA'23E, but it achieves significantly higher sales growth (CAGR 2022-24 = 20% vs. an 8% peer median). We have also updated the DCM model risk-free rate. Our new target price is PLN 40.70, implying 20% upside potential and a reiterated buy recommendation.

#### Allegro vs. deteriorating macro conditions in Poland

We estimate that GMV growth at Allegro amounted to 13.4% y/y in 1Q'23 (and please note that Allegro does not generate revenues from highly-inflationary goods such as fuel and food). Meanwhile, Polish retail sales as a whole grew 10.8% in the quarter, mainly as a result of inflation. Based on this data, we can see Allegro's strong resilience in the face of deteriorating macro. Currently, it is the price that matters most to shoppers, and this is Allegro's great advantage (the company constantly monitors the prices of >100,000 products and ensures that the prices on the platform are the lowest for particular categories).

#### Changes in buyer terms

Allegro hiked SMART! program frees in November 222, along with two other important changes in the service terms for buyers: the free shipping minimum order value set at PLN 65 for door to door delivery and to PLN 45 for parcel machine delivery. With this move, Allegro has eliminated the most unprofitable aspect of its business that is free delivery, and redirected more of its shipping traffic from doorstep delivery to cheaper the parcel machines. We believe that similar changes are a matter of time. For the shoppers, it is worth adding several extra items to the basket to have free shipping and avoid paying the current doorstep delivery rates (PLN 10-18).

(PLN m)	2021	2022	2023E	2024E	2025E
revenue	5,352.9	9,004.9	11,358.6	13,004.8	14,680.9
EBITDA (adj.)	2,068.5	2,152.8	2,590.8	3,335.3	4,074.6
margin	38.6%	23.9%	22.8%	25.6%	27.8%
EBIT	1,472.9	-1,182.1	1,468.9	2,227.6	2,979.9
net profit	1,089.6	-1,916.8	871.8	1,548.2	2,176.3
P/E	33.0	-18.7	41.2	23.2	16.5
P/S	6.7	4.0	3.2	2.8	2.4
P/B	3.8	4.0	3.6	3.1	2.9
EV/EBITDA (adj.)	19.1	19.6	16.0	12.1	9.8
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 33.97
target price	PLN 40.70
mCap	PLN 35.9bn
free float	PLN 14.2bn
ADTV (3M)	PLN 62.4m

\*Price as of May 10, 2023, 5:00 PM

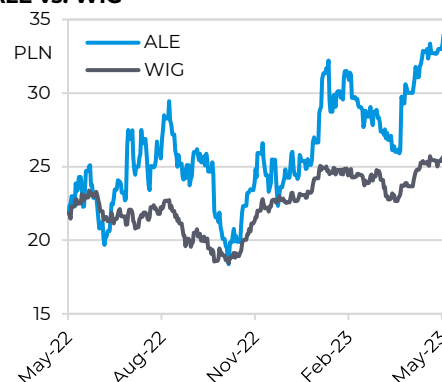
#### Shareholders

Cidinan S.à r.l.	27.1%
Permira VI Investment Platform Ltd	27.1%
Mepinan S.à r.l.	6.0%
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 the 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	40.70	30.00	buy	buy
name	current price	target price	downside	
Allegro	33.97	40.70	+19.8%	
forecast update		2023E	2024E	2025E
revenue		+1.2%	+2.7%	+3.8%
EBITDA (adj.)		+4.6%	+10.4%	+15.1%

\*ex. Mall Group

#### Analyst:

Paweł Szpigiel  
Equity Analyst, Expert  
+48 509 603 258  
[pawel.szpigiel@mbank.pl](mailto:pawel.szpigiel@mbank.pl)

**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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**BUY** – we expect that the rate of return from an investment will be at least 15%  
**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%  
**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
**SELL** – we expect that an investment will bear a loss greater than 15%  
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**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**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 (Pawel Szpigiel)**

Rating	buy	buy	buy	buy	accumulate	buy
Rating date	2022-12-01	2022-11-03	2022-09-30	2022-08-05	2022-07-08	2022-06-03
Target price (PLN)	30.00	31.00	31.90	35.30	31.00	32.30
Price on rating day	22.35	23.30	21.99	26.71	27.50	23.78



### **mBank S.A.**

Prosta 18  
00-850 Warszawa  
<http://www.mbank.pl/>

## **Research Department**

Kamil Kliszcz  
director  
+48 667 770 837  
[kamil.klischcz@mbank.pl](mailto:kamil.klischcz@mbank.pl)  
energy, power generation

Piotr Poniatowski  
+48 509 603 046  
[piotr.poniatowski@mbank.pl](mailto:piotr.poniatowski@mbank.pl)  
gaming

Mateusz Krupa, CFA  
+48 571 608 973  
[mateusz.krupa@mbank.pl](mailto:mateusz.krupa@mbank.pl)  
strategy

Michał Konarski  
+48 515 025 640  
[michal.konarski@mbank.pl](mailto:michal.konarski@mbank.pl)  
banks, financials

Mikołaj Lemańczyk, CFA  
+48 501 663 511  
[mikolaj.lemanczyk@mbank.pl](mailto:mikolaj.lemanczyk@mbank.pl)  
banks, financials

Beata Szparaga-Waśniewska, CFA  
+48 510 929 021  
[beata.szparaga-wasniewska@mbank.pl](mailto:beata.szparaga-wasniewska@mbank.pl)  
biotechnology, healthcare

Paweł Szpigiel  
+48 509 603 258  
[pawel.szpigiel@mbank.pl](mailto:pawel.szpigiel@mbank.pl)  
media, IT, telco, e-commerce

Janusz Pięta  
+48 506 065 659  
[janusz.pieta@mbank.pl](mailto:janusz.pieta@mbank.pl)  
retail, e-commerce

Konrad Anuszkiewicz, CFA  
+48 510 478 019  
[konrad.anuszkiewicz@mbank.pl](mailto:konrad.anuszkiewicz@mbank.pl)  
industrials, mining

## **Sales and Trading**

### **Traders**

Piotr Gawron  
director  
+48 698 832 853  
[piotr.gawron@mbank.pl](mailto:piotr.gawron@mbank.pl)

Andrzej Kowalczyk  
+48 601 053 470  
[andrzej.kowalczyk@mbank.pl](mailto:andrzej.kowalczyk@mbank.pl)

Karol Kułaj  
+48 509 602 984  
[karol.kulaj@mbank.pl](mailto:karol.kulaj@mbank.pl)

### **Sales, Foreign Markets**

Marzena Łempicka-Wilim  
deputy director  
+48 696 427 249  
[marzena.lempicka-wilim@mbank.pl](mailto:marzena.lempicka-wilim@mbank.pl)

## **Private Client Sales**

Maciej Sokołowski  
director  
[maciej.sokolowski@mbank.pl](mailto:maciej.sokolowski@mbank.pl)

Paweł Cyłkowski  
+48 503 684 130  
[pawel.cylkowski@mbank.pl](mailto:pawel.cylkowski@mbank.pl)

Andrzej Sychowski  
+48 605 848 003  
[andrzej.sychowski@mbank.pl](mailto:andrzej.sychowski@mbank.pl)

Jarosław Banasiak  
deputy director  
[jaroslaw.banasiak@mbank.pl](mailto:jaroslaw.banasiak@mbank.pl)

Piotr Brożyna  
+48 512 756 702  
[piotr.brozyna@mbank.pl](mailto:piotr.brozyna@mbank.pl)

Łukasz Płaska  
+48 22 697 47 90  
[lukasz.plaska@mbank.pl](mailto:lukasz.plaska@mbank.pl)