

# APRANGA

**BUY**

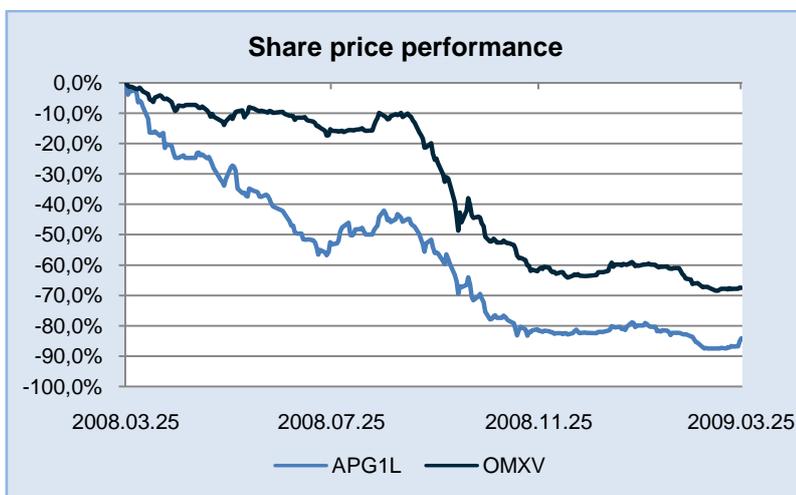
 PRICE: 1.90 LTL  
 TARGET: 2.57 LTL

Company	
Country:	Lithuania
Sector:	Consumer Discretionary
Industry group:	Retailing
Ticker:	APG1L
Free float	26,10%
Risk level:	High
Date	2009.03.26

Multiples	2007	2008	2009F	2010F
Mcap, mLTL	506	76	67	67
P/E	20,32	5,71	7,99	5,32
P/BV	5,78	0,80	0,65	0,59
EV/EBITDA	11,86	3,64	3,87	3,12
EV/S	1,56	0,36	0,34	0,32
ROE	28,45%	14,04%	8,11%	11,03%
ROA	12,31%	6,25%	3,93%	5,68%
Dividend yield	0,77%	7,41%	0,00%	2,75%

Financials (mLTL)	2007	2008	2009F	2010F
Revenue	368,91	418,62	397,91	392,82
Growth	-	13,48%	-4,95%	-1,28%
EBITDA	48,49	41,71	34,68	40,76
Growth	-	-13,98%	-16,85%	17,55%
Margin	13,14%	9,96%	8,72%	10,38%
Net income	24,92	13,35	8,39	12,59
Growth	-	-46,45%	-37,16%	50,14%
Margin	6,76%	3,19%	2,11%	3,21%
Assets	202,53	213,40	213,54	221,60
Equity	87,62	95,04	103,43	114,17

Last quarter (mLTL)	IVQ 2008	IVQ 2007	Change (y/y)
Revenue	109,24	110,15	-0,82%
EBITDA	11,03	15,05	-26,73%
Net profit	3,04	8,31	-63,41%
EBITDA margin	10,09%	13,66%	
Net margin	2,78%	7,55%	



## IVQ RESULTS DISTINGUISH FOR ACCELERATED DECLINE OF PROFIT

- The economic slump immediately affected the retail clothing in the Baltic States. Thus, for the last quarter of 2008 Apranga's consolidated turnover was LTL 109.24 million and decreased by 0.82%, compared to the same period of 2007. The highest decline took place in Latvia and reached the level of roughly 16.6%. In Lithuania and Estonia the quarterly growth remained positive but was much lower than in the 4<sup>th</sup> quarter of 2007.
- Notwithstanding the slight change in quarterly consolidated revenue, the company's EBIDTA dropped by 26.7%, i.e. from LTL 15.05 million in the IVQ of 2007 to LTL 11.03 million in the IVQ of 2008.
- Due to decline of EBIDTA, the EBIDTA margin also decreased and achieved the level of 10.1%. The main factor leading to this result was higher operating expenditures in comparison with the same period of 2007.
- The net profit declined significantly both in the fourth quarter of 2008 and the whole year by 63.4% and 46.4% respectively.
- Considering the present difficult economic conditions and pessimistic forecasts of the GDP growth in the Baltic States, we considerably changed our expectations about the consolidated revenue for the following five years.

## CONCLUSION

The unfavorable economic circumstances negatively impacted on the consolidated revenue and bottom-line profit of Apranga. Moreover, we change the risk level from medium to high due to the increase of equity cost. Based on our DCF model, the proper value of the company's share equals to LTL 2.57 in comparison with the current market price of LTL 1.90. Thus, we upgrade the recommendation from HOLD to BUY.

### Analyst

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**ESTIMATE CHANGES**

mLTL	2008			2009F			2010F		
	Expected	Actual	Change	Old	New	Change	Old	New	Change
Revenue	455,02	418,62	-8,0%	540,78	397,91	-26,4%	631,71	392,82	-37,8%
EBITDA	49,98	41,71	-16,6%	52,39	34,68	-33,8%	55,73	40,76	-26,9%
Net profit	23,15	13,35	-42,3%	22,67	8,39	-63,0%	24,25	12,59	-48,1%
EBITDA margin	11,0%	10,0%		9,7%	8,7%		8,8%	10,4%	
Net margin	5,1%	3,2%		4,2%	2,1%		3,8%	3,2%	

**NET PROFIT DECLINED MARKEDLY**

The company’s net profit amounted to LTL 3.04 million for the last quarter of 2008, i.e. it was 63.4% lower than in the same period of 2007. For the whole year 2008 net profit equalled to LTL 13.35 million, while our estimate for the same year was too optimistic and totalled to LTL 23.15 million. Considering the economic downturn, we corrected our forecasts of net profit for the next couple of years.

The total turnover reached LTL 418.62 million in 2008. Although it increased by roughly LTL 50.0 million in comparison with the previous year, the pace of annual growth decelerated considerably in the Baltic States. For the following two years we expect a negative growth of revenue in all three Baltic countries.

**VALUATION**

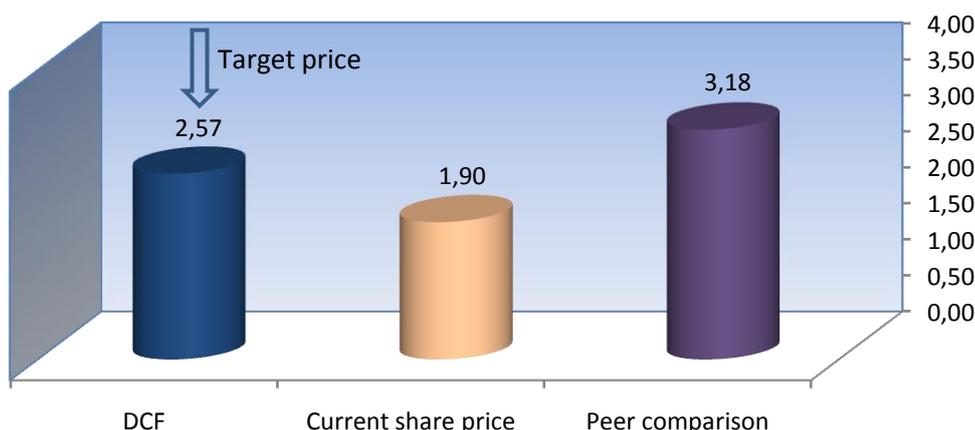
In spite of negative growth and reduced forecasts of future incomes, the uncomplimentary influence on the target price is not so considerable. On the other hand, the increased risk free rate, market risk premium and corporate income tax rate affected cost of equity and WACC. As a result the risk level changed from medium to high and WACC reached the level of 13.8%.

Based on our DCF model we get that Apranga proper value is LTL 2.57 per share. This result shows 35.2% upside from the current share market price of LTL 1.90.

Considering the relative comparison method, we get that the target price is equal to LTL 3.18 per share. Taking into account the trailing EV/EBITDA of Apranga, we get that this ratio is 3.42, which is 28% discount from median of the peer group.

**CONCLUSION**

Based on our DCF model we think that Apranga is currently undervalued. Our target price is LTL 2.57 per share and we upgrade our recommendation from HOLD to BUY.



## DCF MODEL

		2007	2008	2009F	2010F	2011F	2012F	2013F	Terminal year
<b>EBIT</b>	kLTL	32.723	21.155	14.773	20.739	26.423	31.202	34.476	34.476
<b>- Taxes on EBIT</b>	kLTL	5.119	3.976	2.955	4.148	5.285	6.240	6.895	6.895
<b>+ Depreciation and amortization</b>	kLTL	15.763	20.552	19.907	20.026	18.468	18.202	19.732	19.732
<b>- Working capital changes</b>	kLTL	22.707	14.191	3.476	1.129	3.301	1.093	8.324	774
<b>- Capital expenditure</b>	kLTL	51.155	23.809	18.861	22.899	24.654	27.319	31.570	18.339
<b>= Free cash flow</b>	kLTL	-30.495	-269	9.388	12.589	11.652	14.752	7.419	28.200
<b>Discounted cash flow</b>	kLTL	-30.495	-269	8.496	10.007	8.135	9.047	3.996	15.190
<b>Present cash flow value</b>	kLTL	39.680							
<b>+ Terminal value</b>	kLTL	126.585							
<b>- Net debt</b>	kLTL	75.577							
<b>- Minority</b>	kLTL	0,00							
<b>= Equity value</b>	kLTL	90.688							
<b>Number of shares</b>		35.291.960							
<b>One share value</b>	LTL	2,57							

Source: FBC Finhill

## SENSITIVITY ANALYSIS

		Terminal growth		
		0%	1%	2%
WACC	16,00%	1,67	<b>1,85</b>	2,06
	15,00%	1,85	<b>2,06</b>	2,29
	14,00%	2,06	<b>2,29</b>	2,57
	<b>13,00%</b>	<b>2,29</b>	<b>2,57</b>	<b>2,90</b>
	12,00%	2,57	<b>2,90</b>	3,29
	11,00%	2,90	<b>3,29</b>	3,77
	10,00%	3,29	<b>3,77</b>	4,36

Source: FBC Finhill

**RELATIVE ANALYSIS**

Company	Country	Currency	Mcap, million	P/E	P/BV	EV/Sales	EV/EBITDA	EBITDA margin	Net margin
<b>Eastern Europe</b>									
<b>Redan SA</b>	Poland	PLN	37,20	8,58	0,69	0,21	2,99	7,06%	2,00%
<b>Baltika AS</b>	Estonia	EUR	38,63	7,58	0,5	0,35	4,44	7,84%	4,04%
<b>Tallinna Kaubam</b>	Estonia	EUR	241,91	3,88	0,56	0,39	5,59	7,00%	3,20%
<b>Western Europe</b>									
<b>Douglas Holding AG</b>	Germany	EUR	4191,32	13,67	1,58	0,4	4,79	8,39%	7,79%
<b>Gerry Weber INTL AG</b>	Germany	EUR	1208,75	8,87	1,93	0,69	5,34	12,98%	10,29%
<b>Weber &amp; Ott AG</b>	Germany	EUR	76,66	10,47	1,6	0,27	2,35	13,05%	3,44%
<b>Fenix Outdoor AB</b>	Sweden	SEK	252,19	7,56	2,05	0,85	4,75	18,39%	8,42%
<b>Gruppo Coin SPA</b>	Italy	EUR	746,98	4,97	0,69	0,38	2,8	13,58%	3,72%
<b>IC Companys A/S</b>	Denmark	DKK	498,58	6,73	1,95	0,47	8,02	5,86%	-2,96%
<i>Average</i>				8,03	1,28	0,45	4,56	10,46%	4,44%
<i>Median</i>				7,58	1,58	0,39	4,75	8,39%	3,72%
<b>APG1L</b>	<b>Lithuania</b>	<b>LTL</b>	<b>67,05</b>	<b>5,02</b>	<b>0,71</b>	<b>0,34</b>	<b>3,42</b>	<b>9,96%</b>	<b>3,19%</b>

Source: BLOOMBERG

**INCOME STATEMENTS (KLTL)**

	2007	2008	2009F	2010F	2011F	2012F	2013F
<b>Revenue</b>	368.907	418.622	397.914	392.816	408.985	432.629	470.838
<b>Expenses</b>	336.184	397.467	383.140	372.077	382.562	401.428	436.362
<b>EBITDA</b>	48.486	41.707	34.680	40.765	44.891	49.404	54.208
<b>Depreciation and amortization</b>	15.763	20.552	19.907	20.026	18.468	18.202	19.732
<b>EBIT</b>	32.723	21.155	14.773	20.739	26.423	31.202	34.476
<b>EBT</b>	30.042	17.323	10.850	16.291	22.610	27.707	30.981
<b>Income tax</b>	5.119	3.976	2.463	3.698	5.110	6.289	7.033
<b>Net income</b>	24.923	13.347	8.387	12.593	17.500	21.417	23.948

Source: FBC Finhill

**MULTIPLES**

	2007	2008	2009F	2010F	2011F	2012F	2013F
<b>Mcap, LTL million</b>	506	76	67	67	67	67	67
<b>P/E</b>	20,32	5,71	7,99	5,32	3,83	3,13	2,80
<b>P/BV</b>	5,78	0,80	0,65	0,59	0,52	0,47	0,43
<b>EV/EBITDA</b>	11,86	3,64	3,87	3,12	2,84	2,45	2,34
<b>EV/S</b>	1,56	0,36	0,34	0,32	0,31	0,28	0,27
<b>D/E</b>	0,78	0,80	0,65	0,53	0,47	0,38	0,38
<b>D/E market values</b>	0,14	0,99	1,00	0,90	0,90	0,81	0,89
<b>ROE</b>	28,45%	14,04%	8,11%	11,03%	13,59%	15,14%	15,36%
<b>ROA</b>	12,31%	6,25%	3,93%	5,68%	7,71%	8,60%	9,05%
<b>Dividend yield</b>	0,77%	7,41%	0,00%	2,75%	4,32%	6,00%	6,52%

Source: FBC Finhill

**FINANCIAL CHANGES (Y/Y)**

	2007	2008	2009F	2010F	2011F	2012F	2013F
<b>Revenue</b>	-	13,48%	-4,95%	-1,28%	4,12%	5,78%	8,83%
<b>Expenses</b>	-	18,23%	-3,60%	-2,89%	2,82%	4,93%	8,70%
<b>EBITDA</b>	-	-13,98%	-16,85%	17,55%	10,12%	10,05%	9,72%
<b>Net income</b>	-	-46,45%	-37,16%	50,14%	38,97%	22,38%	11,82%

Source: FBC Finhill

**MARGINS**

	2007	2008	2009F	2010F	2011F	2012F	2013F
<b>EBITDA</b>	13,14%	9,96%	8,72%	10,38%	10,98%	11,42%	11,51%
<b>EBIT</b>	8,87%	5,05%	3,71%	5,28%	6,46%	7,21%	7,32%
<b>EBT</b>	8,14%	4,14%	2,73%	4,15%	5,53%	6,40%	6,58%
<b>Net income</b>	6,76%	3,19%	2,11%	3,21%	4,28%	4,95%	5,09%

Source: FBC Finhill

**BALANCE SHEET (KLTL)**

	2007	2008	2009F	2010F	2011F	2012F	2013F
<b>Long-Term Assets</b>	<b>112.277</b>	<b>112.853</b>	<b>111.808</b>	<b>114.681</b>	<b>120.868</b>	<b>129.984</b>	<b>141.822</b>
Tangible assets	110.439	110.324	109.279	112.152	118.339	127.455	139.293
Intangible assets	981	1.592	1.592	1.592	1.592	1.592	1.592
Financial assets	0	0	0	0	0	0	0
Other assets	857	937	937	937	937	937	937
<b>Current assets</b>	<b>90.254</b>	<b>100.545</b>	<b>101.733</b>	<b>106.921</b>	<b>106.047</b>	<b>119.194</b>	<b>122.826</b>
Inventories	73.821	85.525	89.507	87.691	91.358	93.987	102.372
Accounts receivables	8.028	9.020	9.050	9.309	10.296	10.637	11.586
Other current assets	1.118	1.118	1.118	1.118	1.118	1.118	1.118
Other financial assets	0	0	0	0	0	0	0
Cash & equivalents	7.287	4.882	2.058	8.803	3.275	13.452	7.750
<b>Total Assets</b>	<b>202.531</b>	<b>213.398</b>	<b>213.540</b>	<b>221.602</b>	<b>226.914</b>	<b>249.179</b>	<b>264.648</b>
<b>Total equity</b>	<b>87.618</b>	<b>95.039</b>	<b>103.426</b>	<b>114.174</b>	<b>128.778</b>	<b>141.479</b>	<b>155.939</b>
Shareholders equity	87.618	95.039	103.426	114.174	128.778	141.479	155.939
Minority interest	0	0	0	0	0	0	0
<b>Non-current liabilities</b>	<b>23.547</b>	<b>54.627</b>	<b>45.846</b>	<b>45.846</b>	<b>35.201</b>	<b>42.887</b>	<b>42.887</b>
Long term debt	20.000	49.000	35.000	35.000	35.000	35.000	35.000
Deferred tax	3.531	5.426	10.645	10.645	0	7.686	7.686
Other long-term liabilities	16	201	201	201	201	201	201
<b>Current liabilities</b>	<b>91.366</b>	<b>63.732</b>	<b>64.268</b>	<b>61.582</b>	<b>62.935</b>	<b>64.813</b>	<b>65.822</b>
Short term debt	54.227	28.545	28.545	28.545	28.545	28.545	28.545
Payables	36.007	34.512	35.048	32.362	33.715	35.593	36.602
Other current liabilities	1.132	675	675	675	675	675	675
<b>Total Equity and Liabilities</b>	<b>202.531</b>	<b>213.398</b>	<b>213.540</b>	<b>221.602</b>	<b>226.914</b>	<b>249.179</b>	<b>264.648</b>

Source: FBC Finhill

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**Recommendation prepared by**

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**The date of the recommendation**

Recommendation submitted for distribution: 2009-03-26.

The price of the Issuer's securities analyzed mentioned as of the date and time: 2009-03-25: 16:00.

The organizer of the recommendation has delivered other recommendation(s) on the same Issuer's securities within the period of recent 12 months since the issue of this recommendation; the recommendations differ as follow:

Date	Recommendation	Target price
2009-03-26	BUY	LTL 2.57
2008-09-01	HOLD	LTL 7.54

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<b>Hold</b>	When the set value of the share is higher -10% or lower +20%
<b>Buy</b>	When the set value of the share is higher +20%
<b>Sell</b>	When the set value of the share is lower -10%
<b>No recommendations</b>	No recommendations are given due to unreliable and/or lack of information

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<b>Medium risk</b>	If cost of equity 10-12%
<b>High risk</b>	If cost of equity 12-15%
<b>Very high risk</b>	If cost of equity >15%

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<b>Company</b>	0
<b>Employees</b>	462

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	BUY	HOLD	SELL
Total:	4	4	0
Percentage of the total number of recommendations:	50.0%	50.0%	0%
Issuers which were provided the main investment services by FBC Finhill Ltd. within the period of recent 12 months	0	0	0
Percentage of the total number of recommendations:	0%	0%	0%

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