

MAGNIT PJSC (MGNT)

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Magnit Reports 11.4% Sales Growth in 2Q 2019

Krasnodar, Russia (25 July, 2019): Magnit PJSC (MOEX and LSE: MGNT), one of Russia's leading retailers, announces sales growth of 11.4% in 2Q 2019.

2Q 2019 key operating and financial highlights:

- Total revenue^[1] increased by 11.4% from RUB 307.8 billion in 2Q 2018 to RUB 342.9 billion in 2Q 2019.
- Net retail sales reached RUB 333.3 billion representing 10.8% growth YoY.
- Wholesale revenue increased by 26.7% up to RUB 7.4 billion primarily driven by contribution from SIA Group.
- LFL^[2] sales growth improved to 1.7% on 4.1% average ticket growth and 2.3% traffic decline, compared to 0.6% LFL sales growth in 1Q 2019.
- The Company opened 661 stores^[3] on net basis (322 convenience stores and 340 drogerie stores as well as 1 supermarket closure) compared to 335 stores (220 convenience stores, 5 supermarkets and 110 drogerie stores) opened in 2Q 2018. Total store base reached 19,884 stores as of June 30, 2019.
- Addition of selling space in 2Q 2019 amounted to 218 thousand sq. m. (or 16.7% growth YoY) compared to 115 thousand sq. m. in 2Q 2018.
- During the reported quarter the Company redesigned 509 convenience stores and 256 drogerie stores (compared to 264 convenience stores and 30 drogerie stores in 2Q 2018). As of June 30, 2019 the share of stores operating under the new concept reached 63% and 40% respectively.
- Gross Profit^[4] in 2Q 2019 stood at RUB 82.2 billion with margin of 24.0%. The impact of the fire at the Voronezh DC on gross margin was 29 bps. Adjusted for this one-off factor, gross margin in 2Q 2019 was flat YoY due to better commercial terms despite higher shrinkage and logistics costs.
- EBITDA in 2Q 2019 was RUB 24.2 billion with 7.1% margin. The decline of 87 bps YoY was caused by gross margin dynamics, LTI provisions and increased operating expense.
- Net income in 2Q 2019 decreased by 39.5% YoY and stood at RUB 6.3 billion. Net income margin decreased by 154 bps YoY to 1.8%.

Key events in 2Q and after the reported period:

- The AGM elected a new Board of Directors consisting of 9 members including 5 independent non-executive directors. Charles Ryan was elected a Chairman of the Board of Directors.
- Magnit paid dividends for FY 2018 in the total amount of c. RUB 17 billion.
- Jan Dunning, the President of Magnit, assumed the role of the Chief Executive Officer.
- Ruslan Ismailov was appointed Director of Retail Chain Management and Anton Zavalkovsky - Director for Real Estate Management and Non-Commercial Purchasing.
- Part of the distribution center in Voronezh was damaged by the fire accident for the total amount of RUB 1.2 billion.
- 10,000,000 exchange-traded bonds with an interest rate of 7.85% per annum were placed on MoEx for the total amount of Rub 10 billion. RAEX Rating Agency (Expert RA) assigned credit rating of ruAA- to this bond issue.
- Magnit made LTI payments to the management for FY2018 for the total amount of 105,258 shares representing c. 0.1% of share capital.
- Over 1.4 million cards have been issued in regions of Yaroslavl and Chelyabinsk covered by the pilot cross-format loyalty program. Penetration in sales reached 59% during first two months.
- Two Magnit City pilot stores in the ultra-small format have been opened in Moscow and Krasnodar.

Jan Dunning, President and CEO of Magnit, commented:

"We are continuing our transformation journey. Despite the challenging macro environment, we are showing some good dynamics in sales growth, like-for-like sales and EBITDA margin as the transformation has gained traction. There are still many challenges facing us this year but I am confident that with our renewed focus on the key issues and emphasis on working as one team, we will successfully continue the promising trends in our operational results."

Operating results for 2Q 2019

	2Q 2018	2Q 2019	Change	Change, %
Total net retail sales, million RUB	300,862	333,279	32,417	10.8%
Convenience stores	228,348	258,302	29,955	13.1%
Supermarkets	50,515	49,247	-1,268	-2.5%
Drogerie Stores	20,829	25,029	4,199	20.2%
Other formats	1,170	701	-469	-40.1%
Number of Stores (EOP)	16,910	19,884	2,974	17.6%
Convenience stores	12,503	14,231	1,728	13.8%
Supermarkets	457	466	9	2.0%

Drogerie Stores	3,950	5,187	1,237	31.3%
New Store Openings (NET)	335	661	326	97.3%
Convenience stores	220	322	102	46.4%
Supermarkets	5	-1	-6	-120.0%
Drogerie Stores	110	340	230	209.1%
Total Selling Space (EOP), th. sq. m.	5,945	6,936	991	16.7%
Convenience stores	4,092	4,777	685	16.7%
Supermarkets	933	939	6	0.7%
Drogerie Stores	917	1,208	291	31.7%
New Selling Space, th. sq. m.	115	218	103	89.6%
Convenience stores	81	134	53	65.6%
Supermarkets	9	-1	-10	-113.3%
Drogerie Stores	25	78	53	214.6%
Number of tickets, million	1,116	1,199	83	7.4%
Convenience stores	947	1,021	74	7.8%
Supermarkets	100	97	-3	-2.9%
Drogerie Stores	68	79	11	16.3%
Average ticket^[5], RUB	270	278	8	3.1%
Convenience stores	241	253	12	4.9%
Supermarkets	505	507	2	0.4%
Drogerie Stores	306	317	10	3.3%

Operating results for 1H 2019

	1H 2018	1H 2019	Change	Change, %
Total net retail sales, million RUB	586,195	643,877	57,682	9.8%
Convenience stores	443,648	495,777	52,129	11.8%
Supermarkets	99,066	96,999	-2,068	-2.1%
Drogerie Stores	41,773	49,759	7,986	19.1%
Other formats	1,708	1,342	-365	-21.4%
Number of Stores (EOP)	16,910	19,884	2,974	17.6%
Convenience stores	12,503	14,231	1,728	13.8%
Supermarkets	457	466	9	2.0%
Drogerie Stores	3,950	5,187	1,237	31.3%
New Store Openings (NET)	612	1,536	924	151.0%
Convenience stores	378	804	426	112.7%
Supermarkets	6	-1	-7	-116.7%
Drogerie Stores	228	733	505	221.5%
Total Selling Space (EOP), th. sq. m.	5,945	6,936	991	16.7%
Convenience stores	4,092	4,777	685	16.7%
Supermarkets	933	939	6	0.7%
Drogerie Stores	917	1,208	291	31.7%
New Selling Space, th. sq. m.	190	511	322	169.6%
Convenience stores	134	333	199	148.2%
Supermarkets	3	-3	-5	-208.2%
Drogerie Stores	53	172	119	225.6%
Number of tickets, million	2,121	2,255	135	6.4%
Convenience stores	1,795	1,912	118	6.6%
Supermarkets	192	188	-5	-2.4%
Drogerie Stores	133	154	21	15.6%
Average ticket^[6], RUB	276	286	9	3.3%
Convenience stores	247	259	12	4.9%
Supermarkets	515	517	1	0.3%
Drogerie Stores	314	324	10	3.0%

LFL results

2Q 2019

LFL composition, %	Average Ticket	Traffic	Sales
Total	4.1%	-2.3%	1.7%
Convenience stores	4.9%	-2.1%	2.7%
Supermarkets	1.9%	-5.3%	-3.5%
Drogerie Stores	4.5%	-0.7%	3.8%

1H 2019

LFL composition, %	Average Ticket	Traffic	Sales
Total	4.1%	-2.9%	1.1%
Convenience stores	4.9%	-2.8%	1.9%

Supermarkets	1.6%	-4.9%	-3.4%
Drogerie Stores	3.9%	-0.3%	3.6%

Total net retail sales for the 2Q 2019 was RUB 333.3 billion or 10.8% growth YoY (which is 12.0% growth YoY including VAT) driven by a combination of selling space growth of 16.7% and LFL sales growth of 1.7%.

Average ticket dynamics remained strong in the 2Q 2019 (4.1% LFL growth) driven by on-going assortment improvement and promo enhancement. Net of VAT, average ticket continued to grow across all formats, including 4.9% in convenience stores, 0.4% in supermarkets and 3.3% in drogeries. LFL traffic dynamics improved from -3.5% in 1Q 2019 to -2.3% in 2Q 2019 on the back of continued store refurbishment program and the new CVP rollout. Overall LFL sales stood at 1.7% compared to 0.6% in 1Q 2019.

77.5% of total net retail sales was generated by convenience segment. In 2Q 2019 Magnit opened 322 convenience stores (net) adding 134 thousand sq. m. Sales in the convenience format grew by 13.1% driven by selling space growth of 16.7% and LFL sales growth acceleration from 1.1% in 1Q 2019 to 2.7% in 2Q 2019. LFL traffic stood at -2.1% demonstrating less negative dynamics vs 1Q 2019 of -3.6%. LFL average ticket growth continued to be strong and stood at 4.9% in 2Q 2019.

Supermarkets account for 14.8% of the Group's net retail sales. During the 2Q 2019 - the pilot stage of the new CVP - one store was closed and no new stores added. Upon the completion of the CVP pilot and its final approval by the Board, Magnit will resume openings of supermarkets. Sales growth in this segment was -2.5% on the back of selling space growth of 0.7% YoY and negative LFL sales of 3.5%.

Sales growth in the drogerie format (representing 7.5% of the total net retail sales) was 20.2% driven by a combination of selling space growth of 31.7% and LFL sales growth of 3.8%. During 2Q 2019 Magnit opened 340 cosmetics stores and added 78 thousand sq. m. of selling space. LFL traffic was negative and stood at -0.7% offset by accelerated LFL average ticket growth to 4.5% on the back of changes in the promo mechanics.

Magnit continued its renovation program with 509 convenience stores and 256 drogerie stores being redesigned during the second quarter. As a result, the share of stores operating under the new concept reached 63% for convenience and 40% for drogerie format.

Monthly operating results for 2Q 2019

	April	YoY, %	May	YoY, %	June	YoY, %
Total net retail sales, million RUB	108,812	12.9%	112,855	11.4%	111,612	8.2%
Convenience stores	84,532	15.6%	87,788	13.7%	85,983	10.2%
Supermarkets	16,235	-1.3%	16,451	-1.1%	16,561	-5.0%
Drogerie Stores	7,758	19.4%	8,446	20.1%	8,825	20.9%
Other formats	287	-6.4%	170	-62.3%	244	-40.9%
Number of Stores (EOP)	19,426	n/a	19,602	n/a	19,884	n/a
Convenience stores	14,007	n/a	14,075	n/a	14,231	n/a
Supermarkets	467	n/a	467	n/a	466	n/a
Drogerie Stores	4,952	n/a	5,060	n/a	5,187	n/a
New Store Openings (NET)	203	n/a	176	n/a	282	n/a
Convenience stores	98	n/a	68	n/a	156	n/a
Supermarkets	0	n/a	0	n/a	-1	n/a
Drogerie Stores	105	n/a	108	n/a	127	n/a
Total Selling Space (EOP), th. sq. m.	6,786	15.7%	6,842	16.1%	6,936	16.7%
Convenience stores	4,686	16.1%	4,716	16.3%	4,777	16.7%
Supermarkets	941	1.4%	941	1.1%	939	0.7%
Drogerie Stores	1,154	28.0%	1,179	30.2%	1,208	31.7%
New Selling Space, th. sq. m.	68	n/a	56	n/a	94	n/a
Convenience stores	43	n/a	30	n/a	61	n/a
Supermarkets	0	n/a	0	n/a	-1	n/a
Drogerie Stores	24	n/a	25	n/a	29	n/a
Number of tickets, million	388	9.1%	406	6.1%	405	7.2%
Convenience stores	330	9.7%	347	6.3%	344	7.5%
Supermarkets	32	-2.2%	33	-3.1%	33	-3.4%
Drogerie Stores	25	16.4%	27	15.4%	27	17.0%
Average ticket, RUB	281	3.5%	278	5.0%	276	0.9%
Convenience stores	256	5.3%	253	7.0%	250	2.5%
Supermarkets	513	1.0%	506	2.0%	502	-1.6%
Drogerie Stores	307	2.5%	319	4.1%	324	3.3%

Financial results for 2Q 2019

million RUB	IAS 17			IFRS 16		
	2Q 2019	2Q 2018 ^[7]	Change	2Q 2019	2Q 2018	Change
Total revenue	342,879	307,822	11.4%	342,879	307,822	11.4%
Retail	333,279	300,862	10.8%	333,279	300,862	10.8%
Wholesale	7,396	5,839	26.7%	7,396	5,839	26.7%
Other	2,204	1,121	96.5%	2,204	1,121	96.5%

Gross Profit	82,216	74,645	10.1%	82,216	74,645	10.1%
Gross Margin, %	24.0%	24.2%	-27 bps	24.0%	24.2%	-27 bps
EBITDA adjusted ^[8]	25,735	24,386	5.5%	41,937	38,696	8.4%
EBITDA Margin adjusted	7.5%	7.9%	-42 bps	12.2%	12.6%	-34 bps
EBITDA pre LTI ^[9]	24,733	24,386	1.4%	40,936	38,696	5.8%
EBITDA Margin pre LTI, %	7.2%	7.9%	-71 bps	11.9%	12.6%	-63 bps
EBITDA	24,176	24,386	-0.9%	40,379	38,696	4.3%
EBITDA Margin, %	7.1%	7.9%	-87 bps	11.8%	12.6%	-79 bps
EBIT	12,434	15,706	-20.8%	15,679	21,673	-27.7%
EBIT Margin, %	3.6%	5.1%	-148 bps	4.6%	7.0%	-247 bps
Profit before tax	8,685	13,068	-33.5%	3,962	11,703	-66.1%
Taxes	-2,416	-2,712	-10.9%	-1,421	-2,439	-41.7%
Net Income	6,269	10,356	-39.5%	2,541	9,263	-72.6%
Net Income Margin, %	1.8%	3.4%	-154 bps	0.7%	3.0%	-227 bps

Total revenue in 2Q 2019 increased by 11.4% and stood at RUB 342.9 billion driven by 16.7% selling space growth (661 store additions) and 1.7% LFL sales growth.

Gross Profit in 2Q 2019 stood at RUB 82.2 billion with margin of 24.0%. The impact of the fire at the Voronezh DC on gross margin was 29 bps. Adjusted for this one-off factor, gross margin in 2Q 2019 was flat YoY due to better commercial terms despite higher shrinkage and logistics costs.

EBITDA in 2Q 2019 was RUB 24.2 billion with 7.1% margin. The decline of 87 bps YoY was caused by gross margin dynamics, LTI provisions and increased operating expense. The growth of operating expense of 44 bps YoY was driven by higher payroll, rental, marketing and other costs.

However, the operating expense in 2Q 2019 includes two one-off type payments totalling 44 bps, the higher of which was RUB 899 million relating to long term consultancy contracts that were expensed in Q2 as the projects were finished.

Depreciation of assets in the 2Q 2019 was RUB 11.7 billion, 35.3% higher than in the 2Q 2018. Under the new IFRS 16 methodology, the Company has adjusted useful life of assets in line with the period of corresponding lease agreements. As a result, useful life of reconstructions has been decreased from 30 years to 10 years and depreciation has been recalculated accordingly.

Net finance costs increased by 102.4% to RUB 3.9 billion compared to 2Q 2018 (RUB 1.9 billion) due to a combination of higher interest rates and higher average amount of borrowings compared to the previous year. The weighted average effective interest rate for 2Q 2019 was 8.0% (including the effect of subsidized debt).

Income tax for 2Q 2019 was RUB 2.4 billion. Effective tax rate increased to 27.8% compared to 20.8% in 2Q 2018 due to higher share of non-deductible expenses.

As a result, net income in 2Q 2019 decreased by 39.5% YoY and stood at RUB 6.3 billion. Net income margin decreased by 154 bps YoY to 1.8%.

As of 30 June 2019 Net Debt was RUB 181.4 billion compared to RUB 137.8 billion at the end of 2018. The net debt increase was due to payments of dividends for the full year 2018 and acceleration of redesign program and store openings. Company's debt is fully RUB denominated matching revenue structure. As of end of 2Q 2019 it was 62% long-term debt. Net/Debt to EBITDA ratio was 2.1x.

IFRS 16 implications

Under the IFRS 16 methodology rent expense went down by RUB 15.6 billion bringing new EBITDA up to RUB 40.4 billion and EBITDA margin of 11.8%, which is 473 bps better versus IAS 17 result.

Depreciation increased by RUB 13.0 billion and interest expenses grew by RUB 8.0 billion.

2Q 2019 income tax compared to IAS 17 improved by 41.2% or RUB 1 billion, while profit before tax decreased by 54.4% or RUB 4.7 billion. New effective tax rate was 35.9% compared to 27.8% in 2Q 2019 pre-IFRS 16 driven by increased share of non-deductible expenses.

As a result, IFRS 16 net income stood RUB 2.5 billion or 0.7% margin. It was RUB 3.7 billion and 109 bps lower compared to previous accounting methodology.

Note:

1. This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016.
2. Please note that there may be small variations in calculation of totals, subtotals and/ or percentage change due to rounding of decimals.

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Note to editors:

Public Joint Stock Company "Magnit" is one of Russia's leading retailers. Founded in 1994, the company is headquartered in the southern Russian city of Krasnodar. As of June 30, 2019, Magnit operated 38 distribution centres and 19,884 stores (14,231 convenience, 466 supermarkets and 5,187 drogerie stores) in 3,354 cities and towns throughout 7 federal regions of the Russian Federation.

In accordance with the unaudited IFRS management accounts for 1H 2019, Magnit had revenues of RUB 662 billion and an EBITDA of RUB 43 billion. Magnit's local shares are traded on the Moscow Exchange (MOEX: MGNT) and its GDRs on the London Stock Exchange (LSE: MGNT) and it has a credit rating from Standard & Poor's of BB.

Forward-looking statements:

This document contains forward-looking statements that may or may not prove accurate. For example, statements regarding expected sales growth rate and store openings are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from what is expressed or implied by the statements. Any forward-looking statement is based on information available to Magnit as of the date of the statement. All written or oral forward-looking statements attributable to Magnit are qualified by this caution. Magnit does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances.

^[1] Since 2019 the Company reviewed revenue composition and reclassified income from advertising services and rental income from respective cost centres into revenue line. Changes were applied retrospectively and had impact on all ratios calculated as percentage of revenue.

^[2] LFL calculation base includes stores, which have been opened for 12 months since its first day of sales. LFL sales growth and average ticket growth are calculated based on sales turnover including VAT.

^[3] The number of stores does not include pharmacies.

^[4] Note during 2018 and 1H 2019 the Company extended list of expenses related to cost of sales, including expenses for the processing of goods at distribution centres (payroll, utilities, etc.), penalties for goods for resale, cost of sales for promo campaigns. The Company applied changes retrospectively and recalculated comparable data for 2018.

^[5] Excluding VAT

^[6] Excluding VAT

^[7] 2Q 2018 numbers have been recalculated to be comparable with the 2Q 2019 approach, including new methodology of gross profit calculation.

^[8] Adjusted for the accident on Voronezh DC and LTI expense

^[9] Long-Term Incentive Program

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