

Wednesday, 21 August 2024 | update

# Allegro: buy (reiterated)

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

## Favorable Fundamentals in the Polish Market

Since our November 2023 recommendation, Allegro's share price has risen 26.3%, outperforming the WIG index by 13.1pp. We continue to believe that Allegro's shares are undervalued by the market.

Allegro's earnings from the key Polish market reflect a number of positive trends. Firstly, the take rate is increasing due to changes in co-financing, introduced in recent months, moreover, the share of more profitable categories in the allegro.pl marketplace mix, such as Health & Beauty, is rising while Electronics take up less space. Thirdly, trading down has become less prominent, and we expect the pace of annual growth in items sold and GMV in 2Q'24 to be at similar levels. Fourth, the share of parcel machines (APM) in the logistics mix is growing. All of this is having a positive impact on Allegro's profitability.

We raise our FY2022 full-year adjusted EBITDA forecast for the Polish market by 4% to PLN 3,632m (+23% y/y). Please note that we still expect a significant increase in marketing costs in H2 2024 due to promotional initiatives initiated to counter the expansion of Temu in the Polish market. We also introduce a new equity risk premium for the Polish market (5.0% instead of 6.0%), and we update the risk-free interest rate path to 2033.

After all this, we set our new target price for Allegro at PLN 48.90, which implies a fundamental upside of 31% and warrants a reiterated buy recommendation. With that said, note that ALE is trading at a significant premium to its peers (ca. 40%) at 13.5x EV/EBITDA'24. This is justified by Allegro's significantly higher growth than the peer group (12% revenue vs. 3% median for the peer group). However, Allegro's share price is 28% higher than the price agreed in the last ABB of April 2024. From this perspective, we believe that the risk of share supply from major shareholders will be the main sentiment dampener.

### Strong Q2 2024 Results Expected

Taking into consideration all the positive trends already observed in the first quarter, we expect very good results from Allegro for 2Q 2024. We estimate the quarter's take rate at 12.39% after a 1.16 p.p. y/y rebound. That would result in marketplace revenue of PLN 1,841m, implying an increase of 22.7% y/y (a slight improvement on 1Q momentum). Net cost of delivery in the Polish market is estimated at PLN 664m, equivalent to 4.44% of the GMV generated in Poland. Adjusted EBITDA from Polish operations is projected at PLN 890m (+32.2% y/y).

### International Business Looking Better

Allegro launched a marketplace in Slovakia at the end of February 2024. The launch was four times faster and one-fifth of the cost of the Czech launch. Allegro reports promising results in the Czech and Slovakian markets, with GMV growing at a fast pace, the same as revenue. From a commercial point of view, the Allegro brand is becoming recognizable and allegros CZ and SK have already gathered a combined 2 million active buyers.

At the same time, the EBITDA losses suffered by Mall Group have been contained despite strong GMV contraction.

(PLN m)	2022	2023	2024E	2025E	2026E
Revenue	9,004.9	10,185.3	11,435.5	12,885.7	14,408.2
EBITDA (adj.)	2,152.8	2,540.1	3,102.9	3,651.6	4,390.3
margin	23.9%	24.9%	27.1%	28.3%	30.5%
EBIT	-1,182.1	790.1	2,031.9	2,687.8	3,407.2
Net profit	-1,916.8	284.1	1,411.5	1,989.4	2,597.0
P/E	-	139.3	28.0	19.9	15.2
P/S	4.4	3.9	3.5	3.1	2.7
P/B	4.4	4.4	3.7	3.5	3.4
EV/EBITDA (adj.)	21.3	17.4	13.5	11.3	9.3
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 37.44
target price	PLN 48.90
mCap	PLN 40.7bn
free float	PLN 21.8bn
ADTV (3M)	PLN 97.2m

\*Price as of August 20, 2024, 5:00 PM

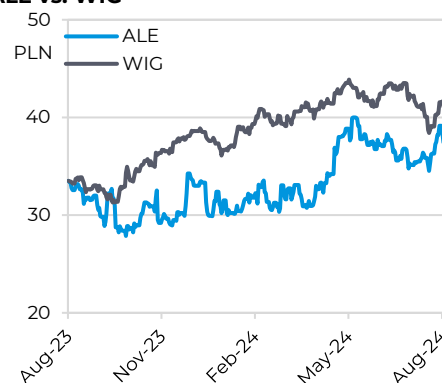
### Shareholders

Cidinan S.à r.l.	18.81%
Permira VI Investment Platform Ltd	22.10%
Others	59.09%

### 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 August 2024, Allegro has the seventh-biggest online presence in Poland with 18.8 million real users and a reach of 63.35%. Allegro's 2023 revenue amounted to PLN 10.2 billion, the vast majority of which came from the allegro.pl platform. Advertising and a price comparison engine were also fairly significant revenue generators.

### ALE vs. WIG



Company	Target Price		Recommendation	
	new	old	new	old
Allegro	48.90	40.00	buy	buy

Company	Current Price	Target Price	Upside
Allegro	37.44	48.90	+30.6%

Forecast Update	2024E	2025E	2026E
Revenue	-0.7%	-1.9%	-2.2%
EBITDA (adj.)	+4.3%	+1.2%	+0.2%

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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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**HOLD** – we expect that the rate of return from an investment will range from 0% to +10%  
**SELL** – we expect that an investment will bear a loss

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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.

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**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
Rating date	2024-05-06	2023-11-27	2023-10-02
Target price (PLN)	40.00	35.30	41.10
Price on rating day	34.20	29.64	32.24

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