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Company Comment	Retail	Sweden	29 July 2019
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## Main owner bids for remaining shares

**Mellby Gård AB, the owner of 29.6% of shares in KappAhl, the value retailer of private label apparel, has announced an all-cash bid for KappAhl's remaining shares. At SEK 20/share, the bid values KappAhl's equity at c.SEK 1.5bn, a 43% premium to Friday's close. The shares are down 62% in the past year and the implied valuation is a discount to historical levels. Importantly, structural issues from digitalization will burden medium-term retail store margins and profitability.**

### Valuation looks low, but should reflect structural issues ahead

Mellby Gård's bid values KappAhl at an EV/Sales of 0.43x our revenue forecasts for the fiscal year starting September 2019. Based on our earnings forecasts, the corresponding EV/EBIT would be about 11.5x, slightly below or in line with the average consumer and retail sector valuation at about 12x-13x. In a more narrow peer group, local apparel retailers trading from physical stores are being valued at about half of these levels (KappAhl closed at an EV/EBIT of about 8x on Friday - last close prior to this bid). Historically, KappAhl has been valued at a 10 year average EV/Sales valuation of closer to 0.7x. These levels were also based on different margin scenarios; in our current forecasts, our EBIT margins are closer to 4%, half the levels of where they have been in recent history.

### We reckon there should be synergy potentials with its other retail assets

Mellby Gård states that it will not raise its SEK 20 per share bid. The bid is not contingent on any financing but will be financed in full by Mellby Gård's balance sheet. The offer is contingent on Mellby Gård achieving over 90% of the shares, but states that it could consider settling the transaction at a lower acceptance rate. The offer prospectus will be published on 22 August and the acceptance period will run from 23 August to 20 September. We argue that because the group owns two other apparel retailers (Flash, DEA Axelson) it should be able to find some synergies, especially in upstream sourcing.

Key figures				
(SEKm)	17/18	18/19E	19/20E	20/21E
Revenues (m)	4,762	4,809	4,723	4,703
Adj. EBIT	292	149	178	173
PTP (m)	283	88	162	163
EPS	2.92	0.90	1.66	1.67
EPS (adjusted)	3.03	1.34	1.66	1.67
DPS	2.00	0.60	1.10	1.20
Revenue growth (%)	(3.1)	1.0	(1.8)	(0.4)
EPS growth (%)	(38.6)	(55.7)	23.4	0.8
Operating margin (%)	5.9	2.2	3.8	3.7
ROCE (%)	13.9	5.3	8.9	8.6
Net Debt/EBITDA (x)	0.9	1.6	1.1	1.0
PER (adjusted)	5.7	10.4	8.5	8.4
Dividend yield (%)	11.5	4.3	7.9	8.6
P/BV (x)	0.8	0.7	0.7	0.6
EV/EBIT (x)	6.1	14.2	8.0	8.1
EV/Sales (x)	0.36	0.31	0.30	0.30

Source: SEB

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