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Consumer & Leisure



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	DPP.L
Price (p)	8
12m High (p)	36
12m Low (p)	7
Shares (m)	250
Mkt Cap (£m)	20
EV (£m)	18
Free Float*	64%
Market	AIM

*As defined by AIM Rule 26

Description

DP Poland (DPP) has the master franchise for Domino's Pizza in Poland. It has 66 stores, of which 42 are corporately owned. It is rolling out steadily and trialling a partnership with takeaway.com.

Company information

CEO	Peter Shaw
CFO	Maciej Jania
Chairman	Nicholas Donaldson
	+44 20 3393 6954
	www.dppoland.com

Key shareholders

Directors	5.2%
Cannacord Genuity	13%
Pageant Holdings	17%
Fidelity	16%
Octopus Investments	3%

Diary

May'19	AGM
Jul'19	1H trading update
Sep'19	Interim results

Analyst

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DP POLAND

FY18 results announced

DPP announced FY18 results this morning, which, as previously trailed, were impacted by unseasonably warm weather and competitive marketing activity by delivery aggregators, but still managed 24% growth in system sales. The company raised £5.5m net in a placing in February, which should fund store growth through to 2020 and support its innovative online marketing programme. January and February comparisons were tough because of the TV advertising conducted in the same period last year. The growth focus will be on splitting territories and larger cities. DPP is also looking to sell some stores to sub-franchisees and maybe close some underperformers.

- **Strategy:** DPP has spent its first few years proving the Domino's Pizza model in Poland. It has scope to double the number of operations over the next few years. As the stores mature, the success should show up in reported profits. DPP aims to be smarter than its competitors in its marketing – using digital media, rather than expensive display advertising.
- **Competitive market:** The new food delivery aggregators have money to spend and are impacting DPP's above-the-line promotional activity, with aggressive (and possibly unsustainable) marketing activity. DPP is now trialling a partnership with takeaway.com. It allows DPP full control of product, service and delivery, while piggy-backing on its marketing spend. Early signs are positive.
- **Valuation:** With no reported profits expected for the next few years, we value DPP on a per-store basis. In our initiation note (*'Fully proven model rolls out', 18 September 2018*) we derived a central value of ca.£80m, to reflect the delay in the maturing of the business; we now discount this for a further year, to £72m, or 29p per share.
- **Risks:** The biggest short-term risk to DPP is the deep pockets of the new disruptors: the food delivery aggregators. This has already impacted DPP's growth, as it struggles to get its message across, against competitors spending 20x or even 25x what DPP is spending. Another hot summer without the world cup to compensate would not be helpful.
- **Investment summary:** The story for DPP is quite simple: it has a powerful retail consumer franchise in a fast-developing economy. The nature of a Domino's Pizza franchise is that it takes time to get to profitability, which leaves management with a fine line to draw between growth and short-term losses. Disruptive competitive activity pushes the path to profitability further into the future, but also grows the delivery market. The model remains sound, in our view.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Revenue	7.6	10.4	12.4	12.7	16.3
Store EBITDA	1.5	0.7	0.7	0.4	0.6
Group EBITDA	-1.6	-1.8	-1.9	-2.1	-1.6
EBIT	-2.5	-2.7	-3.9	-3.2	-2.8
Finance costs	0.1	0.1	0.1	0.0	0.0
PBT	-2.5	-2.6	-3.8	-3.2	-2.8
PAT	-2.5	-2.6	-3.8	-3.2	-2.8
EPS (p)	-1.9	-1.9	-2.5	-1.4	-1.1
EPS adjusted (p)	-1.81	-1.85	-2.6	-1.4	-1.1
Net cash	6.0	4.1	1.7	3.2	0.3
Shares issued (m)	129	142	150	230	250
EV/Sales (x)	3.6	2.6	1.3	1.3	1.0

Source: Hardman & Co Research

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