



25 September 2019

Consumer & Leisure



Source: Refinitiv

Market data

EPIC/TKR	DPP.L
Price (p)	5.8
12m High (p)	34
12m Low (p)	5.4
Shares (m)	250
Mkt Cap (£m)	14.5
EV (£m)	11.0
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 69 stores, of which 42 are corporately owned. It is rolling out steadily, and has a partnership with takeaway.com.

Company information

General Manager	Iwona Olbrys
CFO	Maciej Jania
Chairman	Nicholas Donaldson
	+44 20 3393 6954
	www.dppoland.com

Key shareholders

Directors	5.2%
Cannaccord Genuity	13%
Pageant Holdings	17%
Fidelity	10%
Octopus Investments	5%

Diary

Dec'19	FY trading update
Mar'19	Final results
May'20	AGM

Analyst

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DP POLAND

FY19 interim results announced

DPP has announced FY19 interim results in line with the trading update given in July. Growth has been restored following tricky comparisons with January/February last year. System sales, like-for-like, were positive in the first three months of 2H, and performance was in line with management expectations. Four new stores have opened, with two more in the pipeline, and three corporate stores have been sold to sub-franchisees. The partnership with the aggregator Pyzyczne is said to be positive. The company's stated growth focus is on splitting territories and finding more sub-franchisees. A new General Manager has been appointed. We are putting through no changes to our forecasts.

- **Strategy:** DPP has now reached 69 stores and, despite aggressive competition from food delivery aggregators, has proven that the concept works in Poland. It now needs to see immature stores reach profitability, and focus its growth on splitting territories and finding more sub-franchisees.
- **Competitive market:** The new food delivery aggregators continue to pursue aggressive (and possibly unsustainable) marketing activity. DPP has partnered with takeaway.com (Pyzyczne), and has found that its incremental contribution to stores (especially new ones and those outside Warsaw) is positive.
- **Valuation:** With no reported profits expected for the next few years, we value DPP on a per-store basis, which is explained in our initiation note of 18 September 2018, *Fully proven model rolls out*. To reflect the delay in the maturing of the business in March this year, we discounted the value further, to £72m, or 29p per share.
- **Risks:** The biggest short-term risk to DPP is the deep pockets of the new disruptors. 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. Food prices and wage inflation are also a constant threat to margins.
- **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	0.9	0.7

Source: Hardman & Co Research

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