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Company Comment	Retail	Sweden	20 October 2023
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Q3E: It's all about earnings

Ahead of Nelly's (a leading online retailer of younger womens' fashion) Q3 results due on 27 October, we leave our forecasts unchanged and we reiterate our mid-point equity value of SEK 18. This implies that Nelly will record another marked y/y improvement in quarterly EBIT, corroborating its new strategy prioritising profitability over growth. Since its Q2 report the shares have added 151%. Still, Nelly is being valued at 0.20x our 2024 lease-adjusted EV/Sales estimates.

We maintain our estimates and our mid-point value of SEK 18 per share

Mid-point valuation summary

Valuation and mid-point DCF summary (SEK)

DCF value, mid-point (SEK)	18.00		
Share price (SEK)	12.50		
2024E EV/Sales (ex. lease debt) at current share price (x)	0.20		
2024E EV/EBIT (ex. lease debt) at current share price (x)	6.0		
	Low	High	Mid
DCF valuation range (SEK)	13.50	22.50	18.00
Share price potential vs. DCF valuation range (%)	8	80	44
2024E EV/Sales (ex. lease debt) at DCF valuation range	0.22	0.45	0.34
2024E EV/EBIT (ex. lease debt) at DCF valuation range	6.8	13.7	10.2

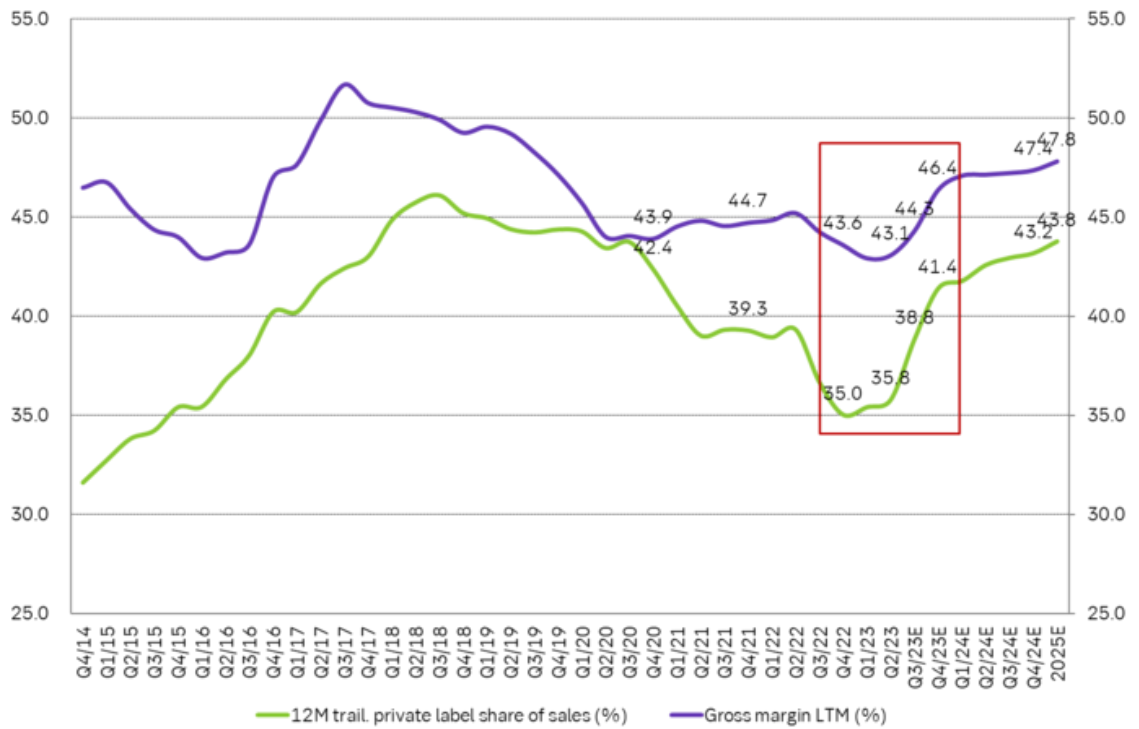
Source: SEB

Asset valuation

Asset valuation (SEKm)	Q2/22	Q3/22	Q4/22	Q1/23	Q2/23
Net cash, excl. IFRS-16 lease liabilities	83	11	97	24	150
Tangible assets	14	13	12	11	11
Stock-in-trade	250	290	226	232	182
Tax loss carry-forwards (@ 20.6% standard corporate tax rate)	134	134	134	134	134
Cash and asset valuation, total	481	447	468	401	477
Group market capitalization	381	381	381	381	381
Deducting lease liabilities	(307)	(300)	(295)	(288)	(282)
Net asset valuation including lease obligations	174	147	174	113	195
Group market capitalization	381	381	381	381	381

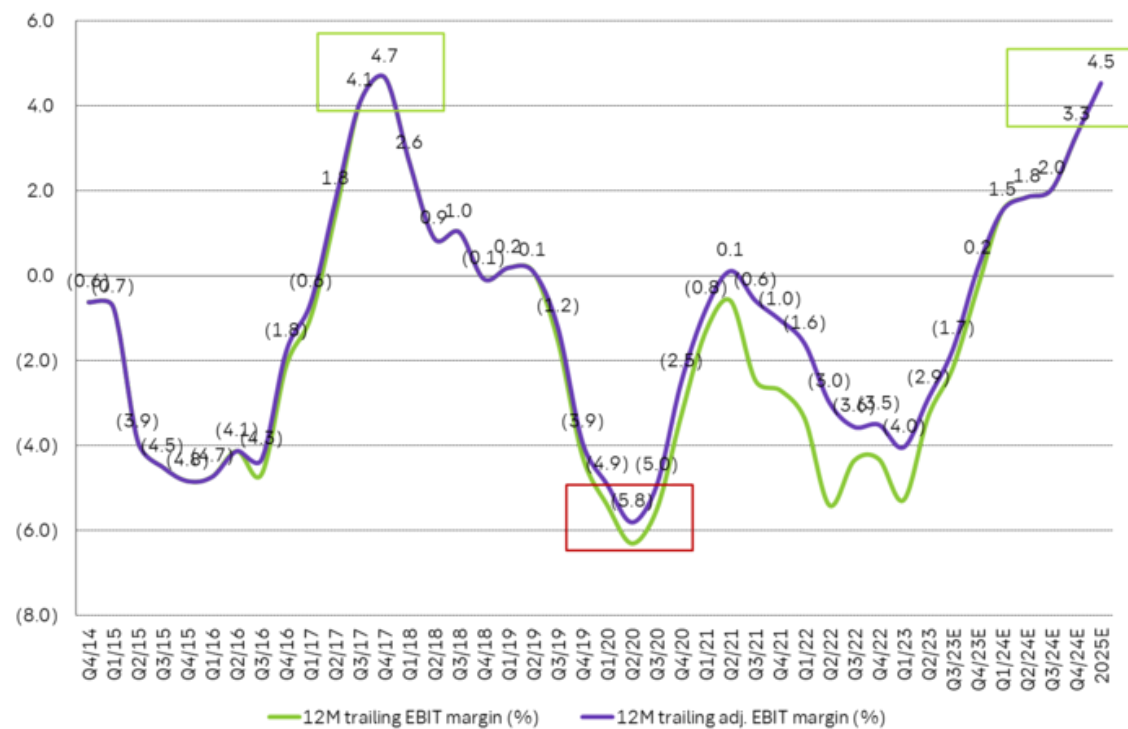
Source: SEB, Nelly Group

Case in a nutshell: focus on margins (%)



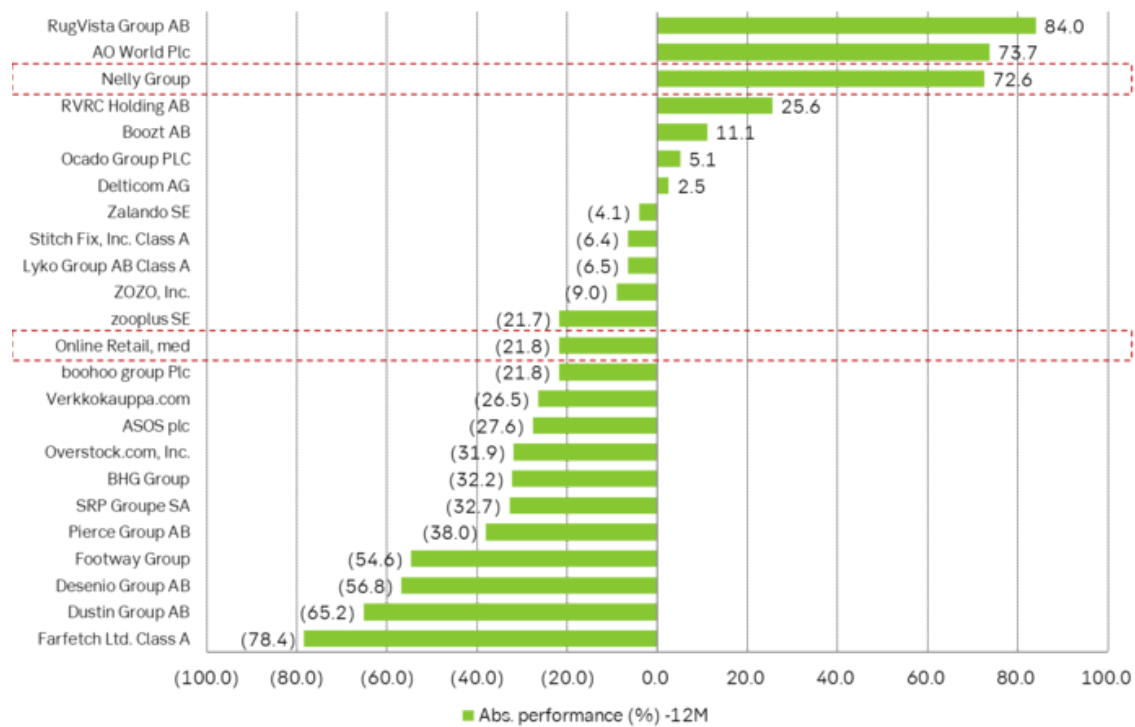
Source: SEB

12M trailing adjusted EBIT forecasts (%)



Source: SEB

Online retail peer group share price performance, -1Y (%)



Source: SEB, Factset

Mid-point DCF valuation summary

DCF valuation (SEKm)		Weighted average cost of capital (%)	
NPV of FCF in explicit forecast period	248	Risk free interest rate	2.5
NPV of continuing value	193	Risk premium	5.0
Value of operation	441	Cost of equity	7.5
Net debt	(107)	After tax cost of debt	2.0
Share issue/buy-back in forecast period	-	WACC	7.5
Value of associated companies	-		
Value of minority shareholders' equity	-	Assumptions	
Value of marketable assets	-		
DCF value of equity	547	Number of forecast years	10
DCF value per share (SEK)	18.00	EBIT margin - steady state (%)	2.3
Current share price (SEK)	12.90	EBIT multiple - steady state (x)	10.6
DCF performance potential (%)	40	Continuing value (% of NPV)	43.8

Source: SEB

DCF sensitivities: growth vs. margins (SEK p. sh)

Absolute change in EBITDA margin - all years						
		-2%	-1%	0	+1%	+2%
Abs. change in sales growth - all years	-2%	8.80	12.70	16.60	20.50	24.40
	-1%	9.00	13.10	17.30	21.40	25.50
	0	9.20	13.60	18.00	22.30	26.70
	+1%	9.40	14.10	18.70	23.30	27.90
	+2%	9.70	14.60	19.50	24.30	29.20

Source: SEB

Main forecast assumptions

Gross profit forecasts (SEKm)	Q1/22	Q2/22	Q3/22	Q4/22	Q1/23	Q2/23	Q3/23E	Q4/23E	2022	2023E	2024E	2025E
Cost of goods sold	(160.6)	(178.0)	(166.3)	(227.9)	(138.4)	(147.2)	(131.3)	(181.0)	(732.7)	(597.9)	(633.1)	(649.8)
COGS growth (%)	(8.5)	(17.0)	(1.7)	(1.1)	(13.8)	(17.3)	(21.0)	(20.6)	(7.2)	(18.4)	5.9	2.6
COGS/sales (%)	55.7	52.4	58.5	58.9	59.1	51.0	53.0	52.5	56.4	53.6	52.6	52.2
COGS/sales, chg. y/y (pp)	(0.5)	(1.6)	4.4	2.3	3.4	(1.4)	(5.5)	(6.3)	1.1	(2.8)	(1.0)	(0.4)
Gross profit	127.5	161.4	118.1	159.3	95.8	141.4	116.5	163.5	566.3	517.2	569.5	595.2
Gross margin (%)	44.3	47.6	41.5	41.1	40.9	49.0	47.0	47.5	43.6	46.4	47.4	47.8
GM, chg. y/y (pp)	0.5	1.6	(4.4)	(2.3)	(3.4)	1.4	5.5	6.3	(1.1)	2.8	1.0	0.4
Sales mix assumptions and GM bridge	Q1/22	Q2/22	Q3/22	Q4/22	Q1/23	Q2/23	Q3/23E	Q4/23E	2022	2023E	2024E	2025E
Private label sales (SEKm)	98.0	132.4	97.2	127.4	83.8	118.9	119.5	139.4	454.9	461.7	519.2	545.0
Private label share of sales (%)	34.0	39.0	34.2	32.9	35.8	41.2	48.2	40.5	35.0	41.4	43.2	43.8
PL share, chg. y/y (pp)	(1.9)	1.3	(11.7)	(5.4)	1.8	2.2	14.0	7.6	(4.3)	6.4	1.8	0.6
Return sales (SEKm)	(123.6)	(136.8)	(119.4)	(103.9)	(117.7)	(113.5)	(101.0)	(84.2)	(415.7)	(336.8)	(369.7)	(379.0)
Return rate LTM (%)	35.2	40.6	36.2	32.0	37.8	38.0	34.9	30.2	32.0	30.2	30.7	30.4
Return rate LTM, chg. y/y (pp)	4.9	4.6	(0.8)	(3.1)	2.6	(2.6)	(1.3)	(1.8)	(3.1)	(1.8)	0.5	(0.3)
Markdowns	3.5	2.8	(4.0)	(2.1)	(1.5)	(1.0)	(1.5)	0.5	0.0	(0.9)	(0.2)	0.2
PL share	(0.9)	0.6	(2.9)	(1.6)	0.4	1.1	6.3	4.5	(1.2)	3.1	1.1	0.3
Return rates	(1.9)	(1.8)	1.6	1.6	(0.6)	1.3	0.9	1.3	(0.2)	0.7	(0.0)	0.2
FX	0.0	0.0	0.0	0.0	(1.7)	(1.2)	(1.0)	(0.5)	0.0	(1.1)	0.0	0.0
Other	(0.1)	(0.0)	1.0	(0.1)	0.0	1.2	0.8	0.5	0.2	1.0	0.1	(0.2)
Gross margin change, y/y (pp)	0.5	1.6	(4.4)	(2.3)	(3.4)	1.4	5.5	6.3	(1.1)	2.8	1.0	0.4

Source: SEB

Financial forecasts

Nelly Group - consolidated interim financial statement (SEKm)	Q1/22	Q2/22	Q3/22	Q4/22	Q1/23	Q2/23	Q3/23E	Q4/23E	2022	2023E	2024E	2025E
Net sales	288.1	339.4	284.3	387.2	234.2	288.6	247.8	344.5	1,299.0	1,115.1	1,202.6	1,245.0
COGS	(160.6)	(178.0)	(166.3)	(227.9)	(138.4)	(147.2)	(131.3)	(181.0)	(732.7)	(597.9)	(633.1)	(649.8)
Gross profit	127.5	161.4	118.1	159.3	95.8	141.4	116.5	163.5	566.3	517.2	569.5	595.2
SG&A costs	(151.4)	(169.4)	(130.0)	(161.1)	(124.5)	(133.7)	(113.9)	(143.4)	(611.8)	(515.4)	(529.8)	(538.8)
Other operating income/costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-recurring items	0.0	(10.5)	0.0	0.0	(5.0)	0.0	0.0	0.0	(10.5)	(5.0)	0.0	0.0
EBIT	(23.9)	(18.5)	(11.9)	(1.8)	(33.7)	7.7	2.6	20.1	(56.1)	(3.2)	39.7	56.4
Of which: NRI	0.0	(10.5)	0.0	0.0	(5.0)	0.0	0.0	0.0	(10.5)	(5.0)	0.0	0.0
Adj. EBIT	(23.9)	(8.0)	(11.9)	(1.8)	(28.7)	7.7	2.6	20.1	(45.6)	1.8	39.7	56.4
Net financial items	(5.0)	(1.3)	(4.3)	(4.8)	(1.5)	(3.5)	(3.7)	(4.2)	(15.4)	(12.9)	(10.9)	(10.9)
Reported pre-tax profit	(28.9)	(19.8)	(16.2)	(6.6)	(35.2)	4.2	(1.1)	16.0	(71.5)	(16.1)	28.8	45.5
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total taxes	0.1	0.4	0.4	(1.0)	0.3	0.3	0.0	(0.6)	(0.1)	0.0	0.0	0.0
Net profit (cont. operations), reported	(28.8)	(19.4)	(15.8)	(7.6)	(34.8)	4.5	(1.1)	15.3	(71.6)	(16.1)	28.8	45.5
Net profit (cont. operations), adj. for NRI net of 22% tax	(28.8)	(11.2)	(15.8)	(7.6)	(30.9)	4.5	(1.1)	15.3	(63.4)	(12.2)	28.8	45.5
Net income from discont. operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total net income	(28.8)	(19.4)	(15.8)	(7.6)	(34.8)	4.5	(1.1)	15.3	(71.6)	(16.1)	28.8	45.5
EPG, reported (cont. oper)	(15.6)	(10.5)	(8.5)	(4.1)	(1.88)	0.17	(0.04)	0.58	(3.87)	(0.61)	0.94	1.49
EPG, adj. (cont. oper)	(15.6)	(0.61)	(8.5)	(4.1)	(1.67)	0.17	(0.04)	0.58	(3.43)	(0.46)	0.94	1.49

Source: SEB

Key figures

(SEKm)	2022	2023E	2024E	2025E
Revenues (m)	1,299	1,115	1,203	1,245
Adj. EBIT	(46)	2	40	56
PTP (m)	(71)	(16)	29	45
EPS	(3.87)	(0.61)	0.94	1.49
EPS (adjusted)	(3.42)	(0.46)	0.94	1.49
DPS	0.00	0.00	0.00	0.00
Revenue growth (%)	(9.1)	(14.2)	7.8	3.5
EPS growth (%)	n.a.	n.a.	n.a.	n.a.
Operating margin (%)	(4.3)	(0.3)	3.3	4.5
ROCE (%)	(9.6)	0.4	8.3	10.9
Net Debt/EBITDA (x)	(95.1)	3.9	1.8	1.2
PER (adjusted)	(2.0)	(28.1)	13.7	8.6
Dividend yield (%)	0.0	0.0	0.0	0.0
Free Cash Flow Yield (%)	(83.0)	(11.2)	9.3	7.1
P/BV (x)	1.0	2.4	2.0	1.6
EV/EBIT (x)	(7.2)	326.8	13.8	9.2
EV/Sales (x)	0.25	0.52	0.46	0.42

Source: SEB

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