

PG: Where do we stand now?

Post COVID-19 outbreak in Malta, we have seen all shares trading lower, including PG, with the price dropping to a low of €1.60 over the past couple of weeks. Given that PG operates in multiple lines of business within the retail segment the shares were not spared in this sell-off. However, an investor must keep in mind that the retail business is skewed towards the supermarket chain which is doing well in this environment.

In the short term, the Group's supermarket business segment is expected to benefit from the increased consumption and stocking up brought about by the COVID-19 outbreak. With respect to the retail mall operation and the Zara® franchise, the Group is expected to have a negative impact given that this was classified as a non-essential service. However, it is crucial to point out that, as per H1 2020 results, the Group's retail business only accounts for circa 18% of PG's total revenue, therefore the Group is still expected to retain its strong cash position.

Although the pandemic impact on PG's financial performance is still unknown at this stage, we expect that the essential nature of the Group's supermarket business, coupled with the low gearing level maintained by PG, to act as a powerful means in order to contain the overall COVID-19 impact. This will potentially enable the Group to mitigate the challenges that the pandemic will present.

Notwithstanding the points discussed above, it is important for investors to keep in mind that the PG Group is fully geared to benefit mainly from their franchise and retail mall operations once the current COVID-19 situation will push the local economy to sail within calmer waters. Once this situation is overturned, we should see an increase in consumption in terms of the Group's franchise operations.

With the daily COVID-19 developments, the outlook of the local economy still remains uncertain. However, this does not mean that long-term investors shouldn't consider building up positions in companies with unique business models, including PG, that have the necessary characteristics to weather the storm in these unprecedented times. In the medium to long term, once all of this is over, we expect PG's share price to reflect its intrinsic value moving forward.

H120 financial results: Robust profitability potential

As per latest results, PG registered another solid financial performance, with profit increasing by 28.3% over H1 2019. Such positive performance is partly due to both Pama and Pavi operating at full capacity, and due to the initiation of operations of the newly refurbished Zara® outlet in Sliema.

Company update:

As per FY20¹ interim results, the Group resolved to distribute a net interim dividend of €2 million or €0.0185/ share in respect of the current financial year. PG typically maintains a dividend pay-out ratio of circa 50% on a yearly basis. It is important to keep in mind the financial performance for H1 2020 and the corresponding dividend payment does not capture the implications of COVID-19 which PG started to experience during the first quarter of the current calendar year.

	FY2017	FY2018	FY2019	CAGR/AVG
Revenue (€'m)	92	101	108	8.5%
Net profit (€'m)	7.4	7.7	8.9	10.2%
EPS (€)	0.068	0.071	0.083	10.2%
DPS (€)	Nil	0.039	0.042	4.1%
Dividend pay-out	Nil	55.5%	50.4%	52.9%

¹ The Group's fiscal year-end is 30th April

Country	Malta
Industry	Retail
Ticker	PG
Price (as at 16/04/2020)	€1.70
Market Cap	€183.6m
Ranking on the MSE	10 th largest market cap
Shares Outstanding	108m
Free Float	25.0%
Net Dividend Yield *	2.6%
Current P/E (FY19)	18.2x
<i>* Based on the 2020 Last Twelve Months (LTM)</i>	

Company Overview:

PG plc is engaged in the retailing of food, household goods and other ancillary products through the Pavi Shopping Complex and Pama Shopping Village, and the selling of Zara® clothing and Zara Home® household goods as a franchise of the Inditex Group. The Group also leases a number of retail outlets within Pavi Shopping Complex and Pama Shopping Village to third parties.

Exchange	Malta Stock Exchange (MSE)
3-year range	€1.25 - €2.06

Price and Volume Movement (20 day moving average)

Source: Bloomberg

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17th April 2020

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