

Struggling with margins

Verkkokauppa.com's Q3 earnings fell short from our estimates, while revenue growth topped the estimates. Top line grew by 9.1% to EUR 141m, gross profit remained steady y/y at EUR 20.9m and adj. EBIT amounted to EUR 4.7m.

- Net sales topped our estimates (EUR 139.7m) and grew by 9.1% y/y to EUR 141m, driven by all business segments.
- The strategic growth area, B2B, grew strongly by 22% in quarter. Growth came from the customer segments of large as well as small and medium sized enterprises. The export business returned to the growth path once travel restrictions were relieved, and export sales increased 4.5% during the period, representing 6% of total sales. The company succeeded well in converting many online visitors to regular buying customers during the comparison period, with an improvement of conversion rate.
- Gross margin was 14.8% and fell below our estimates (16.5%). Gross profit ultimately amounted to EUR 20.9m and was on the same level as in comparison period. Gross margin was affected by tightened competition in lower-margin categories like phones, computers, and home appliances. Also, the share of low-margin products was increased in Q3.
- Adj. EBIT was below our estimates (EUR 6.8m) and was mostly affected by tightened gross margin. The EBIT saw a decline of 17% and amounted to EUR 4.7m (margin of 3.3%).
- Adj. EPS amounted to EUR 0.08 (Evli: EUR 0.12) and saw a decline of 15%.
- The company guides EUR 570-620m revenue and EUR 20-26m adj. EBIT for FY '21 (unchanged)

Rating

BUY

Q3'21	Actual	Evli	Cons.	Year ago	Q2'21
Net sales	141.0	139.7	138.6	129.3	130.5
Gross profit	20.9	23.0		20.9	22.4
Adj. EBIT	4.7	6.8	6.2	5.6	5.1
Adj. EPS	0.08	0.12	0.11	0.09	0.08

Deviation	Actual	Evli	Cons.	Year ago	Q2'21
Net sales	-	1.0%	1.8%	9.1%	8.1%
Gross profit	-	-9.3%	-	-0.1%	-6.8%
Adj. EBIT	-	-31.3%	-25.4%	-17.0%	-8.9%
Adj. EPS	-	-30.5%	-27.3%	-15.1%	-5.5%

Share price, EUR (Last trading day's closing price) **8.66**

Target price, EUR **10.8**

Latest change in	27-Apr-20
Latest report on company	10-Oct-21
Research paid by issuer:	YES
No. of shares outstanding,	44,729
No. of shares fully diluted,	44,729
Market cap, EURm	387
Free float, %	50.8
Exchange rate	1.000
Reuters code	VERK.HE
Bloomberg code	VERK FH
Average daily volume, EURm	0.0
Next interim report	22-Oct-21
Web site	verkkokauppa.com/en/investors/

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BUY HOLD SELL

PRE-REPORT KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2019	504.1	11.3	2.2%	7.4	0.17	20.4	0.3	12.4	4.6	0.21
2020	553.6	20.4	3.7%	12.7	0.34	20.7	0.5	14.6	4.0	0.45
2021E	598.6	24.8	4.1%	25.9	0.42	20.8	0.6	14.5	6.7	0.25
2022E	643.5	27.7	4.3%	19.5	0.47	18.5	0.5	12.7	5.0	0.26
2023E	688.6	31.0	4.5%	25.1	0.53	16.4	0.5	10.9	6.5	0.28
Market cap, EURm		387		BV per share 2021E, EUR		-68.8		CAGR EPS 2020-23, %		15.3
Net debt 2021E, EURm		-27		Price/book 2021E		9.9		CAGR sales 2020-23, %		7.5
Enterprise value, EURm		361		Dividend yield 2021E, %		2.9		ROE 2021E, %		46.9
Total assets 2021E, EURm		184		Tax rate 2021E, %		20.3		ROCE 2021E, %		41.3
Goodwill 2021E, EURm		0		Equity ratio 2021E, %		21.5		PEG, P/E 21/CAGR		1.6

All the important disclosures can be found on the last pages of this report.

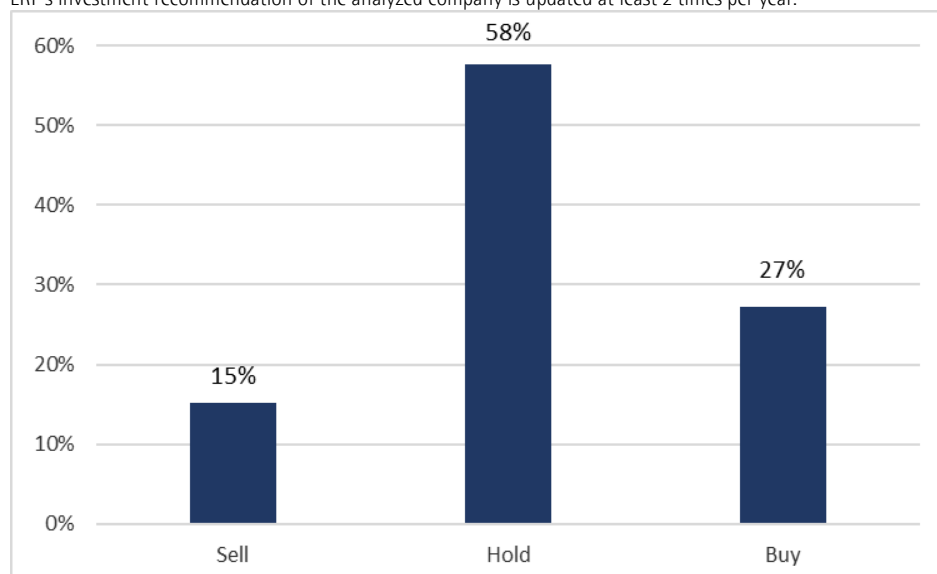
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Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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The graph above shows the distribution of ERP's recommendations of companies under coverage in 11th of May 2020. If recommendation is not given, it is not mentioned here.

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