

3 November 2020

Ilirija d.d.

BUY

BBG Ticker	ILRA CZ
Market Cap (USD mil)	50.6
Price	130
Price target	178
Upside	36.9%

Ilirija d.d.: 3Q20 a small beat on better-than-expected hotel segment

In its nine-month report, Ilirija noted that tightening travel restrictions affected its peak summer season from mid-August negatively, so were a bigger headwind than we expected, especially in the camping segment. This is similar to its peers, which have reported already, so it was expected, we believe. More importantly, in our view, is that the nautical and real estate segments proved quite resilient to COVID-19, key factors beneath the stability of its earnings both this year and going forward. We **initiated** on the stock at the end of October with a BUY recommendation and a price target (PT) of HRK 178/share. Following the 3Q20 report, we see no reason to change our positive view on the stock at the current levels.

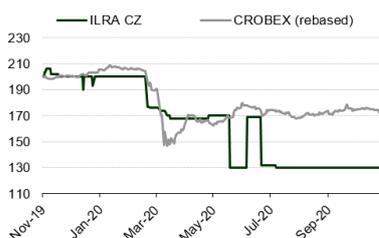
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POSITIVE

On 30 October, after the market closed, Ilirija reported 3Q net profit of HRK 15.0m (-57% yoy) on revenues of HRK 43.0m (-46% yoy) and EBITDA of HRK 19.6m (-50% yoy). Compared to our forecasts, the company beat our expectations in the quarter by 22% on the top line and by 7% on EBITDA. As expected, the revenues from the nautical and real estate segments proved resilient, falling by only 12% and 17% yoy, respectively, in the quarter. Hotels, on the other hand, were the hardest hit during the season, albeit not as badly as we had pencilled in for the quarter.



Ilirija: 3Q results

HRK m	3Q20	2Q20	1Q20	4Q19	3Q19	qoq	yoy	9M20	9M19	yoy
Total revenues	43.0	25.5	23.6	13.7	79.0	68%	-46%	92.1	149.8	-39%
Hotels	10.9	1.0	1.4	6.5	35.1	1004%	-69%	13.3	53.3	-75%
Nautical	14.2	12.9	13.3	4.0	16.1	10%	-12%	40.4	44.6	-9%
Camps	12.4	4.9	4.3	0.9	21.6	151%	-43%	21.7	34.4	-37%
Real estate	3.0	3.2	3.5	3.6	3.6	-6%	-17%	9.6	10.7	-10%
Other	2.3	3.5	1.1	2.9	2.5	-34%	-7%	6.9	6.8	1%
Opex	-23.4	-15.1	-18.1	-26.4	-39.9	55%	-41%	-56.7	-86.9	-35%
EBITDA	19.6	10.4	5.5	-12.8	39.2	89%	-50%	35.4	63.0	-44%
EBITDA margin	45.5%	40.6%	23.2%	-93.4%	49.6%			38.5%	42.1%	
Depreciation	-3.6	-3.6	-3.5	-3.4	-3.2	0%	12%	-10.7	-9.6	11%
Profit from operations	16.0	6.8	2.0	-17.5	35.9	136%	-56%	24.7	53.4	-54%
Net financial expenses	-1.0	-1.2	-0.4	-1.5	-1.0	-22%	-3%	-2.6	-3.0	-14%
Profit before taxation	15.0	5.5	1.6	-19.0	34.9	172%	-57%	22.1	50.3	-56%
Net profit	15.0	5.5	1.6	-19.0	34.9	172%	-57%	22.1	50.3	-56%

Source: Company data, WOOD Research

Revenues in the hotel segment fell by 69% yoy, to HRK 10.9m, whereas we expected only HRK 6.7m. This was driven by both a higher-than-expected occupancy rate – 45.2% in 9M20 vs. 78.4% in 9M19 – and a higher ADR. Compared to 3Q19, overnight stays fell 60% yoy, to 10.4k, vs. the 80% we had pencilled in, while we calculate Ilirija's 3Q20 revenues per sold room at HRK 1,204, or 13% higher yoy (we had pencilled in 5% yoy growth).

Nautical revenues fell 12% yoy, to HRK 14.2m, or in line with our forecast. Contract berth revenues of HRK 8.1m were flat yoy, with 3% fewer vessels on berth contracts (709), but a 3% higher average contact rate (HRK 42,094). Transit berth revenues fell by one-third to HRK 1.1m, on a combination of fewer overnight stays (-29% yoy) and some ADR compression, but the revenues from other nautical services held up somewhat better than we had pencilled in.

Revenues from campsite were c.14% weaker than expected, at HRK 12.4m (-43% yoy), which was driven by a steeper drop off in occupancy rates for both Ilirija's mobile homes (48% fewer days sold, we had pencilled in a 35% decline) and individual campers (a 66% decline vs. the 35% expected). Days sold to travel agencies and to lump-sum clients performed better, -13% and -9% yoy, respectively. The weaker sales mix for the quarter translated into an 18% decline in revenues per sold pitch; nevertheless, this was 6% better than expected.

The City Galleria shopping centre generated revenues of HRK 3.0m, or 17% lower yoy. Occupancy at the mall remained at 99.77% at end-September, so the c.20% decline in lease revenues appears to have been driven by the timing of payments received; the other revenues stream was c.10% weaker yoy.

3 November 2020

Opex fell by 41% in the quarter vs. 46% lower revenues, resulting in c.400bps of EBITDA margin compression, to 45.5%. The most inflexible fixed costs were for services and wages, while material and energy costs fell faster than sales. Below the operating line, financial costs were flat yoy, at HRK 1.0m.

Cash generated from operations for the full nine months totalled HRK 34.9m, or 35% lower yoy (EBITDA fell by 44% for the same period). The solid results were helped by a release of working capital of HRK 2.1m vs. the HRK 5.9m outflow in the base period. Capex was 25% lower at HRK 11.1m. The net debt at end-September was HRK 78.7m, or 21% lower than in the base period, and gearing was 3.5x (a positive result, in our view: we have pencilled in end-2020E gearing of 4.3x).

Year	Sales HRK m	EBITDA HRK m	Net profit HRK m	EPS HRK	EPS % yoy	DPS HRK	P/E (x)	EV/EBITDA (x)	P/CE (x)	Div yield %
2017	146.6	48.6	27.2	13.2	-3%	3.0	12.3	9.2	9.7	1.8%
2018	156.4	52.5	36.9	15.3	16%	3.5	11.8	10.4	8.8	1.9%
2019	163.5	50.2	31.3	13.0	-15%	0.0	14.0	10.8	10.0	0.0%
2020E	102.9	22.9	1.4	0.6	-95%	0.0	218.7	17.9	19.5	0.0%
2021E	135.3	44.4	20.1	8.4	1309%	2.1	15.5	8.9	8.6	1.6%
2022E	174.8	57.7	31.3	13.0	56%	3.3	10.0	6.4	6.5	2.5%

3 November 2020

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28/10/2020	BUY – initiation of coverage	28/10/2020	HRK 178

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3 November 2020

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