

MAESTRO

Macro slowdown affects retail sector and hurt results: weak 2Q14

MAESTRO (MAESPE) reported its 2Q14 results on Thursday. Although revenues expanded YoY in 2Q14, same store sales (SSS) decreased and EBITDA exhibited a significant reduction during the quarter.

REVENUES SLIGHTLY UP, BUT SSS DROPPED YoY: In 2Q14, net sales increased 2% YoY in local currency to total PEN 359M (US\$ 129M). Growth was explained by the increase in revenues of five stores opened during 2012 and seven in 2013. However, same store sales were down -5.4% YoY, affected by a slowdown in the Peruvian economy which negatively impacted the construction sector and thus, the retail home improvement industry.

STRONG CONTRACTION OF EBITDA AND OPERATING MARGINS: EBITDA contracted -11.7% YoY in 2Q14, reaching PEN 22M (US\$ 8M), given an important increase in operating expenses. In connection to this, COGS were up +3.8% YoY (mainly led by higher inventory purchases and other costs related to inventory), and selling and administrative expenses also expanded (+3.4% and +11.2% YoY, respectively). As costs grew faster than revenues, operating margins deteriorated during 2Q14: i) gross margin was down -125 bps to 25.7% and ii) EBITDA margin dropped by -90 bps to 6.0%.

LEVERAGE STABLE QoQ: LTM 2Q14 gross and net leverage were slightly up from 5.0x and 4.8x in 1Q14 to 5.1x and 5.0x in 2Q14, respectively, explained by a small decrease in LTM EBITDA. Total debt remained unchanged QoQ at PEN 649M (US\$ 232M). Cash on hand was PEN 16M (US\$ 6M) in 2Q14. Of note, almost all Maestro's debt is comprised of its international corporate bond (US\$ 200M), issued in September 2012. The bonds have a coupon rate of 6.75% with a 7-year bullet maturity.

CAPEX SIGNIFICANTLY DOWN YoY: During 1H14, Maestro did not open any new store, and capex was mainly used for store and administrative office maintenance. In turn, CAPEX was down significantly to PEN 8.6M in 1H14 from PEN 137.8M. Cash used in investing activities was also down (PEN -136M in 1H13 vs PEN -0.2M in 1H14).

EARNINGS CALL: At this time the company will not hold any conference call.

THE BONDS: MAESPE's 6.75% bonds due 2019 were up roughly +1.0% in the last month to yield 7.30% (YTM mid) at current levels, outperforming all other Peruvian corporates (excluding Financials and Metals&Mining). In the last 3 months, MAESPE was up 6.3% outperforming all Peruvian corporate bonds. After having reached (and slightly exceeded) our target price of US\$ 96 (please see our report dated June 6th), we do not see additional upside at current levels, especially considering the company's recent weak financial results.

FINANCIAL RESULTS:

<i>All amounts in PEN million</i>	2Q2013	2Q2014	Δ YoY
Revenues	352	359	2.0%
Operating Profit	19	15	-20.5%
<i>Operating Profit Margin</i>	5%	4%	-120
EBITDA	24	22	-11.7%
<i>EBITDA Margin</i>	7%	6%	-94
Net Profit	-26	-3	89.3%
<i>Net Profit Margin</i>	-7%	-1%	662
Cash	37	16	-56.6%
Short Term Debt	29	46	57.6%
Long Term Debt	616	603	-2.0%
Total Debt	645	649	0.7%
Total Equity	240	243	0.9%


<i>All amounts in US\$ million</i>	2Q2013	2Q2014	Δ YoY
Revenues	132	129	-2.7%
Operating Profit	7	5	-24.1%
<i>Operating Profit Margin</i>	5%	4%	-120
EBITDA	9	8	-15.8%
<i>EBITDA Margin</i>	7%	6%	-94
Net Profit	-10	-1	89.8%
<i>Net Profit Margin</i>	-7%	-1%	662
Cash	13	6	-56.8%
Short Term Debt	10	16	56.7%
Long Term Debt	221	216	-2.6%
Total Debt	232	232	0.1%
Total Equity	86	87	0.3%

<i>Leverage</i>	2Q2013	2Q2014
Total Debt / EBITDA	5.4x	5.1x
Net Debt / EBITDA	5.1x	5.0x

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