E-COMMERCE

Grupo Casas Bahia: Updating forecasts

Retail e-commerce

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Company

BHIA3 BZ Equity
Neutral

Price: R$ 0,63 (29 Sep., 2023)
Price-Target 12M: R$ 0,90

What happened to Grupo Casas Bahia?

Following a series of structural reorganizations, Grupo Casas Bahia will undergo another important “cardiac" test. On Tuesday (Oct. 3), the company is scheduled to meet with creditors to discuss the status of the 20th Issue CRI (Real Estate Receivables Certificate).

Before we go deeper into the meeting that will define the group's future, it is necessary to understand the two key pieces that have impacted BHIA3 stock price in recent weeks.

(I) The authorized capital

With the return of demand for new share issuances and faced with the need to correct its highly leveraged capital structure, a follow-on by Grupo Casas Bahia in 2023 shouldn't sound like a big surprise to the market. Casas Bahia needed to have authorized capital in order to hold the Extraordinary General Meeting on 01/Sep and, by communicating this in the meeting minutes of 11/Aug (the day after 2Q23 release), the market started speculating on the dilution of its shareholders. According to the official document to be discussed at the EGM, the share capital could rise from 1.59 billion ordinary shares to up to 3.00 billion. The increase of 1.40 billion ordinary shares was the upper band of the projection and would therefore still be subject to a resolution by the Board of Directors on September 1st. Although this figure did not represent the real value of the offer, shorts on Casas Bahia shares stood at ~22% of the free float - one of Ibovespa’s most shorted positions at the time.

(II) Credit rating downgrade

In the final stages of the follow-on pricing, the ratings of the 20th CRIs’ Issue and the 8th Debentures’ Issue (which back the CRIs) were downgraded by the credit agency S&P, from "brAA-" to "brA-", with a negative outlook.

This was the final hit to Casas Bahia's share price. The rating revision came after the company consolidated a financial leverage higher than previously forecasted, at 10.5x (IFRS 16 vision inc. leasing) - above the 4.5x level forecasted for 2023. In addition to the insecurity that the credit profile downgrade brings to the market, the downgrade of three or more levels, in relation to the initial rating, creates a hypothesis of anticipated payment of the debts involved - to be discussed at a meeting with creditors on Oct. 3.

And now?

"The party's over. The lights have gone out. The people are gone. The night has gone cold." Following a series of events, since the 2Q23 results release, Casas Bahia's share prices have dropped more than 63% (from August 10 to September 28). Since January, BHIA3 (ex VIIA3) has lost more than 70% of its market value.

The event on Oct. 3 will be crucial in defining Casas Bahia's financial health from here on in. For the proposal to be valid, the meeting must have a minimum quorum of 25%. If this prerequisite is met, the proposal voted by the simple majority present wins. There are basically two possible outcomes:

Scenario 1: Creditors request debt anticipation

With a value of more than R$30 million, the request to prepay the CRI could trigger the prepayment clause for other debentures - which could total an amount of approximately R$3.2 billion, which could be paid off immediately. In consolidated figures for the second quarter, the company had R$874 million in cash and cash equivalents and R$4.9 billion in accounts receivable - with R$4.4 billion to be received over the next 12 months.

Even with the R$622 million raised in the follow on (below the R$981 million previously expected - exc. subscription), the anticipation of debts would compromise Casas Bahia's operations, since the company would not be able to finance working capital to maintain its activities over the next few quarters.

Undoubtedly, this would be the worst-case scenario - but with a lower probability of happening. The lack of an agreement between the creditors and the company would be lethal for Casas Bahia, resulting in a domino effect that could lead the company to file for "Recuperação Judicial" (Chapter 11 bankruptcy).

Scenario 2: Creditors agree to renegotiate the debt

With a greater concentration of CRIs in partner banks, there is an intention to renegotiate the terms of the debt - nobody, after all, would be interested in the cross-acceleration that the anticipation could result in. Renegotiating the debt is the most beneficial course of action for both parties and therefore the most likely to happen on Oct. 3.

In order not to anticipate the payment of the CRI and culminate in the company being 'asphyxiated' by the early maturity of other debts, Casas Bahia must renegotiate the payment of the 20th CRI Issue (and consequently the debenture backed by the debt). In practical terms, this would imply an increase in the CRI's payment spread and, additionally, the payment of a premium on the Nominal Face Value of the debt.

In this scenario, the impact of financial expenses becomes greater than previously projected, but Casas Bahia would be able to get some relief in the short term, in order to get its restructuring plan back on track.

New estimates

We see Casas Bahia's transformation plan as coherent, as it is necessary to correct the company's cash flow. However, headwinds such as the increase in the spread on the company's debts, could make it difficult to execute the strategy in the short term.

In addition to operationalizing two FIDCs, which would unlock greater credit via CDCI or direct bank limits (increasing the company's operating leverage), Casas Bahia has been seeking longer duration for its debts with creditors. These two points are fundamental for the company to restructure its operations. Below we have organized the main assumptions in our valuation.

Main assumptions:

(1) 100 stores closing over the next 12 months. We do not expect any openings until 2025;

(2) Brick-and-mortar sales growth in line with GDP growth, with a slight retraction in 2023 and 2024, given the persistent level of household indebtedness and lower appetite for credit to leverage consumption. From 2025 onwards, we expect a gradual improvement. For Brick-and-Mortar GMV, we project a 23-28E CAGR of 0.5% y/y;

(3) With the redirection of the Casas Bahia Group's focus, we expect a deceleration in the pace of online GMV growth, directing the channel as a complement to the brick-and-mortar strategy. For online GMV, we project a 23-28E CAGR of 5.4% y/y;

(4) Inventory liquidation should have a negative impact on the company's gross margin in 2023 - especially regarding the 2nd and 3rd quarters of the year. We project profitability of 29.0% in 2023 (vs. 31.1% in 2022) and estimate a gradual margin recovery, returning to the 30.0% level in 2025;

(5) Similarly to gross margin, the company's EBITDA margin will be impacted in the short term, given the lower operating leverage and the negative burden of higher costs. We estimate an EBITDA margin (unadjusted view) of 4.0% in 2023, with a gradual recovery to 10.1% in 2028;

(6) Average annual Capex of R$520 million.

Income Statement [R$mn]	2023E	2024E	2025E	2026E	2027E	2028E
Total Gross GMV	**44.202**	**44.471**	**46.127**	**47.423**	**48.862**	**50.517**
GMV Brick and Mortar	24.176	23.600	24.184	24.296	24.369	24.442
GMV Online	20.026	20.871	21.943	23.127	24.493	26.075
1P	14.113	14.370	14.857	15.332	15.919	16.644
3P	5.910	6.501	7.086	7.795	8.574	9.432
Gross Revenue	**36.026**	**35.775**	**36.874**	**37.559**	**38.326**	**39.238**
(-) Taxes and Returns	(5.909)	(5.831)	(6.011)	(6.122)	(6.247)	(6.396)
Net Revenue	**30.117**	**29.944**	**30.864**	**31.437**	**32.079**	**32.842**
(-) COGS	(21.380)	(21.065)	(21.558)	(21.801)	(22.086)	(22.446)
Gross Profit	**8.736**	**8.879**	**9.306**	**9.636**	**9.993**	**10.396**
(-) SG&A	(7.728)	(7.427)	(7.174)	(7.126)	(7.192)	(7.312)
EBITDA	**1.207**	**1.657**	**2.342**	**2.724**	**3.021**	**3.307**
(-) Other Expenses	(894)	(817)	(632)	(482)	(443)	(453)
Adj. EBITDA	**2.102**	**2.474**	**2.974**	**3.207**	**3.464**	**3.761**
(-) D&A	(931)	(884)	(816)	(757)	(705)	(660)
EBIT	**77**	**568**	**1.316**	**1.753**	**2.097**	**2.423**
(+/-) Financial Results	(3.181)	(2.944)	(2.742)	(2.419)	(2.455)	(2.375)
EBT	**(3.104)**	**(2.376)**	**(1.426)**	**(666)**	**(358)**	**49**
(-) Taxes	1.188	808	485	227	122	71
Net Profit	**(1.916)**	**(1.568)**	**(941)**	**(440)**	**(236)**	**119**
Gross Margin (%)	29,0%	29,7%	30,2%	30,7%	31,2%	31,7%
EBITDA Margin (%)	4,0%	5,5%	7,6%	8,7%	9,4%	10,1%
Adj. EBITDA Margin (%)	7,0%	8,3%	9,6%	10,2%	10,8%	11,5%
Net Margin (%)	-6,4%	-5,2%	-3,1%	-1,4%	-0,7%	0,4%

Balance Sheet [R$mm]	2023E	2024E	2025E	2026E	2027E	2028E
Total Assets	**33.200**	**31.381**	**30.885**	**30.757**	**30.795**	**31.231**
Cash & Equivalents	438	834	1.236	1.340	1.329	1.084
Trades Receivable	6.261	6.059	6.073	6.186	6.312	6.463
Inventories	5.001	4.928	5.043	5.100	5.166	5.251
Other Current Assets	7.795	7.718	7.850	7.918	7.996	8.186
Fixed Assets	7.397	7.130	6.888	6.684	6.506	6.357
Other Non-Current Assets	11.309	11.309	11.309	11.309	11.309	11.309
Total Liabilities	**29.095**	**28.844**	**29.289**	**29.601**	**29.875**	**30.192**
Loans and Financings (ST)	1.234	1.502	417	325	21	-
CDCI (ST)	4.497	4.497	4.497	4.497	4.497	4.497
Lease (ST)	620	604	604	604	604	604
Suppliers	10.411	10.257	10.557	10.736	10.877	11.054
Other Current Liabilities	1.778	1.771	1.808	1.831	1.856	1.887
Loans and Financings (LT)	2.364	2.096	3.182	3.274	3.578	3.598
CDCI (LT)	532	532	532	532	532	532
Lease (LT)	2.937	2.862	2.970	3.079	3.188	3.297
Other Non-Current Liabilities	4.470	4.470	4.470	4.470	4.470	4.470
Shareholder's Equity	**4.105**	**2.537**	**1.596**	**1.156**	**920**	**1.039**
Total SE + Liabilities	**33.200**	**31.381**	**30.885**	**30.757**	**30.795**	**31.231**

Cash Flow	2023E	2024E	2025E	2026E	2027E	2028E
EBITDA	**1.207**	**1.657**	**2.342**	**2.724**	**3.021**	**3.307**
(+) Deferred Taxes	-	-	-	-	-	-
(-) Income Taxes	1.188	808	485	227	122	71
(+/-) Δ WK	930	119	190	22	(39)	(132)
(-) Capex	(499)	(509)	(509)	(524)	(532)	(546)
Unlevered FCFF	**2.825**	**2.075**	**2.507**	**2.449**	**2.571**	**2.700**
(+) Loans & Financing	(539)	-	-	-	-	-
(+) Leasing Liability	(142)	(91)	109	109	109	109
(+/-) Equity Pickup	622	-	-	-	-	-
(+) Net Financial Expenses	(3.181)	(2.944)	(2.742)	(2.419)	(2.455)	(2.375)
(=) FCFE	**(414)**	**(960)**	**(126)**	**139**	**226**	**435**

Using a Discounted Cash Flow (DCF) analysis, with a Cost of Equity (Ke) of 19.3% and a Growth in Perpetuity (g) of 3.0%, and considering the new assumptions, we are reducing BHIA3's 12M target price to R$0.90 (previously R$2.00) - which implies a potential upside of 44% in relation to Friday's close (29). We remain with a NEUTRAL recommendation.

Cost of Equity (Ke)

		17,8%	18,6%	19,3%	20,1%	20,8%
	1,0%	0,88	0,85	0,82	0,80	0,78
	2,0%	0,92	0,89	0,86	0,83	0,81
g	3,0%	0,97	0,94	**0,90**	0,87	0,85
	4,0%	1,04	1,00	0,96	0,92	0,89
	5,0%	1,11	1,07	1,02	0,98	0,94

Cost of Equity (Ke)

	-	17,8%	18,6%	19,3%	20,1%	20,8%
	1,0%	49%	44%	39%	35%	31%
	2,0%	56%	51%	46%	41%	37%
g	3,0%	65%	59%	53%	48%	43%
	4,0%	76%	69%	62%	56%	51%
	5,0%	89%	81%	73%	66%	60%

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Buy	Expected return above +10% in relation to the Company's sector average	**46%**
Neutral	Expected return between +10% and -10% relative to the Company's industry average	**44%**
Sell	Expected return below -10% in relation to the Company's sector average	**5%**
under Review	Under review	**5%**

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