

# VIRSI: H1 Results Review



## VIRSI fueling energy and convenience

AS 'Virši-A' (hereinafter referred to as 'VIRSI' or, the 'Group') H1 results came in right on target with our estimates. Fuel volumes sold continued to outpace the market growth (in first 5 months of 2024 market: +0.9% vs. VIRSI: +6.3% y-o-y), indicating a steadily increasing market share for VIRSI core business segment. Consequently, convenience store sales saw similar growth, contributing nearly as much as fuel segment to the Group's gross profit. While the electricity segment continued to expand its volumes, the declining wholesale prices resulted in a significant pressure on gross margins, leading to a notable drop in the segment's gross profit. While the Group has managed to maintain healthy margins in its convenience store and fuel retail operations, the competition in the fuel segment is expected to remain intense as rivals are likely to make efforts to halt VIRSI's continuous market share growth.

The fuel segment sales reached EUR 144.8m, reflecting a 12.6% y-o-y increase, while gross profits amounted to EUR 9.4m, up 10.3% y-o-y. As gross profits outpaced the growth in fuel volumes sold, it suggests that fuel margins have remained resilient. This resilience may be attributed to a higher proportion of B2C clients in the sales mix, which generally yield higher margins. Alongside the growing fuel volumes, convenience store sales also reported healthy growth, reaching EUR 26.2m, a 15.2% y-o-y increase. Gross profits in this segment grew to EUR 9.3m, up 16.7% y-o-y, resulting in a gross margin of 35.3%, an improvement of 0.3 pp y-o-y. In contrast, the energy segment recorded sales of EUR 13.1m (+30.8% y-o-y), while the gross profit in the energy segment dropped significantly to EUR 0.3m, a decline of 81.2% y-o-y.

In line with our estimates, VIRSI continued to expand its gas station network, reaching 76 stations (79 including independent convenience stores) at the end of H1 2024, an increase of 4 gas stations y-o-y. Consequently, operating expenses in H1 rose to EUR 15.7 m, reflecting a 24.1% y-o-y increase primarily due to the growing gas station network and general salary inflation.

Company profile	
Listing market	Nasdaq Riga First North
Ticker	VIRSI
Industry	Speciality Retailer
Website	www.virsi.lv/en



Share Data (August 9, 2024)	
Current price, EUR	4.05
Target price, EUR	4.91
Potential Upside/Downside, %	21.23
52 week Low/High, EUR	3.99/4.50
3 month av. daily volume	964
Market cap, EURm	61.3
Ordinary shares	15.1

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Key Numbers (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Revenue	220.9	375.1	343.7	370.7	402.6	436.4	454.8	469.9
EBITDA	9.7	12.3	13.7	14.3	17.2	20.1	22.1	22.9
Operating Profit	6.1	7.9	8.7	8.2	10.2	12.3	13.7	14.4
Net Profit	6.6	10.4	5.1	5.9	7.8	9.5	10.1	11.4
Total Assets	101.4	133.2	135.8	145.5	162.1	177.9	182.9	186.0
Net Debt	19.6	17.5	26.2	34.7	40.9	45.4	39.2	32.4
Total Equity	50.0	66.5	69.6	74.7	81.6	90.0	96.5	104.1
CAPEX	14.6	10.0	16.8	19.6	20.3	20.9	9.2	9.2
EV/Revenue (x)	0.4	0.2	0.3	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	9.2	6.7	6.6	6.0	5.0	4.3	3.9	3.7
P/E (x)	10.8	6.4	13.1	10.4	7.9	6.4	6.1	5.4
P/Book (x)	1.4	1.0	1.0	0.8	0.8	0.7	0.6	0.6

Business expansion, combined with pressure on overall margins and rising operating expenses, resulted in a lower operating profit of EUR 3.4m, down 35.8% y-o-y. The high capital expenditure required for expansion and its debt financing necessities kept financing costs high. Additionally, the decrease in electricity prices led to negative value change of electricity swap agreements. As a result, net profits were recorded at EUR 2.0m, representing a 36.4% y-o-y decline.

VIRSI's H1 bottom line decline is no surprise, given the growth-oriented nature of the Group. We view the continuous growth in fuel volumes and VIRSI's vertical

integration efforts in the energy sector positively. We expect H2 results to show improvement over H1, with new gas stations contributing to fuel and convenience store gross profits. While the growing gas station network will continue to add staff and its related costs, salary inflation should decelerate going forward. We acknowledge the intense competition in the energy sector, which could exert additional pressure on margins, potentially lowering our H2 forecasted results. Overall, considering the Group's successful gas station expansion and relatively stable margins in core segments, we remain positive on the stock for now.

Results Review, EURm	H1/24A	H1/23A	% y-o-y	H1/24E Dev abs.	Dev, %	H2/24E	FY23A	FY22A	% y-o-y	
Net sales	185.32	162.37	14.1	177.0	(8.3)	-5%	193.68	343.73	375.11	69.8
Gross profit	19.11	17.93	6.6	18.8	(0.3)	-1%	21.11	37.69	32.77	26.7
EBITDA	6.30	7.60	(17.1)	6.2	(0.1)	-2%	8.08	13.75	12.32	27.1
Operating profit	3.37	5.25	(35.8)	3.3	(0.1)	-3%	4.93	8.68	7.90	30.2
Net profit	2.01	3.16	(36.4)	2.0	(0.0)	-1%	3.91	5.10	10.31	55.9
Gross margin, %	10.3	11.0					11.0	8.7		
EBITDA margin, %	3.4	4.7					4.0	3.3		
Operating margin, %	1.8	3.2					2.5	2.1		
Net margin, %	1.1	1.9					1.5	2.7		

Source: VIRSI; Signet Bank for estimates

### Investment case

We believe VIRSI has a strong opportunity to sustain and further expand its market share in the Latvian energy market

Key attractions of the investment case for VIRSI include its strategic focus on growth, the potential to leverage its image as a leading domestic energy trader with a clear focus on the Latvian market and local customers, and its proven track record in profitably developing the convenience store concept

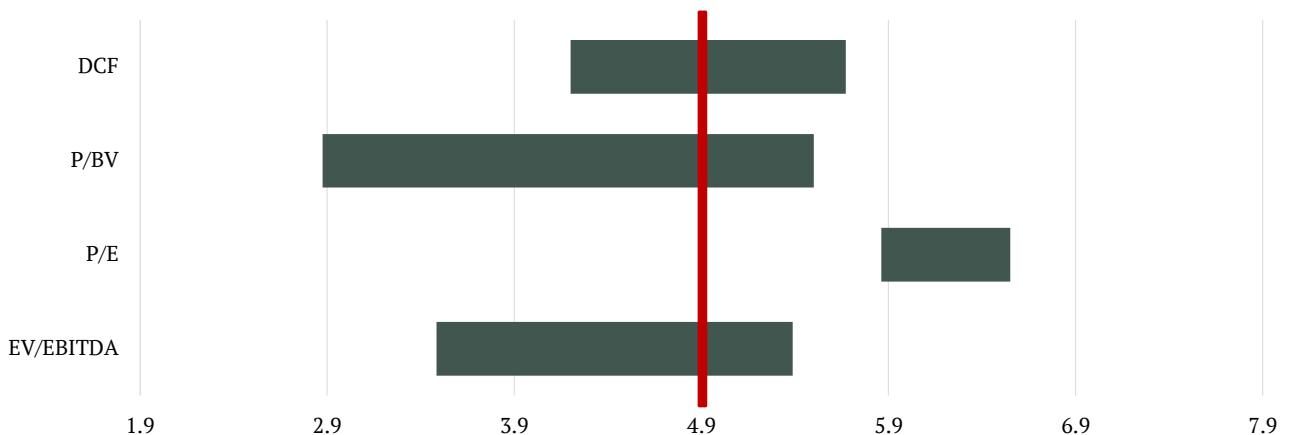
#### Key Risks:

- High competitive intensity
- Slower than expected expansion
- Weaker margins
- High volatility of oil price

#### Key Drivers:

- Strong brand image
- Good profitability track record
- Diversification of fuels
- Expansion in energy trading

Weighted Value Per Share, EUR	Period weights			Period weighted value	Weights	Contribution to value
	2024E	2025E	2026E			
Method	33%	33%	33%			
DCF				4.86	70%	3.40
EV/EBITDA	3.48	4.52	5.39	4.47	10%	0.45
P/E	5.96	5.86	6.55	6.12	10%	0.61
P/CF	2.87	4.90	5.50	4.43	10%	0.44
<b>Total weighted value per share</b>						<b>4.91</b>



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- Neutral- Expected return from -10% to 10% within 12-18 months (including dividends)
- Sell- Expected loss more than 10% within 12-18 months (including dividends)

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