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Higher School of Economics

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CFA Institute Research Challenge
[Food Retail]
MAGNIT

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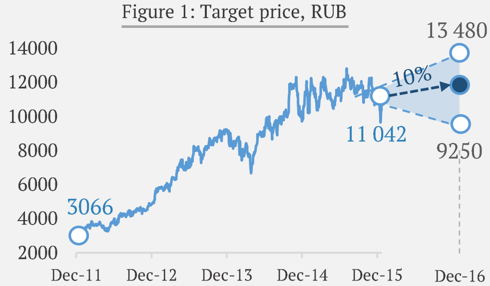
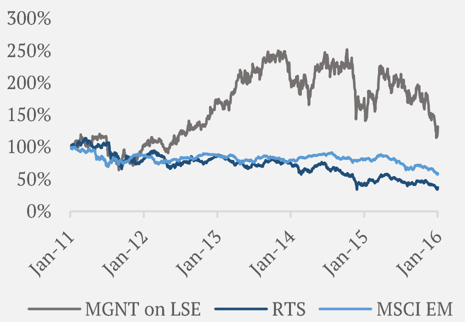
Date:		Current price for:		Recommendation:	HOLD
25/01/2016		Ordinary shares:	RUB 11 042	Target price:	RUB 12 077
Ticker:	MGNT:LI/ MGNT:ME	GDRs:	USD 34.75	Upside:	10%
		USD/RUB:	79.35		

Figure 1: Target price, RUB



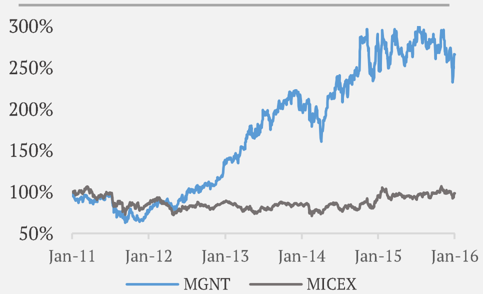
Source: Thomson Reuters

Figure 2: Share price movement, GDRs



Source: Thomson Reuters

Figure 3: Share price movement, ordinary shares



Source: Thomson Reuters

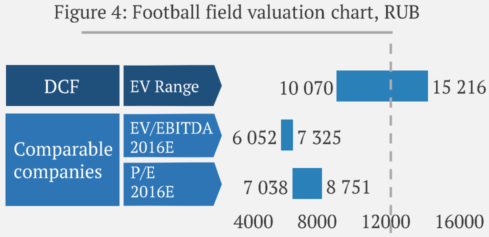
Market Profile	
Closing price	11 042 RUB
52-week High/Low	12 371 RUB/10 555 RUB
Average volume (3M)	138 475.75
Diluted shares Outstd.	60.06 mln.
Market cap	1 020 bln. RUB ($14.46 bln.)
Beta (5 yr monthly)	1.16
Institutional holdings	8.70%
Insider holdings	36.49%
Bid/Ask spread	<0.01

Trading Multiples Analysis

Component	Magnit PJSC	Peer Median
EV/EBITDA	8.3x	4.9x
P/E	18.2x	20.2x
PEG	0.8x	0.8x
Dividend Yield	3.2%	0.0%
Growth (2015)	24.1%	23.7%

Source: Thomson Reuters

Figure 4: Football field valuation chart, RUB



Source: Thomson Reuters

We initiate coverage on PJSC Magnit (MGNT:LI / MGNT.ME) with a Hold recommendation based on a one-year target price of RUB 12 077, offering 10% upside from its closing price of RUB 11 042 on January 25. Target price of GDR is USD 31.05 Our recommendation is based on:

Unsinkable ship in a stormy sea

Ruble depreciation and falling oil prices lead to further contraction of Russian economy, consequently bringing down the purchasing capacity as well as establishing extended downward trends in consumer behavior. At the same time food retail remains the segment most resilient to the weaker macro environment, given that food products are a basic need. In our view Magnit – the largest federal retailer still have solid upside potential in the long run in terms of further geographical penetration as well as expansion at the expense of smaller peers unable to withstand the competition and economic environment. We expect further expanding through the organic growth and we do not exclude appearance of the M&A deals.

Competitors are far behind

Despite the fact that Magnit possesses only 8% share of Russian retail market, its infrastructure and operating efficiency allow to expand faster in regions that are inaccessible for other players in the medium-term perspective. Owning large sq. m. of greenhouses in Krasnodar permits Magnit to save costs and improve margins as well as excluding 3d parties from its delivery chain.

Valuation

Valuation methods indicate a current intrinsic value of RUB 12 077 per share. Magnit offers slight long-term upside of 10% through strategic expansion into Russian regions, as well as continued exposure to current geographic locations. We evaluated Magnit's intrinsic value primarily though a discounted cash flow analysis and a relative multiples valuation

Recent news

December 28, 2015: PJSC "Magnit" is pleased to announce the opening of the new "Magnit Family" stores. The 154th "Magnit Family" store is located at 316 Otdelskaya street, Slavyansk-on-Kuban, Krasnodar krai, Southern federal region. The 155th "Magnit Family" store is located at 13 Aeroport street, Saratov, Volga federal region.
January 11, 2016: PJSC "Magnit" announces an appointment of Alexander Barsukov as a new General Director for JSC Tender (a wholly-owned subsidiary and the main operating company of PJSC "Magnit")

January 25, 2016: PJSC "Magnit" announces the opening of a new distribution center in Dmitrov. The Company opened a new distribution center (DC) in Dmitrov, Moscow region. Total space of the DC is over 59 thousand sq. m. Launch of the new distribution facility will improve the quality of service in the Central region.

Table 1. Key financials and ratios 2011-2020F

Highlights	2011	2012	2013	2014	2015E	2016F	2017F	2018F	2019F	2020F
Revenue, RUB bln	335.7	448.7	579.7	763.5	947.8	1166.5	1394.0	1648.7	1924.5	2211.4
EBITDA, RUB bln	27.6	47.4	64.7	85.9	103.8	111.5	139.8	172.0	217.1	269.3
Net income, RUB bln	12.3	25.1	35.6	47.7	57.0	55.9	74.2	96.0	127.9	164.6
Profitability										
Gross margin	24.3%	26.5%	28.5%	28.9%	28.8%	27.2%	27.6%	28.0%	28.9%	29.8%
EBITDA margin	8.2%	10.6%	11.2%	11.3%	10.9%	9.6%	10.0%	10.4%	11.3%	12.2%
Net margin	3.7%	5.6%	6.1%	6.2%	6.0%	4.8%	5.3%	5.8%	6.6%	7.4%
ROE	18.8%	28.3%	31.6%	35.3%	36.2%	30.1%	34.0%	36.8%	40.4%	42.2%
ROA	8.5%	12.7%	14.6%	15.6%	15.3%	13.0%	14.9%	16.8%	19.8%	22.6%
ROCE	18.9%	26.5%	32.0%	36.8%	38.7%	34.7%	38.6%	41.3%	45.3%	48.8%
Solvency Ratios										
Debt to Total Capital Ratio	29.7%	28.7%	27.6%	27.8%	28.4%	27.5%	25.5%	21.9%	16.8%	12.5%
Net Debt/EBITDA	1.26	1.07	1.05	0.91	0.92	1.04	0.85	0.62	0.35	0.09

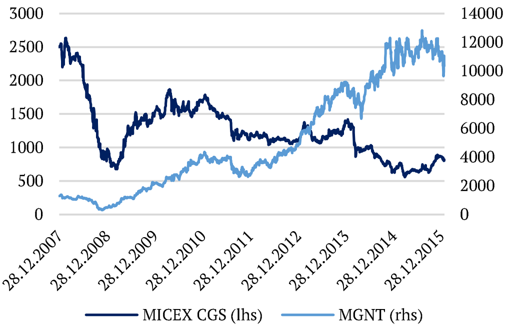
Source: Company's data, team estimates

Table 2: Magnit and MICEX CGS performance

Valuation summary	
Target price (RUB)	12 077
Current (RUB)	11 042
Upside	10%
P/E	18.2x
EV/EBITDA	8.3x

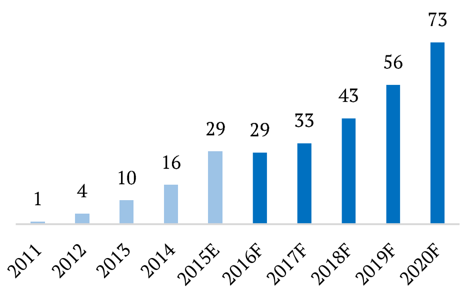
Source: Bloomberg, team estimates

Figure 5: Magnit and MICEX CGS performance



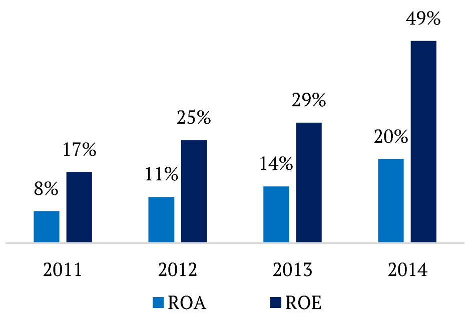
Source: Bloomberg

Figure 6: Magnit dividend forecast, RUB bln



Source: Bloomberg, team estimates

Figure 7: ROA, ROE dynamics



Source: Bloomberg, team estimates

INVESTMENT SUMMARY

We initiate coverage on PJSC Magnit (MGNT:LI / MGNT:ME) with a Hold recommendation based on a one-year target price of ordinary shares of RUB 12 077, offering 10% upside from its closing price of RUB 10 982 on January 25, 2016 using Discounted Cash Flow Analysis and a Trading Multiples Analysis. One year target price for Magnit GDR is USD 31.04.

If Russia is on your agenda, keep your eye on Magnit

Magnit share price was growing through the period 2009-2015E with the 31.6% CAGR. Thus, Magnit outperformed the retail industry represented by MICEX CGS (consumers goods) index with growth rate of 12.8% CAGR as well as the whole Russian market represented by MICEX index with growth rate of 19% CAGR over the given period. Magnit, therefore represents one of the best growing stocks in Russian market. EPS growth rate stood at 47.1% CAGR over the period 2011-2015E, which is the highest among peers. Significant premium indicating by P/E is not necessarily a signal of stock overpricing, however the PEG ratio of 0.8 indicates that Magnit could be undervalued relative to its growth potential. Magnit possess the highest Sharpe ratio of 0.23 among the Russian Blue-chip stocks and strong level of it's shares liquidity in terms of low Bid/Ask spread. The correlation of Magnit with Russian Blue-chip companies stood at range of 0.39 - 0.51.

Unpredictable share price behavior in the short-term could lead to losses

High level of volatility in Magnit shares through the recent period could be explained by the increased overall volatility of the Russian stock market. Rapid national currency depreciation in the end of 2014 was painful for foreign investors who faced losses in USD terms despite of gains in RUB terms. Further outflow of foreign capital and imposed economic an trade sanctions against Russia resulted in increased uncertainties in the market. Possessing the correlation coefficient of 0.64 with the market, Magnit therefore partially reflects overall market movements. Our hold recommendation is driven by current unpredictable market dynamics translated into high level of uncertainty in Magnit stock behavior in short-term. We suggest that a better entry point to invest in Magnit stocks can appear through the 2016F. However our long-term view on Magnit is positive and based on fundamental analysis of company's future developments.

Food retail: is there safer heaven in Russia?

Magnit is able to increase it's revenue through the aggressive organic growth as long as the modern retail format is far from saturation in regions and consumers are not forced to cut food spending. However the difficult economic situation in the country which lead to a drop in disposable income of most of the population of the regions unable us to expect rapid purchase power as well as market recovery and further growth in short term. Magnit heavily reinvesting its revenue back into productive assets with the CapEx/Sales ratio of 7%, which is almost twice higher than the same for the nearest peer X5 Retail Group. Being restricted by the Federal Law on Retail any retailer is allowed to grab less or equal to 25% share of local region market. Therefore, we expect Magnit to increase in long-run its market share from 8% to average of 18% - share of the largest retailers on developed markets. Relying on organic growth Magnit' management, however do not exclude appearance of M&A deals in the future.

Solid business performance even in the midst of turbulent times

Over the years Magnit's outstanding operating performance and best balance sheet structure have translated into the company's winning stock.

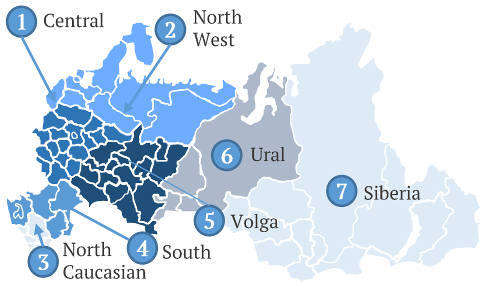
Being the largest entity among Russian retailers, Magnit is still effectively operated which leaves space for the subsequent organic growth staying at the same level of operating efficiency. High bargaining power due to large trading volumes and diversified supply structure with an absence of a vendor accounting for more than 10% of total purchases allow Magnit to be more flexible and to adapt quickly to the dramatically changing market environment.

Vertical integration and control over each step of the supply chain from producing through the delivery and placement of products on the shelf allows to improve margins, and to offer better products quality. In-house innovative logistics with the largest fleet of trucks in Russia and EU allows Magnit to expand faster applying its operational model in new regions without significant expenses. Own logistics reduces delivery costs and delays, therefore mitigates risk of spoiling high margin products. Lowest share of inventory shrinkage in EBT 2.2% is the lowest among peers with an average of 6.3%. Magnit holds the lowest debt level in terms of Net Debt/ EBITDA with the target value of 0.6-0.7 in the mid-term and the highest interest coverage ratio in terms of EBIT/ Net Interest among its peers. Magnit's short-term liquidity level is also one of the highest in terms of Current ratio. Magnit's zero foreign-currency denominated debt indicates high quality of credit portfolio management and the focus of CEO on core business rather on gambles with currency exchange.

Governance & Galitsky

Magnit' strong corporate governance is one of the keys for successful shares tack record. Mr. Galitsky is the CEO of Magnit. He also is the founder and the majority shareholder with 36.5% of ordinary shares. Thus Magnit fortunate to avoid agency conflict which is usual for the top-management/CEO hiring mechanism applied by the most part of peers. Holding stocks of the same class as other minority, Mr. Galitsky therefore excluded an opportunity of discrimination or other infringement of the rights of minority shareholders bundled with supremacy of one type over another, which is usual for companies governed by families. Recent changes in management team shows that Mr. Galitsky concerned about the Board efficiency and tend to hire new professionals with high potential and deep understanding of the sector.

Figure 8: Magnit's regional penetration (as of 31.09.2015)



Type/Region	1	2	3	4	5	6	7
Convenience Stores	2467	895	347	1602	2806	829	300
Hypermarkets	35	13	7	59	61	27	6
Family Stores	24	8	5	34	42	9	5
Drogerie Stores	440	183	75	388	511	156	54
HUBs	9	2	1	6	7	2	2

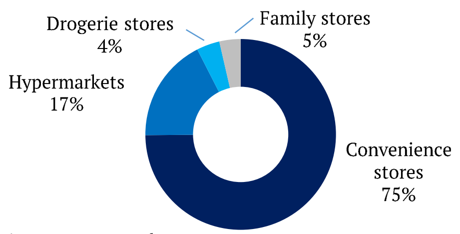
Source: company 's data

Figure 9: Store formats breakdown

	Store size, m² ■ total ■ selling	Av. ticket | Traffic, tickets/m² per day	Ownership ■ owned ■ leased
Convenience stores	455 324	241.8 RUB 2.4	26% / 74%
Hypermarkets	6 684 2 908	609 RUB 1.2	78% / 22%
Drogerie stores	299 229	278 RUB 1.1	14% / 86%
Magnit Family stores	2 193 1 101	440 RUB 2.1	36% / 64%

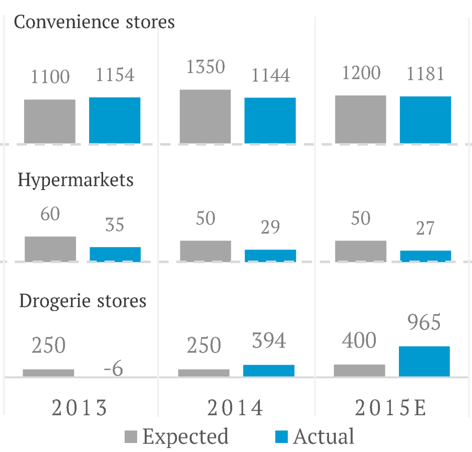
Source: company's data, team estimates

Figure 10: Revenue structure, % (2015)



Source: company's data

Figure 11: Annual number of expected and actual store openings



Source: company 's data, team estimation

BUSINESS DESCRIPTION

Introducing the leader

Magnit Public Joint Stock Company (PJSC) is a Russia-based holding company, which is engaged in the food retail industry. The company founded by Sergey Galitskiy in 1994. Headquartered in Krasnodar, in the south of Russia. As of December 31, 2015, Magnit operated 12,089 Retail Stores in over 2,350 cities, towns, and villages located across the Southern, Central, Volga, North-Western and Urals regions (Figure 8). Magnit's retail network is supported by 33 distribution centers and over 5,932 trucks (the largest fleet in Europe). The company is one of Russia's largest employers with about 260,000 employees.

The holding consists of the following subsidiaries: trust company Tander CJSC (food & retail activity) that is included in the list of systemically important companies in Russia, Retail Import LLC (import operations), BestTorg LLC & Tander-Magnit LLC (retailers in Moscow and Moscow region), Selta LLC (transportation services), TK Zelenaya Liniya LLC (the 1st greenhouse complex in Eastern Europe), Tandem LLC (rent operations), ITM LLC (IT operations), MagnitEnergo LLC (electricity buyer), TD-holding Ltd. (production and processing of food).

In 2015 Magnit was the Russian Retail Awards winner and has been included in Forbes 100 World's Most Innovative Companies Ranking by Forbes. Previous year Magnit headed the list of "The Retail Top Ten" world ranking by BCG.

In April, 2006 Magnit conducted an IPO on the RTS stock market and the Moscow Stock Exchange (MICEX) offered 19% of its shares for USD 368 mln with +862% stock dynamics after IPO. In April, 2008 the company raised additional USD 480 mln offering its GDRs on the London Stock Exchange (1 Common share = 5 GDRs) with +511% stock dynamics. In 2009 Magnit obtained USD 370 mln. from international investors with +300% stock dynamics. In December, 2011 the company successfully attracted US USD 475 million.

Today, Magnit's local shares are traded on the Moscow Stock Exchange (MICEX: MGNT, free-float of 63.51%, the most liquid retailer) and its GDRs on the London Stock Exchange (LSE: MGNT, free-float of 61,25%). The company is also included in RTS, MSCI Russia and MSCI EM index. Magnit has a credit rating from S&P of BB+. Magnit is the top retail company in Europe by market capitalization and 55th in the world.

Store formats

Convenience stores are the neighborhood stores targeting all customers living within 500 meters radius. It stocks a range of everyday items such as groceries, snack foods, candy, toiletries, soft drinks, tobacco products, and newspapers (about 3500 SKUs in average).

Hypermarkets combine a department store and a grocery supermarket (Magnit's hypermarkets are similar to European supermarkets). They offer a large variety of products such as appliances, clothing and groceries (15 000-25 200 SKUs in average).

Family Stores: Hybrids between hypermarkets and convenience stores. Introduced by Magnit in May, 2012 to meet customers' needs in wider range of products with low pricing of hypermarkets. It has the feature of in-store prepared food production facilities and are generally located in leased premises within shopping centers (about 8 800 SKUs in average).

Drogerie Stores (housewares and cosmetics stores) started operating in 2010, offer a mix of non-food group of products: personal care, household cleaning products, cosmetics and perfumery goods. 80% of drogerie stores are located in residential area with focus on cheap prices offering private label Stellary. Magnit's view on such stores is quite positive as there is no single national player in cosmetics (about 1 500 SKUs in average).

Company strategies

Growth

The company aims to continue its expansion in Russian regions with low levels of competition and strong demand for modern retail formats. Magnit also considers an opportunity to expand its share in Moscow, Saint Petersburg and their nearby regions due to the fall in real disposable income of small cities population. This led to worse revenue dynamics among the Company's peers. The company targets to continue its large multi-format organic growth store in 2016 as well: Magnit plans to open more than 1,000 convenience stores (1,250 in 2015), about 100 hypermarkets (29 in 2015) and more than 950 drogerie stores (1041 in 2015) (Figure 4).

Efficiency

The company aims to boost its efficiency and profitability. Magnit plans to increase the proportion of its products distributed through its own logistic system. Also, the company expects improvements in its product mix and exploitation of the synergies between hypermarkets and convenience stores. The company also introduced the mobile version of its webpage where consumers can follow all news, special offers and discounts, search for the closest outlet and make a list of purchases. Magnit recently started to test internet sales with delivery options.

Vertical Integration

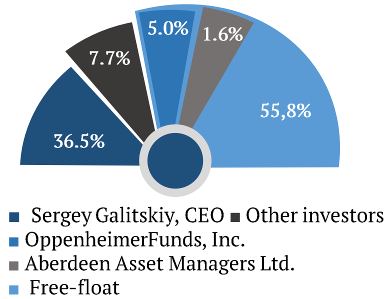
The company is focusing on vertical integration by cultivating its own vegetables and other agricultural products. Magnit offers private label products which share of value sales reached 11% in 2014 and remained in 2015, with an average of 585 products.

Shareholder structure

As of November 2015: CEO and founder Sergey Galitskiy held 36.49% of its shares (after selling of 2.06 mln. of shares on February, 2015), OppenheimerFunds, Inc. held 5.0%, Aberdeen Asset Managers Ltd. – 1.6%, NBIM – 1.1%, JPMorgan Asset Management U.K. Limited – 0.96%, others had 1.1%. The total free float is 63.51% (Figure 12).

At the end of 2009 Magnit implemented its management encouraging program where managers get bonuses in company's stocks. In 2010 the company distributed 47 936 shares between its managers. In 2012 the company allocated 0.1% of shares outstanding (91 761 shares).

Figure 12: Magnit PJSC shareholder structure (as of September 30, 2015)



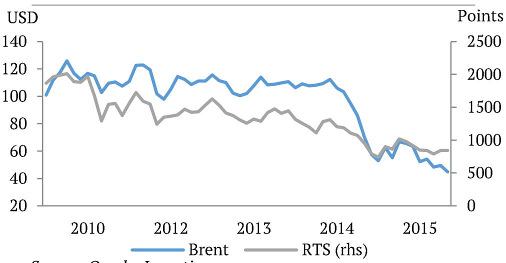
Sources: company's statements, Thomson Reuters

Table 3: Main corporate governance awards

Awarded	Year	Award
Sergey Galitskiy, Magnit's CEO	2010-2012	"Russian leaders in corporate governance."
	2013, 2015	"TOP-1000 Russian Managers"
	2014	CEO of the year
Magnit	2011, 2012	"Company with the best corporate governance"

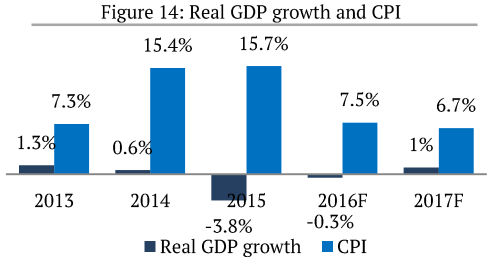
Sources: company's press releases, Forbes, Kommersant

Figure 13: Brent (Crude oil), RTS and USD/RUB dynamics



Source: Oanda, Investing

Figure 14: Real GDP growth and CPI



Source: CBRF, World Bank

Figure 15: Disposable income and retail turnover dynamics

Source: RBC quote

Figure 16: Change in total retail turnover, food retail and catering

Change, y/y	2014	9M15
Retail turnover	2.5%	-8.5%
Food retail	-2%	-8.3%
Catering	1.6%	-3.9%

Source: CBRF, Rosstat

CORPORATE GOVERNANCE & SOCIAL RESPONSIBILITY

Corporate governance

Magnit's Board of Directors consists of 11 members: 5 Executive Directors including the Chairman (Mr. Pobukhchan, CFO) and 6 Non-Executive Directors, including 3 independent ones. Most of the directors joined Magnit since its foundation, have deep understanding of the company and mutual cooperation. The company's management and directors have higher education predominantly in economics, working experience in top Russian and international companies, had never convicted in any crime or illegal activities, have strong ethics and result-oriented personalities. Magnit's management implemented efficient strategies during the periods of crises that allowed the company continue its operations successfully without loose of its leading positions. There are two Board committees: the Audit Committee and the Remuneration Committee. Each of them has three members: one Non-Executive Director and two independent Non-Executive Directors, one of whom is a committee chairman. Committees are required to meet at least twice a year.

In December, 2012, Magnit CEO Sergey Galitskiy won the Award: "Russian leaders in corporate governance.", the third nomination for the "Best corporate manager" by the Investor Protection Association (IPA). In 2014 Mr. Galitskiy was named the CEO of the year by The Moscow Times and Businessman of the year by GQ. In 2013 and 2015 Sergey was also included in the list of business leaders and "TOP-1000 Russian Managers" by the Russian Managers Association and Kommersant. In 2012 Magnit won the Award for the "Company with the best corporate governance" for the second consecutive time.

Social responsibility

Magnit's employees helped people in the huge flood accident in the region of Krasnodar providing trucks with medicine equipment in 2012. In 2013 and 2014 the company organized charity events in Russian cities Volzhsk and Ekaterinburg.

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

MACROECONOMICS

Strong dependence on oil prices has negatively impacted Russian economy

Russian national currency, ruble, experiences great dependence on crude quotes. Last year the correlation between the Brent quote and USD/RUB peaked to 88%. The negative effect was reflected on the falling index RTS based on the shares of top 50 Russian companies. Revenues from oil and gas constituted 45% of Russian federal budget revenues in the first half of 2015, therefore oil prices are considered to be one of the major risk factors for the whole Russian economy. Today's quotes are 7 year low, and in the presence of constant oversupply in the world markets oil prices seem to be unpredictable. During last 3 years, GDP growth has been slowing down and in 2015 GDP declined approximately by 3.8%. Such dramatic slowdown of the economy was a reaction to falling crude oil and further ruble devaluation.

Reciprocal sanctions have worsen economic climate in the country

In March 2014 the US and the EU has imposed a series of economic and trade sanctions against Russia in response to Russia's purported annexation of Crimea and its use of force in Ukraine. Such sanctions included targeting certain individuals with asset freezes and travel bans, cutting certain Russian financial institutions and companies off from Western financial system.

Western sanctions have had no direct impact on the operations of the retailers, but we have identified two negative outcomes so far: (1) negative impact on international investor sentiment and business sentiment domestically; (2) rising financing costs.

The counter-sanctions imposed by Russian government in response to the international sanctions, in particular, the food import ban, have made a significant contribution to the high inflation rate. It is remarkable that the restrictions have led to a leap in prices of not only of imported products, but domestic goods as well. This fact is partially explained by lower competition and, hence, greater market force of national suppliers.

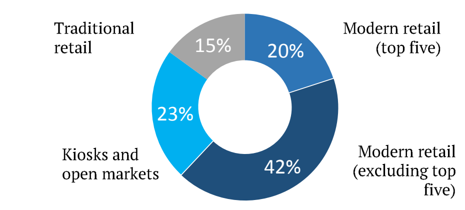
The recession is not over but new negative shocks are unlikely

In December 2015 Moody's changed Russia's credit rating from negative to stable basing on two reasons: (1) stabilization in the country's external position, particularly covering the external debt declining by USD 77 bln and keeping the foreign exchange reserves at higher level than anticipated; (2) Diminishing likelihood of further shock from the sanctions. We also do not expect additional important negative factors which can affect the economy and trigger further declining. Thus, we expect that 2016 will not be so severe for the economy, and although there is likely to be a drop in Real GDP of approximately 0.7%, in 2017 the growth will recover.

Russian retail performs in line with the overall economy under challenging macroeconomic conditions

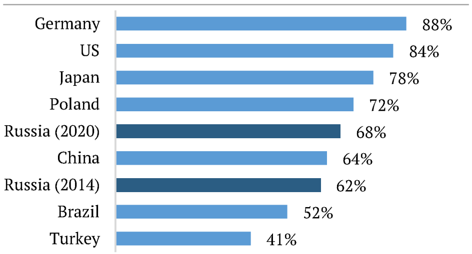
As a consequence of ruble depreciation Consumer Price Index peaked to 15.4% and 15.7% in 2014 and 2015, respectively. High inflation, negative change in disposable income, caused by a fall in real wages and declining consumers' confidence have led to a 5% drop in real spending in 1H2015 in comparison with the same period in 2014. People use their money more carefully and prefer to put money on a bank account providing high interest rate rather than spend, in consumers' budget the share of saving has increased up to 13% in 1Q2015 (compared to 0.3% in 1Q2014). As for purchasing goods and service, the share decreased by 2%. Under the influence of these factors Russian retail turnover decreased by 8.5% in 2015 in particular this number for food retail turnover is 8.3%.

Figure 17: Market composition by formats



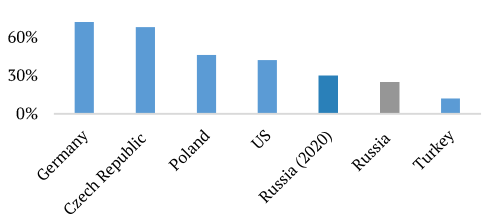
Source: Euromonitor

Figure 18: Modern grocery retail penetration in 2015



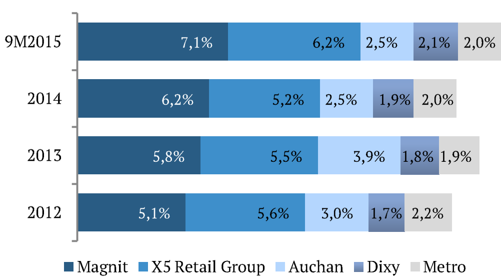
Source: Euromonitor, Infoline

Figure 19: Market share of top 5 retailers in countries



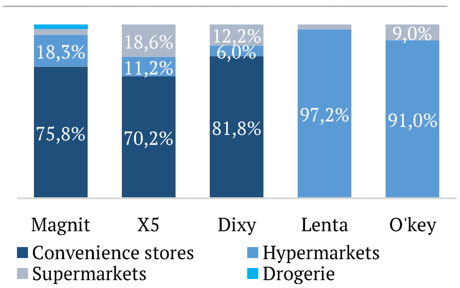
Source: Euromonitor

Figure 20: Market share of top 5 retailers by revenue



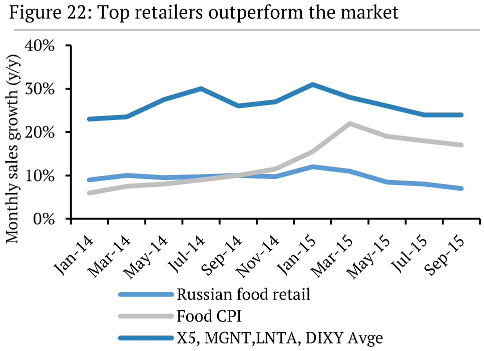
Source: Infoline

Figure 21: Store type split by peer group



Source: Companies' data

Figure 22: Top retailers outperform the market



Source: Rosstat, companies' data

INDUSTRY TRENDS

Modern retail chains will extrude traditional formats from the market

Modern retail groups now have a 62% market share pulling ahead of the traditional retailers such as 'mom and pop' convenience stories, with 23% share, and kiosks and open markets, with 15%. In 2006 modern retailers had a combined share of just 21% of the food market. The figure has been rising by 4 percentage points a year since, and we think, that the growth will start to slow down since the current level of penetration is high enough for the country with the largest territory in the world and one of the lowest population densities.

The penetration of modern food retail is forecasted to attain 68% by 2020. We expect a reduction in the share of traditional stores due to new restrictions on the sale of beer and tobacco and the government's decision to reduce the number of kiosks in cities and pressure of modern chains with operational effectiveness advantage expanding in regions. Formal retailers have a market share of 80% in major cities such as St Petersburg, Nizhny Novgorod and Moscow, which leads us to believe that 80% penetration levels may be achieved in other large cities (with population exceeding 1 mln people) as well. For smaller towns and rural areas, where modern retailer' market share hovers around the 40 per cent mark, we believe that 55-60 per cent is an achievable level.

Trend to market consolidation

Today's share of top 5 retail chains in Russia (Magnit, X5, Dixy, Auchan and Metro) is only 20% which is significantly lower than in developed economies. In our opinion, market consolidation will be accelerated in the upcoming years and largest national players will lead this process. Magnit and X5 are now actively expanding in regions: they have inaugurated 33 (Magnit) and 34 (X5) distribution centers in 6 and 4 Federal Districts correspondingly (except the Central FD). Thus, local operators feel significant pressure enhanced by macro conditions, so we expect that a part of them will leave the market or be acquired by federal chains. From national modern retailers' perspective, acquiring small and mid-size regional chains will be in many cases more effective than organically growth in particular region. The process of market consolidation through acquisitions of regional players has already started, with X5, which managed to acquire three small regional chains year to date. However, consolidation will lead to more aggressive competition among the leading retailers, which are expected to compete in setting lower prices. As the consequence, their profit margins may decrease.

REGULATION

Regulative initiatives are against retailers

The government asserts interests of domestic producers within the framework of import substitution policy. The legislative initiatives, which are very likely be accepted in the nearest future, will be beneficial for national suppliers, but harmful for retailers. There are two main laws expected to become valid in 2016: (1) Decreasing "retro bonuses", (2) Shortening of payables periods. In may 2015 State Duma approved in the first reading an amendment to Russian Trade Law, which assumes new limitations for bonuses received by Russian retailers from producers. Rebates, also known as 'retro bonuses', paid by producers for promotion of their products, cannot exceed 10%, according to the Law. If the amendment is accepted, maximum permitted rebates are expected to be pushed down to the level of approximately 3% from the price of goods purchased. Shortening of payables is likely to result in one-off investments into working capital, but looks manageable for key players. Further restriction of the regional market share (25% threshold by municipality), is unlikely to go, which implies favorable conditions for further expansion of the leading retailers.

Lifting counter-sanctions may lead to lower inflation

In response to the sanctions imposed by the West, Russia has imposed a ban on imports of food from 28 EU member states, the US, Canada, Ukraine and others joining to Western sanctions. Before the ban, Russia imported $43 bln in food, alcohol and tobacco, which accounted for 2% of GDP, or 11% of the total $394 bln household food spending. About 50% of the imports was from the combination of countries that have imposed sanctions on Russia ($18.9 bln), and from Ukraine ($2 bln in food imports). The food ban forced retailers to seek new suppliers, often resulting in more complex logistics leading to higher costs and subsequently prices on the shelf adding to inflationary pressure and lower real disposable incomes.

If sanctions were lifted and the food import ban overturned, we would expect retailers to gradually reinstate some of the suppliers from banned markets as their trading partners. We believe that, an industry would look to pass the savings onto the consumer in the form of lower prices following the recent trend of tougher price competition. It could eventually put moderate downward pressure on inflation.

New sanctions on Turkey

Russian grocery retail now face further disruption as Russia has imposed economic sanctions against Turkey, restricting imports of agricultural produce. However, retailers suggest they do not anticipate much of an impact (imports from Turkey account for less than 5% of sales, peaking in December), given that a lot of the products have already been imported and there is a one-month grace period in place in December so the high season is already covered. Although this is a small additional headwind, we think it will not make much of a dent unless it is still in place in 2H 2016, when fruit and vegetables imports from Turkey are usually at their highest. A share of restricted Turkish products in CPI is equal to 1.5%, what may add not more than 0.2pp to the annual inflation rate if Russia refuses to restore relationships with Turkey.

COMPETITIVE ENVIRONMENT

Magnit share in the retail market has been steadily increasing from 5.1% in 2012 up to 6.2% in 2014, becoming the biggest national retailer (Figure 20). The biggest competitors are X5, Auchan, Dixy and Metro. However due to dual concentration of Magnit (Figure 21) on convenience stores and hypermarkets X5, Lenta, Dixy and O'key were chosen as peer group companies.

Retailers operating in low cost segment outperformed the industry

Although a drop in Grocery retail turnover equal to 8.3% in 2015, y/y Revenue growth of the leading Russian retailers, including Magnit, X5 and Lenta, demonstrated positive dynamics (Figure 22). The tougher economic climate and dramatically declining disposable income have made an impact on food spending. According to the recent surveys, 45% of the shoppers reported spending less on food. A majority are aiming to reduce the amount of food wasted. Near a quarter of population declared that they looked to buy cheaper products. Consumers became more sensitive to price changes, as share of expenditures on food in total spending in regions has reached 40-45% (40%-41% in 2008-2009), while in biggest cities it increased from 20-25% to 30-35%. Spending on home substituted expenses on restaurants and cafes, in 2015 catering turnover fell down by 4%. As the consequence, more people started doing shopping in stores in low cost segment rather than in middle and premium ones.

Figure 23: Like-for-Like Indicators, y/y

Year	Magnit	X5	Dixy	Lenta	O'key
Revenue					
2012	5.26%	-1.40%	-6%	14%	7%
2013	3.88%	1%	4%	10%	8%
2014	14.47%	10%	11%	11%	-0.2%
9M 2015	8.69%	16%	-2%	9%	-3.2%
Traffic					
2012	6%	-3.10%	-7%	3.10%	2.5%
2013	-1.28%	-3%	-2%	1.80%	0.5%
2014	4.47%	1%	2%	4%	-4.2%
9M 2015	-0.69%	2%	-8%	2%	-7.1%
Average ticket					
2012	5.63%	2%	1%	10%	4.3%
2013	5.22%	4%	6%	10%	7.5%
2014	9.58%	9%	10%	6%	4.2%
9M 2015	9.44%	13%	6%	6%	4%

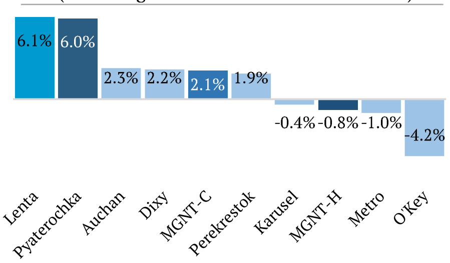
Source: Infoline

Figure 24: Net Margins

Net margin	2012	2013	2014	9M 2015
Magnit	5.60%	6.14%	6.25%	6.26%
Dixy	0.70%	1.70%	2.00%	n/a
X5	n/a	2.10%	2.00%	2.10%
Lenta	1.89%	4.67%	4.60%	4.68%
O'key	3.99%	3.57%	3.42%	0.95%

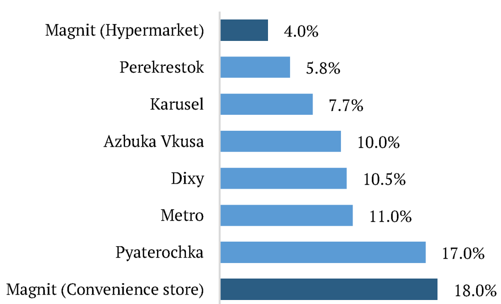
Source: Infoline

Figure 25: Food stores consumers are likely to switch to(net change from March 2013 to Nov 2015)



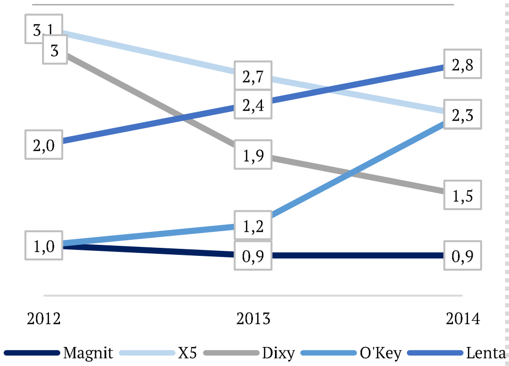
Source: Infoline

Figure 26: Share of private-label products in sales



Source: Companies' data

Figure 27: Net Debt/ EBITDA



Source: Companies' data

Customers are becoming less loyal and tend to switch stores

In 2015 frequency of visiting grocery stores by Russians increased by 7% in comparison to 2014, which is a 10% increase in average ticket and following want to make a beneficial buy. According to surveys, in November 2015 24% of consumers claimed to have changed the store where they bought food vs 20% in February 2015, and this share is even higher – 32% – for the lower-income households (earning less than RUB 20 ths per month). Unlike early 2015 when convenience of location, range and long queues were often cited as the main reasons for switching, lower food prices seem to be the primary reason now. The survey data suggests that retailers with greater focus on lower prices – Auchan, Lenta and X5's Pyaterochka – are where more customers would like to do their main shopping (i.e. spend more than 40% of their grocery budget).

Risk of tradeoff between traffic and margins

Following the start of financial crisis, there has been continuing a period where Russian wage growth is outstripped by inflation. As real wage growth is in a negative zone, incomes are being squeezed. In the same time, food inflation is high, causing a further squeeze on consumers. Therefore we may expect that recent trends such as a shift to buying cheaper goods, trading down, and looking for more promotional items are likely to prevail on the market during several upcoming years. This situation creates a risk that the future winners will be hard discounters what will eventually lead to price war and margins declining.

Lenta and X5 aggressively invest operational gains in prices

In 9M 2015 Magnit and Dixy demonstrated a negative change in traffic, which is a direct result of insufficient investment in prices. Lenta and X5, on the contrary, are both seeing efficiency gains come through, which enables them to invest back in to prices, and offer the customers better terms, thereby driving LFLs, while broadly maintaining gross and operating margins (and ROCE). X5 Retail Group managed to make LFL traffic growth reach 2% in 2015 with insignificant fall in EBITDA margin of 0.1% in the first half of 2015. If X5 continues to invest all efficiency savings and better supplier terms in prices it means that others are likely to feel the need to follow suit, to invest more in pricing to win over a fickle consumer, which will likely lead to lower margins across the whole sector.

Magnit currently enjoys an 11% EBITDA margin and earns 39% ROCE – this perhaps is not sustainable in the long run however gives a great opportunity to win a price competition.

Low cost or 'first price' private-label products are important for price perception

Dixy has rationalised down its many private label offerings to primarily two distinct brands, its "D-brand", and "Pervym Delom" with nearly 600 SKUs in total. Over the past 12 months as it has implemented this strategy, it has been a sharp uptake in private-label sales. X5 has rebranded its first price private-label offering, "Krasnaya Tsena" (Red Price), and while its overall private-label sales has not increased, the proportion of the first-price label sales has increased. We believe this is a part of a reason for the successful turnaround of Pyaterochka (X5-Convenience stores chain) over the past two years. Lenta is more promotional, with the CEO saying in the recent 3Q call that from 27% of products being on promotion in 2014, this has raised to 37% in 2015. Magnit's strategy also implies promotion of its private-label products, and for now their share in the sales of convenience stores constitutes almost 18% of private-label items, while their share in assortment in hypermarkets is just 4%.

While costumers are becoming insensitive to non-price factors, we see Magnit's greatest advantage over peers is its operational effectiveness

In Russian consumers' view, Magnit and its closest competitors do not differ from each other, since the key factor they pay attention to while looking for a store is low prices, but Magnit and its peers, in general, belong to the category of players with the lowest prices in food retail. What really distinguishes the retailers is the peculiarities of their business models helping to overcome the tough periods in the economy and their future perspectives. Magnit today is a vertically integrated entity which is rare for Russian retail companies representing regular retail business (X5 Retail Group or Dixy). We consider Magnit's operating system to be the key driver of its successful development, and this is proved by the fact that Magnit has the highest net margin.

Own production decreases Magnit's dependence on external suppliers

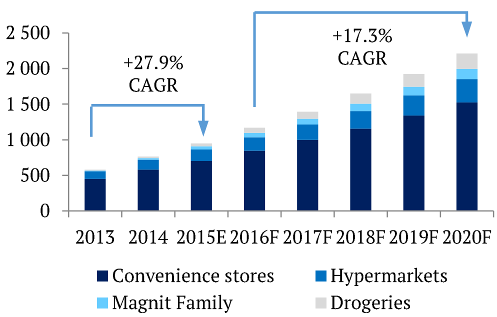
As opposed to peers, that have preferred to focus on direct import than own production, Magnit went further and already invested 1.6-2 bln of USD in building its own 83 hectares of greenhouses with a target of 120 hectares. In 2015 own production of fresh vegetables constituted 1.5% of total company's revenue. The decision on entering the market of agricultural production was made mainly due to the lack of suppliers able to meet Magnit's demand for vegetables in terms of quality and volumes. The company's own production of vegetables already meets the needs of the company by 37% with a target of 60%.

Magnit already received benefits from the vertical integrated business structure especially through the recent macro/political backdrop including reduced food imports due to EU sanctions when company showed amazing speed of adjustment to new market conditions under the direct import restrictions. Entering the agricultural and other food production markets improves the control over the supply chain. To compare, pure performance of Dixy resulting in a net loss in 2015 is directly connected with compulsory changes in the supply chain, according to the company's announcement.

Lower costs due to optimal logistic system

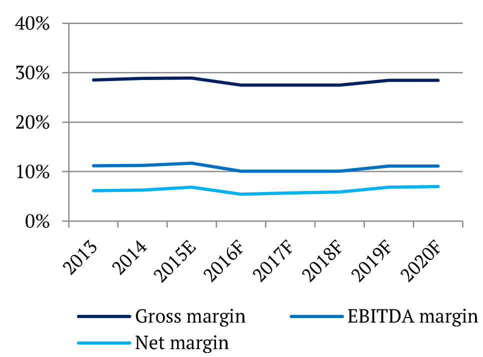
Magnit owns the largest logistic park in Europe with approximately 5950 trucks, in Russia only X5 is able to compete with the company in this sphere. Although Magnit has the most widely spread chain of stores located in 7 Federal Districts, its level of centralization of distribution in 1H 2015 was equal to 89% given 33 distribution centers, whereas X5 achieved only 78% with 34 centers being located only in 5 Federal Districts. Thus, due to the internally developed logistic system, Magnit is able to reduce costs connected to distribution in the most effective way. The success of the logistic system is determined by organic growth of the company and total control over it. In case of X5, the system does not work so effective as operating process was not designed properly because of inorganic growth and following frequent changes in the company's structure and management. For now, Magnit's logistic system is the leading one, and we do not expect that the company has competitors who could take over the leadership.

Figure 28: Revenues (RUB bln)



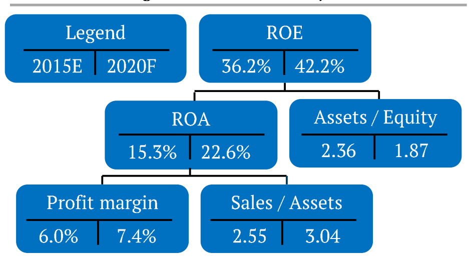
Source: Company's data, team estimates

Figure 29: Profitability



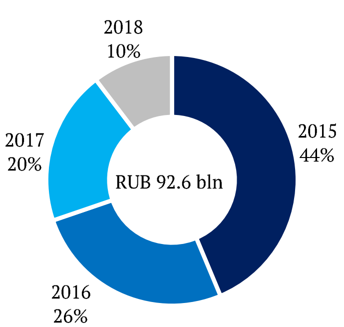
Source: Company's data, team estimates

Figure 30: DuPont analysis



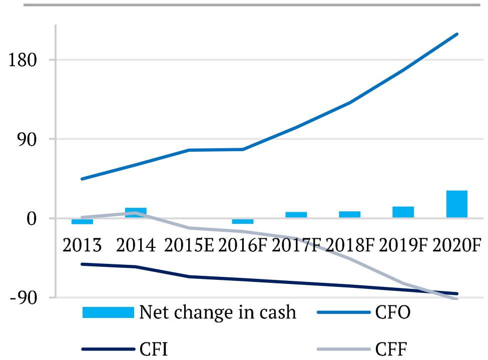
Source: Company's data, team estimates

Figure 31: Debt repayment (as of 30.06.2015)



Source: Company's data, team estimates

Figure 32: Cash flows patterns (RUB bln)



Source: Company's data, team estimates

FINANCIAL ANALYSIS

Solid earnings

Magnit's revenue grew at a CAGR of 34.1% during 2010-2014 with the fastest growth observed for Magnit Family and Drogerie stores. However, revenue growth was derived mainly from the increasing number of Convenience stores and Hypermarkets. In 2015E sales growth is expected to decline to 24.1% because of decreasing real disposable income among Russian population and higher competition in the industry. For 2016F-2020F we forecast a conservative revenue CAGR of 17.3% driven by slower pace of further increase in number of stores, effect of a high base and unfavorable macroeconomic conditions (Figure 28).

Sound margins

Magnit has the highest margins in the industry. Gross profit margin increased from 24.3% in 2011 to 28.3% for 9M2015. EBITDA margin amounted to 10.9% for 9M2015, which is substantially higher than 8.2% in 2011. Net income margin showed positive dynamics as well and increased to 6.3% in 9M2015 from 3.7% in 2011. Margins were relatively stable over 2013-2014, and we expect it to decrease slightly in 2015E-2016F mainly because of negative macroeconomic effects. However, we expect them to recover over 2017F-2020F (Figure 29).

High margins are explained by in-house innovative logistics (share of deliveries through own distribution centers equals to 86%), optimization of internal business processes and strong bargaining power. Magnit's margins will not decline significantly despite macroeconomic difficulties due to the company's ability to pass on inflation to consumers and to quickly adopt its assortment mix and sales/marketing strategies to current changes. Moreover, Magnit's cosmetics stores are increasingly profitable and their share in company's revenue is expected to rise in the future. Additional factor that can support margins despite the challenges is sizable potential for the expansion of the company's private label program.

Taking into consideration current economical situation in the country and rising competition there are significant limitations for further margins' increase in the near future. Imports account for about 10% of Magnit's revenue and further ruble depreciation can negatively affect company's margins.

Healthy balance sheet

Magnit enjoys no currency risk in terms of debt, because it is completely RUB denominated (RUB 92.6 bln as of 30.06.2015). Moreover, 46.5% of debt is long term and Net debt to EBITDA ratio decreased from 1.3x in 2011 to 0.9x in 2015E. We forecast it to decline to 0.09x in 2020F. Interest coverage ratio was 10x in 2014 and will increase further (Table 4).

Debt to total capital ratio amounted to 31,9% as of September 2015, significantly lower than that in the industry. We expect leverage to decrease gradually due to greater amount of internally-generated funds. Magnit has excellent credit history, while main creditors of the company are top Russian banks (Sberbank, Rosbank, Alfabank and VTB). In addition, the company has about RUB 55 billion of outstanding bonds. Weighted average interest rate equals to 10.67%. We expect a decrease in the debt ratio from 27.8% in 2014 to 13.1% in 2020F.

The company has a favorable cash position as demonstrated by its solid liquidity ratios. We forecast an increase in the current ratio from 0.69 to 1.02 and increase in cash ratio from 0.11 to 0.26 respectively over 2015E-2020F.

Turning into "Cash cow"

Fast growth in selling space required significant level of capital expenditures in the previous years. Consequently, FCF of the company was negative until 2014. As recently opened stores become mature, they will provide significant cash return without additional requirements for investments. In our opinion, Magnit has turned into a highly FCF-generating company, seeking new investment opportunities for the further vertical integration development and rewarding shareholders via increased dividend distribution.

Growing shareholders' returns

From 2011 to 2014 Magnit's return on equity increased from 18.8% to 35.3% in RUB terms. ROE is expected to increase to 36.2% in 2015E. Key factors for rising returns were improved profit margin, higher leverage and higher asset turnover. We forecast ROE to equal to 42.2% in 2020F (Figure 30). ROA and ROCE are expected to increase to 22.6% and 48.8% respectively by 2020F.

Dividend payout ratio increased from 8% in 2011 to 63% in 2014. Company expects to pay from 40% to 60% of its profits to shareholders in the future.

Table 4. Key financials and ratios 2011-2020F

	2011	2012	2013	2014	2015E	2016F	2017F	2018F	2019F	2020F
Revenue, RUB bln	335.7	448.7	579.7	763.5	947.8	1166.5	1394.0	1648.7	1924.5	2211.4
EBITDA, RUB bln	27.6	47.4	64.7	85.9	103.8	111.5	139.8	172.0	217.1	269.3
Profitability ratios										
Gross margin	24.3%	26.5%	28.5%	28.9%	28.8%	27.2%	27.6%	28.0%	28.9%	29.8%
EBITDA margin	8.2%	10.6%	11.2%	11.3%	10.9%	9.6%	10.0%	10.4%	11.3%	12.2%
Net margin	3.7%	5.6%	6.1%	6.2%	6.0%	4.8%	5.3%	5.8%	6.6%	7.4%
Liquidity Ratios										
Current ratio	1.06	0.75	0.70	0.72	0.69	0.68	0.72	0.79	0.88	1.02
Quick ratio	0.38	0.18	0.08	0.13	0.12	0.07	0.09	0.12	0.16	0.27
Cash ratio	0.37	0.17	0.07	0.12	0.11	0.06	0.08	0.11	0.15	0.26
Solvency Ratios										
Debt to Total Capital Ratio	29.7%	28.7%	27.6%	27.8%	28.4%	27.5%	25.5%	21.9%	16.8%	12.5%
Long Term Debt Ratio	26.2%	17.3%	14.1%	12.9%	13.1%	11.8%	10.7%	10.2%	8.7%	6.6%
Long Term Debt to Total Debt	88.1%	60.4%	51.0%	46.5%	45.9%	42.9%	41.9%	46.8%	51.9%	52.8%
Net Debt/EBITDA	1.26	1.07	1.05	0.91	0.92	1.04	0.85	0.62	0.35	0.09
Efficiency Ratios										
Total assets turnover	2.33	2.27	2.37	2.49	2.55	2.71	2.79	2.88	2.98	3.04
Average inventory processing period, days	37.79	41.49	45.67	49.21	49.02	46.29	48.23	48.34	48.17	47.41
Payables payment period, days	42.44	43.55	41.23	39.18	38.93	35.28	36.93	37.47	37.54	36.83
Cash conversion cycle, days	-4.02	-1.60	4.82	10.38	10.41	11.38	11.69	11.23	10.97	10.90

Source: Company's data, team estimates

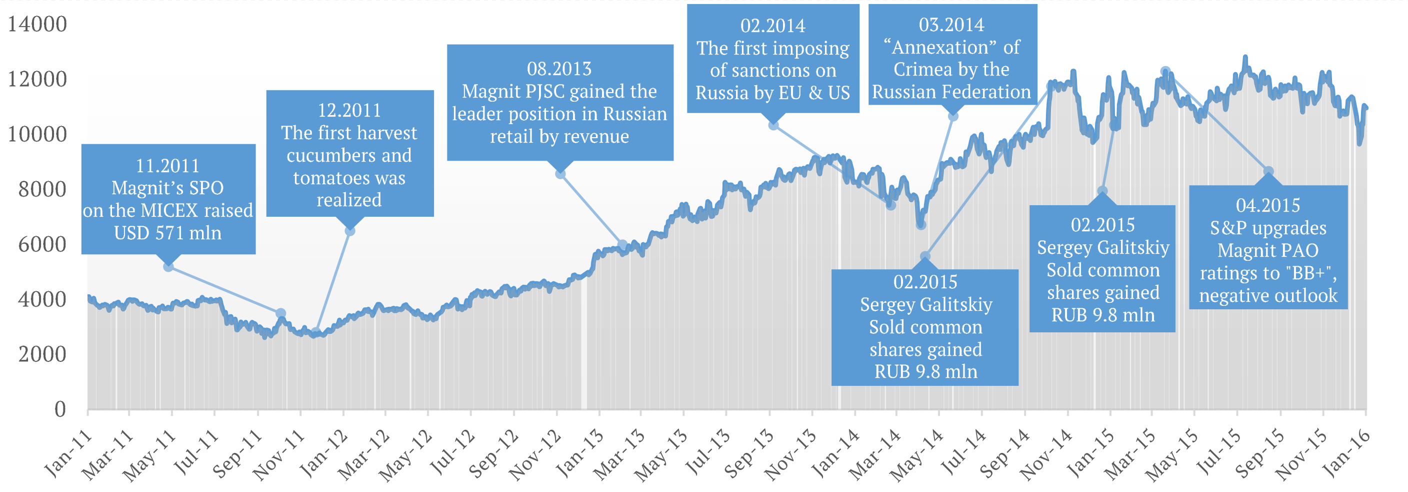
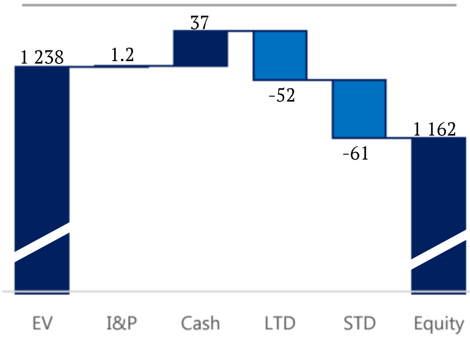


Figure 33: EV to Equity bridge, RUB bln



I&P – Inv. Property & Fin. Assets

Source: Company data, team estimates

Table 5. Magnit's trading multiples

Multiples	2015E	2016F
P/E	18.2x	18.6x
PEG	0.8x	0.8x
EV/EBITDAR	8.3x	7.9x
EV/EBITDA	10.8x	10.1x

Source: Bloomberg, team estimates

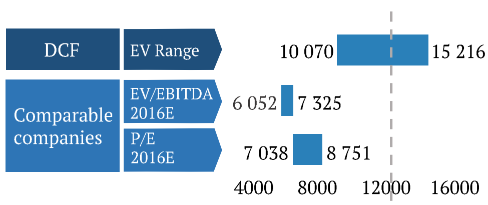
Table 6. Share price sensitivity analysis, RUB

Share price sensitivity analysis

WACC	Terminal Growth Rate				
	2.4%	3.4%	4.4%	5.4%	6.4%
11.5%	11 873	13 281	15 085	17 480	20 816
12.5%	10 836	11 975	13 395	15 216	17 633
13.5%	9 986	10 928	12 077	13 510	15 347
14.5%	9 277	10 070	11 020	12 180	13 625
15.5%	8 675	9 353	10 154	11 112	12 282

Source: Team estimates

Figure 34: Football field valuation chart, RUB



Source: Team estimates

VALUATION

We evaluated Magnit' target price using 5-Year Discounted Cash Flow Approach (DCF). Our DCF valuation is based on the company's financial model through the forecasted period of 2016F-2020F based on moderately conservative assumptions. We used FCFF model, assuming revenue growth rate of 17.3% CAGR over the period 2016F-2020F and stable terminal growth rate (TGR) of 4.4% after 2020F. We applied mid-year convention adjustment in the DCF model. The discounted terminal value component in EV is 81.5%. EPS is projected to grow with 31% CAGR over the forecast period. Target price on 31.12.2016 for Magnit ordinary share is RUB 12 077, for GDR is USD 31.05 as of 25.01.2016.

Valuation models and the choice of currency for valuation

FCFF can provide an economically sound basis for Magnit valuation. We used FCFF as a base case valuation method and we apply the Market Multiplier Analysis for testing purposes. Magnit securities are traded on the two stock exchanges – Moscow (MICEX presented by ordinary shares priced in Russian rubles) and London (LSE presented by GDRs with proportion of 5:1 ordinary share priced in US dollars). We chose the valuation based on RUB for the following reasons: (1) company operates only in the Russian retail market, thus all cash flows are in rubles and there is no foreign currency nominated debt; (2) rapid and significant depreciation of ruble in recent period could potentially distort investors' understanding of the company's business, showing sharp decline in revenue in USD terms. We calculated GDRs price based on the intrinsic price of ordinary shares denominated in RUB and converted into USD using Central Bank of Russia' official exchange rate as of 25.01.2016.

Revenue forecast

Recent significant level of revenue growth has been associated with aggressive stores expanding strategy via organic growth, effective logistics and distribution centers presence, diversified supply chain and margin improvements due to development of private labels and fresh vegetables production. However, the widest presence of Magnit in rural regions and the small cities (85% of total stores) makes its revenue more sensitive to the fall in real disposable income in comparison with peers.

We forecast the operational performance of Magnit on an annual basis till 2020F. The Company's revenues are forecasted separately for each type of stores (Convenience, Hypermarkets, Family stores and Drogeries). Store expansion up to 2018F comes from management plan. In 2019F-2020F we expect store expansion to slow down slightly due to lack of significant growth of real disposable income.

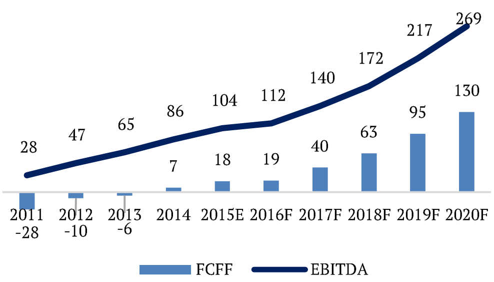
We expect 23.1% y/y growth rate in 2016F with further decline in 2017F due to low chances for the fast real disposable income recovery and therefore for the demand recovery as well. As opposite to the crisis of 2007-2009 we do not anticipate a sharp and strong decline in revenue growth, but rather protracted and less significant Magnit therefore is double-digit. For the forecast period of 2016F-2020F we estimate the revenue CAGR of 17.3%. For more details of revenue forecast methods, please refer to the Valuation appendix.

Table 7. Valuation Assumptions

	2011A	2012A	2013A	2014A	2015E	2016F	2017F	2018F	2019F	2020F
Retail revenue, RUB bln	335	448	579	763	947	1 166	1 394	1 648	1 924	2 211
Y/Y revenue growth, %	42%	34%	29%	32%	24%	23%	20%	18%	17%	15%
Number of stores, eop										
Convenience stores	5 006	6 046	7 200	8 344	9 594	10 944	12 144	13 244	14 433	15 433
Hypermarkets	90	126	161	190	219	249	280	313	348	385
Family stores	3	20	46	97	155	206	261	321	381	441
Drogerie	2	210	692	686	1 080	2 121	3 421	4 571	5 671	6 671
Revenue/ sq. m., RUB mln										
Convenience stores	175.7	184.2	195.0	216.1	224.8	232.5	241.5	250.7	260.3	270.4
Hypermarkets	165.9	194.6	219.9	249.8	252.8	259.1	265.7	272.9	279.7	290.7
Family stores	210.0	127.2	200.5	234.1	263.6	279.8	278.7	282.7	290.4	298.8
Drogerie	17.8	35.9	72.8	79.3	82.8	76,3	80.1	82.4	84.4	86.6
Real Disposable Income, %						-0,7%	1.5%	1.9%	2.0%	2.0%
Inflation, %						6,2%	5.5%	4.0%	4.0%	4.0%
Nominal Disposable Income, %						5,5%	7.0%	5.9%	6.0%	6.0%

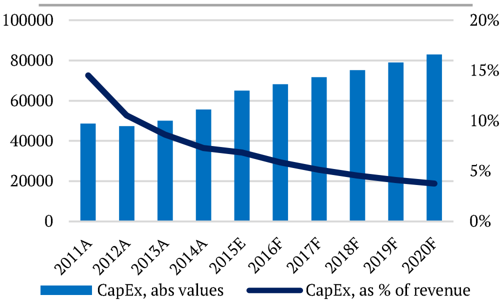
Source: Team estimates

Figure 35: FCFF and EBITDA dynamics, RUB bln



Source: Company's data, team estimates

Figure 36: Capital Expenditures dynamics, RUB mln



Source: Company's data, team estimates

Table 8. Magnit value, RUB bln

Component	2016F
Market Cap as of 25.01.2015	1 037
Implied Equity value	1 142
Net Debt	97
Enterprise Value	1 238

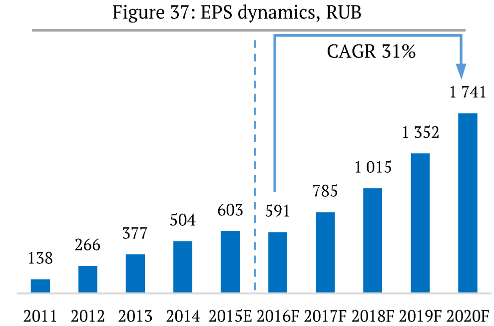
Source: Company's data, team estimates

Table 9. WACC

WACC Calculation	
Target capital structure	
Debt-to-Total Capitalization	0.10
Equity-to-Total Capitalization	0.90
Cost of Debt	
Cost of Debt	10.7%
Tax Rate	23.1%
After-tax Cost of Debt	8.2%
Cost of Equity in RUB	
Cost of Equity	17.5%
WACC in RUB	16.6%

Source: Company's data, team estimates

Figure 37: EPS dynamics, RUB



Source: Company's data, team estimates

Effects of economic downturn translates in operating income

After dramatic drop in like-for-like sales in 2015E, we expect Magnit to increase its investments in prices. Such investments, however would affect margins through the inflation of Costs of Sales that would increase from 71.1% of revenue in 2014 to 72.8% in 2016F. Further slight decline in Cost of Sales starting from 2017F. We expect Operating expenses to stay relatively stable as the result of: decline in General and Administrative Expenses of 15.1% in average over the forecast period and increase in Rental Expenses of 25% in average over 2016F-2020F. Therefore we expect EBITDA to grow with 21.2% CAGR and EBIT growth with 22% CAGR over 2016F-2020F.

Working Capital

Magnit Inventory turnover days stay relatively stable over the forecast period. Magnit' Trade and other payables days declined from 42.3 in 2012 to 38.6 in 2014. According to The Federal Law on Trade we expect slight decrease of payables days to 36 in 2020F. Other items of WC have small enough share and pronounced dynamics, therefore we assumed them to be relatively stable through the forecast period. We expect operating working capital growth of 15% in average over 2016F-2020F.

Terminal growth rate

Terminal growth rate of 4.4% is obtained with the assumption that Magnit has an opportunity to reach the 18% market share in Russian retail market which is close to the share of leaders in developed countries. The potential for growth would exist even after 2050F until the company reaches the 25% of market share (25% threshold by Government).

CapEx is slightly growing

We distinguish at least two main parts of CAPEX: store renovation expenses and new stores opening expenses. Store renovation expenses are expected to increase every year driven by high amount of new stores openings. We divide stores into owned stores and leased ones analyzing expenses bundled with new openings. We assume that total share of leased stores will stay relatively stable over the forecast period. In accordance with management plan of new stores openings we assume CAPEX growth of 5% in average over 2016F-2020F. Depreciation and amortization would not change significantly as well as we perceived stable CAPEX forecast, therefore we expect increase of 17% in average over 2016F – 2020F.

Cost of equity and WACC

We calculated Magnit Cost of Equity utilizing an adjusted CAPM with 10-Yr US-Treasuries risk-free rate of 2.03% and default spread of 4.5% for Russia. We applied US Equity Risk Premium (ERP) of 6% and adjusted beta for Magnit of 0.83. Conversion of required rate of return for Magnit denominated in USD was made through the current market FX swap rate. Thus we received Magnit Cost of Equity of 17.5% in RUB terms. Magnit weighted average after tax cost of debt of 8.2% is based on relevant interest bearing liabilities. Magnit WACC of 16.6% is based on the market value-weighted capital structure of 0.1 in terms of D/E. After 2020F we expect Central Bank of Russia to cut key interest rate from existing 11% to 9%. Taking into account the declining D/E ratio from our model which is inline with management concerns about capital structure. Thus WACC equals to 13.5% for the terminal period (Appendix AB).

Higher market valuations relative to the peers seem justified

We conducted trading multiples analysis to benchmark Magnit current market valuations against peers. It showed that Magnit (local shares) is traded with premium (31%) over its Russian peer group (based on P/E 2016F and EV/EBITDA2016F multiples). Price to Earnings Ratio and EV/EBITDA Ratio of the company equal to 18.7x and 10.1x respectively for the 2016E. Industry median ratios are 14.5x and 6.8x correspondingly (Table 10)

It can be explained by substantially higher margins and expected positive FCF yield of Magnit (most of the competitors still has negative FCF). The company also has the lowest Net debt / EBITDA ratio in the industry. Moreover, Magnit is one of the two retailers in the peer group who pay dividends on a regular basis. According to the company's management, Magnit will substantially increase dividend payments in case if it is unable to allocate growing cash on the balance. Finally, PEG ratio of Magnit amounts to 0.8x, which means that the company may be even undervalued taking into consideration its growth opportunities.

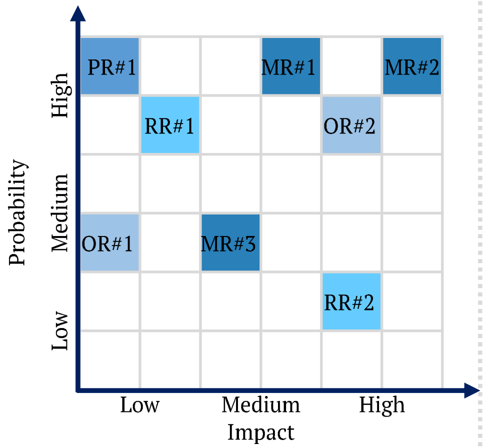
Magnit has strong corporate governance as well as experienced and respected CEO Mr. Galitsky who is also the founder of the company. He is the main factor for mitigating principal-agent conflict in the company. Contrarily, other retailers are governed mostly by hired managers, who can make decisions which are not in line with the best interests of the shareholders.

Table 10. Trading multiples

Company	P/E		EV/EBITDA		EV/EBITDAR		FCF yield		Dividend yield		PEG	
	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Magnit (local shares)	**18.2x**	**18.6x**	**10.8x**	**10.1x**	**8.3x**	**7.9x**	**1.4%**	**2.8%**	**3.2%**	**3.1%**	**0.8x**	**0.8x**
Magnit (GDR)	**22.8x**	**23.3x**	**13.4x**	**12.4x**	**10.2x**	**9.8x**	**1.1%**	**2.3%**	**2.2%**	**2.2%**	**1.0x**	**1.0x**
Lenta	22.3x	15.4x	10.2x	8.1x	10.1x	8.1x	-8.7%	-7.4%	0.0%	0.0%	0.5x	0.4x
Dixy Group	nmf.	9.4x	5.3x	3.8x	3.5x	3.0x	-5.5%	-1.9%	0.0%	0.0%	nmf.	0.2x
X5 Retail Group	20.2x	12.7x	8.5x	6.6x	5.1x	4.1x	-5.5%	1.9%	0.0%	0.0%	0.8x	0.4x
O'Key Group	16.3x	14.6x	6.7x	6.6x	4.8x	4.7x	-0.2%	1.8%	3.5%	4.7%	1.5x	0.7x
Peers median	***20.2x***	***13.7x***	***7.6x***	***6.6x***	***4.9x***	***4.4x***	***-5.5%***	***0.0%***	***0.0%***	***0.0%***	***0.8x***	***0.4x***

INVESTMENT RISKS

Figure 38. Risk matrix



Source: Team estimates

Table 11. Risk Factors and Mitigation Strategies

Risks	Mitigating Factors
Market risks	
Higher inflation than expected	Closing of inefficient stores
Price war	Investment efficiency gains in prices
Volatile exchange rate of ruble	Consultations with minority investors
Political risks	
Ban on Turkish food imports	in-house production
Regulatory risks	
New amendments to trade law	political lobbying
Increasing tax burden	political lobbying
Operational risks	
Selling space availability	Concentration on convenience stores
Lack of high-quality suppliers	in-house production

Source: Team estimates

Magnit demonstrates high operational efficiency and faces mainly macroeconomic risks. Risk matrix presented in Figure 37 describes likelihood and impact of the following risks.

Market risk | Higher inflation than expected (MR#1)

Consumer price index in Russia has been exceeding growth of nominal wages for 14 months. It led to a drop in real wages of 9.5% and a decline in real disposable income of 4% in 2015. Consumers started trading down and rationalizing the basket. According to surveys customers became less loyal and tend to switch to cheaper stores. These trends are more important for population of small cities – Magnit's main clients. After the recent round of ruble depreciation in December-January we expect a new leap in prices and further decrease in real disposable income creating additional pressure on margins.

Market risk | Price war (MR#2)

Magnit historically enjoys the biggest margins on the market (EBITDA Margin - 11%; Net margin – 6.3%). However the retail chain showed negative dynamics in LFL traffic of -0.7% in 9M 2015 while this number is positive for peers (Lenta and X5 had both 2% growth in traffic in the same period). Lenta and X5 have substantially lower margins than Magnit (4.6% and 2.1% of net margin, respectively) yet during the current economic slowdown they chose the strategy of investing back operating efficiency gains into prices. We see here a growing tradeoff between traffic and profitability. To respond to aggressive price policy of competitors Magnit will be forced to invest more in to prices which will inevitably lead to lower margins. Historical insights from western markets show that margins squeezed once may never return to their initial levels.

Market risk | Volatile exchange rate of ruble (MR#3)

In the end of 2014 Central Bank of Russia introduced floating exchange rate regime of ruble. A year since, we see increased volatility of both ruble exchange rate and ruble denominated assets. It is connected with the high correlation of ruble exchange rate with crude quotes (88% with Brent quote in 2015). A drop in oil prices immediately translates into weakening ruble, higher inflation and cheaper ruble-denominated assets. We do not see considerable influence of exchange rate on supply for Magnit as imports account for only about 10% of revenue. Also it is important that the whole company's outstanding debt is ruble denominated, therefore, the capital structure is unaffected by the change in exchange rates. The only risk we want to point out is the exchange rate exposure of Magnit's GDR circulating on London Stock Exchange.

Political risk| Ban on Turkish food imports (PR#1)

We do not expect expansion of sanctions imposed on Russia by EU and US. Moreover, there is a probability that they will be lifted this summer just as Russian ban on imported food from countries joined anti-Russia sanctions. It would create conditions for lower inflation and would be positive sign for the industry. The biggest current concern is the length of food embargo imposed on Turkey last November. If it is still in place in 2H 2016, when fruit and vegetables imports from Turkey are usually at their highest this would take its toll on Russian retail industry. However, we think this would be a small additional headwind for Magnit as the company's own production of vegetables already meets the needs of the company by 37% with a target of 60%. The company itself estimates losses from the ban on Turkish food to be no more than USD 1 mln.

Regulatory risk | New amendments to trade law (RR#1)

On 19 May 2015 the Duma approved in the first reading amendments to the current trade law, as proposed by State Duma Deputy Irina Yarovaya. The most significant restriction refers to the cutting of the retro bonus from 10% to 3% of delivery value. A retro bonus is an additional retailer discount offered by suppliers for large order volumes, and has always been regarded as a reliable means of boosting retailers' gross margin. Other amendments suggest decreasing the period for payment to suppliers from 10 to five days for perishable goods, from 30 to 20 for goods held up to one month, and from 45 to 35 days for products with a longer storage time. If these initiatives come into force, we they are likely to affect federal chains to a lesser extent than other retailers due to their strong purchasing power.

Regulatory risk | Increasing tax burden (RR#2)

The Russian budget deficit is planned by the government to be about 3% in 2016. However this number will be true only if the average annual oil price will not less than 50 dollars per barrel. Today there is a reasonable risk that this price forecast will not be realized. The unwillingness of central government to increase further budget deficit or to cut social expenditures increases the probability that we could see new taxes on business already by the end of this year.

Operational risk | Selling space availability (OR#1)

The future pace of growth in modern retailer development depends largely on selling space availability. In our view, the lack of quality retail space remains one of the greatest obstacles for the sector, especially in the regions. Retail space availability in Russia is a modest 680 m2 per 1,000 people vs the European average of 1,180 m2 per 1,000 people. At the same time in 2014 Russia became the largest shopping center market in Europe in terms of the introduction of new selling space, and remains on top in terms of 2015-16 pipeline. Clearly, space availability across Russia is spread unevenly, explaining the retail penetration figure. Yet the focus of Magnit on convenience stores mitigates this risk as this format does not require special shopping centers and can be placed in the first floor of usual apartment house.

Operational risk | Lack of high-quality suppliers (OR#2)

Three years ago, commenting on a project of building one of the largest greenhouse complexes in Russia, Magnit's CEO – Sergey Galitsky said that for the retail company agricultural projects are non-core and he would not take this project if he could. But there was no supplier in Russia that would meet the demand of Magnit by price, quality and production volume. One year ago Magnit announced plans to open 40 new food productions in Russia in the next 10 years with capex of more than USD 1 bln per year. We may expect that Russian food embargo, weak ruble and aggressive competitors will force Magnit to extend its non-core operations creating sources of inefficiency.

APPENDIX A. Consolidated statement of financial position

in RUB mln	Historical Balance Sheet				Projected Balance Sheet					
Period Ending December 31	2011	2012	2013	2014	2015E	2016F	2017F	2018F	2019F	2020F
Assets										
Non-current assets										
Property, plant and equipment, net	122 874	158 753	195 158	232 969	277 888	321 279	363 066	403 169	441 504	477 983
Investment property	0	329	325	600	600	600	600	600	600	600
Land lease rights	2 543	2 908	3 259	3 074	3 228	3 389	3 559	3 737	3 924	4 120
Intangible assets	285	523	740	905	1 356	1 885	2 281	2 760	3 339	4 040
Goodwill	0	0	1 367	1 367	1 367	1 367	1 367	1 367	1 367	1 367
Long-term financial assets	406	189	70	97	97	97	97	97	97	97
Total non-current assets	**126 108**	**162 701**	**200 921**	**239 013**	**284 536**	**328 617**	**370 970**	**411 730**	**450 832**	**488 207**
Current assets:										
Inventories	29 144	41 026	56 095	81 476	89 078	113 620	136 862	157 938	179 873	196 439
Trades and other receivables	533	584	632	813	897	1 438	1 566	1 716	1 793	2 060
Advances paid	1 800	2 677	3 171	4 849	5 365	6 602	7 889	9 329	10 890	12 513
Prepaid expenses	380	182	252	243	329	399	407	481	469	539
Taxes receivable	39	29	28	69	0	0	0	0	0	0
Short-term financial assets	172	877	1 151	475	475	475	475	475	475	475
Income tax receivables	0	0	0	132	0	0	0	0	0	0
Cash and cash equivalents	17 205	12 453	5 931	17 692	17 766	11 418	18 533	26 602	40 007	71 479
Total current assets	**49 274**	**57 827**	**67 260**	**105 749**	**113 910**	**133 951**	**165 732**	**196 541**	**233 507**	**283 505**
Total assets	**175 382**	**220 528**	**268 181**	**344 761**	**398 446**	**462 569**	**536 702**	**608 272**	**684 339**	**771 712**
Equity and Liabilities										
Equity attributable to equity holders of the parent										
Share capital	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95
Share premium	41 440	41 595	42 024	42 399	42 399	42 399	42 399	42 399	42 399	42 399
Treasury shares	(145)	(551)	(123)	(500)	0	0	0	0	0	0
Retained earnings	37 289	58 190	84 261	101 752	129 125	157 090	194 203	242 190	306 120	388 427
Total equity attributable to equity holders of parent	**78 584**	**99 236**	**126 162**	**143 652**	**171 525**	**199 490**	**236 603**	**284 590**	**348 519**	**430 826**
Non-controlling interest	111	0	0	0	0	0	0	0	0	0
Toatal equity	**78 696**	**99 236**	**126 162**	**143 652**	**171 525**	**199 490**	**236 603**	**284 590**	**348 519**	**430 826**
Non-current liabilities										
Long-term borrowings and loans	45 850	38 247	37 442	44 410	52 000	54 600	57 330	62 340	59 843	50 745
Long-term obligations under finance leases	13	0	290	202	0	0	0	0	0	0
Deferred tax liability	4 155	6 159	8 173	10 416	10 720	11 026	11 150	11 294	11 457	11 638
Total non-current liabilities	**50 018**	**44 406**	**45 904**	**55 028**	**62 720**	**65 626**	**68 480**	**73 634**	**71 300**	**62 383**
Current liabilities										
Trade and other payables	33 566	42 921	48 171	66 795	70 292	88 902	107 591	125 247	142 497.0	153 160.8
Accrued expenses	3 946	5 021	6 612	8 185	11 622	14 637	17 422	20 044	23 463.2	26 206.4
Taxes payable	2 467	3 731	4 629	5 386	6 121	7 365	8 583	9 872	11 239	12 636
Dividends payable	0.53	0.54	0.03	14 372	14 826	13 982	18 557	23 994	31 965	41 154
Income tax payable	501	91	295	0	0	0	0	0	0	0
Short-term advances received	0	0	88	88	0	0	0	0	0	0
Short-term obligations under finance leases	187	12	0	0	0	0	0	0	0	0
Short-term borrowings and loans	6 000	25 110	36 320	51 257	61 340	72 567	79 467	70 890	55 356.0	45 346.0
Total current liabilities	**46 668**	**76 887**	**96 115**	**146 082**	**164 200**	**197 453**	**231 619**	**250 048**	**264 519**	**278 503**
Total liabilities	**96 686**	**121 293**	**142 018**	**201 110**	**226 921**	**263 079**	**300 099**	**323 681**	**335 820**	**340 886**
Total liabilities & equity	**175 382**	**220 528**	**268 181**	**344 761**	**398 446**	**462 569**	**536 702**	**608 272**	**684 339**	**771 712**

APPENDIX B. Consolidated statement of comprehensive income

in RUB mln except per share amounts)	Historical Income Statement				Projected Income Statement					
Period Ending December 31	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**
Revenue										
Retail Revenue	335 700	448 661	579 695	763 527	947 801	1 166 508	1 393 983	1 648 714	1 924 513	2 211 438
y/y revenue growth, %	*42.1%*	*33.6%*	*29.2%*	*31.7%*	*24.1%*	*23.1%*	*19.5%*	*18.3%*	*16.7%*	*14.9%*
Cost of sales										
Cost of goods sold	(237 872)	(308 662)	(388 112)	(510 150)	(635 027)	(799 058)	(947 909)	(1 112 882)	(1 279 801)	(1 448 492)
Transportation expenses	(11 319)	(13 975)	(17 592)	(20 730)	(25 733)	(32 662)	(40 426)	(49 461)	(59 660)	(70 766)
Less due to inventory shortage	(4 845)	(6 972)	(8 718)	(12 067)	(14 410)	(17 735)	(21 194)	(25 067)	(29 260)	(33 622)
Total Cost of sales	(254 036)	(329 609)	(414 423)	(542 947)	(675 170)	(849 456)	(1 009 528)	(1 187 410)	(1 368 721)	(1 552 880)
COGS as a % of revenue	*75.7%*	*73.5%*	*71.5%*	*71.1%*	*71.2%*	*72.8%*	*72.4%*	*72.0%*	*71.1%*	*70.2%*
Gross profit	**81 663**	**119 052**	**165 272**	**220 581**	**272 631**	**317 052**	**384 455**	**461 304**	**555 792**	**658 558**
Gross profit margin, %	*24.3%*	*26.5%*	*28.5%*	*28.9%*	*28.8%*	*27.2%*	*27.6%*	*28.0%*	*28.9%*	*29.8%*
Operating expenses										
Selling expense	(2 132)	(2 479)	(3 406)	(6 262)	(7 773)	(9 567)	(11 849)	(14 014)	(17 321)	(19 903)
Selling as a % of revenue	*0.6%*	*0.6%*	*0.6%*	*0.8%*	*0.8%*	*0.8%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*
General & Administratibe expenses	(41 448)	(53 949)	(75 196)	(96 624)	(123 000)	(145 110)	(168 517)	(194 948)	(222 186)	(248 799)
G&A as % of revenue	*15.8%*	*15.7%*	*17.0%*	*16.8%*	*13.0%*	*12.4%*	*12.1%*	*11.8%*	*11.5%*	*11.3%*
Rent and utilities	(11 742)	(16 350)	(23 129)	(31 284)	(40 970)	(53 197)	(67 067)	(83 685)	(103 056)	(124 934)
Rent as % of revenue	*3.5%*	*3.6%*	*4.0%*	*4.1%*	*4.3%*	*4.6%*	*4.8%*	*5.1%*	*5.4%*	*5.6%*
Total Operating expense	(55 322)	(72 777)	(101 730)	(134 170)	(171 743)	(207 873)	(247 432)	(292 647)	(342 563)	(393 636)
OpEx as % of revenue	*16.5%*	*16.2%*	*17.5%*	*17.6%*	*18.1%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*
Other income, net	1 227	990	1 530	2 313	2 871	2 333	2 788	3 297	3 849	4 423
Other income, net as % of revenue	*0.4%*	*0.2%*	*0.3%*	*0.3%*	*0.3%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*
Foreign exchange gain(loss)	39	116	(351)	(2 814)	0	0	0	0	0	0
EBITDA	**27 608**	**47 381**	**64 721**	**85 910**	**103 759**	**111 512**	**139 811**	**171 954**	**217 078**	**269 345**
EBITDA margin (%)	*8.2%*	*10.6%*	*11.2%*	*11.3%*	*10.9%*	*9.6%*	*10.0%*	*10.4%*	*11.3%*	*12.2%*
Depreciation and amortization	(7 983)	(11 270)	(14 184)	(17 610)	(20 081)	(24 859)	(29 875)	(35 142)	(40 673)	(46 480)
EBIT	**19 624**	**36 111**	**50 537**	**68 300**	**83 678**	**86 654**	**109 936**	**136 812**	**176 405**	**222 865**
EBIT margin (%)	*6%*	*8%*	*9%*	*9%*	*9%*	*7%*	*8%*	*8%*	*9%*	*10%*
Investment income	286	258	187	372	0	0	0	0	0	0
Interest										
Interest expense (loans)	(2 124)	(2 923)	(2 771)	(5 125)	(8 004)	(8 981)	(9 661)	(9 409)	(8 135)	(6 786)
Interest expense (bonds)	(1 503)	(1 478)	(2 553)	(1 906)	(1 870)	(5 293)	(4 100)	(2 935)	(2 330)	(2 330)
Interest expense (Finance Leases)	(58)	(12)	(0)	0	0	0	0	0	0	0
Cost of qualifying asset	265	357	355	385	366	368.4	373.0	369.0	370.2	370.7
Net interest expense	**(3 420)**	**(4 055)**	**(4 969)**	**(6 646)**	**(9 508)**	**(13 905)**	**(13 388)**	**(11 975)**	**(10 095)**	**(8 745)**
EBT	16 490	32 313	45 754	62 027	74 169	72 749	96 548	124 837	166 310	214 119
EBT margin (%)	*5%*	*7%*	*8%*	*8%*	*8%*	*6%*	*7%*	*8%*	*9%*	*10%*
Income tax expense	(4 186)	(7 196)	(10 134)	(14 341)	(17 148)	(16 820)	(22 322)	(28 863)	(38 451)	(49 505)
Tax rate (%)	*25%*	*22%*	*22%*	*23%*	*23%*	*23%*	*23%*	*23%*	*23%*	*23%*
Net Income	**12 304**	**25 117**	**35 620**	**47 686**	**57 021**	**55 929**	**74 226**	**95 975**	**127 858**	**164 614**
Net income margin (%)	**4%**	**6%**	**6%**	**6%**	**6%**	**5%**	**5%**	**6%**	**7%**	**7%**
Earnings per share (EPS)	138	266	377	504	603	591	785	1 015	1 352	1 741
Dividend per share (DPS)	**11**	**45**	**101**	**319**	309	**305**	**344**	**450**	**592**	**773**
Average common shares outstanding, '000	89 220	94 561	94 561	94 561	94 561	94 561	94 561	94 561	94 561	94 561

APPENDIX C. Consolidated cash flow statement

in RUB mln	Historical Cash Flow Statement				Projected Cash Flow Statement					
Period Ending December 31	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**
Cash flows from operating activities										
Profit before income tax	16 490	32 313	45 754	62 027	74 169	72 749	96 548	124 837	166 310	214 119
Adjustments for:										
Depreciation	7 822	11 025	13 890	17 264	20 081.3	24 858.8	29 875.1	35 142.3	40 672.9	46 480.0
Amortization	158	244	294	345	515.3	716.2	866.6	1 048.6	1 268.9	1 535.3
Finance costs	3 420	4 055	4 969	6 646	(9 508)	(13 905)	(13 388)	(11 975)	(10 095)	(8 745)
Investment income	(286)	(258)	(187)	(372)	0	0	0	0	0	0
Loss from disposal of property, plant and equipment	199	21	211	436	0	0	0	0	0	0
Loss from disposal of investment property	0	0	0	0	0	0	0	0	0	0
Revaluation of investment property	0	(100)	3	(275)	0	0	0	0	0	0
Bad debt provision	(19)	123	71	113	140.5	173.0	206.7	244.5	285.4	327.9
Foreign exchange loss	(39)	(116)	351	2 814	0	0	0	0	0	0
Gain on disposal of subsidiary	(478)	0	0	0	0	0	0	0	0	0
Operating cash flows before working capital changes	**27 268**	**47 309**	**65 358**	**88 999**	**85 398**	**84 592**	**114 109**	**149 298**	**198 441**	**253 717**
Decrease/(increase) in trade and other receivables	489	(145)	52	(295)	(83)	(541)	(128)	(151)	(76)	(267)
Decrease/(increase) in advances paid	309	(877)	(494)	(1 678)	(515)	(1 237)	(1 287)	(1 441)	(1 560)	(1 623)
(Decrease)/increase in advances received	0	0	377	(88)	88	0	0	0	0	0
(Increase)/decrease in taxes receivable	1 627	10	83	(41)	69	0	0	0	0	0
Decrease/(increase) in prepaid expenses	(163)	198	(70)	10	(87)	(69)	(8)	(74)	12	(70)
Decrease/(increase) in inventories	(9 036)	(11 881)	(14 868)	(25 380)	(7 602)	(24 542)	(23 243)	(21 075)	(21 936)	(16 566)
(Decrease)/increase in trade and other payables	9 712	9 460	4 285	15 813	3 497	18 610	18 689	17 657	17 250	10 664
(Decrease)/increase in accrued expenses	1 610	1 075	1 576	1 572	3 437	3 014	2 785	2 622	3 419	2 743
(Decrease)/Increase in taxes payable	1 438	1 264	896	758	735	1 244	1 218	1 289	1 366	1 397
Cash generated from operations	**33 252**	**46 413**	**57 195**	**79 669**	**84 937**	**81 072**	**112 136**	**148 125**	**196 916**	**249 995**
Income tax paid	(1 433)	(5 601)	(8 021)	(12 525)	(17 148)	(16 820)	(22 322)	(28 863)	(38 451)	(49 505)
Interest paid	232	(4 378)	(4 759)	(6 807)	9 508	13 905	13 388	11 975	10 095	8 745
Interest received	(3 474)	236	209	375	0	0	0	0	0	
Net cash (used in)/generated from operating activities	**28 576**	**36 670**	**44 624**	**60 711**	**77 297**	**78 157**	**103 201**	**131 237**	**168 560**	**209 236**
Cash flows from investing activities										
Purchase of property, plant and equipment	(48 691)	(47 310)	(50 051)	(55 712)	(65 000.0)	(68 250.0)	(71 662.5)	(75 245.6)	(79 007.9)	(82 958.3)
Purchase of ownership in a single asset entity	(940)	0	0	0	0	0	0	0	0	0
Purchase of investment property	0	(395)	0	0	0	0	0	0	0	0
Purchase of intangible assets	(222)	(463)	(442)	(461)	(1 044)	(1 112)	(1 346)	(1 628)	(1 970)	(2 384)
Purchase of land lease rights	(1 287)	(506)	(719)	(224)	(154)	(161)	(169)	(178)	(187)	(196)
Proceeds from disposal of subsidiary	0	(111)	227	96	0	0	0	0	0	0
Proceeds from sale of property, plant and equipment	125	148	647	556	0	0	0	0	0	0
Proceeds from sale of land lease rights	293	864	0	4	0	0	0	0	0	0
Acquisition of subsidiaries	0	0	(1 717)	0	0	0	0	0	0	0
Loans provided	(11 053)	(6 142)	(6 419)	(19 659)	0	0	0	0	0	0
Loans repaid	11 410	5 676	6 241	20 304	0	0	0	0	0	0
Net cash used in investing activities	**(50 366)**	**(48 241)**	**(52 232)**	**(55 094)**	**(66 198)**	**(69 523)**	**(73 178)**	**(77 052)**	**(81 165)**	**(85 538)**
	(21 790)	(11 570)	(7 608)	5 617	11 099	8 633	30 024	54 185	87 395	123 697
Cash flows from financing activities										
Dividends paid	(999)	(4 216)	(9 545)	(15 825)	(29 198)	(28 808)	(32 539)	(42 550)	(55 958)	(73 118)
Shares issuance / (repurchase)	14 806	(250)	856	(2)	500	0	0	0	0	0
Cash Flow Avaliable for Debt Repayment	**(7 982)**	**(16 036)**	**(16 297)**	**(10 210)**	**(17 598)**	**(20 175)**	**(2 515)**	**11 635**	**31 437**	**50 579**
Long-term debt issuance / (repayment)	0	(7 603)	(805)	7 034	7 590	2 600	2 730	5 010	(2 497)	(9 098)
Short-term debt issuance / (repayment)	21 750	19 074	10 593	14 937	10 083	11 227	6 900	(8 577)	(15 534)	(10 010)
Repayment of obligations under finance leases	(604)	(188)	(13)	(1)	0	0	0	0	0	0
Net cash from financing activities	**34 953**	**6 818**	**1 087**	**6 143**	**(11 024)**	**(14 981)**	**(22 909)**	**(46 117)**	**(73 989)**	**(92 226)**
Net increase (decrease) in cash and cash equivalents	**13 163**	**(4 753)**	**(6 521)**	**11 760**	**75**	**(6 348)**	**7 115**	**8 068**	**13 406**	**31 471**
Cash at the beginning of the year	**4 042**	**17 205**	**12 453**	**5 931**	**17 691**	**17 766**	**11 418**	**18 533**	**26 602**	**40 007**
Cash at the end of the year	**17 206**	**12 453**	**5 931**	**17 691**	**17 766**	**11 418**	**18 533**	**26 602**	**40 007**	**71 479**

CFA Institute

❖ Business Overview Appendix

❖ Industry Analysis Appendix

❖ Financial Analysis Appendix

❖ Valuation Appendix

APPENDIX D. Magnit's history

1994-1998 — Start: wholesale trading

- Sergey Galitskiy founded the company selling household products
- Tander LLC became one of the leaders in distributing cosmetics and household products in Russia
- Plan for retail expansion was created

1998-2001 — Entering retail market

- The first retail store in Krasnodar
- Experiments with store formats
- Stores are combined in retail chain

2001-2005 — Intensive growth

- 1500 stores at the end of 2005
- IFRS, strong financial control and motivation labor system implementation

2006-2009 — IPO, SPO, Multiformat stores

- Russian retail leader by traffic
- IPO in 2006, SPO in 2008 and 2009
- Start of hypermarkets construction
- First non-executive director
- 3228 stores at the end of 2009

2010-2012 — Firm position in retail sector

- First Drogerie store "Magnit Cosmetic"
- Market expansion: Ural and Siberia regions
- SPO in 2011 – $475 mln. attracted
- Value of stock traded at LSE is more than $21 bln.
- Start of vegetables cultivation

TODAY — Magnit today

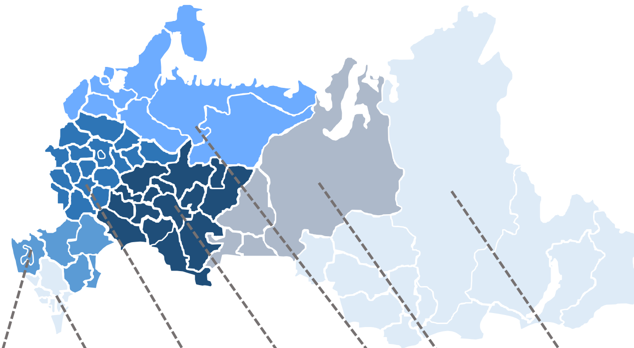
- Magnit is Russia's largest retail company in Russia by market share, revenues, employees, earnings, market capitalization, geographic coverage, customers served operating 12089 retail stores in over 2361 cities, supported by 33 distribution centres and over 5882 trucks

APPENDIX E. Magnit's Geographical coverage & Logistics

Geographical Coverage

2361 Cities & Towns

7 Federal Regions



Source: company as at December 31, 2015

	North Caucasus	Southern	Central	Volga	North West	Urals	Siberia	Total
Convenience Stores	347	1 602	2 467	2 806	895	829	300	9 246
Hypermarkets	7	59	35	61	13	27	6	208
Magnit Family	5	34	24	42	8	9	5	127
Drogerie Stores	75	388	440	511	183	156	54	1 807
Distribution Centers	1	6	9	7	2	2	2	29

Source: company as at September 30, 2015

Logistics System

34 DCs

5950 Trucks

Source: company as at December 31, 2015

1078 Warehousing Space thous.m²

Region	Warehousing Space, thous.m²
Central	3667
Volga	2976
Southern	2229
Urals	1198
North Caucasus	363
North West	630
Siberia	325

Source: company as at September 30, 2015

Centralization Ratio, %

Convenience Stores
Magnit – 90
Outsourced - 10

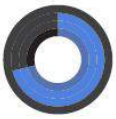
Hypermarkets
Magnit – 72
Outsourced - 28

APPENDIX F. Magnit's store formats description (1/2)

Convenience Store

Format Description

Size of the Store



455 sq.m. Total
324 sq.m. Selling Space

Sales Mix

89% Food
11% Non-food

Store Ownership Structure

26% Owned
74% Leased

Number of SKUs

3 500

Key Operational Statistics

Average Ticket

₽ 241,8
$4,1

Traffic
tickets/sq.m./day

2,7

Sales Density
sales/sq.m./year

₽ 238 077
$6 196

LFL 9M2015 –9M2014,%

10,06 Average Ticket, RUB
-0,74 Traffic
9,24 Sales

Opening

Payback

If Leased
3 years

If Owned
4-6 years

Cost of New Store
per sq.m. of Total Space, thousand RUB

Owned 42-108
Leased 10-19

Time to Maturity

6 months

Source: company as at September 30, 2015

Hypermarket

Format Description

Size of the Store

6 684 sq.m. Total
2 908 sq.m. Selling Space

S: up to 3 000
M: 3 000-6 000
L: over 6 000

Sales Mix

80% Food
20% Non-food

Store Ownership Structure

78% Owned
22% Leased

Key Operational Statistics

Average Ticket

₽ 608,7
$10,3

Traffic
tickets/sq.m./day

1,2

Sales Density
sales/sq.m./year

₽ 275 073
$7 159

LFL 9M2015 – 9M2014,%

8,04 Average Ticket, RUB
-2,46 Traffic
5,38 Sales

Opening

Payback

6-9 years

Cost of New Store
per sq.m. of Total Space, thousand RUB

Owned 65-111
Leased 31-35

Time to Maturity

8-15 months

Number of SKUs

15 000-25 200

Source: company as at September 30, 2015

APPENDIX G. Magnit's store formats description (2/2)

Magnit Family

Format Description

Size of the Store

2 193 sq.m. Total
1 101 sq.m. Selling Space

Sales Mix

85% Food
15% Non-food

Store Ownership Structure

36% Owned
64% Leased

Number of SKUs

8 800

Key Operational Statistics

Average Ticket

₽439,7
$7,4

Traffic
tickets/sq.m./day

2,1

Sales Density
sales/sq.m./year

₽371 659
$9 673

LFL 9M2015 – 9M2014,%

7,18 Average Ticket, RUB
-2,24 Traffic
4,78 Sales

Opening

Payback

6-9 years

Cost of New Store
per sq.m. of Total Space, thousand RUB

Owned 81-108
Leased 31-54

Time to Maturity

8-15 months

Source: company as at September 30, 2015

Drogerie Store

Format Description

Size of the Store

299 sq.m. Total
229 sq.m. Selling Space

Sales Mix

100% Non-food

Store Ownership Structure

14% Owned
86% Leased

Number of SKUs

1 500

Key Operational Statistics

Average Ticket

₽277,6
$4,7

Traffic
tickets/sq.m./day

1,1

Sales Density
sales/sq.m./year

₽104 643
$2 724

LFL 9M2015 – 9M2014,%

13,35 Average Ticket, RUB
8,99 Traffic
23,54 Sales

Opening

Payback

If Leased

3 years

If Owned

4-6 years

Cost of New Store
per sq.m. of Total Space, thousand RUB

Owned 31-96
Leased 12-19

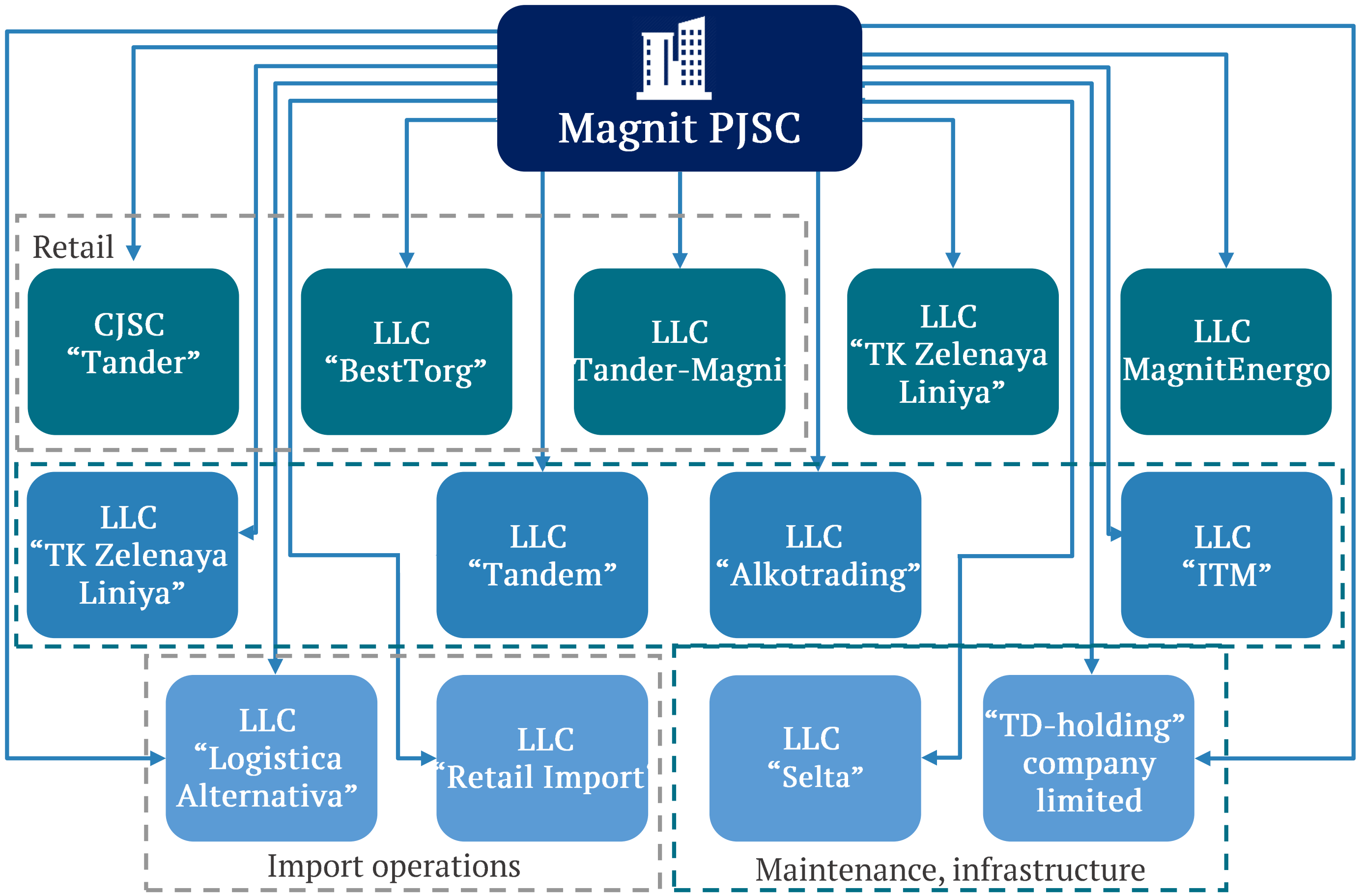
Time to Maturity

6 months

Source: company as at September 30, 2015

APPENDIX H. Magnit's organization structure

Ownership interest = 100% for every company



MAGNITENERGO LLC
Founded in February, 2012.
Electric power supplier for Magnit

TANDER CJSC
Food retail and wholesale

BESTTORG LLC
Food retail in the city of Moscow and ehe Moscow region

TANDER-MAGNIT LLC
Food retail in the Moscow region

RETAIL IMPORT LLC
Import operations

ITM LLC
IT operations for Magnit

SELTA LLC
Transportation services for Magnit

LOGISTICA ALTERNATIVA LLC
Import operations

TK ZELENAYA LINIYA LLC
Greenhouse complex. Production of own vegetables.

STAR LLC
Assets holder, maintenance services for Magnit

TANDEM LLC
Rent operations for magnit.

ALKOTRADING LLC
Other operations, retail.

TD-HOLDING LTD.
Founded in 1998. Production and processing of food for Magnit

NPF MAGNIT LLC
Founded in 1995.
Non-government pension fund.

APPENDIX I. Magnit's board of directors (1/2)

Timeline Infographic

Sergey Galitskiy

Date of birth: 14.08.1967

Education: higher - 1992 - Kuban State University - Economics.

Positions held in the last five years:

1) 04.2004 – present day -PJSC "Magnit" - member of the Board of Directors;

2) 04.2006 – present day - PJSC "Magnit" - CEO;

3) Period: 08.2009 – 10.2014 - NP "FC "Krasnodar" - President;

4) Period: 07.2010 – present day - PJSC "Magnit" - Chairman of the Management board;

5) Period: 10.2014 - present day - LLC "Football Club "Krasnodar" President.

38.6659 % (as of 31.12.2015)*.

38.6659 % (as of 31.12.2015)**.

Khachatur Pombukhchan

Date of birth: 16.03.1974.

Education: higher - 1996 - Kuban State University - Applied Mathematics; 2000 - All-Russian Distance Institute of Finance and Economics, Economics.

Positions held in the last five years:

1) 06.2008 – 05.2012 LLC "Magnit Finance" - CEO;

2) 06.2008 – 06.2010 PJSC "Magnit" - Member of the BOD;

3) 07.2008 – present day - JSC "Tander" - Chief Financial Officer;

4) 07.2008 – present day PJSC "Magnit" - Chief Financial Officer;

5) 06.2010 – present day PJSC "Magnit" - Chairman of the BOD.

Marina Ivanova

Date of birth: 02.01.1964

Education: higher – 1990 - Tajik State University n.a. Lenin - Chemistry and Biology.

Positions held in the last five years:

1) 08.2008– present day

JSC "Tander« - Business Director (Head Office);

2) 10.2012 – present day

PJSC "Magnit« Member of the Management Board;

0.001058% (as of 31.12.2015)

0.001058% (as of 31.12.2015)

Alexander Barsukov

Date of birth: 08.07.1977

Education: higher - 1998 - Rostov Law Institute of Ministry of Internal Affairs of the Russian Federation with a degree in Law.

Positions held in the last five years:

1) 07.2008 – 12.2012

Organization: JSC "Tander"

Position: Hypermarkets Sales Director;10

2) 07.2010 – present day

PJSC "Magnit" - Member of the Management Board;

3) 12.2012 - present day

JSC "Tander" - Director of Hypermarkets Sales Department;

0.000888% (as of 31.12.2015).

0.000888% (as of 31.12.2015).

Ilya Sattarov

Date of birth: 13.07.1976

Education: higher – 1998 - Kuban State University, Economics.

Positions held in the last five years:

1) 07.2007 – 12.2010

Organization: Commercial Joint- Stock Bank "Societe Generale Vostok Bank", JSC - CEO (JSC "SGVB" Krasnodar Branch);

2) Period: 12.2010 – 01.2011

JSC "Tander" - Director for Assets Acquisition and Management (Head Office);

3) 02.2011 – 07.2011

JSC "Tander" - Director for Transport;

4) 08.2011 – present day

JSC "Tander" - Deputy CEO for Logistics (Head Office);

5) 10.2012 – present day

PJSC "Magnit"

Member of the Management Board.

0.002957% (as of 31.12.2015).

0.002957% (as of 31.12.2015).

Here and further:

** Shareholding of the person in the issuer's charter capital*

*** Ordinary shares owned by the person*

APPENDIX J. Magnit's store formats description (2/2)

Timeline Infographic

Andrey Arutyunyan

Date of birth: 12.01.1969.

Education: higher -1993 - Kuban State University - Economics.

Positions held the last five years:

1) 12.2003 – present day.

PJSC "Magnit" - First Deputy CEO;

2) 06.2008 – present day.

PJSC "Magnit" - Member of the Board;

3) 07.2009 – present day

JSC "Tander" - Deputy Chief Executive Officer in Charge of Development.

0.215686 % (as of 31.12.2015).

0.215686 % (as of 31.12.2015).

Alexey Pshenichniy

Date of birth: 23.02.1967

Education: higher – 1990 - Krasnodar State Institute of Physical Culture - Teaching and Organization of culture and health activity and tourism;

MBA - 2004 - the Government of the Russian Federation;

Positions held the last five years:

1) 02.2010 - present day

Bazis LLC, Director;

2) 02.2010 – present day

Yunior LLC – Director;

3) 01.2004 - present day

Sports goods chain Visshaya LIGA LLC - Director;

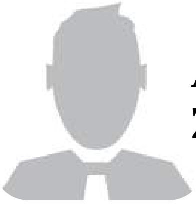
4) 12.2012 – present day

Sport Plyus LLC – Director;

5) 05.2014 - present day

PJSC "Magnit"

Member of the Board of Directors.



Alexander Zayonts

Date of birth: 10.01.1967

Education: higher – Moscow Institute of Chemical Engineering n.a. D.I. Mendeleev - Chemical process engineering.

Positions held the last five years:

1) 01.2008 – present day

Domashniy Interier LLC - General Director;

2) 12.2009 – 09.2013

Obiedinennye resursy LLC - Member of the Board of Directors;

3) 06.2010 – present day

PJSC "Magnit" - Member of the Board of Directors;

4) 04.2012 – present day

EDELWEISS LLC - General Director.

Alexey Makhnev

Date of birth: 24.05.1976

Education: Ph.D. - 1998 - Saint Petersburg University of Economics and Finance, Economics

Positions held in the last five years:

1) 05.2009– 24.01.2013

CJSC "VTB Capital" - Managing Director, Head of the Consumer Sector and Retail, Investment Banking on Global Markets Department;

2) 06.2009 – present day

PJSC "Magnit" - Member of the Board of Director;

3) 01.2013 – present day

CJSC "VTB Capital" - Head of the Consumer Sector, Retail and Real Estate, Corporate and Investment Department;

4) 01.2013 – present day

OJSC "Bank VTB" - Head of the Trade, Consumer Goods, Agro and Pharmaceutical Industries Business Unit of Market Sector Clients Service Department – Senior Vice-President;

Aslan Schkhachemukov

Date of birth: 22.08.1962

Education: higher – 1987 - Krasnodar Polytechnic Institute of the Order of the Red Banner of Labor, Industrial Engineering.

Positions held in the last five years:

1) 10.2007 – 03.2012

JSC "Tander" - Deputy General Director;

2) 06.2011 – present day

PJSC "Magnit" - Member of the Board of Directors;

3) 03.2012 – present day - JSC "Tander" - Deputy CEO for Economic Security and Organizational Issues.

0.009165% (as of 31.12.2015).

0.009165% (as of 31.12.2015).

CFA Institute

- Business Overview Appendix

Industry Analysis Appendix

- Financial Analysis Appendix
- Valuation Appendix

APPENDIX K. Main competitors overview

X5 Retail Group

X5 Retail Group N.V. is a leading Russian food retailer. The Company operates several retail formats: the soft discounter chain under the Pyaterochka brand, the supermarket chain under the Perekrestok brand, the hypermarket chain under the Karusel brand and Express convenience stores under various brands.

As of December 31, 2014, X5 operats 5,483 stores. It has the leading market position in both Moscow and St. Petersburg and a significant presence in the European part of Russia. Its store base includes 4,789 Pyaterochka soft discounter stores, 403 Perekrestok supermarkets, 82 Karusel hypermarkets and 209 Express stores. As of December 31, 2014 the total selling space of the company amounted to 2,572.2 thousand sq. m. The Company operates 34 DCs and 1,438 Company-owned trucks across the Russian Federation.

In 2014 net sales stood at 633,873 mln RUR, EBITDA reached RUR 45,860 mln, and net profit amounted to RUR 12,691 mln.

METRO Cash & Carry

Metro Cash and Carry is the largest operating company of cash & carry international business format (individual wholesale) of Metro Group.

As of December 31, 2014 "Metro Cash & Carry" LLC operates 78 trading centers in 44 regions of Russia. The company also operates “Metro Punct” supermarket with the total selling space of 1.587 thousand sq. m. which was opened in May 2012, and a real,-, with the total space of 8.39 thousand sq. m. managed by "Metro Cash & Carry" as a result of the transaction with “Real-Hypermarket” LLC (Metro Group). Moreover, in June 2012 the first two franchised “Fasol” stores were opened in St. Petersburg, and in September 2012 – 5 “Fasol” stores in Rostov-on-Don. As of December 31, 2014 there were more than 15 franchised “Fasol” stores in Moscow, 6 in Saint-Petersburg, 4 in Rostov-on-Don, 1 in Kaluga, 1 in Kazan.

In 2014 METRO Cash & Carry opened 7 trading centers: 2 – in Moscow region (Lagovskoye village and Akseno-Butyrskoye village), Voronezh region (Semiluki), Moscow, Krasnodar region (Novorossiysk), Novosibirsk, Vladimir. Total selling space of the company as of December 31, 2014 amounted to 619.2 thousand sq. m.

Sales of METRO Cash & Carry, Russia for 2013 amounted to 183,224 million rubles (which represents 11.3% growth vs. 2012).

Auchan

Auchan is a large hypermarket chain operating on the Russian market since 2002. As of December 31, 2014 “Auchan” in Russia operates 85 trading outlets (including one Auchan-city store in Moscow under reconstruction): 55 “Auchan” hypermarkets were opened in 25 regions (18 - in Moscow and Moscow region, 6 – in Saint-Petersburg and Leningrad region, 5 – in Samara, 3 – in Nizhny Novgorod and Rostov region, 2 – in Volgograd region and Republic of Tatarstan, 1 in Novosibirsk, Lipetsk, Yaroslavl, Krasnodar, Republic of Adygea, Tambov, Yekaterinburg, Ulyanovsk, Omsk, Voronezh, Ufa, Ryazan, Chelyabinsk, Tyumen, Saratov, Ivanovo, Izhevsk and Republic of Crimea). Besides, Auchan operates 23 “Auchan-city” mini-hypermarkets in Moscow (9 stores), Yekaterinburg (1), Moscow region (3), Novosibirsk (2), Nizhniy Novgorod (1), Saint-Petersburg (3), Saratov (1), Togliatti (1), Rostov-on-Don (1), Ufa (1), as well as 6 “Nasha Raduga” hypermarkets in Penza region (Kuznetsk and Penza), Nizhniy Novgorod region (Arzamas), Yaroslavl, Kaluga, Kostroma.

In 2014 the company opened 6 new trading outlets. Total selling space as of December 31, 2014 amounted to 788.5 thousand sq. m. The company plans to open from 7 to 12 hypermarkets in 2015.

Dixy

“Dixy” Group of Companies is one of Russia's leading retailers of food and everyday products. The Company operates in Central, Northwestern, Volga and Urals federal districts of Russia, and in Kaliningrad and Kaliningrad region.

As of December 31, 2014 the company operated 2,195 stores, including: 2,065 “Dixy” neighborhood stores, 94 “Victoria” stores, 1 “CASH” store and 35 “MEGAMART” and “MINIMART” compact hypermarkets.

The company is the third largest in terms of the amount of sales, selling space and the number of stores among the national retailers operating in the food segment. The total number of employees of the company exceeds 50 thousand.

Net selling space of the Group as of December 31, 2014 amounted to 746,5 sq. m.

In 2014 total sales of “Dixy” Group of Companies increased by 26.9% in ruble terms compared to the same period last year and stood at 229.0 billion rubles.

Lenta

“Lenta”, the company which operates the hypermarket chain under the same brand, was founded in 1993. As of December 31, 2014 "Lenta" operates 108 hypermarkets located in 60 cities across Russia and 24 supermarkets in Moscow and Moscow region.

Total selling space of the chain as of December 31, 2014 amounted to 701 thousand sq. m.

As of January 1, 2015 the company’s total headcount amounted to 35,100 employees. The average headcount of “Lenta” in 2014 amounted to 27,200 employees. 6.5 million people throughout Russia are the active loyalty cards holders of the chain.

In 2014 net sales of “Lenta” retail chain increased by 34.5% compared to 2013 and amounted to 194.0 billion rubles.

O'KEY

“O’KEY” is one of the largest retail chains in Russia. Its primary retail format is the modern Western European hypermarket under the “O’KEY” brand, complemented by “O’KEY - Express” supermarkets. As of December 31, 2014 "O'KEY" operated 108 stores across Russia: 69 hypermarkets and 39 supermarkets in 28 cities of Russia. As of December 31, 2014 total selling space of the Company amounted to about 552 thousand sq. m.

In 2014 “O’KEY” retail chain opened 9 hypermarkets: in Syktyvkar, Moscow (3), Sterlitamak (Republic of Bashkortostan), Gatchina (Leningrad region) and Orenburg, Cherepovets (Vologda region) and Nizhniy Novgorod and 7 supermarkets: in Volzhskiy (Volgograd region)-2, Saint-Petersburg, Voronezh, Ivanovo, Tambov, Barnaul. In 2014 “O'KEY” audited net sales amounted to 151.98 billion rubles, increasing by 9.0% compared to 139.46 billion rubles in 2013.

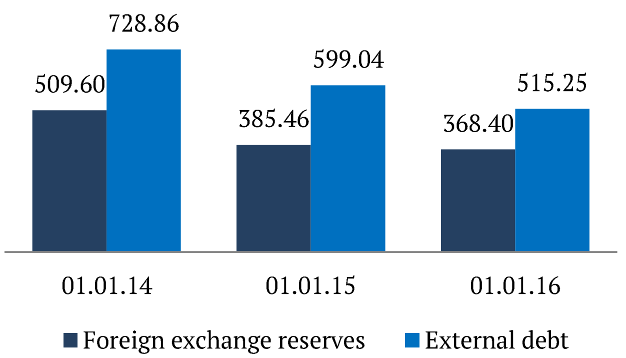
APPENDIX L. Macroeconomic indicators

Real GDP forecasts

Although in 2015 there was a great decline in real GDP because of the crisis started in 2014, the economy is not expected to experience such shock in 2016 and 2017. According to majority of forecasts, Russian economy will face further slowdown, which will reflect in a drop in Real GDP not exceeding 1%. By 2017 economic growth is likely to recover.

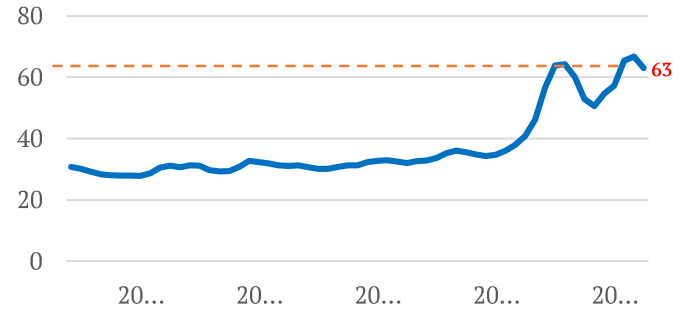
2014	2015		2016	2017
		The World Bank	-0.7%	1.3%
0.6%	-3.80%	IMF	-1%	1%
		The Ministry of Economic Development, RF	0.7%	1.9%

Foreign exchange reserves and External debt

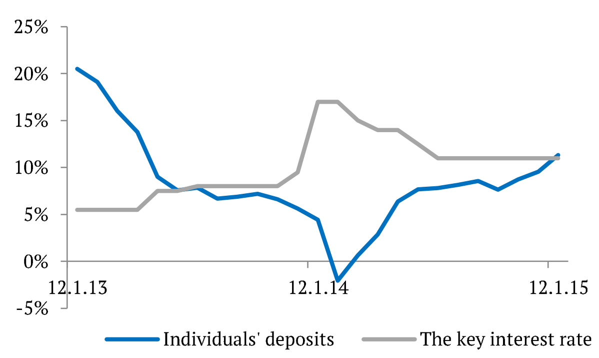


The estimated fair exchange rate USD/RUB

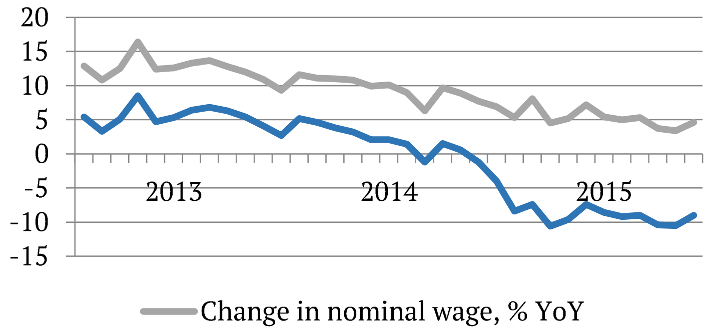
According to calculations conducted by Alpha Bank the fair exchange rate is estimated to be 63 rubles per 1 dollar



Changes in individuals' deposits and the key interest rate



y/y change in nominal and real wages



Comparison of individuals' budget in 1Q 2014 and 2015

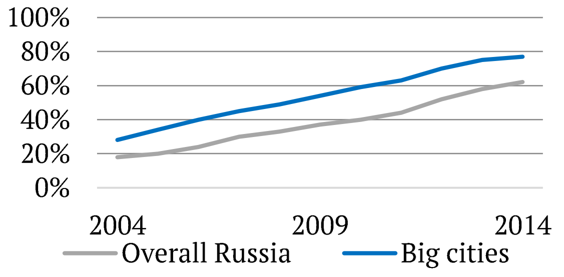
In 2015 we can observe a reallocation of income from spending to saving, in other words, propensity to spend decreased

	2014				2015			
	Jan	Feb	March	Total 1Q	Jan	Feb	March	Total 1Q
Goods	72.8	54.5	60.8	62.0	71.6	52.6	58.0	60.0
Service	20.9	16.0	16.8	18.0	20.1	15.2	15.8	17.0
Purchases abroad	3.4	3%	4%	2.2	2.1	1.2	1.8	1.6
Total purchases	97.1	72.9	80.5	82.0	93.8	69.0	75.6	78.0
Obliged payments	11.9	1.8	12.6	12.0	11.0	10.6	11.6	11.0
Saving	-9.9	8.2	0.0	0.3	7.0	18.2	12.5	13.0
Foreign currency	8.0	5.7	7.6	7.0	4.3	3.6	4.3	4.1
Change in cash in hands	-7.1	1.4	-0.7	-1.7	-16.1	-1.4	-4.0	-6.4
Total	100	100	100	100	100	100	100	100

APPENDIX M. Market trends

In Russia the indicator "Available retail space per capita" is at the level of approximately 700 m2 per 1000 people, whereas the modern retail penetration is 62%. In Germany the indicators are estimated to be 1450 m2 per 1000 people and 88% correspondingly. Given the relation between the values, we think that Russian retail market may be considered quite saturated with modern formats.

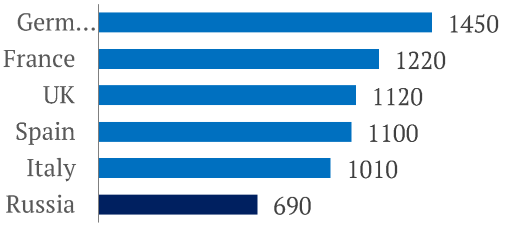
Penetration of modern retail in Russia



(Top 15 by population)

Source: Infoline

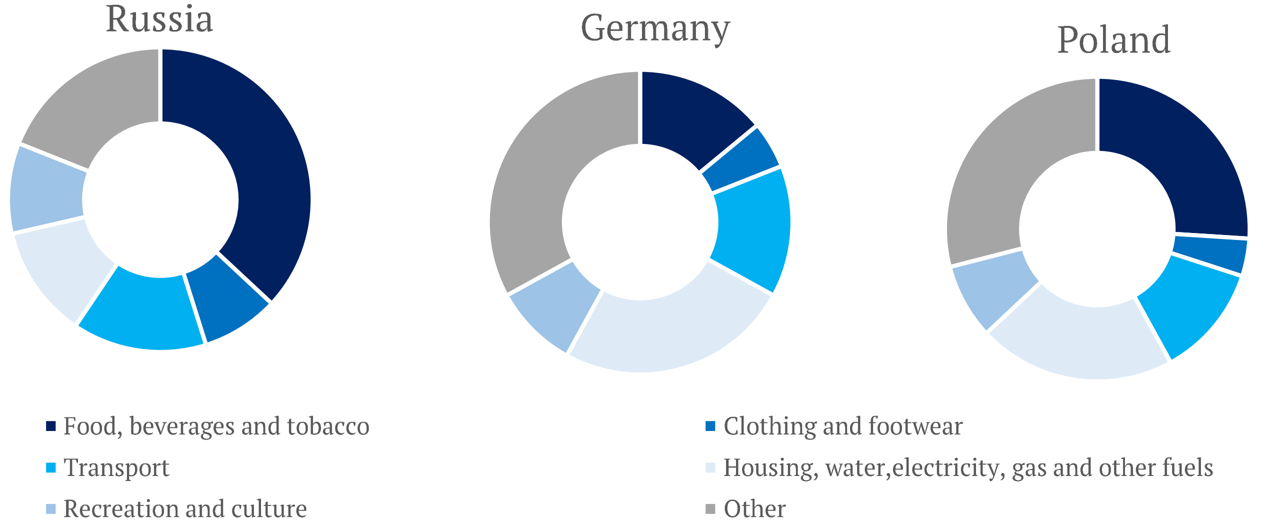
Available retail space per capita (m2 per 1000 people)



Source: GfK GeoMarketing, Infoline

Structure of expenditures in Russia, Germany and Poland

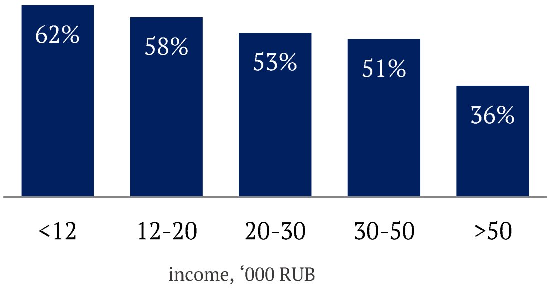
The share of expenditures on food is obviously greater in Russia than in developed European countries characterized by good economic conditions, lower income inequality and higher level of life in general. Sensible to external effects expenses on food tend to go upwards during crisises, so in 2016 we expect that the share will not decline.



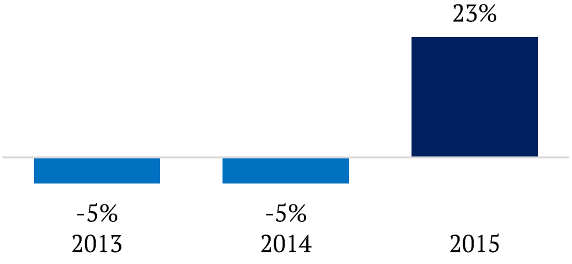
Consumers' preferences

Social surveys conducted by famous analytical agencies confirmed people's reaction to macroeconomic shocks and declining level of life, wages and disposable income .

Share of respondents who started to buy less goods or cheaper ones during the last 12 months corresponding to their income



Net change in percentage of respondents deliberately looking to buy cheaper products



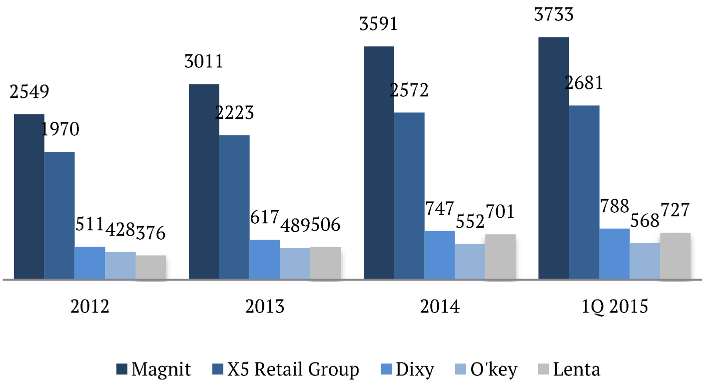
APPENDIX O. Competitive environment

Like-for-like indicators

Convenience stores and hypermarkets in low cost segments are the key formats consumers give their preference to.

	Magnit			X5			Dixy		
	Average check	Traffic	Revenue	Average check	Traffic	Revenue	Average check	Traffic	Revenue
2013									
Convenience stores	5%	-2%	4%	4%	-4%	0%	7%	-2%	5%
Hypermarkets	2%	3%	4%	1%	3%	3%	2%	0%	2%
Supermarkets	5%	7%	13%	2%	-2%	0%	4%	-2%	2%
Drogerie	4%	11%	15%						
2014									
Convenience stores	10%	4%	14%	12%	2%	13%	11%	2%	14%
Hypermarkets	8%	6%	14%	5%	-2%	5%	7%	-4%	3%
Supermarkets	9%	9%	19%	5%	-3%	2%	5%	1%	6%
Drogerie	4%	36%	41%						
2015									
Convenience stores	8%	1%	7%	14%	4%	18%	13%	0%	13%
Hypermarkets	6%	-4%	2%	8%	3%	11%	7%	-4%	3%
Supermarkets	4%	-4%	1%	12%	-5%	7%	3%	3%	6%
Drogerie	13%	6%	20%						

Trade space



Location of distribution centers (2015)

	X5	Magnit	Dixy	Lenta
Central FD	17	9	5	1
Northwestern FD		2		2
Southern FD	2	8		
North Caucasian FD		1		
Volga FD	5	10		
Ural FD	5	2	1	
Siberian FD	5	1		1
Far Eastern FD				
CrimeanFD				
Total	34	33	6	4

CFA Institute

- Business Overview Appendix
- Industry Analysis Appendix
- **Financial Analysis Appendix**
- Valuation Appendix

APPENDIX P. Working capital

in RUB mln	Historical				Projected					
Period Ending December 31	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**
Current assets										
Trades and other receivables	533	584	632	813	897	1 438	1 566	1 716	1 793	2 060
Days receivable	*0.58*	*0.45*	*0.38*	*0.35*	*0.35*	*0.45*	*0.41*	*0.38*	*0.34*	*0.34*
Inventories	29 144	41 026	56 095	81 476	89 078	113 620	136 862	157 938	179 873	196 439
Inventory turnover days	*33.0*	*41.5*	*45.7*	*49.2*	*51.2*	*51.9*	*52.7*	*51.8*	*51.3*	*49.5*
Prepaid expenses	380	182	252	243	329	399	407	481	469	539
Days prepaid expenses		*1.8*	*1.0*	*0.9*	*0.7*	*0.6*	*0.6*	*0.5*	*0.5*	*0.5*
Advances paid										
Third party suppliers	1 092	1 901	2 236	3 114	3 865	4 757	5 685	6 724	7 848	9 019
as % of Revenue	*0.3%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*
For custioms duties	652	719	882	1 537	1 422	1 750	2 091	2 473	2 887	3 317
as % of Revenue	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*
Advances to employees	50	55	53	60	75	92	110	130	151	174
as % of Revenue	*0.02%*	*0.01%*	*0.01%*	*0.01%*	*0.01%*	*0.01%*	*0.01%*	*0.01%*	*0.01%*	*0.01%*
To related party suppliers	6	3	1	139	3	3	3	3	3	3
Total advances paid	1 800	2 677	3 171	4 849	5 365	6 602	7 889	9 329	10 890	12 513
Total advances paid as % of Revenue	*0.5%*	*0.6%*	*0.5%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*
Total current assets	**31 857**	**44 469**	**60 150**	**87 381**	**95 668**	**122 058**	**146 724**	**169 465**	**193 025**	**211 551**
Current liabilities										
Trade and other payables	33 566	42 921	48 171	66 795	70 292	88 902	107 591	125 247	142 497	153 161
Days payable		*42.3*	*40.1*	*38.6*	*38.0*	*38.2*	*38.9*	*38.5*	*38.0*	*36.0*
Accrued expenses	3 946	5 021	6 612	8 185	11 622	14 637	17 422	20 044	23 463	26 206
Days payable		*29.0*	*27.0*	*26.2*	*24.7*	*25.7*	*25.7*	*25.0*	*25.0*	*24.3*
Taxes payable	2 467	3 731	4 629	5 386	6 121	7 365	8 583	9 872	11 239	12 636
Total current liabilities	**39 978**	**51 673**	**59 412**	**80 365**	**88 035**	**110 904**	**133 596**	**155 164**	**177 199**	**192 003**
Total operating working capital	**-8 122.8**	**-7 204.1**	**738.3**	**7 015.2**	**7 633.6**	**11 154.3**	**13 127.6**	**14 300.7**	**15 826.2**	**19 548.1**
Change in total operating working capital		919	7 942	6 277	618	3 521	1 973	1 173	1 526	3 722

APPENDIX Q. Depreciation and amortization

in RUB mln	Historical				Projected					
Period Ending December 31	2011	2012	2013	2014	2015E	2016F	2017F	2018F	2019F	2020F
Property, plant & equipment (beg. of year)					**232 969**					
Capital expenditures (beg. of year)					**68 250**	**71 662**	**75 246**	**79 008**	**82 958**	**87 106**
Book (GAAP) depreciation										
Useful Life										
PP&E Years					**15**					
CAPEX Years					**15**					
Depreciation										
Existing PP&E					15 531.3	15 531.3	15 531.3	15 531.3	15 531.3	15 531.3
2015E CAPEX					4 550.0	4 550.0	4 550.0	4 550.0	4 550.0	4 550.0
2016F CAPEX						4 777.5	4 777.5	4 777.5	4 777.5	4 777.5
2017F CAPEX							5 016.4	5 016.4	5 016.4	5 016.4
2018F CAPEX								5 267.2	5 267.2	5 267.2
2019F CAPEX									5 530.6	5 530.6
2020F CAPEX										5 807.1
Total book depreciation	**7 822.2**	**11 025.5**	**13 890.5**	**17 264.2**	**20 081.3**	**24 858.8**	**29 875.1**	**35 142.3**	**40 672.9**	**46 480.0**
Amortization	**1.00**	**2.00**	**3.00**	**4.00**	**5.00**	**6.00**	**7.00**	**8.00**	**9.00**	**10.00**
% of Intengible assets	*55%*	*47%*	*40%*	*38%*	*35%*	*34%*	*32%*	*31%*	*30%*	*29%*
Amortization	**157.7**	**244.2**	**293.9**	**345.5**	**515.3**	**716.2**	**866.6**	**1 048.6**	**1 268.9**	**1 535.3**

APPENDIX R. Key financial ratios

	2011	2012	2013	2014	2015E	2016F	2017F	2018F	2019F	2020F
Profitability ratios										
Gross margin	24.3%	26.5%	28.5%	28.9%	28.8%	27.2%	27.6%	28.0%	28.9%	29.8%
EBITDAR margin	11.7%	14.2%	15.2%	15.3%	14.2%	12.2%	12.3%	12.3%	12.9%	13.6%
EBITDA margin	8.2%	10.6%	11.2%	11.3%	10.9%	9.6%	10.0%	10.4%	11.3%	12.2%
EBIT margin	5.8%	8.0%	8.7%	8.9%	8.8%	7.4%	7.9%	8.3%	9.2%	10.1%
Net margin	3.7%	5.6%	6.1%	6.2%	6.0%	4.8%	5.3%	5.8%	6.6%	7.4%
ROE	18.8%	28.3%	31.6%	35.3%	36.2%	30.1%	34.0%	36.8%	40.4%	42.2%
ROA	8.5%	12.7%	14.6%	15.6%	15.3%	13.0%	14.9%	16.8%	19.8%	22.6%
ROCE	18.9%	26.5%	32.0%	36.8%	38.7%	34.7%	38.6%	41.3%	45.3%	48.8%
Liquidity Ratios										
Current ratio	1.06	0.75	0.70	0.72	0.69	0.68	0.72	0.79	0.88	1.02
Quick ratio	0.38	0.18	0.08	0.13	0.12	0.07	0.09	0.12	0.16	0.27
Cash ratio	0.37	0.17	0.07	0.12	0.11	0.06	0.08	0.11	0.15	0.26
Investment Ratios										
Capex/ Revenue	14.5%	10.5%	8.6%	7.3%	6.9%	5.9%	5.1%	4.6%	4.1%	3.8%
Capex/D&A	6.10	4.20	3.53	3.16	3.16	2.67	2.33	2.08	1.88	1.73
Solvency Ratios										
Debt to Total Capital Ratio	29.7%	28.7%	27.6%	27.8%	28.4%	27.5%	25.5%	21.9%	16.8%	12.5%
Long Term Debt Ratio	26.2%	17.3%	14.1%	12.9%	13.1%	11.8%	10.7%	10.2%	8.7%	6.6%
Long Term Debt to Total Debt	88.1%	60.4%	51.0%	46.5%	45.9%	42.9%	41.9%	46.8%	51.9%	52.8%
D/E	66.1%	63.9%	58.7%	66.7%	66.1%	63.7%	57.8%	46.8%	33.1%	22.3%
Net Debt/Equity	44.3%	51.3%	54.0%	54.4%	55.7%	58.0%	50.0%	37.5%	21.6%	5.7%
Interest Coverage Ratio	5.74	8.90	10.17	10.28	8.80	6.23	8.21	11.43	17.47	25.48
Net Debt/EBITDA	1.26	1.07	1.05	0.91	0.92	1.04	0.85	0.62	0.35	0.09
Efficiency Ratios										
Total assets turnover	2.33	2.27	2.37	2.49	2.55	2.71	2.79	2.88	2.98	3.04
Fixed assets turnover	2.66	2.76	2.89	3.19	3.33	3.55	3.76	4.00	4.27	4.53
Receivables Turnover	579	804	954	1057	1109	999	928	1005	1097	1148
Average receivables collection period, days	0.63	0.45	0.38	0.35	0.33	0.37	0.39	0.36	0.33	0.32
Inventory Turnover	9.7	8.8	8.0	7.4	7.4	7.9	7.6	7.6	7.6	7.7
Average inventory processing period, days	37.79	41.49	45.67	49.21	49.02	46.29	48.23	48.34	48.17	47.41
Trade Payables Turnover	8.6	8.4	8.9	9.3	9.4	10.3	9.9	9.7	9.7	9.9
Payables payment period, days	42.44	43.55	41.23	39.18	38.93	35.28	36.93	37.47	37.54	36.83
Cash conversion cycle	-4.02	-1.60	4.82	10.38	10.41	11.38	11.69	11.23	10.97	10.90
Earnings per share										
EPS	137.90	265.62	376.69	504.29	603.00	591.45	784.93	1014.91	1352.05	1740.72
DPS	11.20	44.59	100.94	319.34	308.77	304.64	344.09	449.96	591.74	773.19
Dividend payout ratio	8%	17%	27%	63%	51%	52%	44%	44%	44%	44%

APPENDIX S. Relative valuation

Local shares valuation

Company	Current price, RUB	Mcap, RUB mln	P/E		EV/EBITDA		EV/EBITDAR	
			2015E	2016E	2015E	2016E	2015E	2016E
Magnit (local shares)	**10982**	**1 037 750**	**18.20x**	**18.55x**	**10.82x**	**10.07x**	**8.28x**	**7.90x**
Russian peers								
Lenta			22.27x	15.41x	10.16x	8.10x	10.12x	8.10x
Dixy Group			nmf.	9.37x	5.25x	3.84x	3.46x	2.96x
X5 Retail Group			20.22x	12.73x	8.46x	6.59x	5.07x	4.09x
O'Key Group			16.30x	14.58x	6.73x	6.58x	4.82x	4.71x
Russian peers, median			***20.22x***	***13.65x***	***7.59x***	***6.58x***	***4.94x***	***4.40x***
Magnit premium / (discounts)			-10%	36%	43%	53%	68%	80%
Magnit (local shares) upside			2015E	2016E	2015E	2016E	2015E	2016E
			11%	-26%	-30%	-35%	-40%	-44%
Magnit (local shares) target price			2015E	2016E	2015E	2016E	2015E	2016E
			12199.9	8081.6	7705.8	7180.6	6555.8	6115.9
Weights			**0%**	**50%**	**0%**	**50%**	**0%**	**0%**
Target price, RUB		7631						
Current price, RUB		**10982**						
Upside		-31%						

GDRs valuation

Company	Current price, USD	Mcap, USD mln	P/E		EV/EBITDA		EV/EBITDAR	
			2015E	2016E	2015E	2016E	2015E	2016E
Magnit (GDR)	**34.8**	**16 419**	**22.85x**	**23.29x**	**13.38x**	**12.45x**	**10.23x**	**9.76x**
Russian peers								
Lenta			22.27x	15.41x	10.16x	8.10x	10.12x	8.10x
Dixy Group			nmf.	9.37x	5.25x	3.84x	3.46x	2.96x
X5 Retail Group			20.22x	12.73x	8.46x	6.59x	5.07x	4.09x
O'Key Group			16.30x	14.58x	6.73x	6.58x	4.82x	4.71x
Russian peers, median			***20.22x***	***13.65x***	***7.59x***	***6.58x***	***4.94x***	***4.40x***
Magnit premium / (discounts)			13%	71%	76%	89%	107%	122%
Magnit (GDR) upside			2015E	2016E	2015E	2016E	2015E	2016E
			-12%	-41%	-43%	-47%	-52%	-55%
Magnit (GDR) target price			2015E	2016E	2015E	2016E	2015E	2016E
			9717.7	6437.4	6234.2	5809.3	5303.9	4948.0
Weights			**0%**	**50%**	**0%**	**50%**	**0%**	**0%**
Target price, USD		15						
Current price, USD		**35**						
Upside		-56%						

APPENDIX T. DuPont analysis

Legend

2012	2013	2014
2015E	2016F	2017F
2018F	2019F	2020F

ROE

28.3%	31.6%	35.3%
36%	30%	34%
36.8%	40.4%	42.2%

ROA

12.7%	14.6%	15.6%
15%	13%	15%
16.8%	19.8%	22.6%

Assets/Equity

2.23	2.17	2.27
2.36	2.32	2.29
2.20	2.04	1.87

Profit margin

5.6%	6.1%	6.2%
6.0%	4.8%	5.3%
5.8%	6.6%	7.4%

Sales/Assets

2.27	2.37	2.49
2.55	2.71	2.79
2.88	2.98	3.04

Net income (RUB bln)

25.12	35.62	47.69
57.02	55.93	74.23
95.97	127.86	164.61

EBIT (RUB bln)

36.11	50.54	68.30
83.68	86.65	109.94
136.81	176.40	222.86

EBT / EBIT

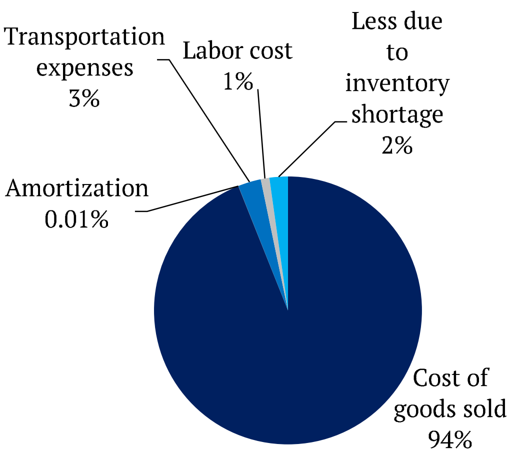
89%	91%	91%
89%	84%	88%
91%	94%	96%

Net Income / EBT

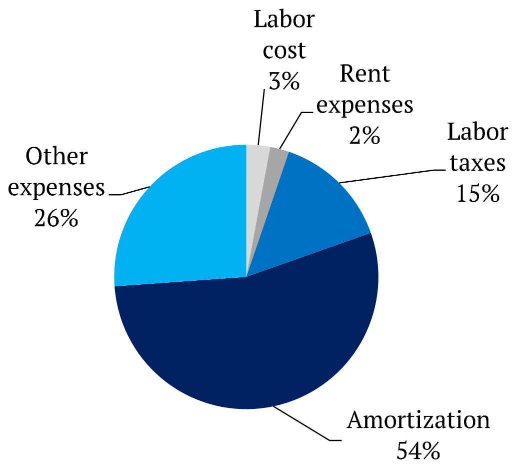
78%	78%	77%
77%	77%	77%
77%	77%	77%

APPENDIX U. Cost of sales and SG&A structure and dynamics

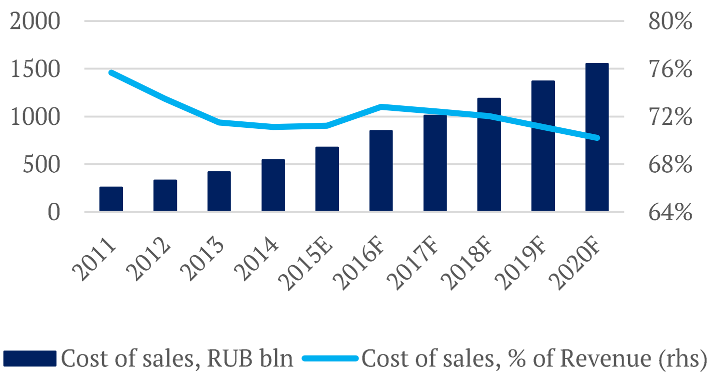
Cost of sales breakdown (2014)



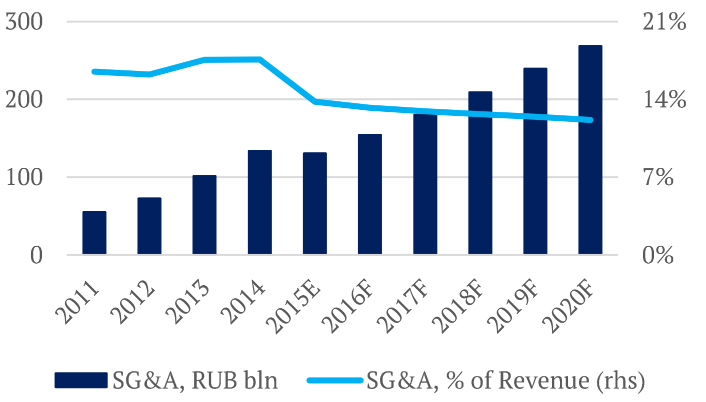
SG&A breakdown (2014)



Cost of sales dynamics (2011-2020F)



SG&A dynamics (2011-2020F)



APPENDIX V. Peer group analysis (Russian retailers)

Trading multiples

Company	P/E		EV/EBITDA		EV/EBITDAR		FCF yield		Dividend yield		PEG	
	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Magnit (local shares)	**18.2x**	**18.6x**	**10.8x**	**10.1x**	**8.3x**	**7.9x**	**1.4%**	**2.8%**	**3.2%**	**3.1%**	**0.8x**	**0.8x**
Magnit (GDR)	**22.8x**	**23.3x**	**13.4x**	**12.4x**	**10.2x**	**9.8x**	**1.1%**	**2.3%**	**2.2%**	**2.2%**	**1.0x**	**1.0x**
Lenta	22.3x	15.4x	10.2x	8.1x	10.1x	8.1x	-8.7%	-7.4%	0.0%	0.0%	0.5x	0.4x
Dixy Group	nmf.	9.4x	5.3x	3.8x	3.5x	3.0x	-5.5%	-1.9%	0.0%	0.0%	nmf.	0.2x
X5 Retail Group	20.2x	12.7x	8.5x	6.6x	5.1x	4.1x	-5.5%	1.9%	0.0%	0.0%	0.8x	0.4x
O'Key Group	16.3x	14.6x	6.7x	6.6x	4.8x	4.7x	-0.2%	1.8%	3.5%	4.7%	1.5x	0.7x
Peers median	***20.2x***	***13.7x***	***7.6x***	***6.6x***	***4.9x***	***4.4x***	***-5.5%***	***0.0%***	***0.0%***	***0.0%***	***0.8x***	***0.4x***

Key financials (2014)

Company	Current market capitalization (RUB bln)	Sales (RUB bln)	EBITDA margin	Net profit margin	ROA	ROE	CapEx / Sales	Net debt / EBITDA
Magnit (local shares)	**763.5**	**763.5**	**11.3%**	**6.2%**	**15.6%**	**35.3%**	**7.3%**	**0.91x**
Lenta	230.1	194.0	11.0%	4.6%	7.9%	84.0%	17.5%	2.80x
Dixy Group	34.6	229.0	7.1%	2.0%	5.3%	17.0%	3.5%	1.50x
X5 Retail Group	359.8	633.9	7.2%	2.0%	3.9%	15.1%	4.8%	2.30x
O'Key Group	36.3	152.0	7.4%	3.4%	6.9%	22.9%	12.2%	2.30x
Peers median	***133.2***	***211.5***	***7.3%***	***2.7%***	***6.1%***	***20.0%***	***8.5%***	***2.30x***

APPENDIX W. Peer group analysis (International retailers)

Company	Market capitalization (USD bln)	P/E		EV/EBITDA		FCF yield		Dividend yield		PEG
		2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2016E
Magnit (local shares)	**13.1**	**18.2x**	**18.6x**	**10.8x**	**10.1x**	**1.4%**	**2.8%**	**3.2%**	**3.1%**	**0.8x**
Magnit (GDR)	**16.4**	**22.8x**	**23.3x**	**13.4x**	**12.4x**	**1.1%**	**2.3%**	**2.2%**	**2.2%**	**1.0x**
South Africa										
Shoprite	4.4	16.9x	15.7x	8.3x	7.4x	3.7%	5.8%	3.0%	3.2%	1.4x
Spar	1.9	18.8x	16.5x	11.9x	10.5x	5.7%	7.1%	3.8%	3.9%	1.4x
Pick 'n Pay	1.9	29.2x	23.3x	12.4x	10.4x	2.2%	3.5%	2.3%	2.9%	0.9x
Massmart	1.3	17.5x	13.7x	7.6x	6.2x	2.4%	4.5%	3.5%	4.5%	0.6x
Clicks	1.3	21.4x	18.8x	12.5x	11.1x	3.4%	4.9%	2.9%	3.2%	1.5x
South Africa peers median	***1.9***	***18.8x***	***16.5x***	***11.9x***	***10.4x***	***3.4%***	***4.9%***	***3.0%***	***3.2%***	***1.4x***
Turkey										
BIM	5.0	26.1x	24.5x	17.2x	15.5x	2.1%	3.1%	2.7%	2.9%	1.2x
Migros Ticaret	0.9	na	24.9x	8.1x	7.1x	-0.1%	6.4%	N/A	N/A	0.6x
Turkey peers median	***3.0***	***26.1***	***24.7***	***12.6***	***11.3***	***0.0***	***0.0***	***0.0***	***0.0***	***0.9***
Poland										
Eurocash	1.7	33.9x	24.6x	15.8x	13.0x	7.0%	4.7%	1.6%	2.0%	1.3x
USA										
Kroger	37.5	18.7x	19.3x	8.9x	7.8x	3.1%	3.9%	1.1%	1.0%	1.8x
Whole Foods Market	10.2	18.0x	19.2x	8.1x	7.4x	2.6%	2.5%	1.8%	1.7%	2.0x
Sysco	22.5	23.4x	22.5x	14.0x	10.2x	2.9%	4.5%	3.1%	3.1%	2.2x
USA peers median	***22.50***	***18.7x***	***19.3x***	***8.9x***	***7.8x***	***2.9%***	***3.9%***	***1.8%***	***1.7%***	***2.0x***

APPENDIX X. Bonds repayment

RUB mln	2015E	2016F	2017F	2018F	2019F	2020F
Магнит, 01						
Coupon Payment	425	213				
Principal		5 000				
Магнит, 02						
Coupon Payment	303	605	605	303		
Principal				5 000		
Магнит, 03						
Coupon Payment	303	605	605	303		
Principal				5 000		
Магнит, БО-001Р-01						
Coupon Payment		1 120	560			
Principal			10 000			
Магнит, БО-08						
Coupon Payment	420	210				
Principal		5 000				
Магнит, БО-09						
Coupon Payment	420	210				
Principal		5 000				
Магнит, БО-10						
Coupon Payment		1 160	1 160	1 160	1 160	1 160
Principal						10 000
Bond 8		1 170	1 170	1 170	1 170	1 170
Coupon Payment						10 000
Principal						
Total Coupon Payments	1 870	5 293	4 100	2 935	2 330	**2 330**
Bond Principal Payments		**15 000**	**10 000**	**10 000**		**20 000**

- Business Overview Appendix
- Industry Analysis Appendix
- Financial Analysis Appendix
- **Valuation Appendix**

APPENDIX Y. Operational highlights

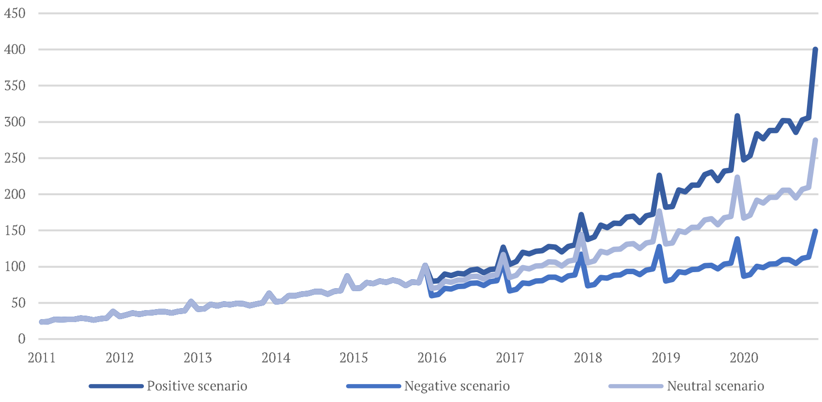
	Actuals				Estimates					
	2011A	2012A	2013A	2014A	2015E	2016F	2017F	2018F	2019F	2020F
Share of owned stores, %										
Convenience stores	32.2%	32.1%	29.4%	27.6%	22.3%	19.0%	16.6%	16.6%	16.6%	16.6%
Hypermarkets	77.4%	84.9%	85.1%	81.1%	79.7%	78.4%	77.3%	77.3%	77.3%	77.3%
Family stores	0.0%	25.0%	34.8%	39.2%	43.3%	46.2%	48.6%	48.6%	48.6%	48.6%
Drogerie	34.3%	27.5%	31.0%	23.2%	33.2%	29.8%	28.9%	28.9%	28.9%	28.9%
Average	48.0%	42.4%	45.1%	42.8%	44.6%	43.4%	42.9%	42.9%	42.9%	42.9%
Average rent	52.0%	57.6%	54.9%	57.2%	55.4%	56.6%	57.1%	57.1%	57.1%	57.1%

	Actuals				Estimates					
	2011A	2012A	2013A	2014A	2015E	2016F	2017F	2018F	2019F	2020F
Store average selling space, sq. m										
Convenience stores	327	327	321	320	325	325	325	325	325	325
Hypermarkets	3 106	3 076	2 999	2 943	2 918	2 918	2 918	2 918	2 918	2 918
Magnit Family	1 266	1 218	1 158	1 124	1 097	1 097	1 097	1 097	1 097	1 097
Drogeries	239	231	238	231	229	229	229	229	229	229

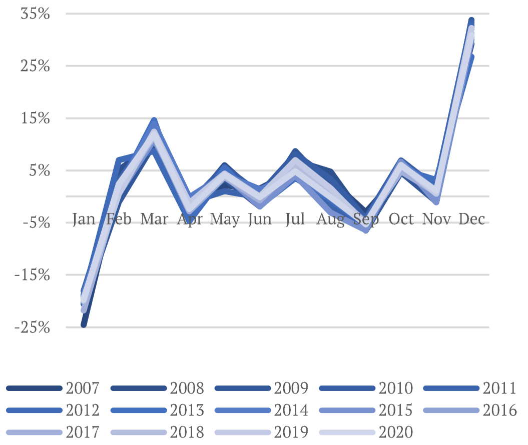
	Actuals				Estimates					
	2011A	2012A	2013A	2014A	2015E	2016F	2017F	2018F	2019F	2020F
PP&E										
PP&E ath the beginning			158 753	195 158	232 969	277 888	321 279	363 066	403 169	441 504
New PP&E		47 310	50 051	55 712	65 000	68 250	71 663	75 246	79 008	82 958
Depreciation			- 13 890	- 17 264	- 20 081	- 24 859	- 29 875	- 35 142	- 40 673	- 46 480
Ending PP&E		158 753	195 158	232 969	277 888	321 279	363 066	403 169	441 504	477 983
Intangibles										
Intangibles at the beginning	284.8	523.1	740.3	904.6	1356.0	1884.8	2280.7	2759.6	3339.1	4040.3
New intangibles	396.0	461.3	458.2	796.9	1044.1	1112.1	1345.6	1628.2	1970.1	2383.8
Amortization	- 157.7	- 244.2	- 293.9	- 345.5	-515.3	-716.2	-866.6	-1048.6	-1268.9	-1535.3
Ending Intangibles	523.1	740.3	904.6	1 356.0	1884.8	2280.7	2759.6	3339.1	4040.3	4888.8
Retained Earnings										
Beginning Retained Earnings		37 289	58 190	84 266	101 755	129 125	157 090	194 203	242 190	306 120
Net Income		25 117	35 620	47 686	57 021	55 929	74 226	95 975	127 858	164 614
Dividends		- 4 216	- 9 545	- 30 197	- 29 651	- 27 965	- 37 113	- 47 987	- 63 929	- 82 307
Ending Retained Earnings	37 289	58 190	84 266	101 755	129 125	157 090	194 203	242 190	306 120	388 427

APPENDIX Z. Revenue Forecast (1/2)

Revenue forecast with linear regression and seasonality



Seasonality effects on revenue dynamics



Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Seasonal indices	0.84	0.86	0.96	0.94	0.98	0.98	1.03	1.02	0.97	1.02	1.03	1.35

We applied linear regression model to forecast Magnit revenue. We use results from regression as sanity check to the main approach of revenue forecast.
Regression was applied for three different scenarios. We tended to use Neutral scenario in our forecasting purposes.

Obtained seasonality coefficients tended to stay relatively stable through the period 2007-2015E.

The linear regression equation from the model estimation:

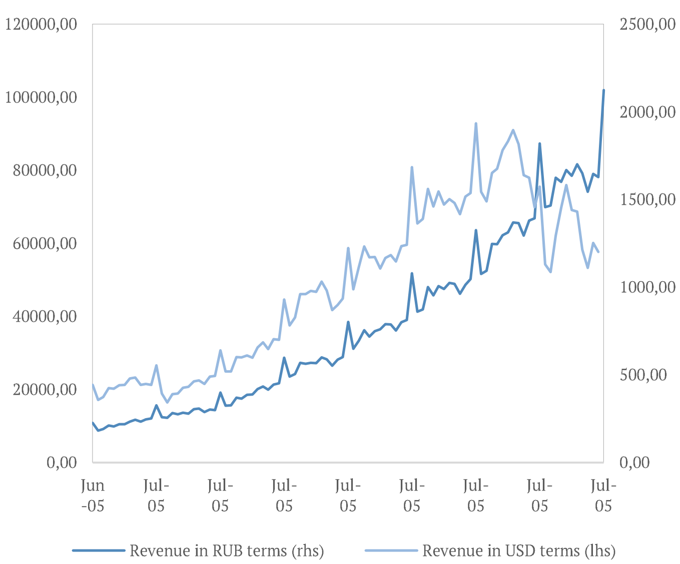
$$Revenue_i = \alpha + \beta * period_i$$

With seasonality adjustments:

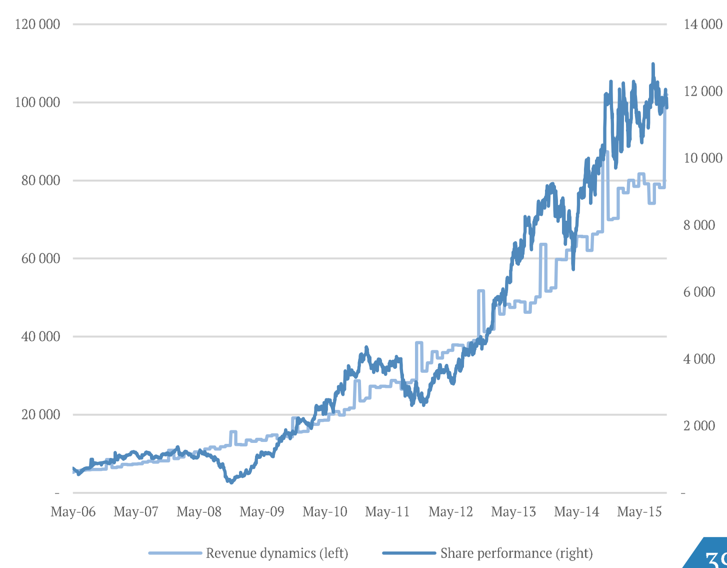
$$Revenue_{adjusted} = \alpha + \beta * period_i * sesonality\ indices.$$

```
. reg sales season

      Source |       SS           df       MS      Number of obs   =       120
-------------+----------------------------------   F(  1,    118)   =   1145.35
       Model |  6.2735e+10         1  6.2735e+10   Prob > F        =    0.0000
    Residual |  6.4633e+09       118  54773646.9   R-squared       =    0.9066
-------------+----------------------------------   Adj R-squared   =    0.9058
       Total |  6.9198e+10       119   581497205   Root MSE        =    7400.9

------------------------------------------------------------------------------
       sales |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
      season |   660.0675   19.50382    33.84   0.000     621.4446    698.6904
       _cons |   -8450.21   1359.707    -6.21   0.000     -11142.8    -5757.62
------------------------------------------------------------------------------
```

Comparison of revenue in RUB and USD terms



Comparison of revenue in RUB and USD terms



APPENDIX AA. Revenue Forecast (2/2)

Revenue calculation (Disposable income approach)

	Actuals				Estimates					
	2011A	2012A	2013A	2014A	2015E	2016F	2017F	2018F	2019F	2020F
					9	10	11	12	13	14
Total revenue per type, mln RUB										
Convenience stores										
Revenue by old/new add. Rev method	287 732	364 236	450 801	577 776	701 275	845 088	995 641	1 154 535	1 337 327	1 522 634
Revenue growth, %	*35.52%*	*26.59%*	*23.77%*	*28.17%*	*21.4%*	*20.5%*	*17.8%*	*16.0%*	*15.8%*	*14%*
Like-for-like growth, %	*11.6%*	*5.3%*	*3.7%*	*13.9%*	*7.3%*	*7.3%*	*7.4%*	*7.4%*	*7.3%*	*7.3%*
Like-for-like growth, mln RUB	24 606.9	15 105.9	13 476.7	62 436.0	42 119.9	51 093.4	62 362.3	73 283.2	84 716.5	97 860.2
Revenue growth contributed by new stores, %	*23.93%*	*21.34%*	*20.07%*	*14.32%*	*14.1%*	*13.2%*	*10.4%*	*8.6%*	*8.5%*	*6.5%*
Revenue growth contributed by new stores, mln RUB	50 813.3	61 398.7	73 088.3	64 538.3	81 379.3	92 719.4	88 190.5	85 610.9	98 075.48	87 447.62
Revenue growth contributed by new stores per 1 new store	50.61	59.04	63.33	56.41	65.10	68.68	73.49	77.83	82.50	87.45
Average Additional Revenue per 1 new store	51.54	54.82	61.19	59.87	60.76	66.89	71.09	75.66	80.16	84.97
Revenue per 1 new store growth, %	*-4%*	*17%*	*7%*	*-11%*	*15%*	*6%*	*7%*	*6%*	*6%*	*6%*
Additional Revenue per 1 old store	6.15	3.02	2.23	8.67	5.05	5.33	5.70	6.03	6.40	6.78
Revenue estimation from the Regression model					701 275	809 270	911 270	1 004 770	1 105 820	1 190 820
Average Revenue					701 275	827 179	953 455	1 079 652	1 221 573	1 356 727

	Actuals				Estimates					
	2011A	2012A	2013A	2014A	2015E	2016F	2017F	2018F	2019F	2020F
Hypermarkets										
Revenue by old/new add. Rev method	46 185	75 419	106 176	139 655	161 579	186 436	214 020	244 615	281 179	324 021
Revenue growth, %	*94.1%*	*63.3%*	*40.8%*	*31.5%*	*15.7%*	*15%*	*15%*	*14%*	*15%*	*15%*
Like-for-like growth, %	*6.7%*	*5.4%*	*4.6%*	*14.1%*	*1.5%*	*2%*	*2%*	*2%*	*3%*	*3%*
Like-for-like growth, mln RUB	1 582	2 476	3 477	14 918	2 109	3 232	3 674	3 640	6 260	8 700
Revenue growth contributed by new stores, %	*87.5%*	*57.9%*	*36.2%*	*17.5%*	*14.2%*	*13%*	*13%*	*13%*	*12%*	*12%*
Revenue growth contributed by new stores, mln RUB	20 811	26 758	27 280	18 562	19 815	21 625	23 911	26 955	30 304	34 142
Average Additional Revenue per 1 new store	520	743	779	640	683	721	771	817	866	918
Revenue per 1 new store growth, %	*56%*	*43%*	*5%*	*-18%*	*7%*	*6%*	*7%*	*6%*	*6%*	*6%*
Additional Revenue per 1 old store	32	28	28	93	11	15	15	13	20	25
L-f-L Revenue per 1 old store, mln RUB	507	541	626	752	746	787	842	892	945	1002
						6%	7%	6%	6%	6%
						746	783	823	864	907
Revenue estimation from the Regression model						190 079	220 226	253 950	286 965	329 541
Average Revenue						188 257	217 123	249 283	284 072	326 781

	Actuals				Estimates					
	2011A	2012A	2013A	2014A	2015E	2016F	2017F	2018F	2019F	2020F
Family stores										
Revenue	798	3 099	10 678	25 534	44 825.3	61 062	82 074	106 303	132 820	162 135
Revenue growth, %		288%	245%	139%	76%	36%	34%	30%	25%	22%
Like-for-like growth, %			7.4%	8.9%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Like-for-like growth, mln RUB			230	947	158	9	14	15	19	23
Revenue growth contributed by new stores, %			237%	130%	75%	36%	34%	30%	25%	22%
Revenue growth contributed by new stores, mln RUB			7 350	13 909	19 133	17 749	20 481	23 662	25 081	26 586
Average Additional Revenue per 1 new store			282.7	272.7	329.9	348.0	372.4	394.4	418.0	443.1
Revenue per 1 new store growth, %			11.5	20.6	1.6	6%	7%	6%	6%	6%
Revenue per 1 old store			166	253	265	279	299	317	336	356
				52%	45 899	65 399	77 499	92 799	109 899	126 999
Revenue estimation from the Regression model						63 230	79 787	99 551	121 359	144 567

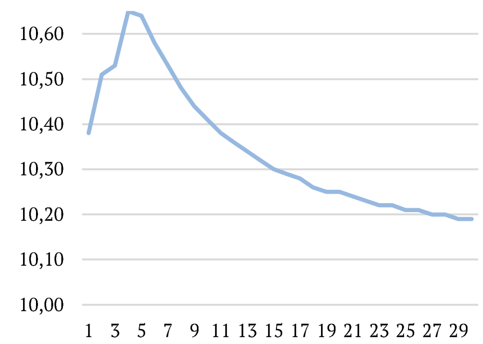
APPENDIX AB. CAPM Assumptions

Cost of Equity calculated using adjusted CAPM

USD denominated 12-Yr Government Eurobond

Maturity date	24.06.2028
Face value, USD	1000
Close price on valuation date, USD	1054.28
Coupon annual rate, %	12.75
Number of coupons per year	2
Number of coupons remaining	24
Russia-12Yr Eurobond yield to maturity, %	6.475

Russian Government bonds return curve

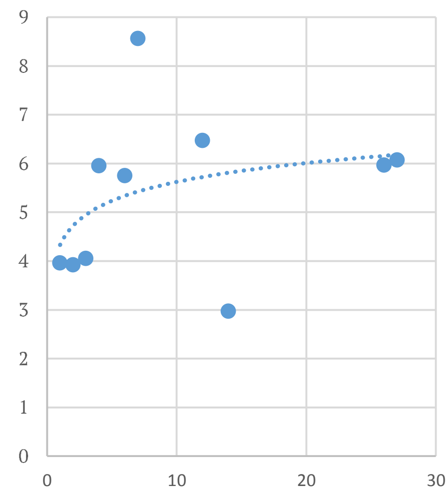


Risk-free rate: US 10-Yr T-bond yield [Source: U.S. Department of treasury]
Beta: US Food retail beta (Levered/ Unlevered) including 17 companies [Source: A. Damodaran]
MRP: US market risk premium [Source: A. Damodaran]

CAPM (US market + Country risk premium)

US risk-free rate, %	2.030
US ERP, %	6.000
Levered beta (US peers)	1.040
Unlevered beta (US peers)	0.760
Magnit D	0.101
Magnit E	0.899
Re-levered beta (Magnit D/E)	0.826
Re, USD	6.984
CDS spread, % as of 20/01/2016	4.445
Inflation, Russia	0.079
Inflation, USA	0.023
Re, RUB	17.529

Russian Government Eurobonds bonds return curve



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