



MAGNIT

Introducing the leader

СЕМЕЙНЫЙ
МАГНИТ
ГИПЕРМАРКЕТ

ЦентрОбуза

ИГРУШКИ

ИГРУШКИ



Strong business with temporary volatile stock



Investment Highlights



#1 retail chain in Russia by market cap, number of stores, revenue and earnings



Profitable, cash flow generating company



Successfully developing in difficult macroeconomic environment

Recommendation
for MGNT:ME

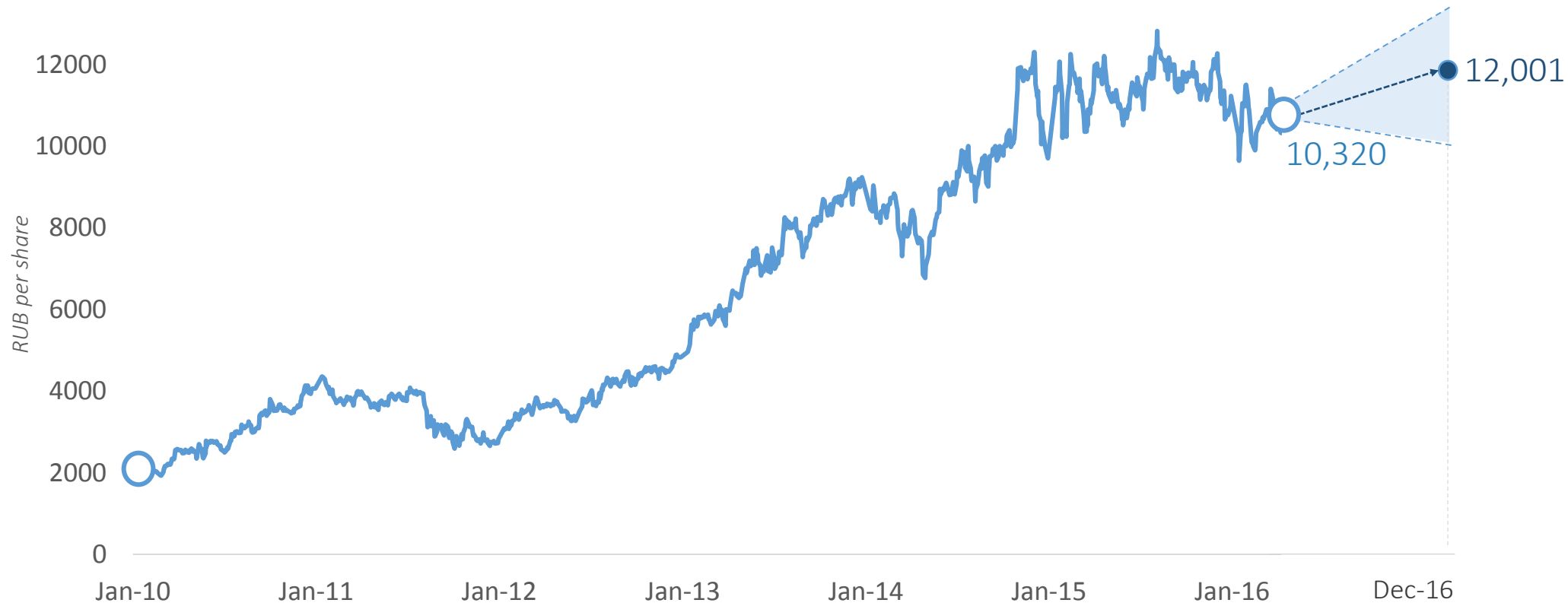
HOLD

Target Price:
RUB 12,001

Upside: 16%

MGNT:ME – ticket
for Magnit local shares
trading on the Moscow
Stock Exchange (**MOEX**)

MGNT:LI – ticket
for Magnit GDRs
trading on the London
Stock Exchange (**LSE**)



One of the most attractive company in Russia's stock universe



1 Market Profile*

1 Share=5 GDRs	MOEX	LSE (GDRs)
Market capitalization	RUB 1 trn	USD 19 bln
Closing Price	RUB 10,320	USD 39
Target Price	RUB 12,001	USD 36
52-week High/Low	RUB 12,944/9,251	USD 30/62
ADTV (3M), shares	153,862	177,086
Std Dev (1M)	22.2%	43.0%
Shares Outstanding	94.6 mln	
Free-float	25.9%	29.9%
EV/EBITDA	10.8x	11.7x
P/E	18.2x	22.1x

* as of 8th of April 2016

** MICEX – RUB index including 50 most liquid Russian companies, RTS – USD index

2 Inclusion in indexes provides additional demand from passive investors

Weights in indexes**

6% in MICEX & RTS

8% in MSCI Russia



The highest share of foreign investments among Russian stocks

3 Magnit GDRs are trading at a premium to the local shares

Lower liquidity on MOEX in comparison with LSE is one of the reasons

\$6 average premium through 2009-2015



MGNT** – implied price for Magnit GDRs, calculated as local share price divided by 5 and converted into USD

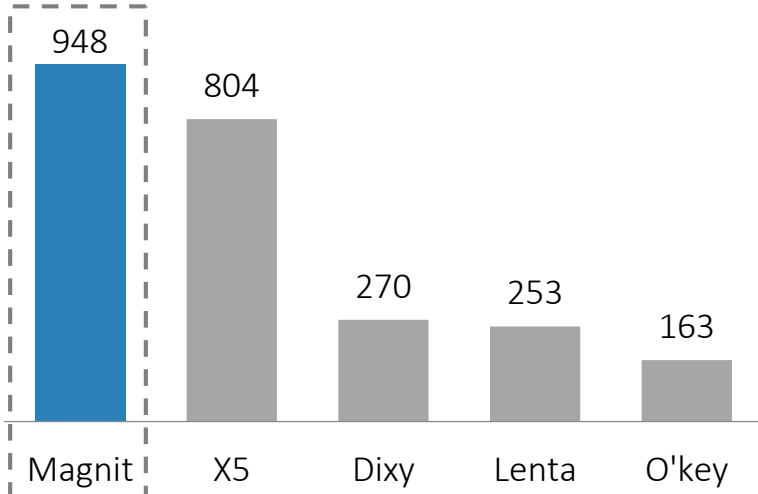
A grayscale background image showing a business meeting. In the foreground, a person's hands are pointing at a tablet displaying a bar chart and a line graph. The chart has several bars of varying heights and a line connecting data points. In the background, other people in business attire are visible, some looking at the tablet. A blue horizontal bar is overlaid across the middle of the image, containing the text 'BUSINESS DESCRIPTION' in white, bold, uppercase letters.

BUSINESS DESCRIPTION

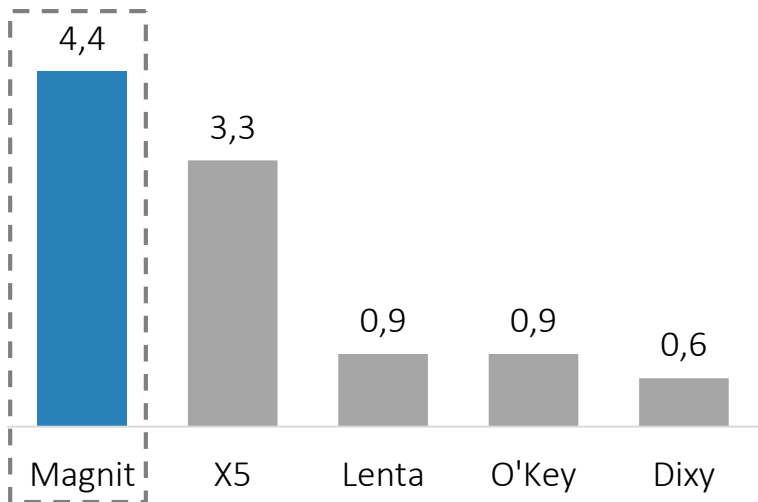


#1 food retail chain in Russia

Revenues of top 5 retailers in 2015 (RUB bln)



Selling space in 2015 (mln sq.m.)



	Number of stores	Revenue share	Profitability
Convenience Stores	9,594	74%	10%
Hypermarkets	219	17%	15%
Magnit Family	155	5%	12%
Drogerie stores (Cosmetics)	2,121	4%	18%

Logistic system

1 The most developed logistic system in Russia with efficient centralization strategy



5,882 Trucks

The biggest fleet in Europe



1.29 mln sq.m.

Warehouse Space



34 Distribution Centers

Centralization Degree



90% for Convenience Stores



73% for Hypermarkets

Private Label & Own production

2 Private label of Magnit covers significant share of revenue

Private Label



596 SKUs



11%

Share of Revenue in 2015

Own Production



83 ha

Biggest greenhouse in Eastern Europe



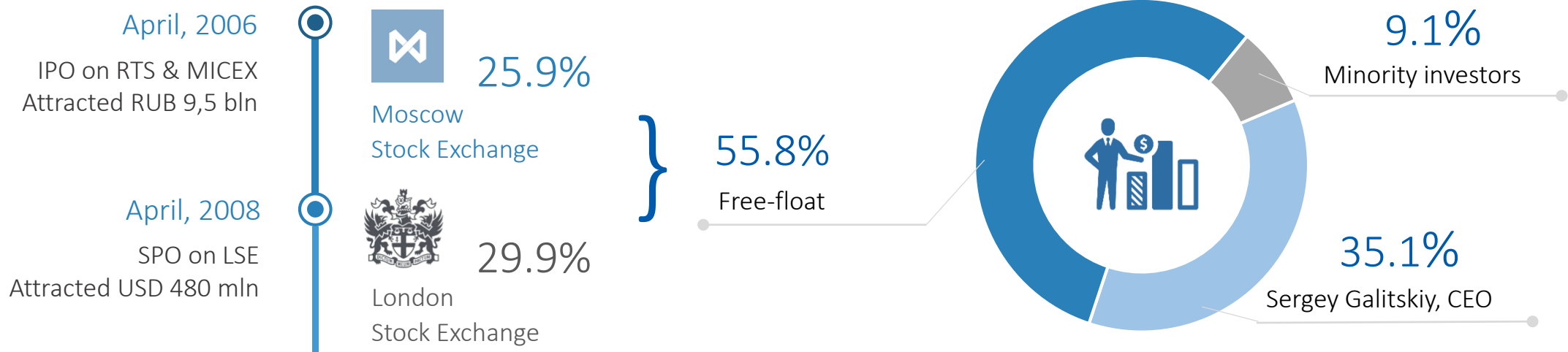
37%

Coverage of Magnit's sales of vegetables

One of the most attractive company in Russia's stock universe



1 The main shareholder of the company is the CEO maintaining strong corporate governance



2 Board of directors serves shareholders' interests

11 members

5 Executive Directors

6 Non-Executive Directors (3 independent)



3 HR and Remuneration Committee

3 Audit Committee



Strong ethics



International experience



Effective risk-management

Sergey Galitskiy, CEO



"Russian leaders in corporate governance."

"TOP-1000 Russian managers"

"CEO of the year"

Magnit PJSC



"Company with the best corporate governance"



MACROECONOMIC ENVIRONMENT

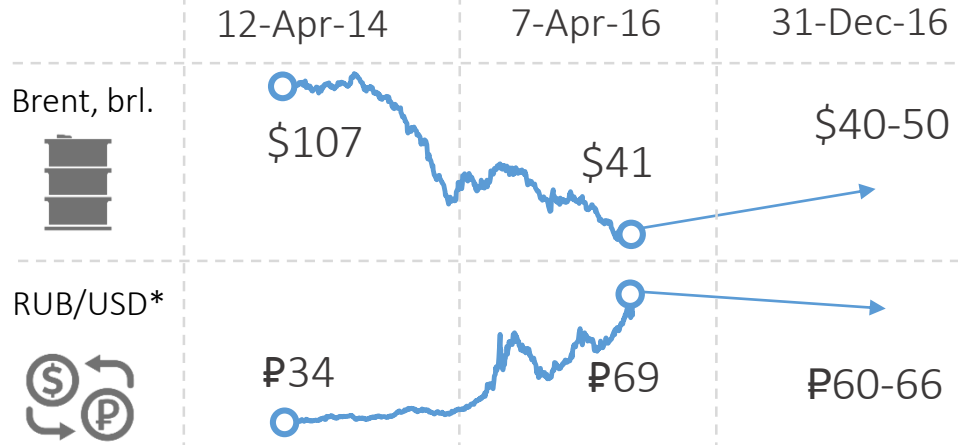


Turbulent macroeconomic environment affects retail



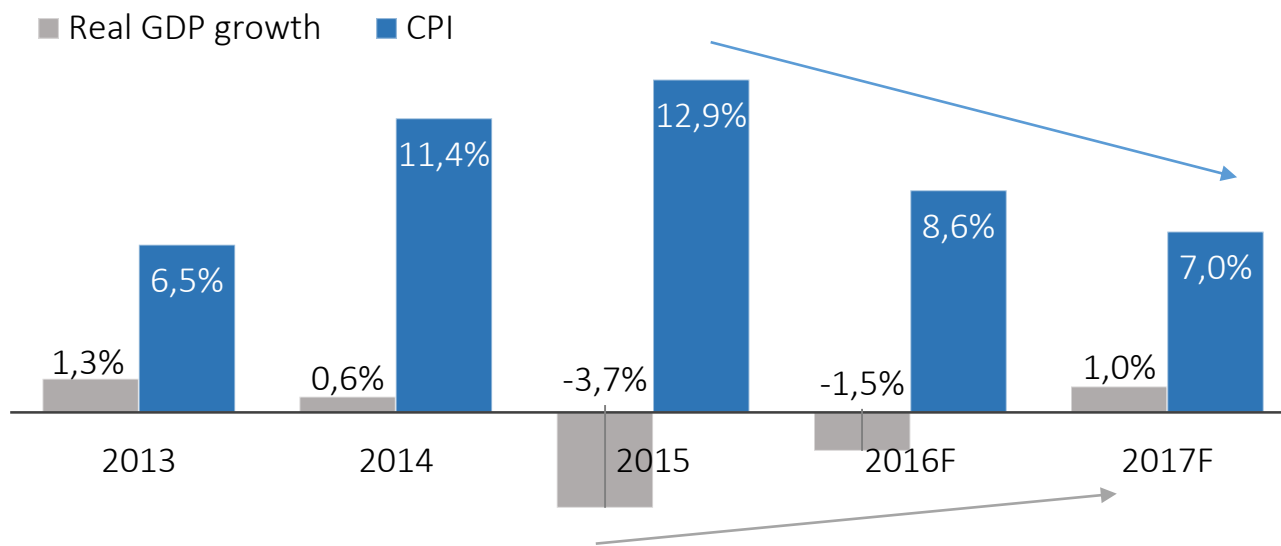
1 Fall in oil prices led to ruble depreciation and budget cut

Exchange quotes and Brent prices dynamics



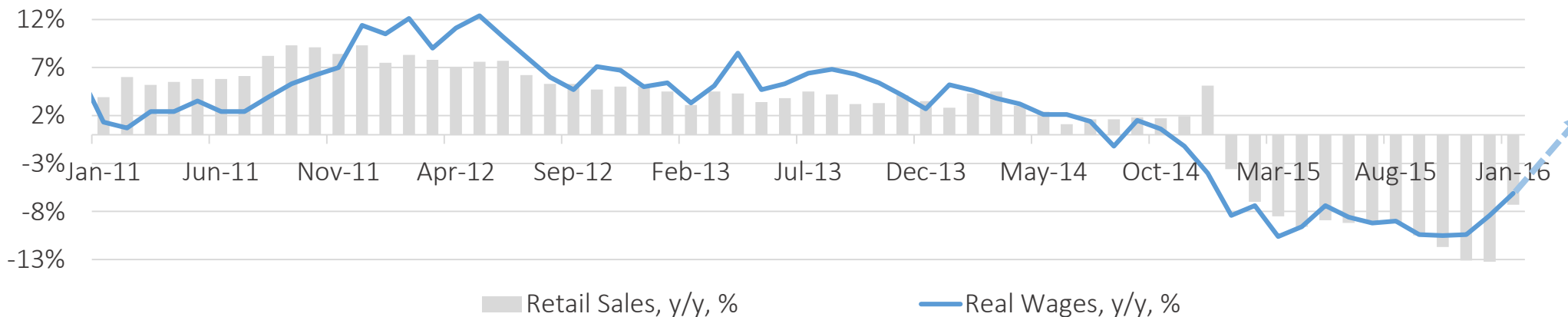
* CFA Institute notation for foreign exchange quotes

2 As a result we see leap in prices and recession



3 High correlation of real wages with retail turnover ensures retail rebound when macroeconomic condition improves

Historical changes in retail sales and real wages



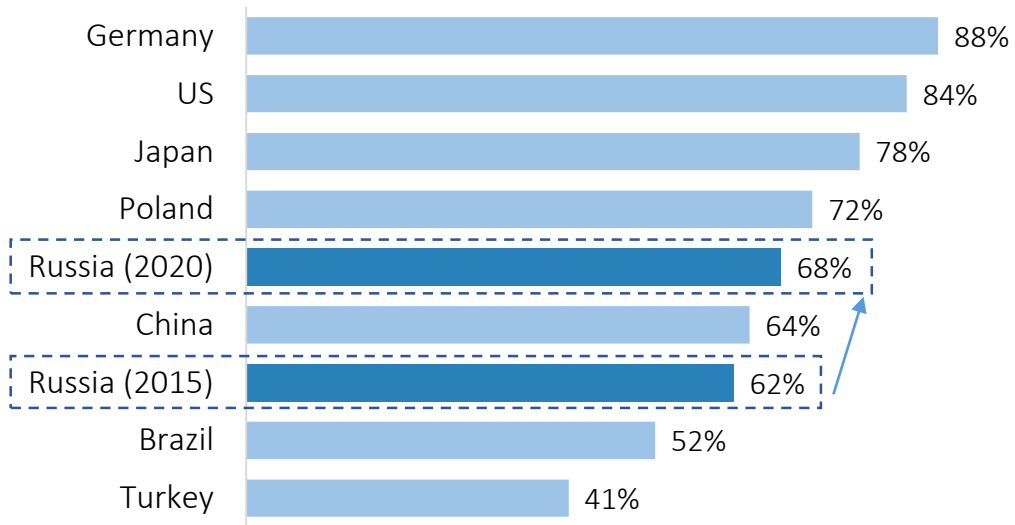
92%
Correlation between
real wages & retail
sales

2%
Forecast of y/y real
wages growth since
2017

Room for modern retail growth still exists

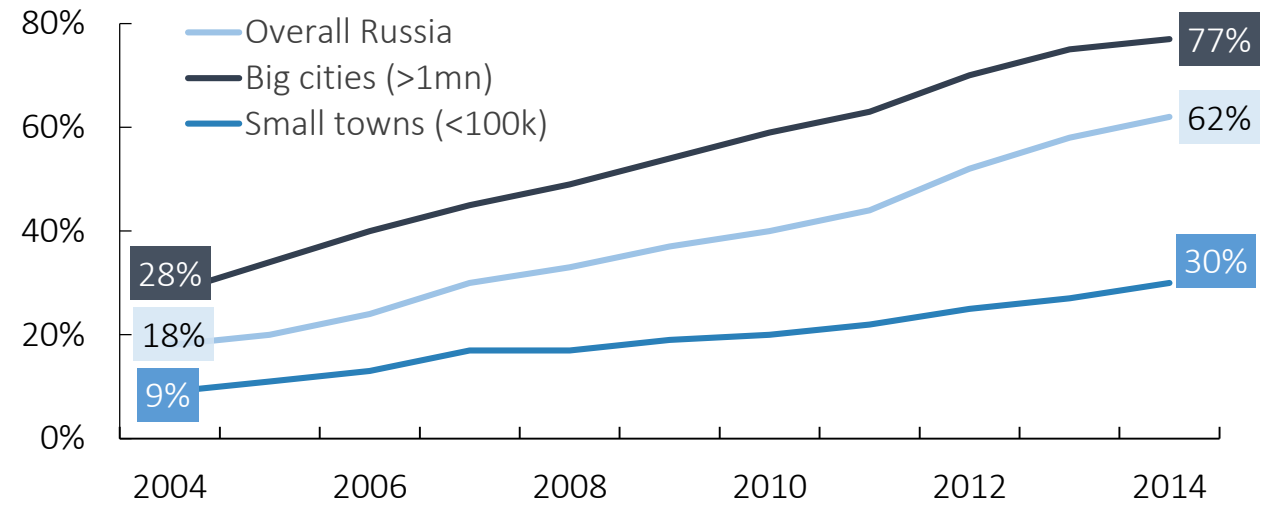
1 Modern retail penetration will increase

Modern retail penetration by country



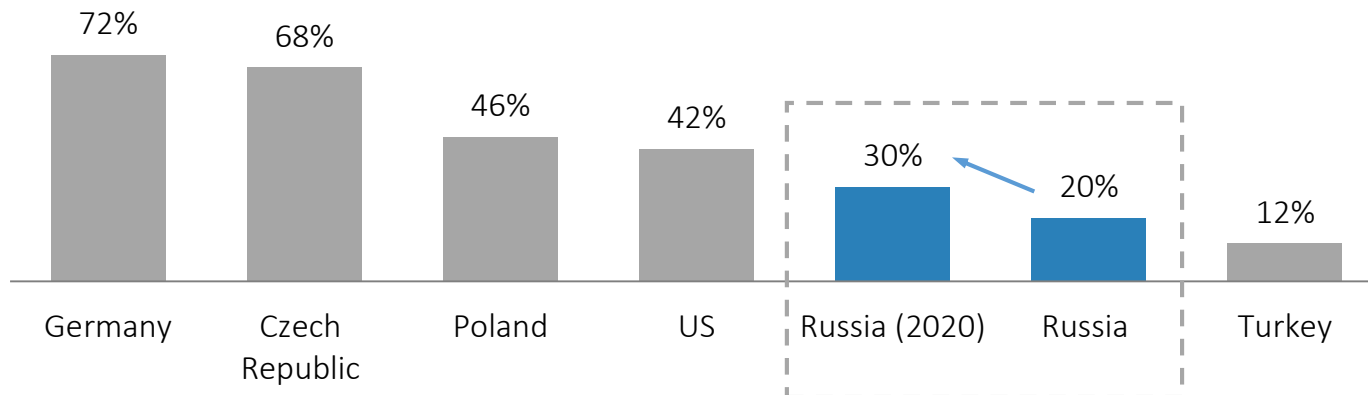
2 Small urban areas are the future growth driver

Evolution of modern retail penetration



3 Consolidation is the ongoing trend

Market share of top 5 retailers



4 Regulation changes are manageable



Decreasing rebates
- From 10% to 3%



Shortening payables periods, days:
- Perishable goods: from 10 to 5
- More than 1 month storage life: from 30 to 20
- Other: from 45 to 35

A black and white photograph of four business professionals on a rooftop. In the center, a man in a white shirt and tie is leaning over a large black chess piece. To his right, a man in a dark suit is thinking, with his hand on his chin. To the far right, another man in a dark suit stands looking towards the center. On the far left, a woman in a dark dress stands with her arms crossed, looking towards the center. In the foreground, several white chess pieces are visible. The background shows a city skyline with a prominent skyscraper.

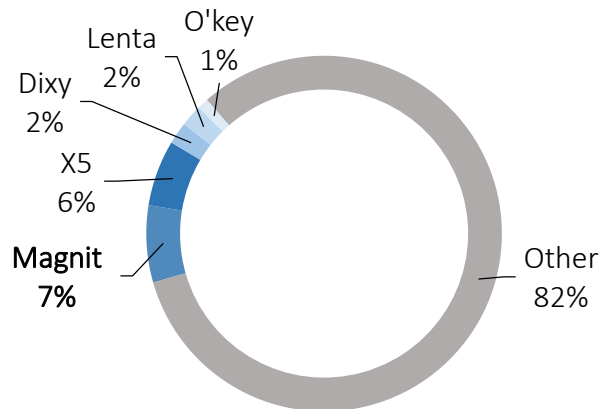
COMPETITIVE POSITIONING



Magnit is the leader in the low cost segment

1 Magnit is the leader in the segment

Market shares of Russian peers in 2015



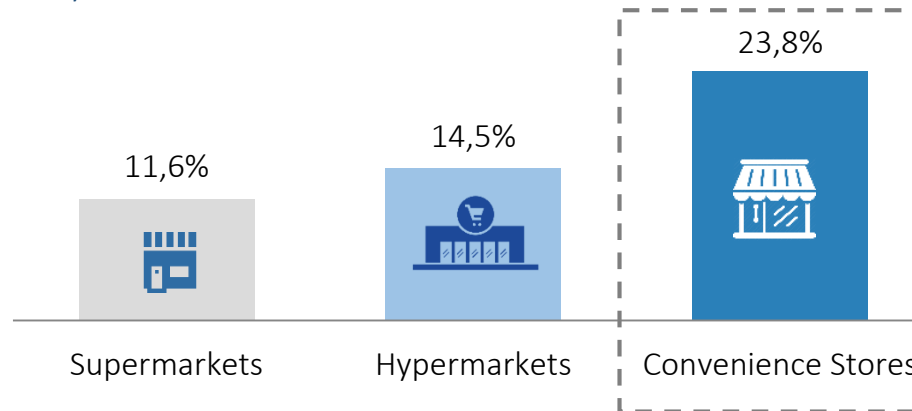
3 Magnit targets small towns due to low competition

Location of stores by area type



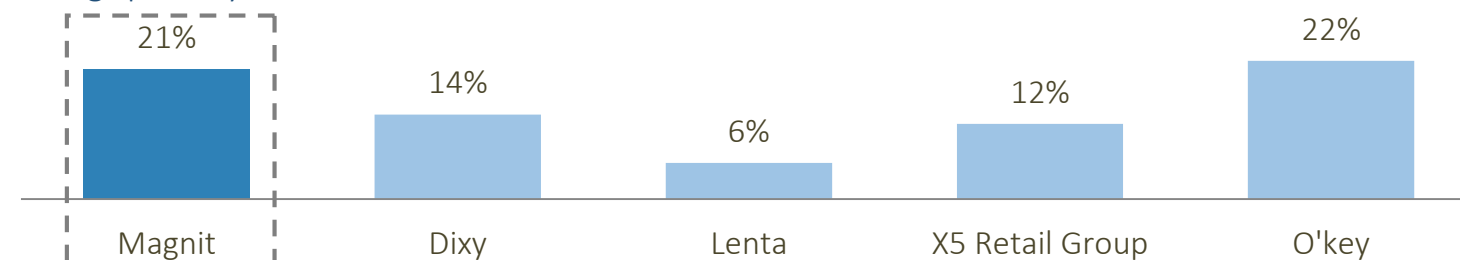
2 Convenience format grows most rapidly

Industry sales by channel: 2010-2015 CAGR

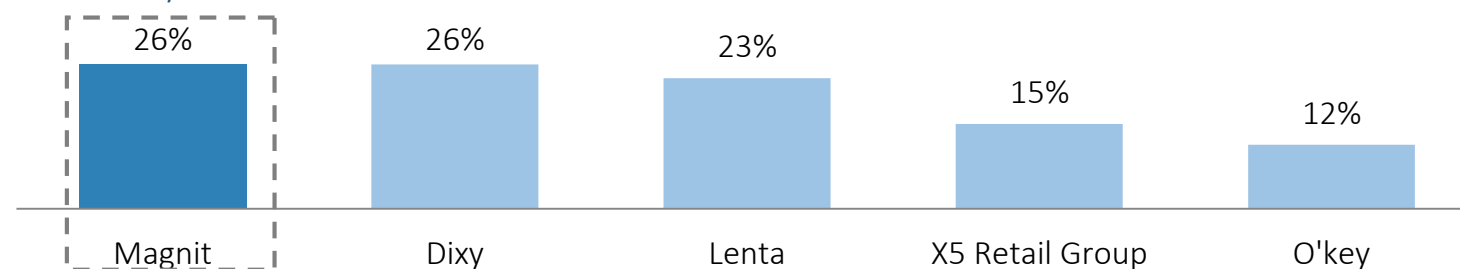


4 Selling space expansion is the main source of revenue growth for Magnit

Selling space dynamics: 2010-2015 CAGR



Revenue dynamics: 2010-2015 CAGR

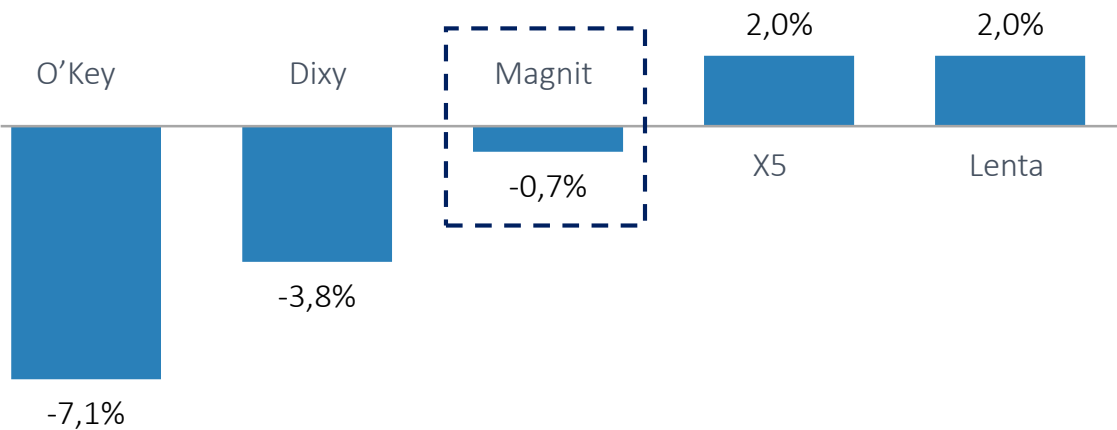


Current difficulties are alleviated by competitive advantages



1 Magnit underperforms in LFL indicators

Like-for-Like traffic change in the industry (2015)



3 Magnit's logistics is essential for cost reduction and expansion

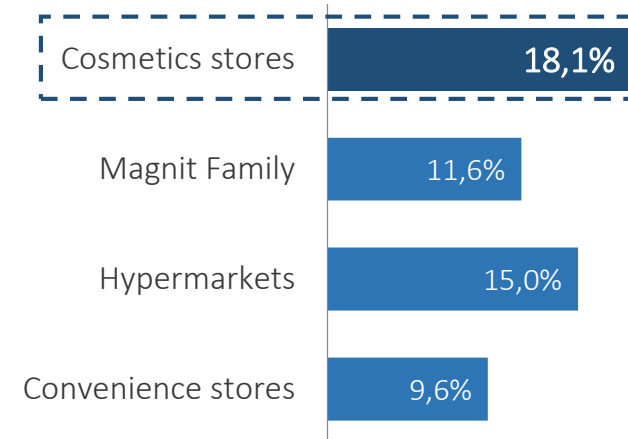
	Share of direct supplies	90%
	Time between order and delivery	<1 day
	Federal Districts	7
	Trucks	5,882
	Distribution centers	34

2 Drogerie (cosmetics) format is an opportunity

1.5 RUB trn
market size

154% CAGR
of revenues through
2011-2015

EBITDA margin by formats in 2015



4 Own production helps to cope with instabilities

1.5%
of sales generated
by produced vegetables

50 bln RUB
to be invested
within 5 years

Avoiding drawbacks of
ruble depreciation

Independence from
suppliers

A grayscale background image featuring financial documents. A donut chart is prominent, with segments labeled: 'Dividends 41%', 'Reserves 5%', and 'Member Profits & Benefits 10%'. A pen lies across the chart. To the left, a list of numbers is preceded by dollar signs: \$ 67,228,166; \$ 13,946,511; \$ 6,504,606; \$ 1,960,477; \$ 7,736,223; \$ 5,825,769; \$ 35,973,586; \$ 31,254,580; \$ 3,599,566; \$ 27,655,014. At the bottom, a bar chart is partially visible with the label 'Shares' and values '1000' and '2000'.

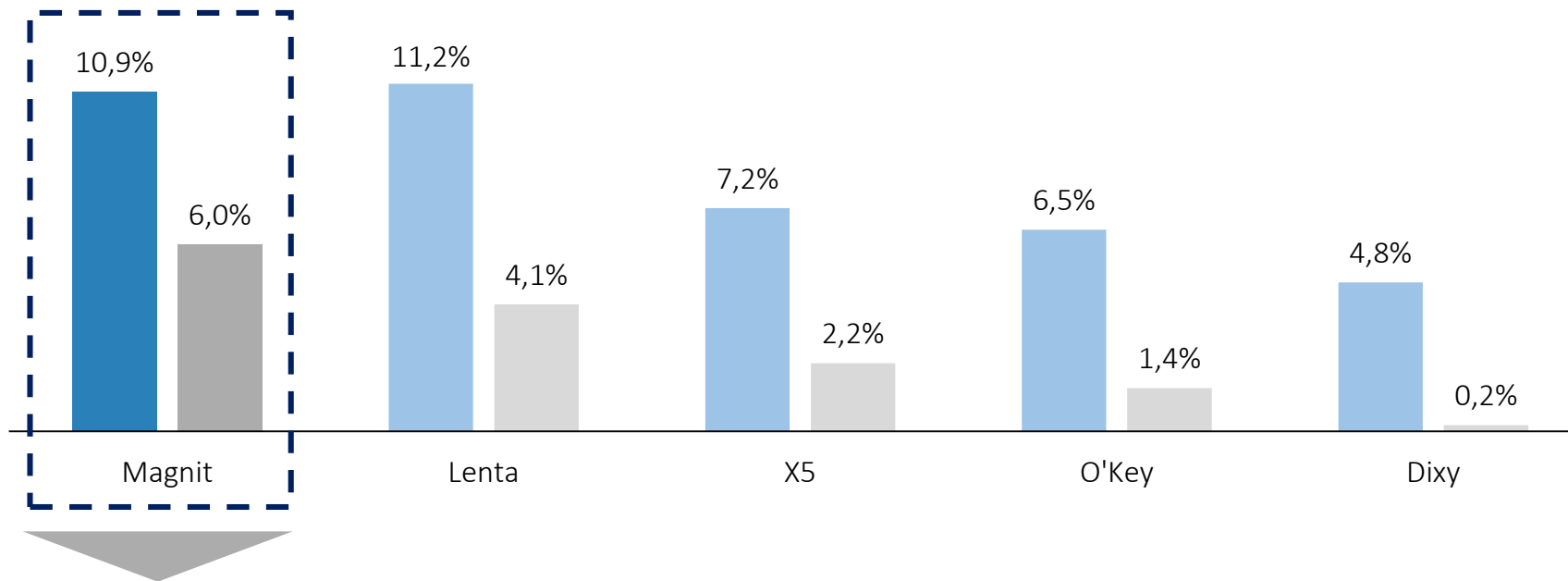
FINANCIAL ANALYSIS



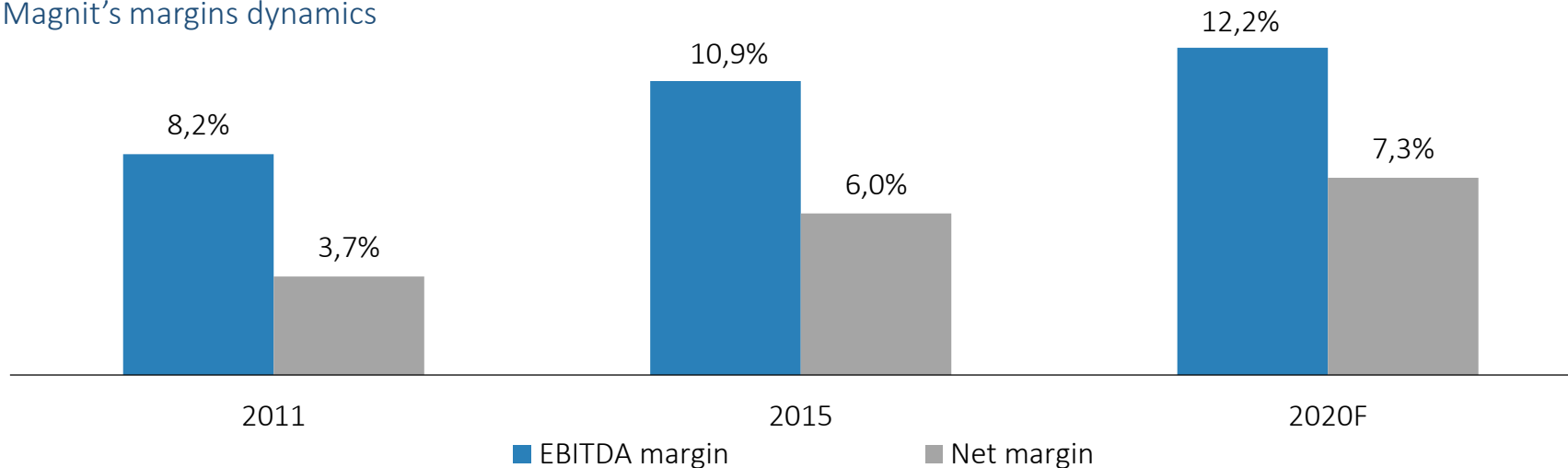
Magnit has sound margins with potential to grow



EBITDA and Net Income margins in 2015 (comparison with local peers)



Magnit's margins dynamics



Vertical integration



Strong bargaining power with suppliers



Highly profitable Cosmetic stores



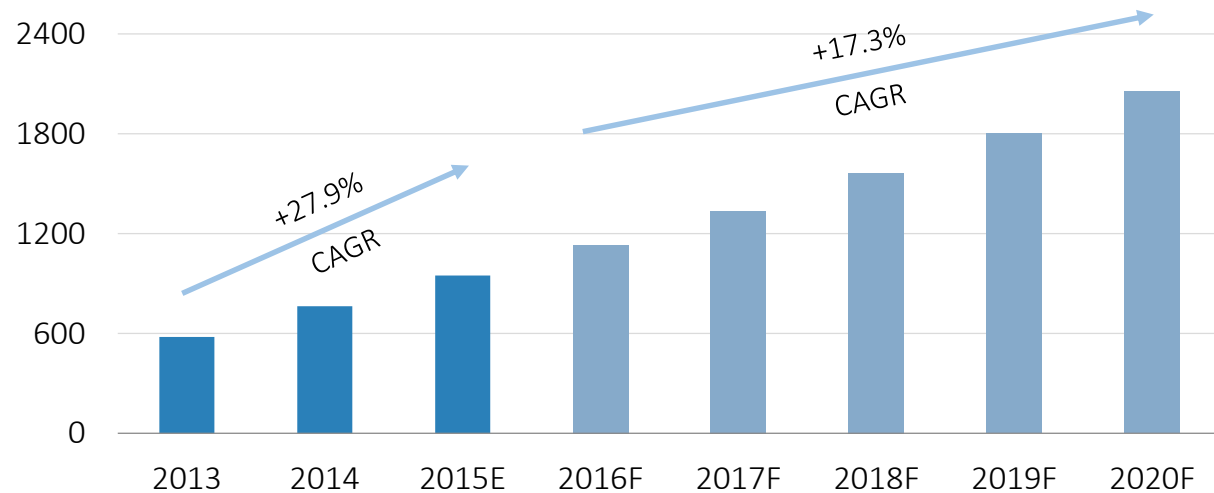
Private label development

The company is turning into a cash cow



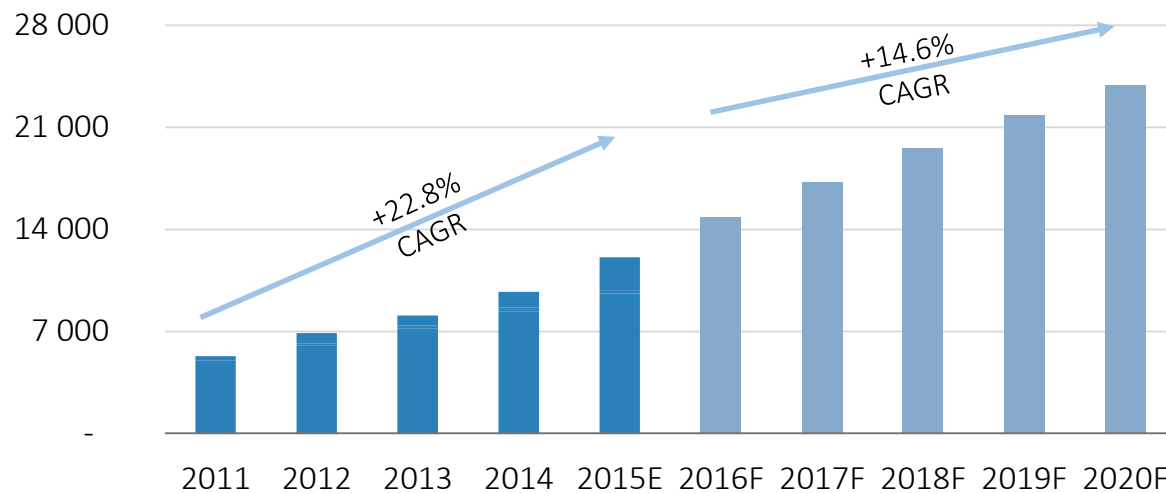
1 Large revenues with decelerating growth

Revenue dynamics (RUB bln)



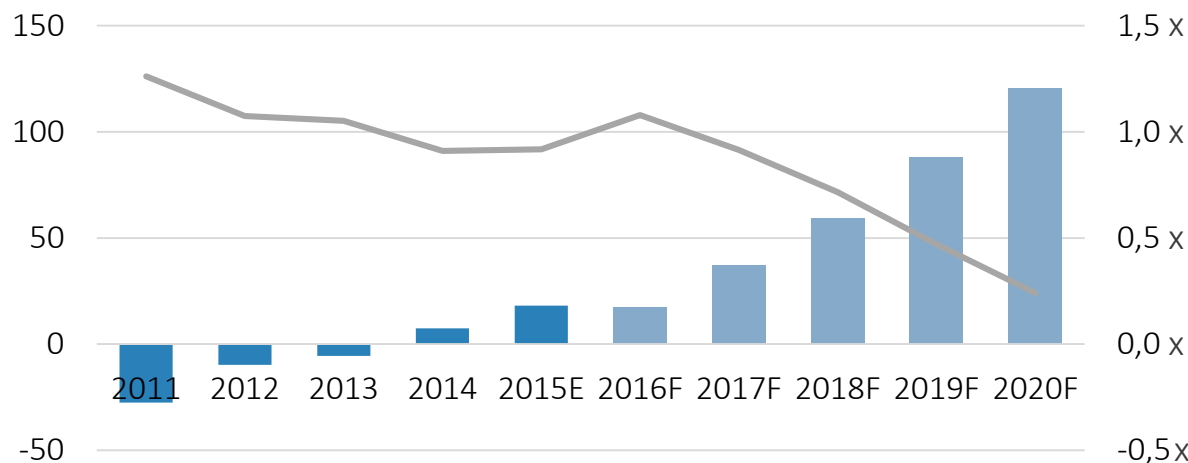
2 In the long-run growth of selling space will also slow down

Selling space expansion ('000 sq.m.)

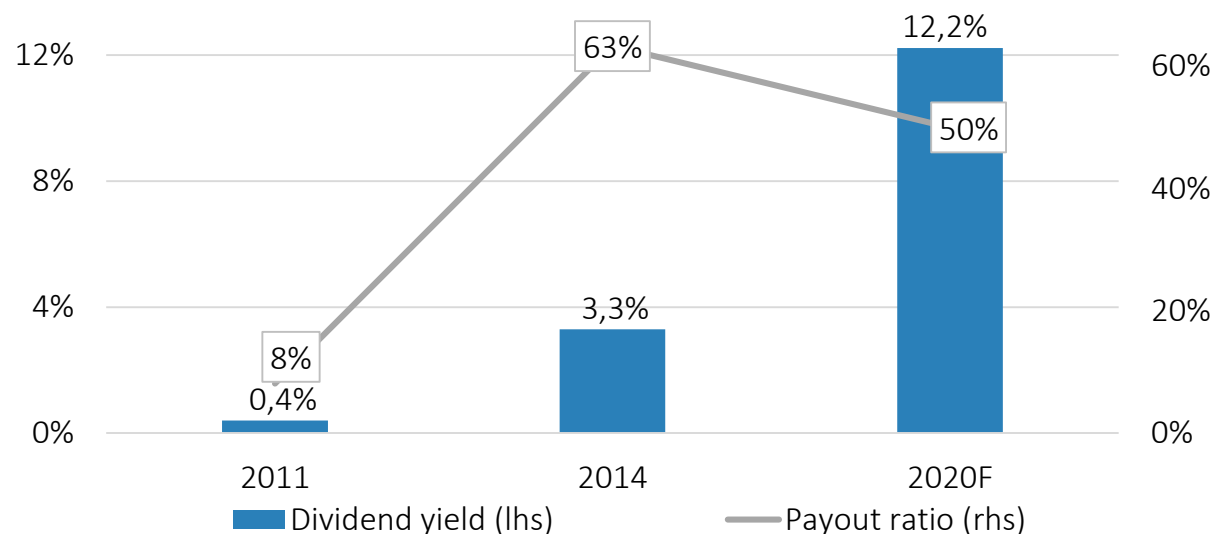


3 Growing cash flows

FCFF, RUB bln (lhs) Net debt / EBITDA (rhs)



4 Increasing shareholders' return



VALUATION

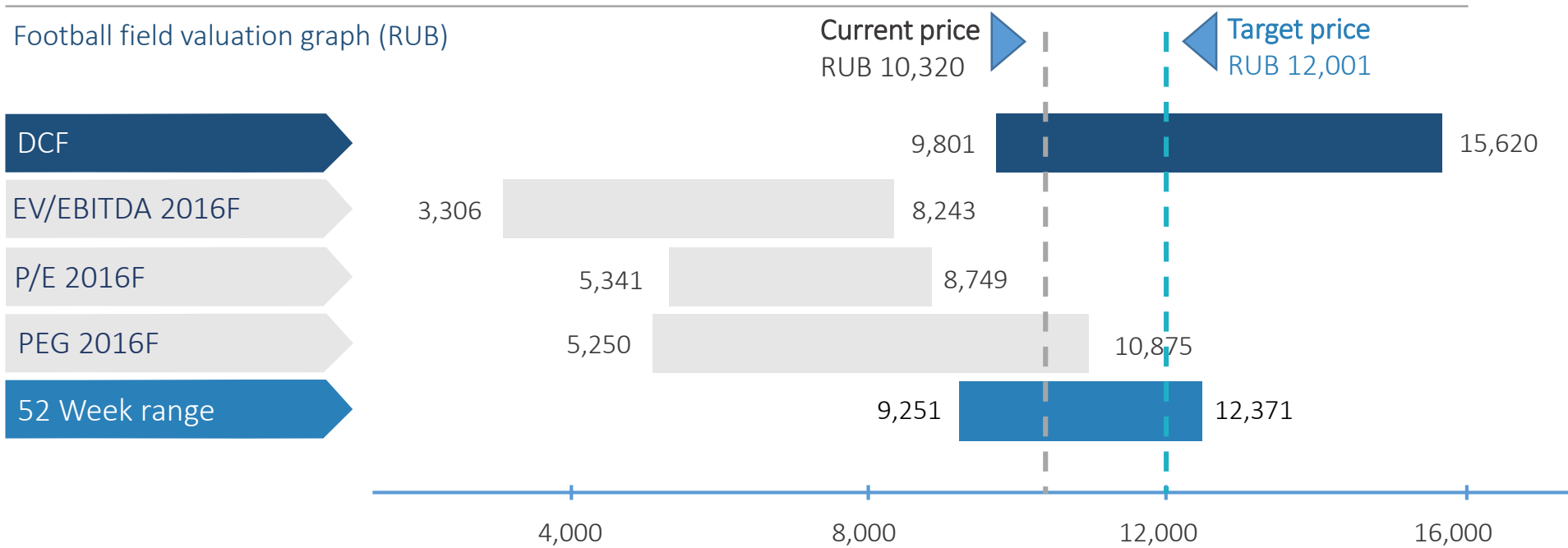


DCF provides sound economic basis for Magnit valuation



Target price of RUB 12,001 doesn't indicate significant upside as well as downside

Football field valuation graph (RUB)



Target Price:
RUB 12,001

Upside: 16%

Total Upside*:
18.1%

* Including:
Annualized HPR and
forecasted dividend yield

No reliable peers

Lack of direct peers in Russia due to Magnit's unique developed business model and strong corporate governance

Lack of international peers due to different economic environment and the competitive landscape

Relative valuation underestimates target price

DCF Valuation

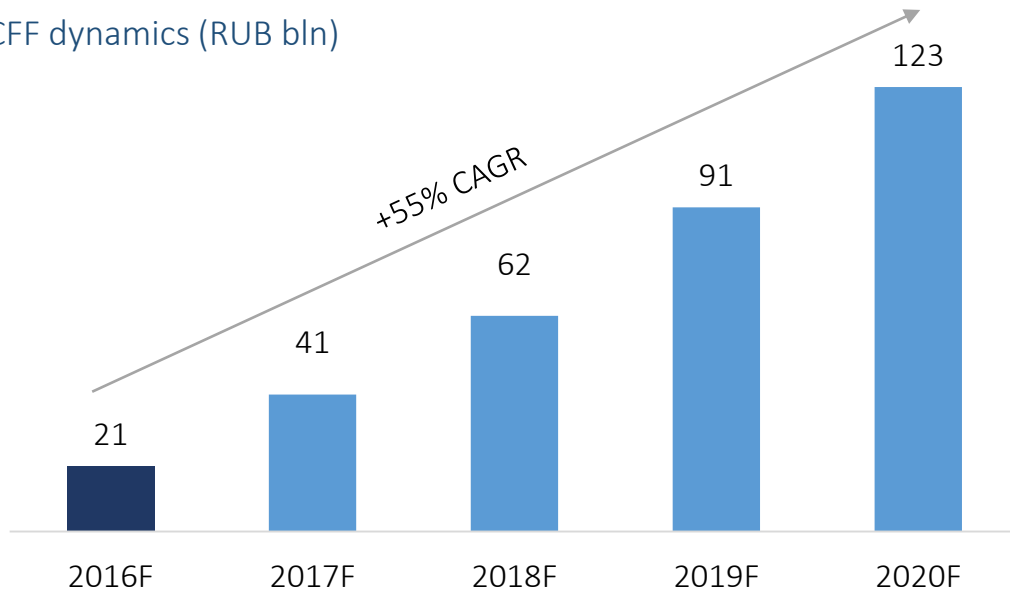
Recommendation is based 100% on Intrinsic Value

DCF valuation based on the moderately conservative assumptions



1 Despite huge CapEx, FCFF is significant and will grow further

FCFF dynamics (RUB bln)



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%
Effective Tax Rate	23.1%
After-tax Cost of Debt	8.2%

Cost of Equity in RUB

Cost of Equity	17.5%
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WACC in RUB (forecast period)	16.6%
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WACC in RUB (terminal period)	14.6%
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Terminal Period Growth

Inflation in the long-run	5.3%
Real GDP sustainable growth	1.1%

Growth rate	6.4%
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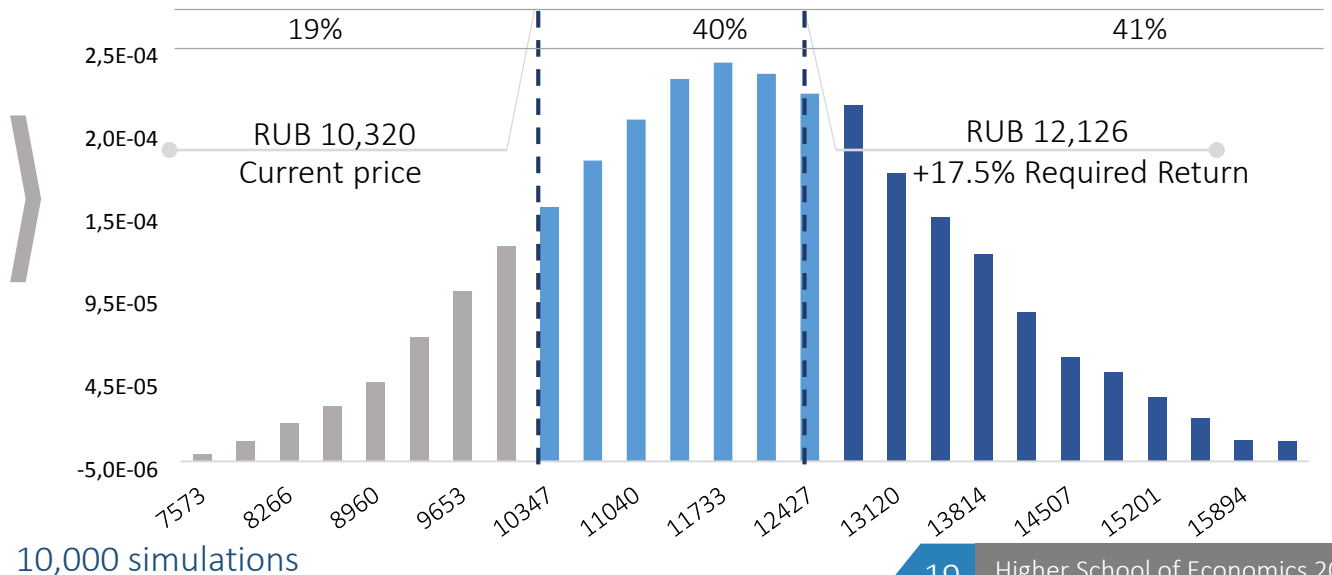
2 Monte Carlo simulation confirms HOLD recommendation

Inputs to simulation

- | | |
|------------------------|--------------------|
| 1. Revenue growth rate | 4. dNWC |
| 2. EBITDA margin | 5. WACC |
| 3. CapEx | 6. Terminal growth |

Simulation statistics

Mean	RUB	12,095
Std Dev	RUB	1,684
5 th percentile	RUB	9,405
Median	RUB	12,028
95 th percentile	RUB	14,962



RISK?

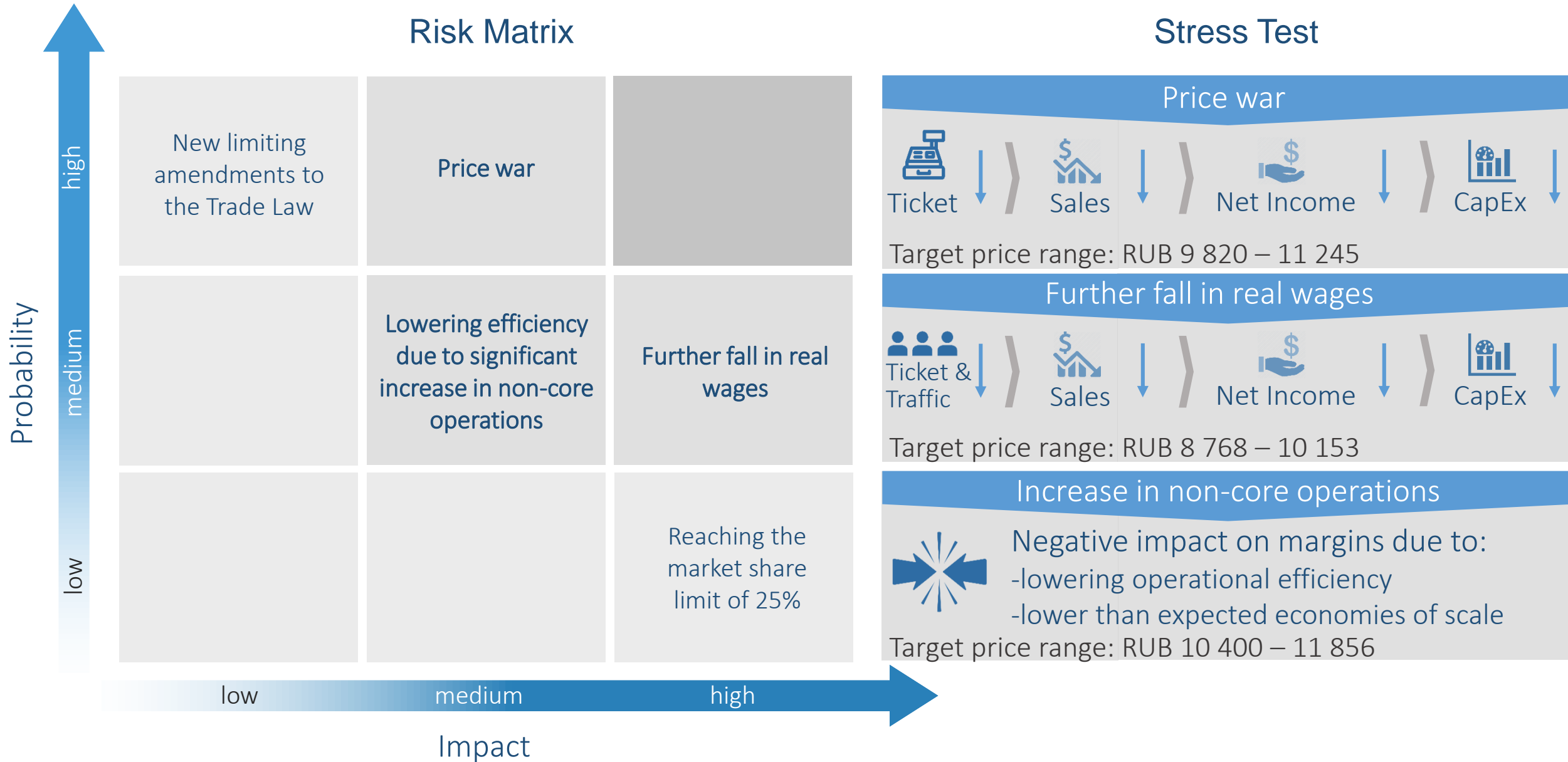
YES

INVESTMENT RISKS

NO



Magnit faces mainly macroeconomic and regulatory risks





INVESTMENT SUMMARY



Pros

Cons

Profitable cash-generating company



Strong corporate governance



Liquid stock, which is included in several indices (MSCI Russia and MICEX & RTS)



High stock market volatility

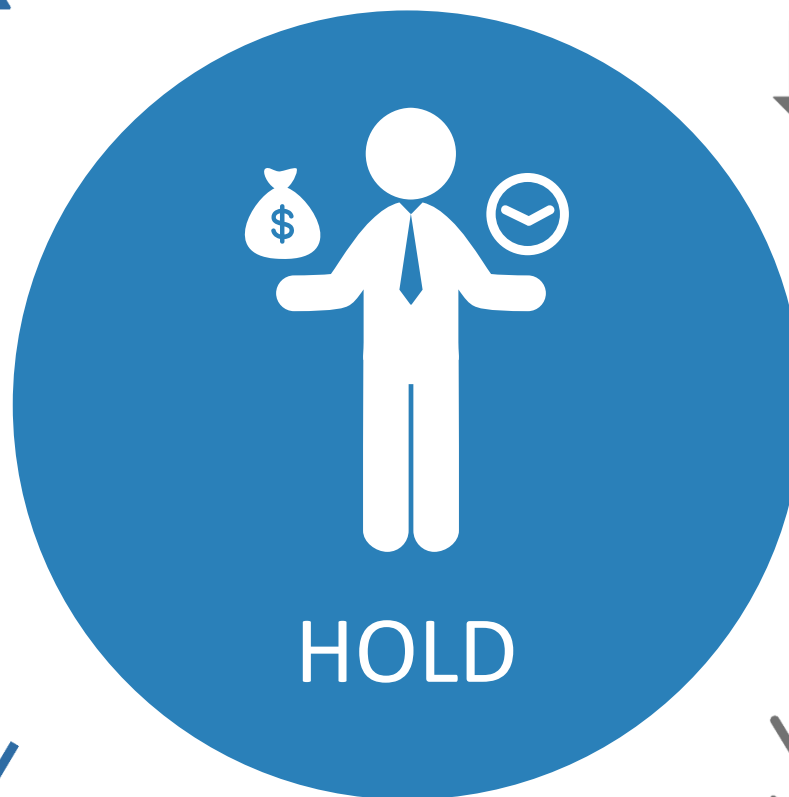


Country risks:

- Economic sanctions
- Poor macroeconomic environment



Exchange rate fluctuations (high impact for GDRs)



Current Price	Target Price:	Upside:
RUB 10 320	RUB 12 001	16%