

Albertsons IPO: Classic Story, Classic Investment Case

July 22, 2020 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

Previous two IPOs we discussed were TeamViewer AG which started trading on September 25th, 2019 and JDE Peet's which started trading on May 25, 2020.

Teamviewer priced its IPO at EUR 26.25 per share, with Permira funds selling a 42% stake in the company. Since our recommendation on October 23, 2019 shares of TeamViewer performed extremely well (both before and especially after COVID-19 crisis developments). At the current market price of about EUR 49 per share, shares returned 108%.

JDE Peet's started trading at Euronext on May 25, 2020. Company raised approximately EUR 700 mil by issuing 22.2 mil new shares while existing shareholders sold an additional 49.2 mil shares at an IPO price of EUR 31.5 per share. Funds managed by Soros Fund Management LLC have subscribed for an aggregate amount of EUR 761 million, taking approximately 33% of IPO shares.

At the current market price of EUR 37 per share, company has a market capitalization of EUR 18.3 billion and an Enterprise Value of about EUR 24.1 billion, valuing the company at an EV/Adj EBITDA multiple of x15. Assuming a 70% free cash flow conversion rate (according to IPO prospectus), JDE Peet's has a Free Cash Flow Yield of 6.15%.

We believe that participation of Soros Fund Management in the IPO (33% of IPO shares), low free float, reasonable valuation multiple and attractive free cash flow yield make JDE Peet's shares an attractive investment.

We think that recent IPO of supermarkets chain Albertsons presents investors with a classic story and classic investment case as well. From a macro and sector perspective Albertsons, similarly to TeamViewer AG and JDE Peet's is well positioned in the current "covid-crisis" environment.

Second, based on current market price of \$15.7 per share, company has a market capitalization of \$7.5 billion and an Enterprise Value of about \$14.2 billion. Albertsons issued \$1.75 billion of convertible preferred shares and this might weight on somehow on share price but at the same time once converted, company's interest expenses will be lower. Assuming conversion at \$17.2 per share, Albertsons will have 581 million of shares outstanding, bringing its "current" market cap to \$9 billion and Enterprise Value to about \$15.8 billion. Based on these figures, shares are valued at an EV/EBITDA valuation multiple of x5.6 and an estimated FCF Yield of 10%. As the company made significant investment in remodeling and new store openings over the past 5 years (\$3.8 billion and an estimated \$4.4 billion including FY 20), it is reasonable to assume that this investment will bear fruit over the next few years and Albertsons will be able to generate an even higher free cash flow.

Investors do not have many investment opportunities of such kind in current market environment, and we believe that shares warrant a higher valuation multiple. Expansion of valuation multiple to x8.5 and an annual growth of 5% in Adj EBITDA could value the shares at \$41.2 in three years, providing a 163% upside potential or an approximately 54% annual return.