

AN INVESTMENT CASE STUDY

 September 26th, 2024
17:00 - 20:00

JENGA I.P

 Venue
Lagos Continental Hotel, VI

 Email
ir@jengaip.com



THE GOAL: >15% IRR

We aim to achieve a 15% IRR on investments - earnings growth, dividends and multiples revaluation

- 1 Earnings growth
- 2 Buybacks and dividend yield
- 3 Multiples revaluation

STAGE 1: Jenga Sub-Industry Analysis

We rank all 60 sub-industries on ten quality factors and aggregate their score on the **Jenga Quality Rating**

Industry	Sub-Industry	Jenga Quality Rating /10	Examples
Consumer staples	Tobacco and beverages	8.7	Pepsi, Coca-Cola, Altria Group, Diageo
Consumer staples	Food and staples retailing	7.7	Walmart, Costco, Shoprite, Clicks Group, Kroger
Information Technology	Software	7.5	Microsoft, Adobe, Intuit, Vitec Software, Salesforce
Healthcare	Providers and services	7.15	Cardinal Health, Cigna Group, Molina Healthcare, UnitedHealth
Financials	Exchanges and research platforms	7.15	London Stock Exchange, Nasdaq, S&P Global, Stifel
Industrials	Capital Goods Trading and distribution	7	Watsco, Addtech, United Rentals, Diploma

Top 6 Sub-Industries

Industry	Sub-Industry	Jenga Quality Rating /10	Examples
Communication Services	Media, movies and entertainment	5.05	Walt Disney, Netflix, Publicis Groupe
Real Estate	REITs	5.05	Helical PLC, Public Storage
Information Technology	Hardware communication & equipment	4.95	Motorola Solutions, Lagercrantz Group, Halma AB,
Financials	Diversified financials	4.95	Federal Agricultural Mortgage, Fiserv
Financials	Banks: Regional, thrifts and mortgage	4.55	1st Source Corporation, WaFd Bank
Energy	Oil and gas equipment	4.22	RPC, Oceaneering

Bottom 6 Sub-Industries

STAGE 1: Jenga Sub-Industry Analysis

The Food and staples retailing industry performs well due to four key reasons

1 Replacement Cycle

Food retailers are visited frequently within a year, making sales recurring and less lumpy

2 Resilience to external shocks

Demand is resilient to external shocks such as wars, pandemics and economic crisis

3 High Barriers to disruption

Difficult for AI to disrupt the market due to necessity and perishable nature of products

4 Oligopolistic market structure

Presence of a limited number of market leaders keeps revenue and profitability more stable



STAGE 2: Food and Staples Analysis

A good industry doesn't guarantee a good investment i.e **Carrefour** and **Tesco**

Company	Country	Market Capitalisation	20-year share price performance	20-year share price CAGR
Walmart	USA	\$635 billion	357%	7.9%
Costco	USA	\$402 billion	2,112%	16.8%
Target Corporation	USA	\$72 billion	232%	6.2%
Wal-Mart de Mexico	Mexico	\$54 billion	548%	9.8%
Alimentation Couche-Tard	Canada	\$53 billion	3,092%	18.9%
Kroger	USA	\$40 billion	612%	10.3%
Tesco	UK	\$33 billion	6%	0.3%
Jerónimo Martins	Portugal	\$12 billion	853%	11.9%
Carrefour	France	\$11 billion	-63%	-4.9%
Shoprite	South Africa	\$10 billion	2,971%	18.7%

STAGE 2: Food and Staples Analysis

A few pictures of the largest staples retailers



STAGE 2: Food and Staples Analysis

The four factors that shape our investment philosophy regardless of the industry

GOOD BUSINESS ECONOMICS

Profitable, good return on capital,
growing revenue and earnings,
improving unit economics

COMPETITIVE ADVANTAGES

High barriers to entry, network
effects, unparalleled innovation,
lowest-cost producer

OWNER-ORIENTED MANAGEMENT

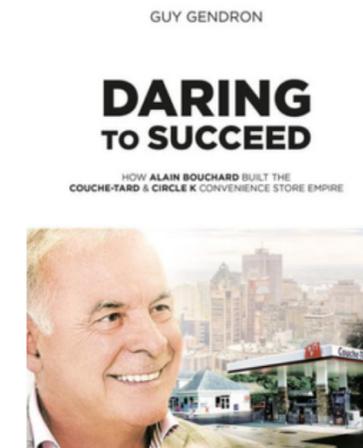
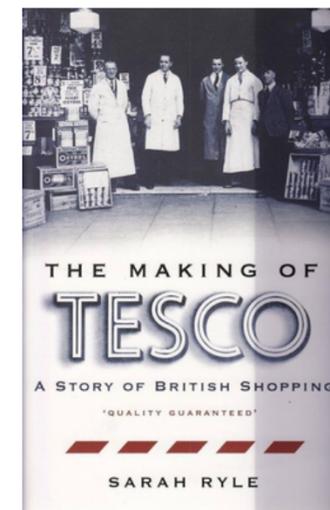
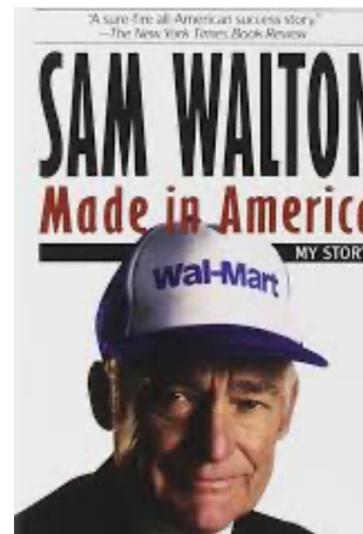
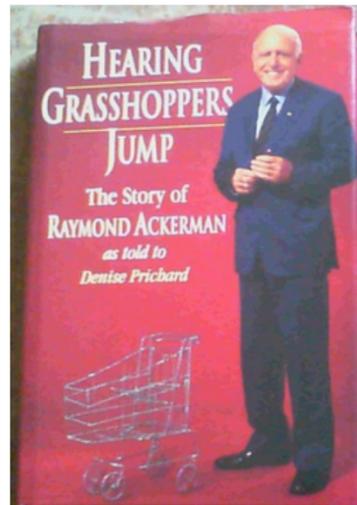
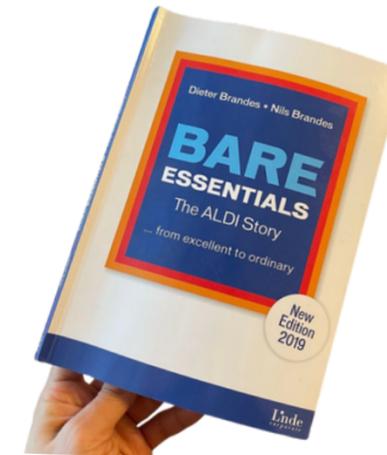
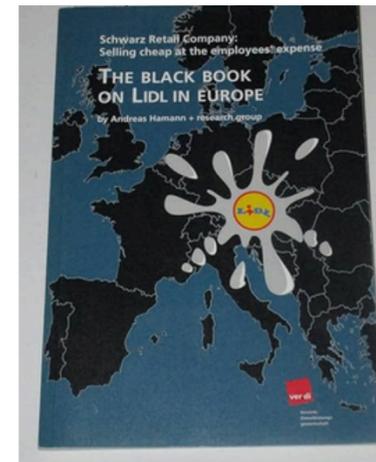
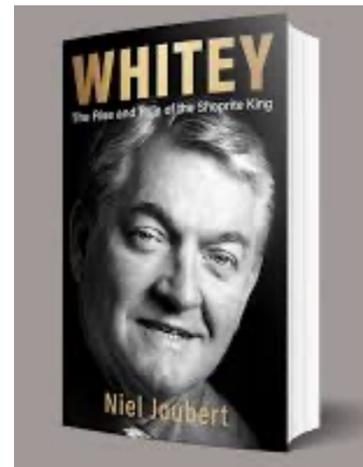
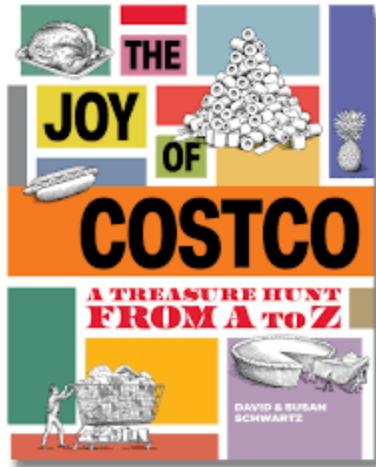
Trustworthy, good track record,
long term minded, guided by
good principles

UNDERVALUED

Undervalued relative to their
peers and market on P/E,
EV/EBIT and cash flow basis

STAGE 3: Food Retail Industry

We spend our time accumulating knowledge and mental models about the industry players and dynamics



STAGE 3: Food Retail Industry

There are four key factors that differentiate food retailers

- 1 **Lowest-cost producer**
- 2 **Widening product assortment**
- 3 **Customer focus**
- 4 **Culture for efficiency and growth**



COSTCO WHOLESALE

We believe Costco is the greatest retailer of all time!

STAGE 4: Food Retailer Industry

We Invested in both **Shoprite** (South Africa) and **Dino Polska** (Poland)



SHOPRITE (2019 - 2021)

We invested in Shoprite between Oct 2019 and November 2021.



DINO POLSKA (2023 - PRESENT)

We invested in Dino Polska in 2023 and continue to hold a position in the retailer

STAGE 4: Food Retail Industry

How Dino Polska and Shoprite compare on key metrics

Company	Country	EBIT Margin %	Return on Capital %	Debt to Capital %	7 year Revenue CAGR %	7 year EBIT CAGR %	Forward P/E Ratio
Walmart	United States	4.3	11.6	41.0	4.5	3.3	30.9
Costco	United States	3.6	17.7	29.9	10.9	12.9	52.7
Target	United States	5.9	12.2	57.0	6.3	4.0	15.6
Wal-Mart de México	Mexico	8.3	18.5	28.4	7.6	9.1	17.5
Alimentation Couche-Tard	Canada	5.3	9.2	50.5	9.0	10.9	18.2
Shoprite	South Africa	4.9	9.6	64.0	7.9	6.3	21.0
Dino Polska	Poland	6.7	16.5	16.5	32.4	32.3	17.7

STAGE 4: Dino Polska's competitive advantages

These four factors differentiate Dino Polska from its peers

1 Exclusive focus on rural Poland

Dino exclusively focus on rural villages in Poland which is less dense than urban but also has less competition

2 5,000+ SKUs (50%+ own label)

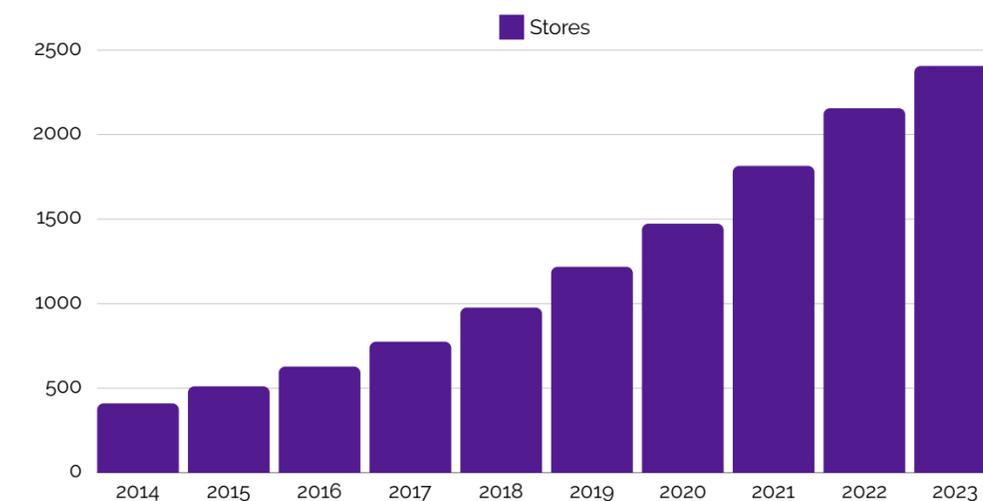
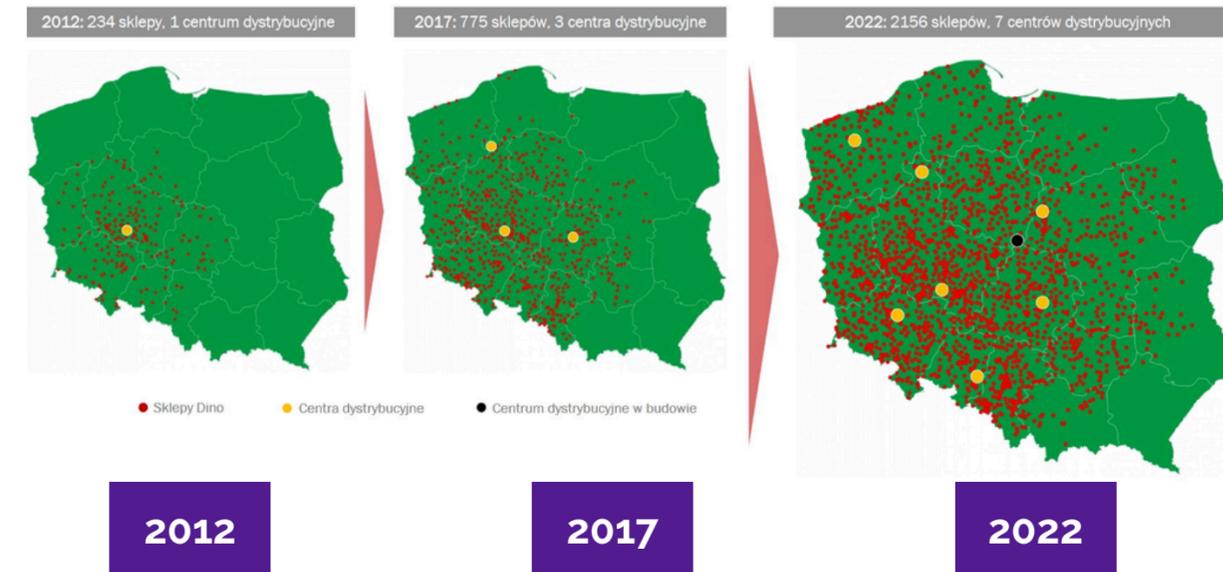
Dino has a growing SKU, owns its meat counters and continues to grow its own branded products

3 Owns physical stores land

Rent is 4-7% of revenue for the average retailer. Dino Polska owns the majority of its stores land and buildings

4 Five star management team

The founder owns 51% of Dino Polska. Its current CEO, Szymon Piduch, has led the group since 2010



STAGE 4: Awareness of Potential Weaknesses

We take a balanced view on each company, finding its potential weaknesses

1 Addressable market limited to Poland

Dino's strategy is very focused on Poland which limits its potential growth into other countries

2 Limited brand loyalty

Unlike Costco, Dino doesn't have a membership plan, limiting revenue and brand loyalty

3 Fourth largest in Poland

4th largest in Poland limits its ability to drive the market dynamics

Dino Falls Victim to Price War Between Polish Grocery Chains

- Company posts drop in quarterly net income as margins squeezed
- Dino plans to accelerate expansion despite weaker profits

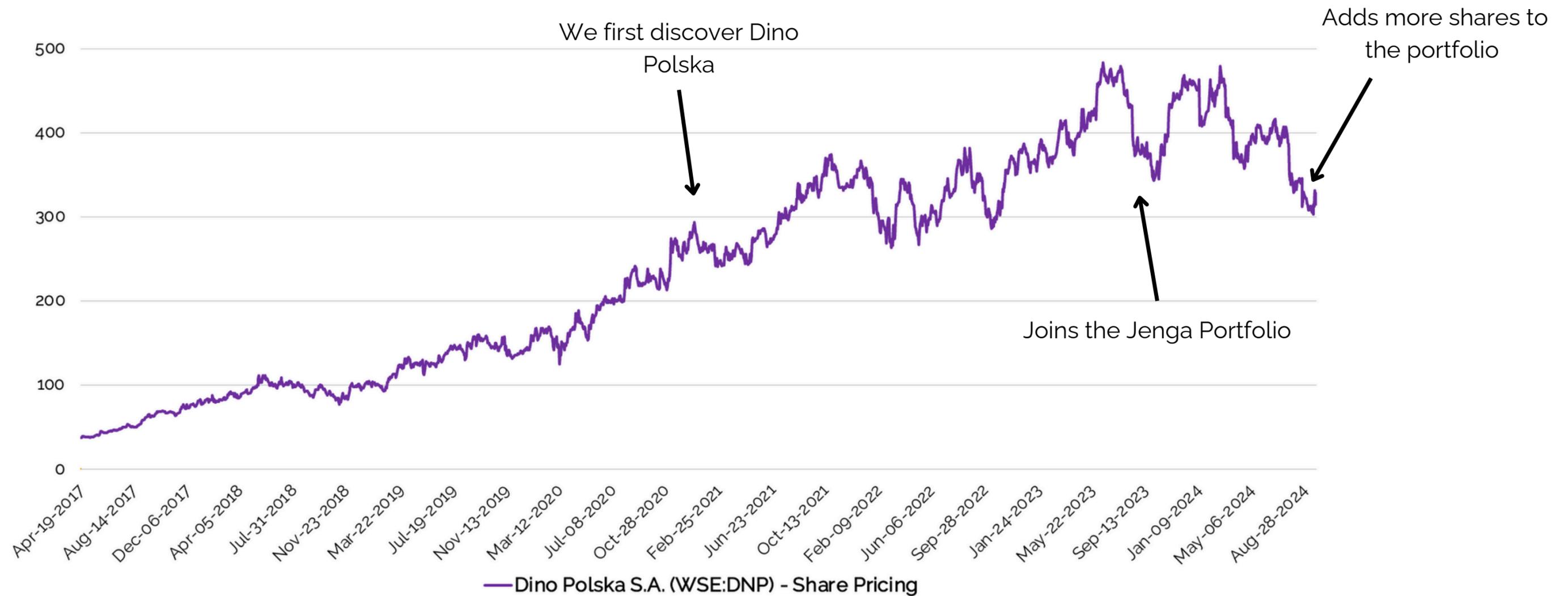


Branded shopping carts outside a Dino Polska SA supermarket in Jaktorow-Kolonia,

There's an ongoing price war in Polish grocery retail, hurting margins in the short term

STAGE 4: Activity in Dino Polska's Share Price Chart

We recently invested in Dino Polska



STAGE 4: The broader Jenga Portfolio

Company (Top 5)	Country	EBIT Margin	Return on Capital	5 year Revenue CAGR	5 year EBIT CAGR	Debt/ Capital	P/E	Forward P/E	Dividend Yield
Shelly Group	Bulgaria	26.4	26.7	27.8	57.2	1.9	30.8	27.5	0.4
Kaspi	Kazakhstan	75.9	81.2	38.7	50.6	7.5	9.7	8.1	6.8
Bosideng	China	19.2	17.0	17.5	25.9	18.9	12.3	10.6	6.6
Evolution AB	Sweden	62.6	20.9	45.3	59.7	2.1	17.2	14.9	3.0
Dino Polska	Poland	6.7	16.5	32.8	30.4	16.5	20.9	17.7	0.0
Overall Jenga Portfolio		30.7	24.2	26.6	33.0	17.1	15.3	14.7	3.0
The Market		14.7	14.6	8.3	10.7	53.3	22.3	18.8	1.8