

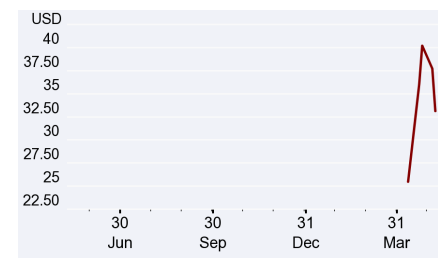
Jumia Technologies (JMIA)

What to Make of the Citron Allegations?

- Some big claims.** Citron Research yesterday published a presentation accusing Jumia of a number of misrepresentations. The share price has declined by over 50% since the presentation was published, with investors expressing concern over the substance of these allegations. Given Jumia's short life as a listed entity and the volatility that has characterized Jumia's share price since it went public in April 2019, we review and provide our initial assessment of these allegations.
- A variety of allegations and sources.** We assess six allegations and two additional statements made in the presentation. They largely consist of three types of information: 1) a reiteration of details from the prospectus; 2) claims that are difficult to evaluate as they are based on information from an unpublished investor memorandum, but which do not on the surface appear to contain strong evidence of fraud; and 3) references to news media articles, in some cases a few years old, alleging malfeasance at Jumia. We believe none appear to merit Citron's description of a "smoking gun".
- Two points worth additional disclosures.** Of the allegations made, in our view two would seem to merit a response from the company, with disclosure in further detail on 1) whether active user numbers were in fact restated, and on what basis; and 2) related-party transactions involving the co-CEO.
- Most important: delivering in 2019.** For investors, we believe the most important factor remains the company's ability to deliver on its guidance, starting with Q1. We maintain our Neutral / High Risk (2H) rating on the shares, reflecting the significant growth prospects of the company, balanced by the inherent volatility of operating in early stage e-commerce markets. For more on our views on Jumia, see our [initiation report](#).

Neutral/High Risk	2H
Price (09 May 19 16:00)	US\$26.89
Target price	US\$41.00
Expected share price return	52.5%
Expected dividend yield	0.0%
Expected total return	52.5%
Market Cap	US\$2,054M

Price Performance (RIC: JMIA.N, BB: JMIA US)



Jumia Technologies Year to 31 Dec	2017A	2018A	2019E	2020E	2021E
Sales (€M)	94.0	130.6	193.9	308.0	476.2
Net Income (€M)	-161.6	-170.1	-166.3	-139.1	-117.9
Diluted EPS (€)	-1.92	-2.02	-1.98	-1.64	-1.39
Diluted EPS (Old) (€)	-1.92	-2.02	-1.98	-1.64	-1.39
PE (x)	-12.5	-11.8	-12.1	-14.6	-17.2
EV/EBITDA (x)	na	-11.7	-10.1	-10.9	-15.1
DPS (€)	0.00	0.00	0.00	0.00	0.00
Net Div Yield (%)	na	na	na	na	na

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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JMIA.N: Fiscal year end 31-Dec						Price: US\$26.89; TP: US\$41.00; Market Cap: US\$2,054m; Recomm: Neutral/High Risk					
Profit & Loss (€m)	2017	2018	2019E	2020E	2021E	Valuation ratios	2017	2018	2019E	2020E	2021E
Sales revenue	94	131	194	308	476	PE (x)	-12.5	-11.8	-12.1	-14.6	-17.2
Cost of sales	-66	-85	-111	-164	-237	PB (x)	na	37.6	5.2	8.0	14.5
Gross profit	28	46	83	144	239	EV/EBITDA (x)	na	-11.7	-10.1	-10.9	-15.1
Gross Margin (%)	30.0	35.0	42.9	46.8	50.2	FCF yield (%)	-5.9	-7.1	-7.7	-6.4	-5.3
EBITDA (Adj)	-127	-150	-156	-136	-105	Dividend yield (%)	na	na	na	na	na
EBITDA Margin (Adj) (%)	-134.8	-115.0	-80.4	-44.0	-22.1	Payout ratio (%)	0	0	0	0	0
Depreciation	-2	-2	-3	-6	-10	ROE (%)	na	na	-79.5	-45.7	-62.9
Amortisation	0	0	0	0	0	Cashflow (€m)	2017	2018	2019E	2020E	2021E
EBIT (Adj)	-155	-170	-169	-153	-127	EBITDA	-153	-168	-166	-147	-117
EBIT Margin (Adj) (%)	-164.5	-130.0	-87.3	-49.6	-26.7	Working capital	-1	4	2	13	16
Net interest	1	0	4	15	10	Other	37	25	16	15	9
Associates	0	0	0	0	0	Operating cashflow	-117	-139	-148	-119	-92
Non-Op/Except/Other Adj	0	0	0	0	0	Capex	-2	-4	-6	-10	-15
Pre-tax profit	-154	-169	-166	-138	-117	Net acq/disposals	0	0	0	0	-1
Tax	-11	-1	-1	-1	-1	Other	0	0	0	0	0
Extraord./Min.Int./Pref.div.	4	0	0	0	0	Investing cashflow	-3	-4	-7	-10	-15
Reported net profit	-162	-170	-166	-139	-118	Dividends paid	0	0	0	0	0
Net Margin (%)	-171.8	-130.3	-85.8	-45.2	-24.8	Financing cashflow	122	213	475	0	0
Core NPAT	-162	-170	-166	-139	-118	Net change in cash	0	71	320	-129	-108
Per share data	2017	2018	2019E	2020E	2021E	Free cashflow to s/holders	-119	-143	-154	-129	-107
Reported EPS (€)	-1.92	-2.02	-1.98	-1.64	-1.39	Active customers (MM)	2017	2018	2019E	2020E	2021E
Core EPS (€)	-1.92	-2.02	-1.98	-1.64	-1.39	GMV (EUR MM)	507	828	1,279	1,942	2,880
DPS (€)	0	0	0	0	0						
CFPS (€)	-1.39	-1.65	-1.76	-1.41	-1.09						
FCFPS (€)	-1.42	-1.70	-1.84	-1.52	-1.26						
BVPS (€)	0.04	0.64	4.63	2.98	1.65						
Wtd avg ord shares (m)	79.0	79.0	79.0	80.2	81.1						
Wtd avg diluted shares (m)	84.0	84.0	84.0	84.7	84.8						
Growth rates	2017	2018	2019E	2020E	2021E						
Sales revenue (%)	na	38.9	48.5	58.8	54.6						
EBIT (Adj) (%)	na	-9.7	0.3	9.6	17.0						
Core NPAT (%)	na	-5.3	2.2	16.4	15.2						
Core EPS (%)	na	-5.3	2.2	17.0	15.3						
Balance Sheet (€m)	2017	2018	2019E	2020E	2021E						
Cash & cash equiv.	30	101	421	292	184						
Accounts receivables	20	13	19	29	43						
Inventory	9	9	12	17	25						
Net fixed & other tangibles	5	6	10	13	19						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	8	12	18	27	40						
Total assets	71	142	480	379	311						
Accounts payable	45	48	58	86	124						
Short-term debt	2	0	0	0	0						
Long-term debt	0	0	0	0	0						
Provisions & other liab	37	44	53	53	54						
Total liabilities	84	92	112	139	177						
Shareholders' equity	3	50	369	241	135						
Minority interests	-16	0	0	-1	-1						
Total equity	-13	50	368	240	134						
Net debt (Adj)	-27	-101	-421	-292	-184						
Net debt to equity (Adj) (%)	na	-201.9	-114.3	-121.6	-137.4						

For definitions of the items in this table, please click [here](#).

Unpacking the Citron allegations

Due to the focus on Jumia in the initial weeks of its life as a listed entity, and given the particularly volatile pattern of share trading we have seen since the IPO in April 2019, we deem it worth reviewing and providing our assessment of certain allegations made in Citron's presentation.

■ **Allegation 1:** *Jumia fraudulently inflated its active consumers and active merchants data.*

■ **Our take:** Citron alleges that the company increased its reported active customers for 2017 in the IPO prospectus, when compared with a previous investor presentation. Given that the earlier document has not been publicly disclosed, it is difficult to assess this claim. While it is possible that this data was fraudulently manipulated, Citron has only provided evidence that it was changed. It is not difficult to imagine reasons why active customer data might have been revised from an earlier document, including changes in the way the data was gathered or calculated, different data definitions, or geographical groupings.

■ **Allegation 2:** *Jumia's high level of returns and cancellations indicate fraudulent activities.*

■ **Our take:** It should not come as a surprise to any investor in Jumia that returns are high. A high level of returns, failed deliveries, and cancellations at Jumia was referenced a number of times in the prospectus (page 32, 87) and as well as being highlighted repeatedly by Jumia management. We are unaware of the 41% statistic referenced by Citron, and note that management has referenced a 30% returns rate during investor and analyst meetings. However, we do acknowledge that Jumia has chosen not to disclose this rate, and that it is not possible to calculate the returns rate based on the information disclosed in the prospectus. We do believe – and pointed out in our initiation report earlier this week – that Jumia could do more to provide disclosure on some aspects of its operations, as a matter of transparency and best practice. The returns rate is one example, and another is more data on the performance of individual countries.

■ **Allegation 3:** *Jumia has shown a pattern of corporate fraud in the past.*

Our take: Citron references a 2015 news story alleging fraud and internal dealing at Jumia in 2014. However, we would note that these historic allegations did not lead to any prosecutions, and it is unclear to what extent, if any, these allegations relate to the context of where Jumia is today.

■ **Allegation 4:** *More recent cases of fraud show heightened risk at Jumia.*

Our take: Citron highlights Jumia's disclosure in the prospectus that "*some of our independent sales consultants, members of our JForce program in Nigeria, may have engaged in fraudulent activities.*" Businesses having to deal with corruption and fraud are of course familiar challenges in a business and regulatory context in Africa, and the risk of fraud is possibly heightened by the role of technology. We find it potentially misleading to make the leap from cases of fraud affecting Jumia's contractors or employees, to Jumia itself being a fraudulent organization.

■ **Allegation 5:** *Evidence of fraud involves top management.*

Our take: The related-party transactions relayed here involving the co-CEO were disclosed in the prospectus. That said, we think investors would find it worthwhile for management to disclose more information about these transactions and provide some assurances that they were properly handled.

■ **Allegation 6:** *The auditors did not sign off on Jumia.*

Our take: Page 206 of the prospectus states that the financial statements were indeed audited by Ernst & Young. In its presentation, Citron alleges that: 1) E&Y did not audit financial controls; 2) E&Y uses foreign affiliates to do work for audits; and 3) it is impossible to audit Jumia given the large number of cash transactions. None of these general criticisms or allegations provide much tangible evidence, in our view, that Jumia committed fraud.

Other points made

■ *Jumia made little progress in its core business during the period 2015-18.*

Our take: In fact, over that period, Jumia's active users nearly tripled, from 1.6m to 4m, and GMV rose from €321m to €828m. It is true that losses increased over the period as the company expanded, and that revenues were negatively impacted by both the switch from 1P to 3P sales and the devaluations of currencies in Egypt and Nigeria in 2016. But it seems clear that Jumia experienced vibrant growth over that period.

■ *Naspers pulled out of Nigeria to focus on South Africa because Nigeria was not a viable market.*

Our take: Yes and no. While it is true that Naspers sold its Nigerian ecommerce business, this was part of a broader strategy to exit ecommerce outside of South Africa and hardly seems like a definitive negative judgement on what Jumia is doing there.

To sum up: two points worth additional disclosures

Of the allegations made, in our view two would seem to merit a response from the company, with disclosure in further detail on 1) whether active user numbers were in fact restated, and on what basis; and 2) related-party transactions involving the co-CEO.

Most important: delivering in 2019

For investors, we believe the most important factor remains the company's ability to deliver on its guidance, starting with Q1. We maintain our Neutral / High Risk (2H) rating on the shares, reflecting the significant growth prospects of the company, balanced by the inherent volatility of operating in early stage e-commerce markets. For more on our views on Jumia, see our [initiation report](#).

Jumia Technologies

Company description

Jumia Technologies is Africa's largest Internet retailer, with operations in 14 countries, 4.3 million active users, and GMV of nearly €1b in 2018. The company operates e-commerce marketplaces and had built out unparalleled fulfillment capability across its geographies as well as developing related services such as a payments platform, JumiaPay. As e-commerce continues to develop in Africa, Jumia is in a prime position to capture the lion's share of that growth.

Investment strategy

We rate Jumia shares Neutral/High Risk (2H). Jumia is in a strong position to tap Africa's vast growth potential; however, its significant financial losses mean that it needs to grow strongly for several years while carefully managing its operating expenses. We believe that the shares' strong performance since listing values the shares fairly, given this balance of reward and risk.

Valuation

We reach our valuation for Jumia of \$41/share using an average of discounted cash flow (1-year DCF, 20x EBITDA terminal value, discount rate of 14.4%) and multiples-based valuation (1x 2021 EV/GMV and 5x 2021 EV/Sales), derived from other global e-commerce peers.

Risks

We rate the stock High Risk because we believe that the inherent volatility in Jumia's economies is likely to result in periods of volatility with respect to share trading. Key risks to our Jumia target price consist of economic volatility in Africa, potential changes to the regulatory environment for e-commerce and mobile payments, the uncertain path to reaching breakeven, the mixed track record of previous Rocket Internet ventures, and the potential that Jumia investors may not be prepared for some of the volatility inherent in a pan-African business.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could outperform our target.

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Jumia Technologies (JMIA)

Ratings and Target Price History Fundamental Research

Analyst: Andrew Howell, CFA
Covered since May 6 2019



Date	Rating	Target Price	Closing Price
06-May-19 00:00:00	*2H	*41.00	37.72

*Indicates Change

Rating/target price changes above reflect Eastern Time

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