

## SFD

### 3Q21 results review

SFD reported its 3Q21 results with EBIT of PLN 2.9m and net profit of PLN 2.3m, below our expectations, mainly on lower gross margin (reported 34.5% vs. our expectation 36.6%). Below please find key highlights:

- **Revenues** came in at PLN 59.8m (+19% y/y, in line with preliminary results). In 3Q21 e-commerce accounted for 57% of total revenues (vs. 71% in previous year, due to restrictions for B&M stores in 2020). The company pointed that improvement of sales in recent quarters was also related to development of product offer, development of own stores and expansion on foreign markets.
- As of end-3Q21 the company had 14 own and 69 franchising stores.
- **Gross profit** amounted to PLN 20.6m (+17% y/y), implying gross margin of 34.5% (vs. 35.2% in 3Q20 and our assumption 36.6%). The deterioration was related to increasing cost of materials and production.
- **EBITDA** reached PLN 3.6m (-16% y/y), due to higher share of offline than online sales, and pressure on gross margin.
- **Net profit** came in at PLN 2.3m (-23% y/y, 21% below our expectations).
- As of end-3Q21, SFD had inventory of PLN 33.5m (+41% y/y and -19% y/y). Operating cash flow amounted to positive PLN 7.8m in 3Q21 (vs. negative PLN 0.1m in 3Q20). The company had net debt of PLN 2.4m as of end-3Q21.
- The company pointed that plans further development of product offer on online platform, cooperation with third-party e-commerce platforms and further development of activity in Czechia and Slovakia.

*Opinion: Slightly negative, as reported 3Q21 results were below our expectations due to lower gross margin (we note that pressure on cost of production and/or cost of materials might have further negative impact on profitability in 4Q21E and quarters ahead). On the other hand, we point at decrease of inventory, resulting in solid operating cash flow and improvement of balance sheet.*

Figure 1. SFD results summary (PLNm)

|                              | 3Q20       | 4Q20       | 1Q21       | 2Q21       | 3Q21       | y/y         | 3Q21E      | vs. IPOPEMA |
|------------------------------|------------|------------|------------|------------|------------|-------------|------------|-------------|
| Revenues                     | 50.1       | 48.9       | 64.7       | 59.5       | 59.8       | 19%         | 59.8       | 0%          |
| Operating costs              | -46.4      | -45.9      | -57.7      | -55.3      | -56.8      | 22%         | -56.0      | 1%          |
| Cost of materials and energy | -19.8      | -23.4      | -30.8      | -29.5      | -31.1      | 57%         | -29.2      | 7%          |
| External services            | -7.9       | -8.1       | -10.2      | -9.5       | -9.5       | 21%         | -9.8       | -3%         |
| Salaries                     | -4.7       | -4.8       | -5.2       | -6.0       | -6.1       | 31%         | -6.2       | -2%         |
| Cost of goods sold           | -12.6      | -8.1       | -9.6       | -8.2       | -8.1       | -36%        | -8.8       | -8%         |
| Other                        | -1.3       | -1.5       | -2.1       | -2.2       | -2.1       | 58%         | -2.1       | 0%          |
| <b>EBITDA</b>                | <b>4.2</b> | <b>3.5</b> | <b>7.4</b> | <b>4.7</b> | <b>3.6</b> | <b>-16%</b> | <b>4.4</b> | <b>-19%</b> |
| <b>EBIT</b>                  | <b>3.8</b> | <b>3.0</b> | <b>6.8</b> | <b>4.1</b> | <b>2.9</b> | <b>-23%</b> | <b>3.7</b> | <b>-21%</b> |
| Pre-tax profit               | 3.8        | 2.9        | 6.8        | 4.0        | 2.9        | -25%        | 3.6        | -20%        |
| <b>Net profit</b>            | <b>3.0</b> | <b>2.2</b> | <b>5.4</b> | <b>3.2</b> | <b>2.3</b> | <b>-23%</b> | <b>2.9</b> | <b>-21%</b> |
| Gross margin (%)             | 35.2%      | 35.5%      | 37.6%      | 36.6%      | 34.5%      |             | 36.6%      |             |

Source: Company, IPOPEMA Research

E-commerce

SFD

BUY

FV PLN 6.50

35% upside

Price as of 21 October 2021 PLN 4.80

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The definitions of terms used in the document include:

NII - Net interest income - interest income minus interest expense.

Net F&C - Net fee and commission income - fee and commission income minus fee and commission expense.

LLP - loan loss provisions - an expense set aside as an allowance for bad loans.

NPL - non-performing loan - loans that are in default or close to be in default.

Cost/Income - operating expenses divided by total banking revenue.

ROE - return on equity - net income (or adjusted net income) divided by the average shareholders' equity.

ROA - return on assets - net income (or adjusted net income) divided by the average assets.

EBIT - earnings before interests and tax.

EBITDA - earnings before interests, tax, depreciation and amortization.

EPS - earnings per share - the net income (or adjusted net income) divided by the number of shares outstanding.

P/E - price to earnings ratio - price divided by earnings per share.

PEG - P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR - compound annual growth rate.

BVPS - book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV - price to book value - price divided by the BVPS.

DPS - dividend per share - dividend of a given year divided by the number of shares outstanding.

DY - dividend yield - dividend of a given year divided by the current price.

DDM - dividend discount model - a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

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|-------|--------|------|
| Buy   | 52     | 74%  |
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#### Rating History - SFD

| Date       | Recommendation | Fair Value | Price at recommendation | Author          |
|------------|----------------|------------|-------------------------|-----------------|
| 07/09/2021 | BUY            | PLN 6.50   | PLN 4.69                | Marek Szymański |