

SFD

Ever-expanding scale of operations

We increase our FV from PLN 4.15 to PLN 4.54 per share and downgrade our recommendation from BUY to HOLD, due to recent stock price performance. The company has reported revenues of PLN 159m in 5M23 (+21% y/y), supported by an increase in volumes. SFD has recently announced the launch of its Hummy brand (quick meals), as well as plans to continue development of its activity in foreign markets (with a new market still this year). As a result, we expect the company to maintain growth of its top line with 2022-25E CAGR at around 17%. We find the lower cost of materials and freight supportive for gross margin; however, due to a competitive environment, we assume stabilization of this margin at comparable levels in the coming years. Given launch of the new product, we assume a comparable EBITDA margin this year, while in the following years operating leverage should support improvement in profitability. We trim our EBITDA forecasts in 2023-24E on higher operating costs and increase it in 2025E and afterwards assuming higher growth rates of revenues (2022-25E CAGR of EBITDA at 31%). Finally, we expect SFD to maintain its dividend policy (DPS PLN 0.10 recommended from 2022 results) and assume a DPS of PLN 0.13 in 2024E.

2022-25E CAGR of revenues at 17%. SFD reported revenues of PLN 159m in 5M23 (+21% y/y). The company also announced the launch of its own brand Hummy (quick meals), which we expect to gradually support sales in the coming quarters. SFD also maintains its plan to develop its activity in foreign markets (own platforms and marketplaces) and plans to enter a new market already this year. Given the launch of a new product line, we increase our revenues forecasts by 1% in 2024E and 3% in 2025E (our forecasts imply 2022-25E CAGR of 17%). We point out that our forecasts still remain below the company's target of around PLN 600m in 2025.

Stable EBITDA margin in 2023E and improvement afterwards. SFD reported improvement of its EBITDA margin in 1Q23 by 1.5pp y/y; however, we point to strong sales (+37% y/y in 1Q23) that supported operating leverage. At the same time, we expect inflationary pressure on operating costs to remain, while the launch of new products and entry into new foreign market may place additional pressure on profitability in the short term. As a result, we trim our EBITDA forecast by 9% to PLN 24.4m in 2023E (margin up by 0.1pp y/y to 6.3%), while expected higher growth rates in revenues should translate to improvement of margins in the following years, to 8.6% in 2025E.

Dividends maintained despite additional capex ahead. During the recent after-results conference, the management pointed out that it currently is searching for a landplot for new logistics center. We assume development to start end-2024 or beginning-2025 with capex of around PLN 40m. Nevertheless, we assume that SFD will maintain dividend payments and we expect a DPS of PLN 0.13 in 2024E and PLN 0.18 in 2025E.

Figure 1. SFD – Financial summary (PLNm)

	2020	2021	2022	2023E	2024E	2025E
Revenues	196.9	245.4	325.3	386.3	457.9	526.6
EBITDA	16.6	16.8	20.0	24.4	35.1	45.5
EBIT	14.7	14.2	16.9	21.2	31.0	38.1
Net profit	11.5	11.0	12.5	16.0	23.2	29.0
P/E (x)	14.2	12.8	13.2	11.6	8.0	6.4
EV/EBITDA (x)	10.6	8.9	9.5	8.5	5.8	4.9
DPS (PLN)	0.04	0.06	0.10	0.10	0.13	0.18

Source: Company, IPOPEMA Research

E-commerce

SFD

HOLD

FV PLN 4.54 from PLN 4.15

7% upside

Price as of 26 June 2023 PLN 4.23

Downgraded from BUY



Share data

Number of shares (m)	44.0
Market cap (EUR m)	42.1
12M avg daily volume (k)	13.9
12M avg daily turnover (EUR m)	0.01
12M high/low (PLN)	4.83/2.18
WIG weight (%)	n.a.
Reuters	SFDP.WA
Bloomberg	SFD PW

Total performance

1M	-6%
3M	9%
12M	57%

Shareholders

Mateusz Dominik Pazdan	76.24%
Other	23.76%

Analyst

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SFD

HOLD

FV PLN 4.54

mkt Cap EUR 42m

Upside 7%

Valuation multiples	2021	2022	2023E	2024E	2025E
P/E (x)	12.8	13.2	11.6	8.0	6.4
EV/EBITDA (x)	8.9	9.5	8.5	5.8	4.9
EV/Sales (x)	0.6	0.6	0.5	0.4	0.4
P/BV (x)	3.78	3.50	3.16	2.44	1.91
FCF yield (%)	10.7%	11.0%	10.9%	12.8%	3.3%
DY (%)	3.0%	1.6%	2.4%	3.0%	4.4%

Per share	2021	2022	2023E	2024E	2025E
No. of shares (m units)	42.2	44.0	44.0	44.0	44.0
EPS (PLN)	0.26	0.28	0.36	0.53	0.66
BVPS (PLN)	0.89	1.07	1.34	1.74	2.21
FCFPS (PLN)	0.36	0.41	0.46	0.54	0.14
DPS (PLN)	0.10	0.06	0.10	0.13	0.18

Change y/y (%)	2021	2022	2023E	2024E	2025E
Revenues	24.6%	32.6%	18.7%	18.5%	15.0%
EBITDA	0.7%	19.6%	21.6%	44.0%	29.5%
EBIT	-3.6%	18.9%	25.6%	45.9%	23.2%
Net profit	-4.5%	13.7%	27.6%	45.2%	24.7%

Leverage and return	2021	2022	2023E	2024E	2025E
Gross margin (%)	35.1%	35.5%	35.7%	35.8%	36.0%
EBITDA margin (%)	6.8%	6.2%	6.3%	7.7%	8.6%
EBIT margin (%)	5.8%	5.2%	5.5%	6.8%	7.2%
Net margin (%)	4.5%	3.9%	4.1%	5.1%	5.5%
Net debt / EBITDA (x)	0.50	0.93	0.58	0.30	0.70
Net debt / Equity (x)	0.22	0.39	0.24	0.14	0.33
Net debt / Assets (x)	0.12	0.18	0.11	0.06	0.16
ROE (%)	37.2%	29.6%	30.1%	34.3%	33.3%
ROA (%)	18.0%	14.6%	14.1%	16.0%	16.1%
ROIC (%)	28.7%	23.3%	22.8%	29.1%	27.1%

Assumptions	2021	2022	2023E	2024E	2025E
Revenues	245.4	325.3	386.3	457.9	526.6
products and services	200.4	288.9	351.7	424.0	492.7
goods and materials	44.9	36.4	34.6	33.9	33.9

Cost/revenues	94.0%	94.6%	94.5%	93.2%	92.8%
D&A	1.0%	1.0%	0.8%	0.9%	1.4%
Cost of materials and e	51.5%	56.6%	58.1%	59.0%	59.5%
External services	16.2%	17.2%	18.2%	18.0%	17.8%
Taxes	0.5%	0.4%	0.4%	0.4%	0.4%
Salaries	9.6%	9.6%	9.0%	8.2%	7.6%
Social benefits	1.7%	1.6%	1.5%	1.4%	1.3%
Other operating costs	0.2%	0.4%	0.2%	0.2%	0.2%
Cost of goods sold	13.3%	7.8%	6.3%	5.2%	4.5%

Cash conv. (days)	71	90	84	78	78
Inventory	88	118	112	106	106
Receivables	15	12	12	12	12
Payables	32	40	40	40	40

P&L (PLN m)	2020	2021	2022	2023E	2024E	2025E
Revenues	196.9	245.4	325.3	386.3	457.9	526.6
Operating costs	-182.0	-230.7	-307.7	-365.1	-426.9	-488.4
D&A	-1.9	-2.6	-3.2	-3.2	-4.1	-7.3
Cost of materials and energy	-87.3	-126.5	-184.3	-224.3	-270.0	-313.3
External services	-31.1	-39.7	-55.8	-70.1	-82.2	-93.5
Taxes	-0.5	-1.1	-1.4	-1.6	-1.9	-2.2
Salaries	-17.5	-23.6	-31.1	-34.7	-37.4	-40.2
Social benefits	-2.9	-4.1	-5.3	-6.0	-6.4	-6.9
Other operating costs	-0.3	-0.5	-1.2	-0.9	-1.1	-1.2
Cost of goods sold	-40.5	-32.7	-25.5	-24.2	-23.8	-23.8
Other operating income/cost	-0.2	-0.5	-0.7	0.0	0.0	0.0
EBITDA	16.6	16.8	20.0	24.4	35.1	45.5
EBIT	14.7	14.2	16.9	21.2	31.0	38.1
Financial income (cost) net	-0.4	-0.3	-1.1	-1.5	-2.3	-2.4
Pre-tax profit	14.4	13.9	15.8	19.7	28.7	35.8
Income tax	-2.8	-2.9	-3.2	-3.8	-5.4	-6.8
Net profit	11.5	11.0	12.5	16.0	23.2	29.0

BALANCE SHEET (PLN m)	2020	2021	2022	2023E	2024E	2025E
Non-current assets	14.4	15.6	16.8	17.8	24.9	56.8
Goodwill and intangible assets	5.4	5.8	5.5	5.8	5.8	5.9
PP&E	6.8	7.4	8.7	9.3	16.4	48.3
LT investments	1.9	1.9	2.0	2.0	2.0	2.0
Other non-current assets	0.3	0.4	0.6	0.6	0.6	0.6
Current assets	39.0	53.2	86.6	106.4	141.8	135.5
Inventories	31.8	38.2	67.7	76.2	85.6	98.2
Trade receivables	3.8	10.3	10.5	12.4	14.7	16.9
Cash and equivalents	0.6	2.3	3.6	13.0	36.7	15.5
Other current assets	2.8	2.4	4.8	4.8	4.8	4.8
Total assets	53.4	68.8	103.4	124.2	166.8	192.3
Equity	21.8	37.4	47.3	58.9	76.5	97.4
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.4	0.5	1.0	1.0	1.0	1.0
Non-current liabilities	2.7	2.2	8.6	8.6	8.6	8.6
Loans and borrowings	2.7	2.2	2.6	2.6	2.6	2.6
Other non-current liabilities	0.0	0.0	5.9	5.9	5.9	5.9
Current liabilities	28.5	28.6	46.6	55.8	80.7	85.4
Trade payables	13.1	14.0	22.8	27.0	31.9	36.6
Loans and borrowings	10.3	8.4	19.6	24.6	44.6	44.6
Other current liabilities	5.1	6.2	4.1	4.1	4.1	4.1
Equity & liabilities	53.4	68.8	103.4	124.2	166.8	192.3
Gross debt (PLN m)	13.0	10.7	22.3	27.3	47.3	47.3
Net debt (PLN m)	12.4	8.4	18.7	14.3	10.5	31.7

CASH FLOW (PLN m)	2020	2021	2022	2023E	2024E	2025E
Operating cash flow	7.2	2.9	-7.9	14.4	23.0	28.6
Net income	11.5	11.0	12.5	16.0	23.2	29.0
D&A	1.9	2.6	3.2	3.2	4.1	7.3
Change in WC	-6.6	-12.3	-14.5	-6.2	-6.8	-10.1
Other	0.3	1.6	-9.0	1.5	2.4	2.4
Investment cash flow	-1.4	-1.6	-1.9	-4.1	-11.3	-39.2
Change in intangible assets	0.6	-0.4	0.3	-1.0	-0.7	-0.7
Change in PP&E	-3.0	-3.2	-4.4	-3.1	-10.6	-38.5
Other	1.0	2.0	2.2	0.0	0.0	0.0
Financial cash flow	-5.7	0.4	11.1	-0.9	12.0	-10.6
Change in equity	0.0	8.8	0.0	0.0	0.0	0.0
Change in debt	-0.8	-2.5	17.1	5.0	20.0	0.0
Dividend	-2.1	-4.3	-2.6	-4.4	-5.6	-8.1
Other	-2.7	-1.6	-3.4	-1.5	-2.4	-2.4
Change in cash	0.0	1.7	1.4	9.4	23.7	-21.2
Cash as of eop	0.6	2.3	3.6	13.0	36.7	15.5

Source: Company data, IPOPEMA Research

Figure 2. SFD – valuation summary

Valuation method	Weight (%)	FV (PLN/share)
DCF	75%	4.92
DDM	25%	3.37
Multiple valuation	0%	6.30
Fair value		4.54
Current price		4.23
Upside/downside		7%

Source: Company, IPOPEMA Research

Figure 3. SFD – DCF valuation (PLNm)

	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
EBIT	21.2	31.0	38.1	42.7	46.2	49.3	49.5	50.6	52.1	53.4	
Tax on EBIT	-4.0	-5.9	-7.2	-8.1	-8.8	-9.4	-9.4	-9.6	-9.9	-10.1	
NOPAT	17.2	25.1	30.9	34.6	37.4	40.0	40.1	41.0	42.2	43.2	
D&A	3	4	7	9	10	11	13	15	17	18	
Change in working capital	-6	-7	-10	-7	-4	-2	-2	-2	-2	-2	
Capex	-4	-11	-39	-9	-11	-12	-13	-16	-18	-19	
FCF	10.0	11.2	-11.1	27.0	32.8	36.4	38.8	38.8	39.5	40.9	38.5
Risk-free rate (%)	6.0%	6.0%	6.0%	6.0%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
Leveraged beta (x)	1.9	2.0	1.9	1.7	1.6	1.5	1.5	1.5	1.4	1.4	1.4
Equity risk premium (%)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
WACC	12.8%	12.8%	12.8%	12.9%	13.0%	13.1%	13.1%	13.2%	13.2%	13.2%	13.2%
Discount factor (%)	94%	83%	74%	65%	58%	51%	45%	40%	35%	31%	
FCF PV (PLNm)	9.4	9.3	-8.2	17.7	19.0	18.6	17.5	15.5	14.0	12.8	
FCF PV 2023-32E (PLNm)	126										
Residual growth rate (%)	3.0%										
Discounted residual value (PLNm)	118										
EV (PLNm)	244										
Minorities (PLNm)	2										
Net debt (PLNm)	25										
Equity value (PLNm)	217										
Number of shares (m)	44.0										
FV (PLN)	4.92										

		WACC (%)		
		12.2%	13.2%	14.2%
Residual	2.0%	4.92	4.68	4.48
growth	3.0%	5.21	4.92	4.68
rate (%)	4.0%	5.57	5.21	4.92

Source: Company, IPOPEMA Research

Figure 4. SFD – DDM valuation (PLNm)

	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
Net profit (PLNm)	16.0	23.2	29.0	32.9	36.0	38.9	39.2	40.1	41.4	42.6	43.8
change y/y	28%	45%	25%	14%	9%	8%	1%	2%	3%	3%	3%
Pay-out ratio (%)	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	88%
Dividend paid (PLNm)	2.2	5.6	8.1	10.1	11.5	12.6	13.6	13.7	14.0	14.5	37.5
Equity (PLNm)	58.9	76.5	97.4	120.1	144.6	170.9	196.5	222.8	250.2	278.3	283.5
ROE (%)	30%	34%	33%	30%	27%	25%	21%	19%	18%	16%	25%
Cost of equity (%)	16%	17%	16%	16%	15%	14%	14%	14%	14%	14%	14%
Discount factor (%)	93%	79%	68%	60%	53%	48%	42%	37%	33%	29%	
Discounted dividend payment (PLNm)	2.0	4.4	5.6	6.1	6.1	6.0	5.7	5.1	4.6	4.2	
Growth rate (%)	3%										
Discounted dividend payments 2023-32E (PLNm)	50										
Terminal value (PLNm)	342										
Discounted terminal value (PLNm)	99										
Equity value (PLNm)	149										
Number of shares (m)	44.0										
FV/share (PLN)	3.37										

Source: Company, IPOPEMA Research

Figure 5. SFD – peer comparison

Company	P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Xiamen Kingdomway Group	20.5	17.1	19.4	n.a.	n.a.	n.a.	3.4	3.0	2.9
Natural Food International Holding	6.9	5.8	5.2	0.9	0.3	n.a.	0.1	0.1	0.1
Naturhouse Group	11.6	11.6	10.9	6.7	6.6	6.4	2.0	2.1	2.1
Bellring Brands	28.4	23.6	19.4	17.1	15.0	12.9	3.5	3.1	2.8
Usana Health Sciences	20.2	17.2	n.a.	6.9	6.5	n.a.	0.9	0.9	n.a.
Herbalife Nutrition	5.2	3.9	3.3	n.a.	n.a.	n.a.	0.7	0.7	0.7
Median	15.9	14.4	10.9	6.8	6.6	9.6	1.5	1.5	2.1
SFD	11.6	8.0	6.4	8.5	5.8	4.9	0.5	0.4	0.4
Premium/discount (%)	-27%	-44%	-41%	25%	-12%	-49%	-64%	-70%	-79%

Source: Bloomberg, IPOPEMA Research

Change of financial forecasts

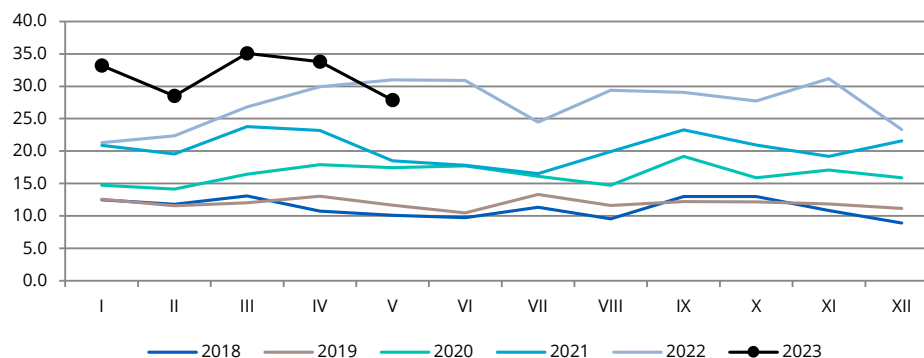
Figure 6. SFD – change of financial forecasts (PLNm)

	2023E			2024E			2025E		
	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Revenues	386.3	386.3	0%	457.9	451.3	1%	526.6	511.4	3%
sale of products and services	351.7	351.6	0%	424.0	417.3	2%	492.7	477.4	3%
sale of goods and materials	34.6	34.7	0%	33.9	34.0	0%	33.9	34.0	0%
Operating costs	-365.1	-363.8	0%	-426.9	-422.1	1%	-488.4	-474.3	3%
D&A	-3.2	-4.3	-27%	-4.1	-7.2	-43%	-7.3	-8.5	-14%
Cost of materials and energy	-224.3	-224.1	0%	-270.0	-265.1	2%	-313.3	-302.4	4%
External services	-70.1	-67.6	4%	-82.2	-78.1	5%	-93.5	-87.4	7%
Taxes	-1.6	-1.6	1%	-1.9	-1.9	3%	-2.2	-2.1	4%
Salaries	-34.7	-34.7	0%	-37.4	-38.1	-2%	-40.2	-41.4	-3%
Social benefits	-6.0	-6.2	-4%	-6.4	-6.8	-6%	-6.9	-7.4	-7%
Other operating costs	-0.9	-0.9	3%	-1.1	-1.0	4%	-1.2	-1.2	6%
Cost of goods sold	-24.2	-24.3	0%	-23.8	-23.9	0%	-23.8	-23.9	0%
Profit from operations	21.2	22.5	-6%	31.0	29.2	6%	38.1	37.1	3%
Other operating profit	0.0	0.0	n.m.	0.0	0.0	n.m.	0.0	0.0	n.m.
Other operating costs	0.0	0.0	n.m.	0.0	0.0	n.m.	0.0	0.0	n.m.
EBITDA	24.4	26.8	-9%	35.1	36.4	-4%	45.5	45.6	0%
EBIT	21.2	22.5	-6%	31.0	29.2	6%	38.1	37.1	3%
Financial income	0.1	0.0	117%	0.2	0.0	392%	0.1	0.1	-19%
Financial cost	-1.5	-1.5	0%	-2.4	-2.4	0%	-2.4	-2.4	0%
Pre-tax profit	19.7	21.0	-6%	28.7	26.8	7%	35.8	34.7	3%
Income tax	-3.8	-4.0	-6%	-5.4	-5.1	7%	-6.8	-6.6	3%
Net profit	16.0	17.0	-6%	23.2	21.7	7%	29.0	28.1	3%

Source: Company, IPOPEMA Research

SFD – monthly sales

Figure 7. SFD – monthly sales (PLNm)



Source: Company, IPOPEMA Research

Risk factors

As major risk factors we point to:

- **Risk related to the cost of materials.** The company offers its own-branded and third-party-brand products, thus potential delays in deliveries or any increase in the cost of materials may result in higher product prices or lower margins.
- **Risk related to the competitive outlook.** The OTC drug and supplement market in Poland is still highly fragmented, thus any potential tightening of competitions, market consolidation, and lower positioning of SFD's websites on search platforms may negatively affect the company's revenue generation.
- **Risk related to health protection.** Potential changes in regulations may affect trade conditions and product offer. We note that the European Union is currently planning to introduce minimum and maximum doses of vitamins and minerals, which might negatively affect the company's operations (new regulations are planned to be introduced in 1Q24).
- **Risk related to the macroeconomic situation.** Potential slowdown might negatively affect demand on SFD's products and services.
- **Risk related to expansion on foreign markets.** The company has decided to launch its e-commerce platforms in Czechia and Slovakia, what might negatively affect operating costs (mainly in terms of logistics and marketing).
- **Risk related to FX rates.** The company's results depend on EUR and USD currencies (purchase of goods from the USA and sale of products in European countries).

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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.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (1 January – 31 March 2023)

	Number	%
Buy	9	90%
Hold	1	10%
Sell	0	0%
Total	10	100%

Rating History – SFD

Date	Recommendation	Fair Value	Price at recommendation	Author
07/09/2021	BUY	PLN 6.50	PLN 4.69	Marek Szymański
14/12/2021	BUY	PLN 5.51	PLN 3.90	Marek Szymański
04/07/2022	HOLD	PLN 2.94	PLN 2.80	Marek Szymański
02/03/2023	BUY	PLN 4.15	PLN 3.55	Marek Szymański
29/06/2023	HOLD	PLN 4.54	PLN 4.23	Marek Szymański