

SFD

Focus on expansion

We initiate coverage of SFD with a BUY recommendation and FV set at PLN 6.50 per share. SFD is a producer and seller of dietary supplements and nutrition for active people in Poland. Around 80% of sales are generated by SFD's own-branded products, while e-commerce serves as the major distribution channel (72% of sales in 2020). In 1H21 the company succeeded in a share issue, while proceeds (around PLN 9m) will be mainly spent on the purchase of a land plot for development of the company's own logistics center. We expect that a growing diet nutrition market and expansion of SFD in foreign markets will be the major triggers for the company's revenue development. On our forecasts, the company currently trades at P/E of 14.3x in 2021E and 11.3x in 2022E, which we find attractive given earnings momentum. We assume that SFD will maintain its dividend policy with a payout ratio of 30%.

2020-23E CAGR of revenues at 16%

After robust numbers reported in 2020 (sales up by 38% y/y), the company's revenues remain in an upward trend even despite the high base (growth of revenues of 22% y/y in the January-July 2021 period). In our opinion, further increase in sales in the following years will be mainly driven by growth of the diet nutrition market (changing habits of Polish customers and increasing interest in fit snacks and food) and expansion in foreign markets (the company has already decided to launch its own e-commerce platforms in Czechia and Slovakia with deliveries directly from its warehouse in Opole). As a result, we forecast SFD to report growth of revenues from PLN 197m in 2020 to PLN 309m in 2023E, implying a 2020-23E CAGR of 16%.

Improvement in profitability

SFD reported improvement in its EBITDA margin from 3.8% in 2019 to 8.5% in 2020, which was strongly driven by changes in the company's sales mix (an increasing share of its own brand products generating higher margins than third-party ones). We expect that the increasing scale of SFD's operations will also allow the company to negotiate more favourable purchasing conditions supporting margins. On the other hand, we point out that increasing minimum wages in Poland and expansion in foreign markets may result in pressure on the cost side. All in all, we expect that the company will generate EBITDA of PLN 21.0m in 2021E (+26% y/y; margin 8.9%) and maintain an EBITDA margin in the range of 10-11% in the coming years.

Valuation and dividend policy

On our forecasts, SFD currently trades at a P/E of 14.3x in 2021E and 11.3x in 2022E, which we find attractive given the company's earnings momentum. In our forecasts, we assume that the company will maintain its dividend policy; therefore, we assume a dividend payout ratio of 30%, implying DPS of PLN 0.10 in 2022E and PLN 0.12 in 2023E (DY of 2.1% and 2.6%, respectively).

Figure 1. SFD – Financial summary (PLNm)

	2018	2019	2020	2021E	2022E	2023E
Revenues	118.6	142.3	196.9	235.1	274.4	308.9
EBITDA	2.3	5.5	16.6	21.0	27.1	32.0
EBIT	1.1	3.9	14.7	18.4	22.6	24.3
Net profit	-0.2	2.4	11.5	14.5	18.2	19.2
P/E (x)	n.m.	5.5	14.2	14.3	11.3	10.8
P/BV (x)	9.1	4.9	10.6	9.9	7.6	7.0
DPS (PLN)	0.00	0.00	0.04	0.06	0.10	0.12

Source: Company, IPOPEMA Research

Retail

SFD

BUY

FV PLN 6.50

39% upside

Price as of 3 September 2021 PLN 4.69

Initiation of coverage



Share data

Number of shares (m)	44.0
Market cap (EUR m)	45.8
12M avg daily volume (k)	25.0
12M avg daily turnover (EUR m)	0.02
12M high/low (PLN)	6.21/1.28
WIG weight	n.a.
Reuters	SFDP.WA
Bloomberg	SFD PW

Total performance

1M	4.8%
3M	-14.8%
12M	206.6%

Shareholders

Mateusz Dominik Pazdan	76.24%
Other	23.76%

Analyst

Marek Szymański
marek.szymanski@ipopema.pl
+ 48 22 236 94 12

SFD

BUY

mkt Cap EUR 46m

FV PLN 6.5

Upside 39%

Valuation multiples	2019	2020	2021E	2022E	2023E
P/E (x)	5.5	14.2	14.3	11.3	10.8
EV/EBITDA (x)	4.9	10.6	9.9	7.6	7.0
EV/Sales (x)	0.2	0.9	0.9	0.7	0.7
P/BV (x)	0.97	7.51	4.80	3.63	2.92
FCF yield (%)	32.8%	9.3%	5.1%	6.8%	-1.4%
DY (%)	0.0%	1.3%	1.2%	2.1%	2.6%

Per share	2019	2020	2021E	2022E	2023E
No. of shares (m units)	42.2	42.2	44.0	44.0	44.0
EPS (PLN)	0.06	0.27	0.33	0.41	0.44
BVPS (PLN)	0.33	0.52	0.98	1.29	1.60
FCFPS (PLN)	0.11	0.36	0.24	0.32	-0.07
DPS (PLN)	0.00	0.05	0.06	0.10	0.12

Change y/y (%)	2019	2020	2021E	2022E	2023E
Revenues	20.0%	38.3%	19.4%	16.8%	12.6%
EBITDA	132.8%	205.2%	26.0%	29.4%	17.9%
EBIT	268.8%	274.7%	24.7%	23.1%	7.2%
Net profit	n.m.	374.1%	25.4%	25.8%	5.3%

Leverage and return	2019	2020	2021E	2022E	2023E
Gross margin (%)	-1.1%	-1.0%	-1.1%	-1.6%	-2.5%
EBITDA margin (%)	3.8%	8.5%	8.9%	9.9%	10.4%
EBIT margin (%)	2.8%	7.5%	7.8%	8.2%	7.9%
Net margin (%)	1.7%	5.9%	6.2%	6.6%	6.2%
Net debt / EBITDA (x)	2.39	0.75	0.01	-0.03	0.51
Net debt / Equity (x)	0.94	0.57	0.00	-0.02	0.23
Net debt / Assets (x)	0.33	0.23	0.00	-0.01	0.12
ROE (%)	19.2%	64.6%	44.6%	36.4%	30.1%
ROA (%)	6.7%	24.9%	21.9%	19.8%	15.6%
ROIC (%)	16.4%	6.8%	10.4%	10.6%	11.3%

Assumptions	2019	2020	2021E	2022E	2023E
Revenues	142.3	196.9	235.1	274.4	308.9
products and services	82.8	141.9	188.7	229.0	264.4
goods and materials	59.5	55.0	46.3	45.4	44.5

Cost/revenues	96.9%	92.4%	92.0%	91.8%	92.1%
D&A	1.1%	1.0%	1.1%	1.6%	2.5%
Cost of materials and e	39.0%	44.3%	48.3%	50.2%	51.5%
External services	14.8%	15.8%	16.1%	16.3%	16.5%
Taxes	0.3%	0.3%	0.5%	0.5%	0.5%
Salaries	9.1%	8.9%	9.8%	9.3%	9.0%
Social benefits	1.8%	1.5%	1.7%	1.6%	1.5%
Other operating costs	0.2%	0.1%	0.1%	0.1%	0.1%
Cost of goods sold	30.6%	20.6%	14.5%	12.1%	10.4%

Cash conv. (days)	51	68	65	65	64
Inventory	77	102	97	97	96
Receivables	12	8	8	8	7
Payables	37	42	40	40	40

P&L (PLN m)	2018	2019	2020	2021E	2022E	2023E
Revenues	118.6	142.3	196.9	235.1	274.4	308.9
Operating costs	-116.7	-138.0	-182.0	-216.3	-251.8	-284.7
D&A	-1.3	-1.5	-1.9	-2.6	-4.5	-7.8
Cost of materials and energy	-37.2	-55.6	-87.3	-113.6	-137.8	-159.1
External services	-17.0	-21.1	-31.1	-38.0	-44.9	-51.1
Taxes	-0.4	-0.4	-0.5	-1.2	-1.4	-1.6
Salaries	-10.8	-13.0	-17.5	-22.9	-25.5	-27.9
Social benefits	-1.8	-2.5	-2.9	-3.9	-4.4	-4.8
Other operating costs	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2
Cost of goods sold	-48.0	-43.6	-40.5	-34.0	-33.1	-32.2
Other operating income/cost	-0.8	-0.4	-0.2	-0.3	0.0	0.0
EBITDA	2.3	5.5	16.6	21.0	27.1	32.0
EBIT	1.1	3.9	14.7	18.4	22.6	24.3
Financial income (cost) net	-1.0	-0.8	-0.4	-0.4	-0.2	-0.6
Pre-tax profit	0.1	3.2	14.4	18.0	22.5	23.7
Income tax	-0.3	-0.7	-2.8	-3.5	-4.3	-4.5
Net profit	-0.2	2.4	11.5	14.5	18.2	19.2

BALANCE SHEET (PLN m)	2018	2019	2020	2021E	2022E	2023E
Non-current assets	12.7	13.9	14.4	21.9	30.6	57.7
Goodwill and intangible assets	6.6	6.0	5.4	5.4	5.4	5.5
PP&E	4.0	5.7	6.8	14.2	22.9	50.0
LT investments	1.9	1.9	1.9	1.9	1.9	1.9
Other non-current assets	0.2	0.3	0.3	0.3	0.3	0.3
Current assets	20.5	25.3	39.0	56.9	74.5	83.2
Inventories	14.5	19.4	31.8	36.7	42.5	47.6
Trade receivables	5.2	4.2	3.8	4.6	5.3	6.0
Cash and equivalents	0.3	0.5	0.6	12.9	23.9	26.8
Other current assets	0.6	1.1	2.8	2.8	2.8	2.8
Total assets	33.2	39.2	53.4	78.8	105.1	140.9
Equity	11.5	13.9	21.8	43.1	56.9	70.6
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.3	0.4	0.4	0.4	0.4	0.4
Non-current liabilities	1.7	2.3	2.7	2.7	2.7	2.7
Loans and borrowings	1.7	2.3	2.7	2.7	2.7	2.7
Other non-current liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Current liabilities	19.7	22.5	28.5	32.7	45.1	67.2
Trade payables	7.2	9.5	13.1	15.2	17.6	19.7
Loans and borrowings	10.8	11.2	10.3	10.3	20.3	40.3
Other current liabilities	1.7	1.8	5.1	7.2	7.2	7.2
Equity & liabilities	33.2	39.2	53.4	78.8	105.1	140.9
Gross debt (PLN m)	12.6	13.6	13.0	13.0	23.0	43.0
Net debt (PLN m)	12.3	13.1	12.4	0.2	-0.9	16.2

CASH FLOW (PLN m)	2018	2019	2020	2021E	2022E	2023E
Operating cash flow	1.1	3.1	7.2	16.6	19.1	24.3
Net income	-0.2	2.4	11.5	14.5	18.2	19.2
D&A	1.3	1.5	1.9	2.9	4.5	7.8
Change in WC	-1.4	-2.2	-6.6	-3.6	-4.2	-3.6
Other	1.5	1.3	0.3	2.8	0.6	1.1
Investment cash flow	-1.2	-1.0	-1.4	-10.4	-13.2	-34.9
Change in intangible assets	0.1	0.6	0.6	-0.6	-0.6	-0.6
Change in PP&E	0.9	-3.2	-3.0	-9.8	-12.5	-34.3
Other	-2.3	1.6	1.0	0.0	0.0	0.0
Financial cash flow	-0.1	-1.8	-5.7	6.1	5.1	13.5
Change in equity	0.0	0.0	0.0	9.3	0.0	0.0
Change in debt	1.0	0.0	-0.8	0.0	10.0	20.0
Dividend	0.0	0.0	-2.1	-2.5	-4.3	-5.5
Other	-1.1	-1.8	-2.7	-0.6	-0.6	-1.1
Change in cash	-0.2	0.3	0.0	12.3	11.0	2.9
Cash as of eop	0.3	0.5	0.6	12.9	23.9	26.8

Source: Company data, IPOPEMA Research

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Investment summary

Three product categories

SFD S.A. offers its own and third-party branded products within three major categories: sport supplements (proteins, creatines, amino acids, fat burners, etc.), pharma supplements (vitamins and minerals) and dietary nutrition. In 2020 the company's own branded products accounted for 72% of total SFD revenues, and the products were marketed primarily via an e-commerce platform (around 72% of revenues from the online channel). PMR estimates that the market of pharma supplements will increase at a 2020-25E CAGR of ca. 5%, while the market for sport supplements should recover after turmoil in 2020 related to the pandemic outbreak (resulting in restrictions put on fitness clubs and gyms). At the same time, the market for dietary nutrition seems to have the most attractive prospects given changes in customer habits (more prefer fit nutrition).

Development during the pandemic

In 2018-2019 the company reported revenues of PLN 118.6m and PLN 142.3m (+3% y/y and +20% y/y, respectively). Due to the pandemic outbreak, SFD's revenues accelerated to PLN 196.9m in 2020 (+38% y/y), mainly driven by e-commerce sales (72% of total sales in comparison to a 62% share in 2019). In 1H21 the company reported 26% y/y growth in revenues. In our opinion, revenues should remain in an upward trend in the coming years, driven by growth of the supplements market (currently highly fragmented), gaining popularity of dietary nutrition and the company's expansion in foreign markets. As a result, we forecast an increase in revenues to PLN 235m in 2021, PLN 274m in 2022 and PLN 309m in 2023 (implying 2020-23E CAGR of 16%).

Potential improvement in profitability

Given the growing scale of operations and increasing share of its own brands in the sales mix (higher margin than on third-party brands), the company has managed to report a significant improvement in EBITDA, from PLN 5.5m in 2019 to PLN 16.6m in 2020, and improvement in EBITDA margin from 3.8% to 8.5%, respectively. As we assume further increases in the share of its own brands and 19% y/y growth in revenues, we expect EBITDA to remain in an upward trend. We forecast EBITDA of PLN 21.0m in 2021, implying an EBITDA margin of 8.9%. In the following years, we assume the company will negotiate more favourable purchasing conditions from the producers, while, on the other hand, increasing minimum wages in Poland may put pressure on margins. Given the above-mentioned, we expect SFD to report an EBITDA margin in the range of 10-11% in future years.

Capital increase for development of logistics center

In 1Q21 the company decided on a share issue. As a result, the company issued 1.85m new shares for PLN 5.0 per share, resulting in cash proceeds of PLN 9.3m. The company plans to spend ca. PLN 8m on the purchase of a land plot for development of a new logistics center (the company estimates capital expenses of around PLN 40m on the first phase including a ca. 10k sqm warehouse area and ca. 2-3k sqm office area). The remaining capex will be financed with bank debt.

Expansion in foreign markets

In our opinion, the company still has potential to grow in Poland, mainly in dietary nutrition, while the sport and pharma supplement segments will develop at the pace of the broad market. An additional trigger for revenue development we see in expansion of SFD's operations in foreign markets. In May 2021 the company decided to launch its own e-commerce platform in Czechia (with direct deliveries from its warehouse in Poland), while in August it announced that will launch its e-commerce platform in Slovakia in October using the same model. Based on press releases, activity in Czechia is performing above the company's initial expectations. We note that the company may continue expansion of its activity in foreign markets.

Dividend policy

In October 2020, the company established a dividend policy for years 2020-2022 with management's intention to recommend (based on profitability and liquidity) payout ratios of at least 20%. The company paid out a DPS of PLN 0.10/share from 2020's net profit (PLN 0.04/share paid as an advance dividend in December 2020 and an additional PLN 0.06/share paid out in July 2021). In our forecasts, we assume that the company will maintain dividend payments in years ahead with a payout ratio of 30%, implying DPS of PLN 0.10 in 2022 and PLN 0.12 in 2023 (DY of 2.1% and 2.6%, respectively).

Valuation

We value SFD using the discounted cash flow method (75% weight) and discounted dividend method (weight of 25%). We add a multiples valuation for presentation purpose only.

Figure 2. SFD – Valuation summary

Valuation method	Weight (%)	FV (PLN/share)
DCF valuation	75%	6.81
DDM valuation	25%	5.57
Peer comparison	0%	5.66
Fair value		6.50
Current price		4.69
Upside/downside		39%

Source: Company, IPOPEMA Research

DCF valuation

We base our DCF valuation on our free cash flow forecasts for 2021-30E (for more details please refer to “Financial forecasts”). We apply a risk-free rate of 2.0% in forecasted years and in terminal, equity risk premium at 5.0% and unlevered beta of 1.3x and assume a terminal growth rate of 3.0%.

Figure 3. SFD – DCF valuation (PLNm)

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
Revenues	235.1	274.4	308.9	339.0	364.9	393.1	423.6	455.7	490.5	528.3	
EBITDA	21.0	27.1	32.0	35.5	38.1	40.8	43.7	48.0	52.6	57.5	
EBIT	18.4	22.6	24.3	25.3	26.7	26.5	26.9	30.7	33.7	39.5	
Tax on EBIT	-3.5	-4.3	-4.6	-4.8	-5.1	-5.0	-5.1	-5.8	-6.4	-7.5	
NOPAT	14.9	18.3	19.6	20.5	21.6	21.5	21.8	24.8	27.3	32.0	
D&A	2.9	4.5	7.8	10.2	11.4	14.3	16.8	17.3	18.9	18.1	
Change in WC	-3.6	-4.2	-3.6	-3.2	-2.7	-3.0	-3.2	-3.4	-3.7	-4.0	
Capex	-10.4	-13.2	-34.9	-8.1	-20.4	-21.6	-14.6	-17.2	-17.7	-19.3	
FCF	3.8	5.5	-11.2	19.4	9.9	11.2	20.8	21.6	24.8	26.8	28.3
Discount factor (%)	97%	90%	83%	76%	70%	65%	60%	55%	51%	47%	
FCF PV (PLNm)	3.7	4.9	-9.2	14.8	6.9	7.2	12.4	11.9	12.6	12.5	
FCF PV 2021-30E (PLNm)	78										
Residual growth rate (%)	3.0%										
Discounted residual value (PLNm)	237										
EV (PLNm)	315										
Dividend paid (PLNm)	3										
Net debt (PLNm)	12										
Equity value (PLNm)	300										
Number of shares(m)	44.0										
FV (PLN)	6.81										

		WACC (%)				
		7.6%	8.1%	8.6%	9.1%	9.6%
Residual growth rate (%)	2.0%	6.81	6.36	5.99	5.67	5.39
	2.5%	7.33	6.81	6.36	5.99	5.67
	3.0%	7.98	7.33	6.81	6.36	5.99
	3.5%	8.78	7.98	7.33	6.81	6.36
	4.0%	9.80	8.78	7.98	7.33	6.81

Source: Company, IPOPEMA Research

Figure 4. SFD – WACC calculation

WACC	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
RFR	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Beta leveraged	1.6	1.7	1.9	1.7	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Cost of Equity	10.1%	10.6%	11.7%	10.5%	9.7%	9.1%	9.0%	9.0%	8.9%	8.9%	8.9%
Debt risk premium	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	0.0%
After tax cost of debt	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	4.0%
% D	23.2%	28.8%	37.8%	27.9%	18.6%	10.1%	9.0%	8.0%	7.1%	6.3%	6.3%
% E	76.8%	71.2%	62.2%	72.1%	81.4%	89.9%	91.0%	92.0%	92.9%	93.7%	93.7%
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.6%

Source: Company, IPOPEMA Research

DDM valuation

We value SFD using the DDM method based on our financial forecasts and assumptions regarding the dividend payout ratio. The company has established its dividend policy for 2020-22 with a dividend payout ratio of at least 20%. In the forecasted years, we assume a dividend payout ratio of 30%.

Figure 5. SFD – DDM valuation (PLNm)

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
Net profit (PLNm)	14.5	18.2	19.2	20.3	21.5	21.5	22.0	25.3	27.9	32.9	33.9
change y/y	25%	26%	5%	6%	6%	0%	2%	15%	11%	18%	3%
Pay-out ratio (%)	22%	30%	30%	30%	30%	30%	30%	30%	30%	30%	84%
Dividend paid (PLNm)	2.5	4.3	5.5	5.7	6.1	6.4	6.4	6.6	7.6	8.4	27.5
Equity (PLNm)	43.1	56.9	70.6	85.1	100.5	115.5	131.1	149.8	170.1	194.6	200.2
ROE (%)	45%	36%	30%	26%	23%	20%	18%	18%	17%	18%	18%
Cost of equity (%)	10%	11%	12%	11%	10%	9%	9%	9%	9%	9%	9%
Discount factor (%)	97%	88%	77%	72%	67%	63%	58%	53%	49%	45%	
Discounted dividend payment (PLNm)	0.0	3.8	4.2	4.1	4.1	4.1	3.7	3.5	3.7	3.8	
Growth rate (%)	3%										
Discounted dividend payments 2021-30E (PLNm)	35										
Terminal value (PLNm)	463										
Discounted terminal value (PLNm)	210										
Equity value (PLNm)	245										
Number of shares (m)	44.0										
FV/share (PLN)	5.57										

Source: Company, IPOPEMA Research

Peer comparison

We present a multiple valuation by comparing SFD to retail and e-commerce companies, based on the P/E, EV/EBITDA and EV/Sales multiples. Due to different business models and scale of operation, we give 0% weight to the method.

Figure 6. SFD – peer comparison

Company	mCap (EURm)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
		2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Xiamen Kingdonway Group	2,547	15.1	12.7	10.6	9.4	9.5	7.9	4.9	4.2	3.6
Natural Food International Holding	133	15.0	9.7	8.3	4.8	3.0	2.2	0.2	0.2	0.2
NewTree Co.	205	9.3	7.4	5.9	n.a.	n.a.	n.a.	0.9	0.7	0.6
Naturhouse Group	103	7.8	7.5	6.9	4.1	3.9	3.6	1.5	1.4	1.3
Bellring Brands	3,831	36.0	29.7	23.8	30.2	27.4	24.1	4.0	3.6	3.3
Usana Health Sciences	1,664	15.7	15.0	14.4	7.8	8.0	7.7	1.4	1.3	1.3
Herbalife Nutrition	5,136	10.6	9.6	8.3	8.4	8.5	7.8	1.4	1.3	1.2
Median		15.0	9.7	8.3	8.1	8.2	7.7	1.4	1.3	1.3
SFD	46	14.3	11.3	10.8	9.9	7.6	7.0	0.9	0.7	0.7
Premium/discount (%)		-5%	17%	30%	22%	-8%	-10%	-35%	-43%	-44%
Implied FV/share (PLN)		4.9	4.0	3.6	3.8	5.1	5.3	7.3	8.3	8.6
Average implied FV/share (PLN)		5.66								

Source: Bloomberg, IPOPEMA Research

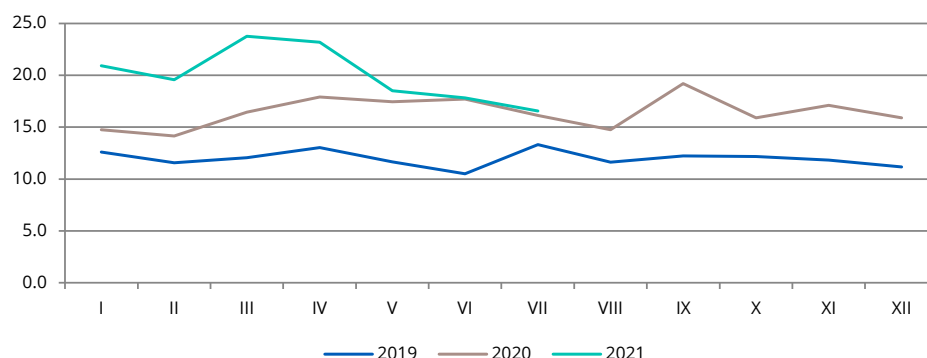
- **Xiamen Kingdonway Group** produces and sells fortified food and feed additives.
- **Natural Food**, through its subsidiaries, processes and sells natural health food products made of grains, beans, nuts, dried fruits, and other natural ingredients.
- **NewTree** manufactures and sells collagen health food, weight loss health products, stomach health food, and others.
- **Naturhouse** provides retail sale of health related products promoting healthy eating, medicinal herbs and natural cosmetics.
- **Bellring Brands** produces nutritional items such as protein shakes, powders, bars.
- **Usana Health Sciences** develops, manufactures, and markets nutritionals, personal care, and weight management products.
- **Herbalife Nutrition** manufactures and sells weight management, meals and snacks, sports and fitness, energy, and nutritional products, personal care products.

Financial forecasts

Revenues

SFD reported revenues of PLN 119m (+3% y/y) and PLN 142m (+20% y/y) in 2018-19, respectively. Due to the pandemic outbreak, the company's revenues accelerated, mainly in e-commerce, which increased its share in revenues from 55% in 2018 and 62% in 2019 to 72% in 2020. SFD offers supplements and dietary nutrition of its own brands (SFD NUTRITION and ALLNUTRITION) and third-party ones as well (the share of own-branded products in the sales mix amounted to 72% in 2020).

Figure 7. SFD – monthly revenues (PLNm)

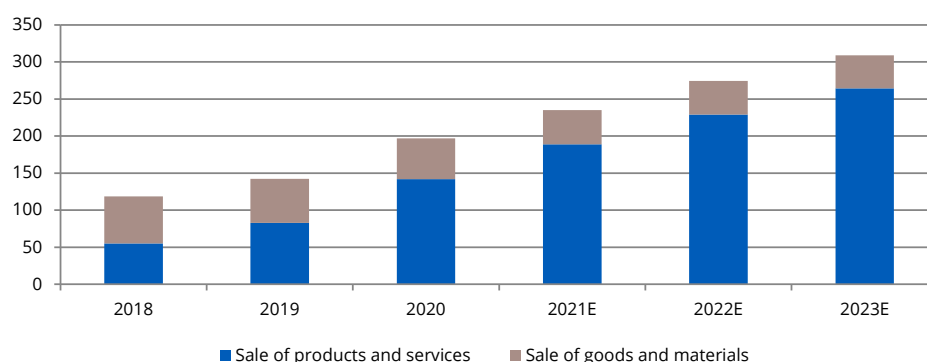


Source: Company, IPOPEMA Research

Given high base of 2020, we expect that revenues in the coming months will remain in an upward trend, but at a lower pace. We assume the segment of sport supplements and pharma supplements will develop with low-teens growth rates (we expect SFD to maintain its market share in sport supplements and slightly improve it in pharma ones), while the segment of dietary nutrition will be the major trigger for revenue growth.

We forecast revenues to increase by 11% y/y in 3Q21E and by 13% y/y in 4Q21, resulting in a total of PLN 235m in revenues in 2021E (+19% y/y). Due to development of the dietary nutrition segment and expansion on foreign markets (currently Czechia and Slovakia), we forecast growth of revenues of 17% y/y in 2022E and 13% y/y in 2023E.

Figure 8. SFD – forecast of revenues (PLNm)



Source: Company, IPOPEMA Research

Operating costs

The major operating costs of SFD are related to: cost of materials and energy (related to production of its own brands), cost of goods sold (related to third-party brands), external services (including transport, marketing etc.) and salaries.

In our forecasts, we assume that due to its increasing scale of operations, the company will be able to negotiate more favourable purchasing conditions of materials and goods from producers. We highlight that in recent years, the profitability of SFD was positively affected by an increasing share of own-branded goods in the sales mix; however this share currently amounts to around 80%, thus the impact will not be that significant anymore. At the same time, we point out that expansion in foreign markets (Czechia since May 2021 and Slovakia starting in October 2021) may negatively affect the cost side (cost of deliveries from Poland and marketing costs). At the same time, increasing minimum wages in Poland (already announced +7.2% y/y increase in 2022) will put pressure on operating costs of the company.

Figure 9. SFD – Forecast of operating costs

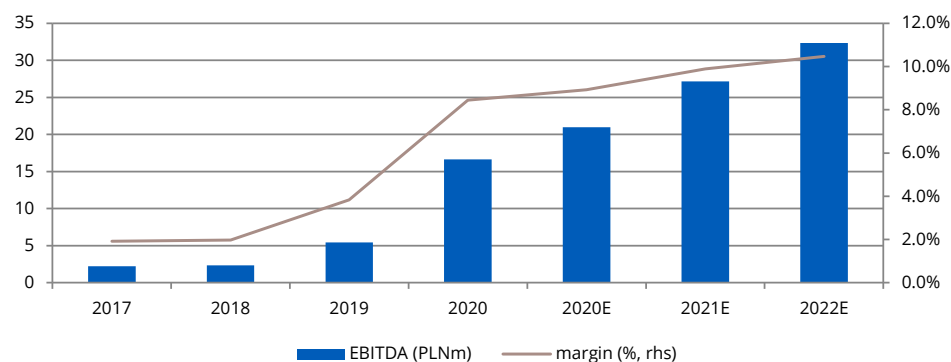
(PLNm)	2018	2019	2020	2021E	2022E	2023E
Cost of materials and energy	37.2	55.6	87.3	113.6	137.8	159.1
Cost of goods sold	48.0	43.6	40.5	34.0	33.1	32.2
External services	17.0	21.1	31.1	38.0	44.9	51.1
Salaries	10.8	13.0	17.5	22.9	25.5	27.9
Other	2.5	3.2	3.7	5.3	6.0	6.6
(% revenues)	2018	2019	2020	2021E	2022E	2023E
Cost of materials and energy	31%	39%	44%	48%	50%	52%
Cost of goods sold	41%	31%	21%	14%	12%	10%
External services	14%	15%	16%	16%	16%	17%
Salaries	9%	9%	9%	10%	9%	9%
Other	2%	2%	2%	2%	2%	2%

Source: Company, IPOPEMA Research

EBITDA

Given the above-mentioned, we forecast EBITDA of PLN 21.0m in 2021E and PLN 27.1m in 2022E, implying an EBITDA margin of 8.9% and 9.9%, respectively. In the following years, we expect revenues to remain in an upward trend, but profitability will be affected by salaries (increasing minimum wages in Poland, opening of own stores, and development of the e-commerce platform), cost of transport (expansion in foreign markets) and cost of materials (although we expect this to be transferred to the final client).

Figure 10. EBITDA forecast (PLNm) and implies profitability (%)



Source: Company, IPOPEMA Research

Net profit

At the bottom line, we forecast net profit of PLN 14.5m in 2021E (in comparison to PLN 11.5m reported in 2020 and PLN 8.6m reported in 1H21) and a further increase to PLN 18.2m in 2022E.

Net working capital

As of end-4Q20 the company held an inventory of PLN 31.8m (+63% y/y), implying an inventory cycle of over 100 days (in comparison to 77 days in 2019). The company claims the larger y/y inventory to be related to greater purchases due to increasing material costs, however the situation should recover in the coming quarters. Our forecasts assume a cash conversion cycle of 64-65 days in the forecasted years (vs. 68 days in 2020).

Cash flows

Due to improving financial results and a stable cash conversion cycle, we forecast operating cash flow of PLN 16.6m in 2021E and PLN 19.1m in 2022E. In 1H21 the company issued 1,854,000 shares at PLN 5.0/share, resulting in proceeds of PLN 9.3m. In line with the company's memorandum, the majority of proceeds (ca. 80%, i.e. ca. PLN 8m) will be spent on the purchase of a land plot for development of its own logistics center (first phase with 10k sqm of warehouse area and 2-3k sqm of office area). The company signed an agreement with Panattoni for development of the above-mentioned project. We assume additional capex of PLN 40m (in 2022-23E, financed with bank debt). As a result, we forecast capex of PLN 13m in 2022E and PLN 35m in 2023E.

Business model

History of SFD

In 2000, current CEO, Mr Mateusz Pazdan, launched the www.kulturystyka.pl platform and www.sfd.pl forum, and registered his business KULTURYSTYKA.PL Mateusz Pazdan. Primarily, the activity concerned selling internet services in the advertising segment, while in 2002 the company started sale of supplements. In 2008, SFD also started its own production under the SFD NUTRITION brand and in 2015 another brand, ALLNUTRITION, was launched.

In 2010 the business structure was converted to joint stock corporation named SFD S.A., and in 2011 it was floated on New Connect. We note that based on an EGM resolution from 25 May 2021, the management intends to float the company on Warsaw Stock Exchange in 1H22, although no details have been given yet.

In 2018 the management decided on development of the omnichannel business model via development of its own and franchising stores (currently the company has 14 of its own stores and 74 franchising ones, while in August 2021 it signed preliminary agreement to acquire company operating 11 stores located in shopping malls in Southern Poland). In 2021 the company also decided to expand into foreign markets. In May 2021 the company launched its own e-commerce platform in Czechia, while in August it announced the launch of an e-commerce platform in Slovakia starting in October 2021. The company is also considering entry to other foreign markets.

Product offer

The major SFD activity is retail and wholesale sales. The company also offers services regarding training and diet plans. SFD's product offer might be divided into the following categories:

- Sports supplements,
- Pharma supplements,
- Dietary nutrition.

Figure 11. Offer of SFD's own brands



Source: Company, IPOPEMA Research

The company currently offers over 8k SKUs, with own-branded products accounting for 72% of total sales in 2020 (gaining share from 58% in 2019 and 46% in 2018), while the remaining 28% was generated by third-party brands. Within its own brands, the company offers the ALLNUTRITION brand (ca. 380 products with different flavour variants) and the SFD NUTRITION brand (ca. 185 products with different flavour variants). SFD's partners are Polish and foreign producers and importers. The company also cooperates with producers of supplements and sport accessories with regards to production of SFD's products.

Distribution channels

SFD operates via many e-commerce platforms (the main ones listed below) and a chain of brick-and-mortar stores (currently 88 stores).

- www.sfd.pl – Forum for active people, offering also online store www.sklep.sfd.pl (both own and third-party brands).

- www.potreningu.pl – Platform offering training and diet services.
- www.fitwomen.pl – Platform dedicated to active women.
- www.kulturystyka.pl
- www.fight24.pl

Figure 12. www.sklep-sfd.pl

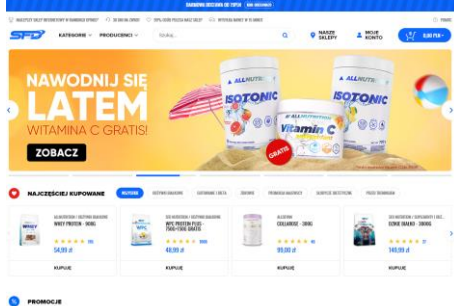


Figure 13. www.kulturystyka.pl

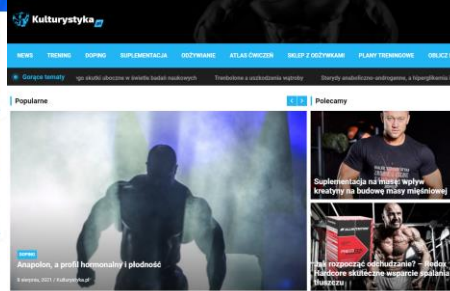


Figure 14. www.fitwomen.pl



Source: Company, IPOPEMA Research

In 2020, e-commerce generated a 72% share of total revenues (in comparison to 62% in 2019 and 55% in 2018), which resulted from the COVID-19 outbreak and restrictions put on offline stores. However, in 1H21 this share declined to 66% due to reopening of B&M stores (vs. 74% in 1H20 and 61% in 1H19). We highlight that in 2021 the company decided to launch e-commerce platforms in Czechia and Slovakia and is also considering entry into other countries. Additionally, the company offers its products in online marketplaces (such as Allegro and Amazon), although its own platforms still remain crucial.

In 2020, SFD also started cooperation with Decathlon stores, resulting in the commencement of ALLNUTRITION products currently offered in all Decathlon stores in Poland. Additionally the company started cooperation with sellers in foreign markets (including Russia and India). The company also had project in Biedronka stores (further cooperation planned) and cooperates with 1,500 pharmacies in Poland.

Figure 15. SFD – revenues break-down on sales channels (PLNm)

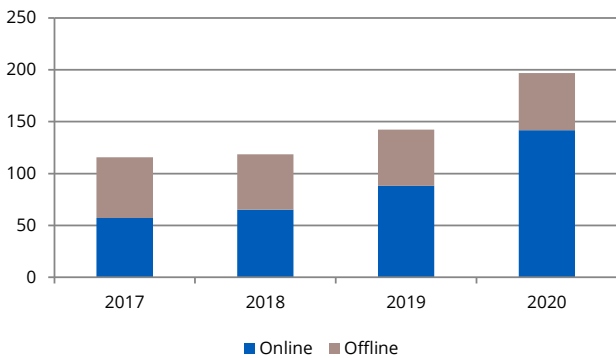
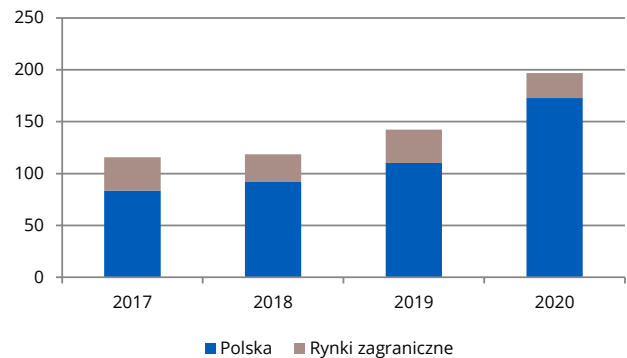


Figure 16. SFD – geographical structure of revenues (PLNm)



Source: Company, IPOPEMA Research

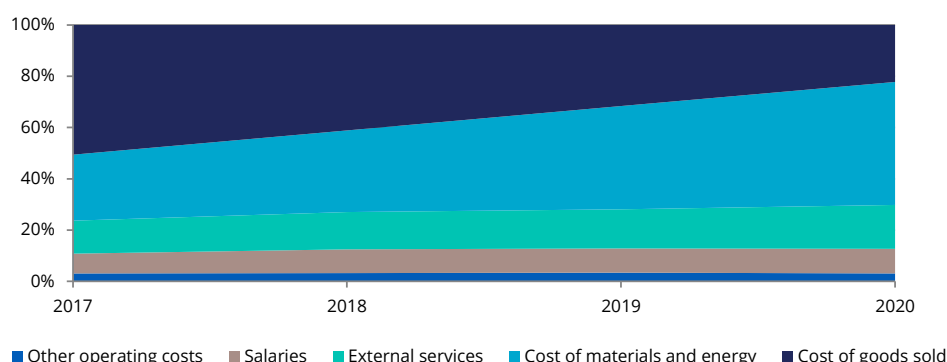
Cost structure

Below we list main cost lines of SFD:

- **Salaries.** As of end-2020 the company had 209 employees (in comparison to 167 as of end-2019). Due to development of its own stores, as well as expansion of e-commerce activity on foreign markets, we expect the company to increase employment in the coming years. At the same time, we note that the average salary in SFD increased by ca. 7% y/y in 2020, while in 1H21 it increased by around 40% y/y. Given the structure of employment (around one third are blue collar workers), we expect this cost line to remain under pressure, due to increasing minimum wages in Poland (a 7.1% y/y increase to PLN 3,000 monthly has already been approved by the government).

- **External services**, including transport (around 30% of external costs) and marketing (another ca. 30% of external costs). We note that the company is currently leasing a logistics area; however, given proceeds from the recent share issue, it plans development of its own logistics center (already signed agreement with Panattoni regarding development of such a project in Opole). Additionally, external costs will depend on the expansion in foreign markets (potentially higher distribution and marketing costs).
- **Cost of goods sold** and **cost of materials and energy**, related to the company's own brands and third-party brands. We note that a change in sales mix (an increasing share of own-branded products) results in improvement of profitability, while an increase in the scale of operations may allow the company to negotiate more favourable purchasing conditions (also for production of its own brand products).

Figure 17. SFD – structure of operating costs

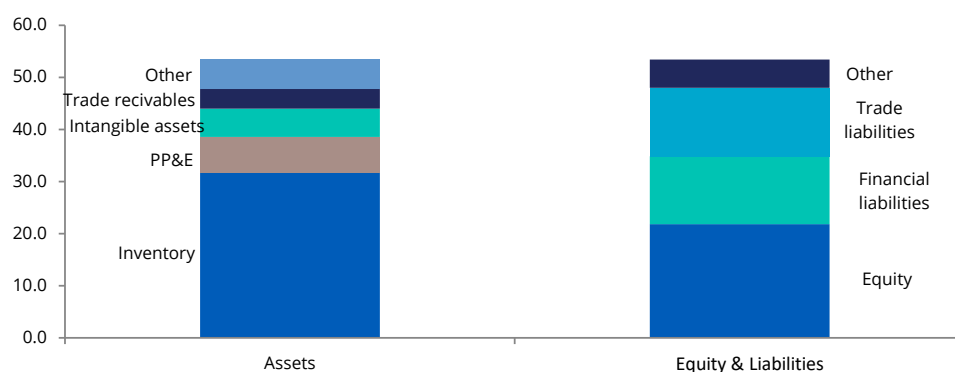


Source: Company, IPOPEMA Research

Balance sheet structure

The company's assets mainly consist of: inventory (PLN 32m as of end-4Q20), PP&E (PLN 6.8m) and intangible assets (PLN 5.4m). As of end-4Q20 the company had a gross debt of PLN 13m, including PLN 2.7m of LT financial liabilities and PLN 10.3m ST financial liabilities (mainly bank debt and leasing). The net debt position of PLN 12.4m as of end-4Q20 implied an ND/EBITDA ratio of 0.75x.

Figure 18. SFD – balance sheet structure (as of end-4Q20, PLNm)



Source: Company, IPOPEMA Research

Issue of G series shares

In April 2021, the management recommended an increase in share capital via the issue of new shares (the resolution took place on 25 May 2021). As a result, the company issued 1,854,000 G series shares with an issue price set at PLN 5.0/share. The company plans to spend the proceeds (around PLN 9.3m) mainly on the purchase of a land plot for development of its own logistics center (ca. PLN 8m) and the remaining on operating activity.

Shareholder structure

SFD's share capital consists of 44,044,910 shares with a nominal value PLN 0.10 each:

- 17,500,000 registered preferred series A shares,
- 17,500,000 bearer ordinary series B shares,
- 2,000,000 bearer ordinary series C shares,
- 4,700,000 bearer ordinary series D shares,
- 490,910 bearer ordinary series E shares,
- 1,854,000 bearer ordinary series G shares.

Figure 19. SFD – share in share capital

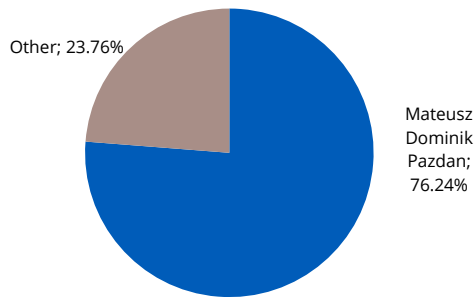
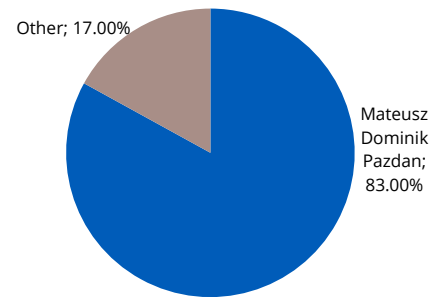


Figure 20. SFD – share in voting rights



Source: Company, IPOPEMA Research

Market outlook

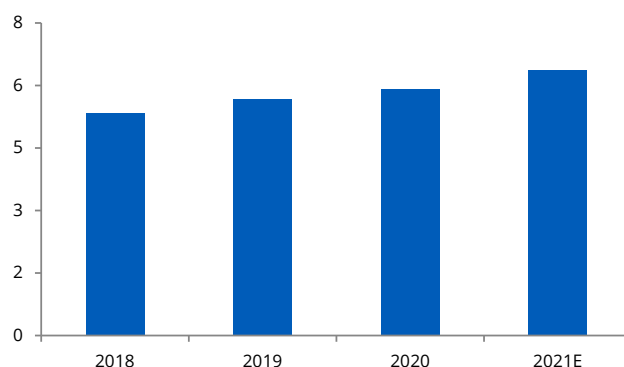
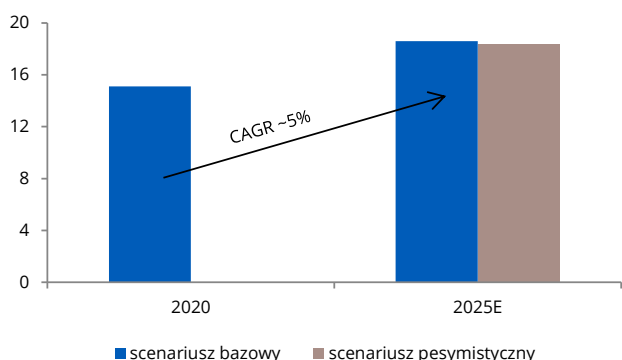
The company offers three major product categories:

- Sport supplements (proteins, creatines, amino acids, fat burners etc.),
- Pharma supplements (vitamins and minerals),
- Dietary nutrition.

OTC drug and supplement market

According to PMR ("Market of OTC drugs in Poland in 2021, analysis and forecasts for 2021-26"), the value of OTC drugs and dietary supplements in Poland amounted to PLN 15.1bn in 2020. PMR estimates the value of the market to increase by ca. 5% y/y in 2021 and maintain single-digit growth rates in the ensuing years.

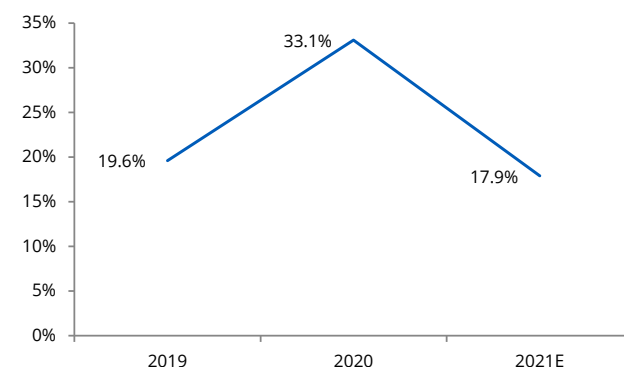
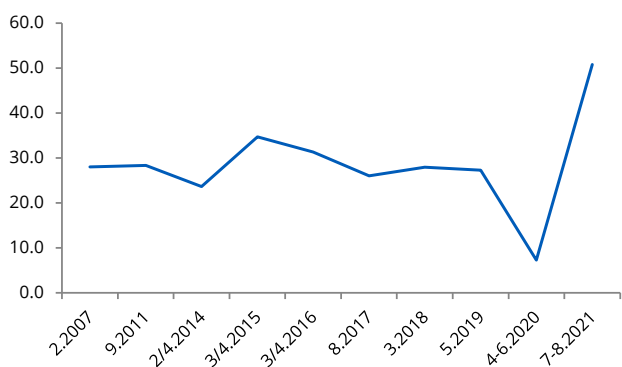
Figure 21. Value of OTC drug and dietary supplement market in Poland (PLNbn) **Figure 22. value of dietary supplement market in Poland (PLNbn)**



Source: PMR, IPOPEMA Research

PMR estimates that the value of the dietary supplement market in Poland came in at PLN 5.97bn in 2020, and should increase to PLN 6.38bn in 2021 (+7.7% y/y), which implies around a 1-2% market share for SFD. According to the Statistics Poland, there were around 16k new products introduced to the market in 1H21 (+20% y/y).

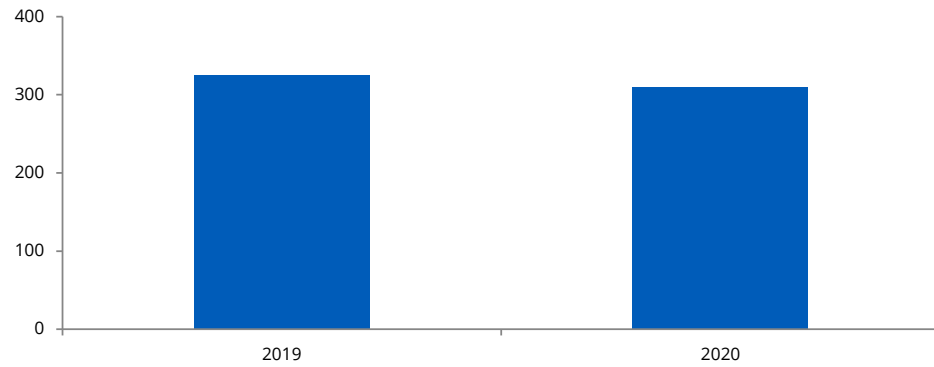
Figure 23. PMI for dietary supplement market in Poland 2007-2021 **Figure 24. E-commerce sales growth rate of dietary supplements excluding pharmacies in 2019-2021E (%)**



Source: PMR, IPOPEMA Research

Sports supplement market

According to PMR, the value of the sports supplement market in Poland decreased from PLN 325m in 2019 to PLN 309m in 2020 (-5% y/y), due to deterioration of sales in gyms and brick-and-mortar stores (related to the pandemic outbreak). We expect that the reopening of gyms should result in recovery of this segment and single-digit growth rate in the coming years. We note that Olimp Laboratories is a leader in this segment, while SFD owns a ca. 15-20% market share.

Figure 25. Value of sport supplement market in Poland 2019-2020 (PLNm)

Source: PMR, IPOPEMA Research

Dietary nutrition market

The value of the confectionery market in Poland amounted to PLN 13bn in 2020 implying ca. 0.5% market share for SFD. We note that the pandemic outbreak resulted in changes in Polish consumer habits, with fit and healthy snacks and food gaining popularity. We expect this trend to continue to be maintained in the coming years (with SFD as a beneficiary of it), while given low market share of SFD and high fragmentation of the market, we assume this segment to be the major trigger of revenue growth in the forthcoming years.

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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	Number	%
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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