

SFD

Solid sales development, but margins under pressure

We cut our FV on SFD from PLN 5.51 to PLN 2.94 per share and downgrade to HOLD. We highlight that the company has reported solid improvement of sales by 23% y/y to PLN 131m in 5M22 and we expect the trend to be maintained in the coming months as well (driven mainly by development of the product offer and increase in product prices). As a result, we increase our revenue forecasts by 5% in 2022-23E. On the other hand, we point out that cost inflation (cost of materials, personnel costs, and logistics costs) will put pressure on profitability, although the negative impact might be partly offset by the increase in product prices. Given the above-mentioned, we downgrade our EBIT forecast by 24% to PLN 15.3m in 2022E and by 27% to PLN 16.2m in 2023E. As we assume the company will maintain its dividend policy with a payout ratio of 40%, we expect a DPS of PLN 0.11 in 2023E and PLN 0.11 in 2024E (DY of 4.0%).

Sales remain in an upward trend

SFD reported sales of PLN 131m in 5M22 (+23% y/y), driven by increases of both volume and product prices. After turmoil with the supply chain and limited availability of the product offer in the beginning of 2022, the situation has improved and the company currently has over 90% of its offer available, which we believe should support sales in the coming months. Additionally, SFD has decided to increase product prices (in line with its competitors) with double-digit growth rates, which should support not only the top line, but profitability as well. We upgrade our revenue forecast by 5% to PLN 297m in 2022E and by 5% to PLN 333m in 2023E.

Margins under pressure in the short term

At the same time, we point out that cost inflation and expansion of activity on foreign markets will put pressure on the company's results in the short term, which should however be partly mitigated by increasing product prices. We assume stabilization of the gross margin at around 35% (vs. previously assume expansion to over 36%) and increase salaries assumption (+18% in 2022E and +19% in 2023E), resulting in deterioration of operating profit by 24% and 27% in 2022-23E, respectively. However, with growing scale and operating leverage, we expect SFD to maintain its operating margin around 5% in the following years.

Valuation and dividend policy

On our forecasts SFD currently trades at a P/E of 10.1x in 2022E and 10.0x in 2023E. In our forecasts, we assume a 40% payout ratio, implying a DPS of PLN 0.11/share from both 2022E and 2023E net profit (DY of 4.0%).

Figure 1. SFD – Financial summary (PLNm)

| | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|------------|-------|-------|-------|-------|-------|-------|
| Revenues | 142.3 | 196.9 | 245.4 | 297.2 | 332.9 | 367.7 |
| EBITDA | 5.5 | 16.6 | 16.8 | 18.6 | 22.1 | 26.6 |
| EBIT | 3.9 | 14.7 | 14.2 | 15.3 | 16.2 | 17.7 |
| Net profit | 2.4 | 11.5 | 11.0 | 12.2 | 12.4 | 13.6 |
| P/E (x) | 5.5 | 14.2 | 12.8 | 10.1 | 10.0 | 9.1 |
| P/BV (x) | 4.9 | 10.6 | 8.9 | 7.1 | 7.1 | 5.9 |
| DPS (PLN) | 0.00 | 0.04 | 0.06 | 0.06 | 0.11 | 0.11 |

Source: Company, IPOPEMA Research

E-commerce

SFD

HOLD

FV PLN 2.94 from PLN 5.51

5% upside

Price as of 30 June 2022 PLN 2.80

Downgraded from BUY



Share data

| | |
|--------------------------------|-----------|
| Number of shares (m) | 44.0 |
| Market cap (EUR m) | 26.4 |
| 12M avg daily volume (k) | 16.8 |
| 12M avg daily turnover (EUR m) | 0.02 |
| 12M high/low (PLN) | 5.76/1.98 |
| WIG weight (%) | n.a. |
| Reuters | SFDP.WA |
| Bloomberg | SFD PW |

Total performance

| | |
|-----|--------|
| 1M | -1.4% |
| 3M | 10.9% |
| 12M | -43.5% |

Shareholders

| | |
|------------------------|--------|
| Mateusz Dominik Pazdan | 76.24% |
| Other | 23.76% |

Analyst

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SFD**HOLD**

mkt Cap EUR 26m

FV PLN 2.94

Upside 5%

| Valuation multiples | 2020 | 2021 | 2022E | 2023E | 2024E |
|---------------------|------|-------|-------|-------|-------|
| P/E (x) | 14.2 | 12.8 | 10.1 | 10.0 | 9.1 |
| EV/EBITDA (x) | 10.6 | 8.9 | 7.1 | 7.1 | 5.9 |
| EV/Sales (x) | 0.9 | 0.6 | 0.4 | 0.5 | 0.4 |
| P/BV (x) | 7.51 | 3.78 | 2.63 | 2.27 | 1.96 |
| FCF yield (%) | 9.3% | 10.7% | 10.9% | -9.3% | 10.1% |
| DY (%) | 1.3% | 3.0% | 2.1% | 4.0% | 4.0% |

| Per share | 2020 | 2021 | 2022E | 2023E | 2024E |
|-------------------------|------|------|-------|-------|-------|
| No. of shares (m units) | 42.2 | 42.2 | 44.0 | 44.0 | 44.0 |
| EPS (PLN) | 0.27 | 0.26 | 0.28 | 0.28 | 0.31 |
| BVPS (PLN) | 0.52 | 0.89 | 1.07 | 1.24 | 1.43 |
| FCFPS (PLN) | 0.36 | 0.36 | 0.30 | -0.26 | 0.28 |
| DPS (PLN) | 0.05 | 0.10 | 0.06 | 0.11 | 0.11 |

| Change y/y (%) | 2020 | 2021 | 2022E | 2023E | 2024E |
|----------------|--------|-------|-------|-------|-------|
| Revenues | 38.3% | 24.6% | 21.1% | 12.0% | 10.5% |
| EBITDA | 205.2% | 0.7% | 10.9% | 18.9% | 20.5% |
| EBIT | 274.7% | -3.6% | 7.9% | 5.5% | 9.5% |
| Net profit | 374.1% | -4.5% | 10.8% | 1.2% | 9.9% |

| Leverage and return | 2020 | 2021 | 2022E | 2023E | 2024E |
|-----------------------|-------|-------|-------|-------|-------|
| Gross margin (%) | 35.1% | 35.1% | 35.0% | 35.3% | 35.4% |
| EBITDA margin (%) | 8.5% | 6.8% | 6.3% | 6.6% | 7.2% |
| EBIT margin (%) | 7.5% | 5.8% | 5.2% | 4.9% | 4.8% |
| Net margin (%) | 5.9% | 4.5% | 4.1% | 3.7% | 3.7% |
| Net debt / EBITDA (x) | 0.75 | 0.50 | 0.44 | 1.50 | 1.30 |
| Net debt / Equity (x) | 0.57 | 0.22 | 0.17 | 0.61 | 0.55 |
| Net debt / Assets (x) | 0.23 | 0.12 | 0.09 | 0.26 | 0.25 |
| ROE (%) | 64.6% | 37.2% | 29.0% | 24.4% | 23.1% |
| ROA (%) | 24.9% | 18.0% | 15.7% | 11.7% | 10.4% |
| ROIC (%) | 39.0% | 28.7% | 24.6% | 18.4% | 15.5% |

| Assumptions | 2020 | 2021 | 2022E | 2023E | 2024E |
|-----------------------|--------------|--------------|--------------|--------------|--------------|
| Revenues | 196.9 | 245.4 | 297.2 | 332.9 | 367.7 |
| products and services | 141.9 | 200.4 | 253.1 | 289.7 | 325.4 |
| goods and materials | 55.0 | 44.9 | 44.0 | 43.2 | 42.3 |

| Cost/revenues | 92.4% | 94.0% | 94.8% | 95.1% | 95.2% |
|-------------------------|-------|-------|-------|-------|-------|
| D&A | 1.0% | 1.0% | 1.1% | 1.8% | 2.4% |
| Cost of materials and e | 44.3% | 51.5% | 53.7% | 54.9% | 55.8% |
| External services | 15.8% | 16.2% | 16.3% | 16.4% | 16.4% |
| Taxes | 0.3% | 0.5% | 0.4% | 0.4% | 0.4% |
| Salaries | 8.9% | 9.6% | 10.2% | 10.0% | 9.7% |
| Social benefits | 1.5% | 1.7% | 1.7% | 1.7% | 1.6% |
| Other operating costs | 0.1% | 0.2% | 0.2% | 0.2% | 0.2% |
| Cost of goods sold | 20.6% | 13.3% | 11.2% | 9.8% | 8.7% |

| Cash conv. (days) | 68 | 79 | 78 | 75 | 74 |
|-------------------|-----|----|----|----|----|
| Inventory | 102 | 97 | 96 | 93 | 92 |
| Receivables | 8 | 17 | 17 | 16 | 16 |
| Payables | 42 | 36 | 35 | 34 | 34 |

| P&L (PLN m) | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|------------------------------|------------|-------------|-------------|-------------|-------------|-------------|
| Revenues | 142.3 | 196.9 | 245.4 | 297.2 | 332.9 | 367.7 |
| Operating costs | -138.0 | -182.0 | -230.7 | -281.8 | -316.7 | -350.0 |
| D&A | -1.5 | -1.9 | -2.6 | -3.3 | -5.9 | -8.9 |
| Cost of materials and energy | -55.6 | -87.3 | -126.5 | -159.7 | -182.8 | -205.3 |
| External services | -21.1 | -31.1 | -39.7 | -48.3 | -54.5 | -60.2 |
| Taxes | -0.4 | -0.5 | -1.1 | -1.1 | -1.2 | -1.3 |
| Salaries | -13.0 | -17.5 | -23.6 | -30.4 | -33.4 | -35.6 |
| Social benefits | -2.5 | -2.9 | -4.1 | -5.1 | -5.5 | -5.9 |
| Other operating costs | -0.2 | -0.3 | -0.5 | -0.6 | -0.6 | -0.7 |
| Cost of goods sold | -43.6 | -40.5 | -32.7 | -33.4 | -32.7 | -32.1 |
| Other operating income/cost | -0.4 | -0.2 | -0.5 | 0.0 | 0.0 | 0.0 |
| EBITDA | 5.5 | 16.6 | 16.8 | 18.6 | 22.1 | 26.6 |
| EBIT | 3.9 | 14.7 | 14.2 | 15.3 | 16.2 | 17.7 |
| Financial income (cost) net | -0.8 | -0.4 | -0.3 | -0.3 | -0.9 | -0.9 |
| Pre-tax profit | 3.2 | 14.4 | 13.9 | 15.1 | 15.3 | 16.8 |
| Income tax | -0.7 | -2.8 | -2.9 | -2.9 | -2.9 | -3.2 |
| Net profit | 2.4 | 11.5 | 11.0 | 12.2 | 12.4 | 13.6 |

| BALANCE SHEET (PLN m) | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|---------------------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Non-current assets | 13.9 | 14.4 | 15.6 | 17.5 | 45.1 | 50.4 |
| Goodwill and intangible assets | 6.0 | 5.4 | 5.8 | 5.8 | 5.8 | 5.8 |
| PP&E | 5.7 | 6.8 | 7.4 | 9.3 | 36.9 | 42.2 |
| LT investments | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Other non-current assets | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| Current assets | 25.3 | 39.0 | 53.2 | 68.8 | 80.7 | 85.9 |
| Inventories | 19.4 | 31.8 | 38.2 | 46.4 | 51.8 | 57.0 |
| Trade receivables | 4.2 | 3.8 | 10.3 | 12.5 | 14.0 | 15.4 |
| Cash and equivalents | 0.5 | 0.6 | 2.3 | 7.6 | 12.5 | 11.1 |
| Other current assets | 1.1 | 2.8 | 2.4 | 2.4 | 2.4 | 2.4 |
| Total assets | 39.2 | 53.4 | 68.8 | 86.3 | 125.8 | 136.3 |
| Equity | 13.9 | 21.8 | 37.4 | 46.9 | 54.4 | 63.1 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Provisions | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 |
| Non-current liabilities | 2.3 | 2.7 | 2.2 | 2.2 | 2.2 | 2.2 |
| Loans and borrowings | 2.3 | 2.7 | 2.2 | 2.2 | 2.2 | 2.2 |
| Other non-current liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current liabilities | 22.5 | 28.5 | 28.6 | 36.6 | 68.6 | 70.5 |
| Trade payables | 9.5 | 13.1 | 14.0 | 17.0 | 18.9 | 20.8 |
| Loans and borrowings | 11.2 | 10.3 | 8.4 | 13.4 | 43.4 | 43.4 |
| Other current liabilities | 1.8 | 5.1 | 6.2 | 6.2 | 6.2 | 6.2 |
| Equity & liabilities | 39.2 | 53.4 | 68.8 | 86.3 | 125.8 | 136.3 |
| Gross debt (PLN m) | 13.6 | 13.0 | 10.7 | 15.7 | 45.7 | 45.7 |
| Net debt (PLN m) | 13.1 | 12.4 | 8.4 | 8.1 | 33.1 | 34.6 |

| CASH FLOW (PLN m) | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|-----------------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Operating cash flow | 3.1 | 7.2 | 2.9 | 8.5 | 14.5 | 18.8 |
| Net income | 2.4 | 11.5 | 11.0 | 12.2 | 12.4 | 13.6 |
| D&A | 1.5 | 1.9 | 2.6 | 3.3 | 5.9 | 8.9 |
| Change in WC | -2.2 | -6.6 | -12.3 | -7.3 | -4.9 | -4.8 |
| Other | 1.3 | 0.3 | 1.6 | 0.4 | 1.1 | 1.1 |
| Investment cash flow | -1.0 | -1.4 | -1.6 | -5.2 | -33.5 | -14.2 |
| Change in intangible assets | 0.6 | 0.6 | -0.4 | -0.7 | -0.7 | -0.7 |
| Change in PP&E | -3.2 | -3.0 | -3.2 | -4.5 | -32.8 | -13.5 |
| Other | 1.6 | 1.0 | 2.0 | 0.0 | 0.0 | 0.0 |
| Financial cash flow | -1.8 | -5.7 | 0.4 | 2.0 | 24.0 | -6.1 |
| Change in equity | 0.0 | 0.0 | 8.8 | 0.0 | 0.0 | 0.0 |
| Change in debt | 0.0 | -0.8 | -2.5 | 5.0 | 30.0 | 0.0 |
| Dividend | 0.0 | -2.1 | -4.3 | -2.6 | -4.9 | -4.9 |
| Other | -1.8 | -2.7 | -1.6 | -0.4 | -1.1 | -1.1 |
| Change in cash | 0.3 | 0.0 | 1.7 | 5.3 | 5.0 | -1.5 |
| Cash as of eop | 0.5 | 0.6 | 2.3 | 7.6 | 12.5 | 11.1 |

Source: Company data, IPOPEMA Research

Figure 2. SFD – valuation summary

| Valuation method | Weight (%) | FV (PLN/share) |
|--------------------|------------|----------------|
| DCF | 75% | 3.16 |
| DDM | 25% | 2.27 |
| Multiple valuation | 0% | 4.91 |
| Fair value | | 2.94 |
| Current price | | 2.80 |
| Upside/downside | | 5% |

Source: Company, IPOPEMA Research

Figure 3. SFD – DCF valuation (PLNm)

| | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | TV |
|----------------------------------|-------------|--------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| EBIT | 15.3 | 16.2 | 17.7 | 22.8 | 26.8 | 29.2 | 33.9 | 37.0 | 43.8 | 51.8 | |
| Tax on EBIT | -2.9 | -3.1 | -3.4 | -4.3 | -5.1 | -5.5 | -6.4 | -7.0 | -8.3 | -9.8 | |
| NOPAT | 12.4 | 13.1 | 14.3 | 18.5 | 21.7 | 23.6 | 27.4 | 30.0 | 35.5 | 41.9 | |
| D&A | 3 | 6 | 9 | 9 | 10 | 12 | 13 | 15 | 15 | 13 | |
| Change in working capital | -7 | -5 | -5 | -5 | -6 | -4 | -4 | -4 | -4 | -4 | |
| Capex | -5 | -34 | -14 | -9 | -14 | -15 | -12 | -13 | -16 | -15 | |
| FCF | 3.2 | -19.4 | 4.2 | 12.9 | 12.2 | 16.8 | 24.3 | 28.5 | 30.6 | 36.2 | 37.9 |
| Risk-free rate (%) | 7.0% | 6.8% | 6.8% | 6.8% | 6.8% | 7.4% | 7.4% | 7.4% | 7.4% | 7.4% | 7.4% |
| Leveraged beta (x) | 1.7 | 2.2 | 2.1 | 1.9 | 1.8 | 1.8 | 1.7 | 1.6 | 1.6 | 1.5 | 1.6 |
| 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 | 13.8% | 13.4% | 13.5% | 13.5% | 13.6% | 14.2% | 14.2% | 14.3% | 14.3% | 14.3% | 14.9% |
| Discount factor (%) | 95% | 84% | 74% | 65% | 57% | 50% | 44% | 39% | 34% | 29% | |
| FCF PV (PLNm) | 3.0 | -16.3 | 3.1 | 8.4 | 7.0 | 8.4 | 10.7 | 11.0 | 10.3 | 10.7 | |
| FCF PV 2022-31E (PLNm) | 56 | | | | | | | | | | |
| Residual growth rate (%) | 3.0% | | | | | | | | | | |
| Discounted residual value (PLNm) | 94 | | | | | | | | | | |
| EV (PLNm) | 150 | | | | | | | | | | |
| Minorities (PLNm) | 3 | | | | | | | | | | |
| Net debt (PLNm) | 8 | | | | | | | | | | |
| Equity value (PLNm) | 139 | | | | | | | | | | |
| Number of shares (m) | 44.0 | | | | | | | | | | |
| FV (PLN) | 3.16 | | | | | | | | | | |

| | WACC (%) | | | |
|--------------------------|----------|------|-------------|------|
| Residual growth rate (%) | 2.0% | 3.36 | 3.00 | 2.73 |
| | 3.0% | 3.59 | 3.16 | 2.85 |
| | 4.0% | 3.88 | 3.36 | 3.00 |

Source: Company, IPOPEMA Research

Figure 4. SFD – DDM valuation (PLNm)

| | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | TV |
|--|-------------|------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|
| Net profit (PLNm) | 12.2 | 12.4 | 13.6 | 17.8 | 21.1 | 23.1 | 27.1 | 29.9 | 35.7 | 42.5 | 42.5 |
| change y/y | 11% | 1% | 10% | 31% | 19% | 9% | 17% | 10% | 19% | 19% | 0% |
| Pay-out ratio (%) | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 88% |
| Dividend paid (PLNm) | 4.4 | 4.9 | 4.9 | 5.4 | 7.1 | 8.5 | 9.3 | 10.9 | 12.0 | 14.3 | 37.3 |
| Equity (PLNm) | 46.9 | 54.4 | 63.1 | 75.4 | 89.4 | 104.1 | 122.0 | 141.1 | 164.8 | 193.0 | 198.2 |
| ROE (%) | 29% | 24% | 23% | 26% | 26% | 24% | 24% | 23% | 23% | 24% | 25% |
| Cost of equity (%) | 16% | 19% | 18% | 17% | 17% | 17% | 17% | 16% | 16% | 16% | 16% |
| Discount factor (%) | 93% | 77% | 66% | 57% | 49% | 42% | 37% | 32% | 28% | 25% | |
| Discounted dividend payment (PLNm) | 0.0 | 3.8 | 3.3 | 3.1 | 3.5 | 3.5 | 3.4 | 3.5 | 3.4 | 3.5 | |
| Growth rate (%) | 3% | | | | | | | | | | |
| Discounted dividend payments 2022-31E (PLNm) | 31 | | | | | | | | | | |
| Terminal value (PLNm) | 282 | | | | | | | | | | |
| Discounted terminal value (PLNm) | 69 | | | | | | | | | | |
| Equity value (PLNm) | 100 | | | | | | | | | | |
| Number of shares (m) | 44.0 | | | | | | | | | | |
| FV/share (PLN) | 2.27 | | | | | | | | | | |

Source: Company, IPOPEMA Research

Figure 5. SFD – Change of financial forecasts (PLNm)

| | 2022E | | | 2023E | | | 2024E | | |
|------------|---------|----------|--------|---------|----------|--------|---------|----------|--------|
| | Current | Previous | Change | Current | Previous | Change | Current | Previous | Change |
| Revenues | 297.2 | 282.4 | 5% | 332.9 | 318.3 | 5% | 367.7 | 349.6 | 5% |
| EBITDA | 18.6 | 24.2 | -23% | 22.1 | 28.7 | -23% | 26.6 | 32.3 | -18% |
| EBIT | 15.3 | 20.3 | -24% | 16.2 | 22.2 | -27% | 17.7 | 22.8 | -22% |
| Net profit | 12.2 | 16.3 | -25% | 12.4 | 17.5 | -29% | 13.6 | 18.1 | -25% |

Source: Company, IPOPEMA Research

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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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| Date | Recommendation | Fair Value | Price at recommendation | Author |
|------------|----------------|------------|-------------------------|-----------------|
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