Sniezka

Colours fading , while cost are rising

We re-initiate coverage of Sniezka with a SELL recommendation and fair value of PLN 71.39 per share, which implies 14% downside potential. Our view is based on the assumption that the company's sales will deteriorate post-pandemic madness, and customers will switch to other types of expenditures, which they were unable to carry out in 2020. Moreover, we are expecting negative pressures from the material side (binders, titanium white) this year and in 2022E, a reality that is faced by almost every industrial company. We assume that synergies with Poli-Farbe have been mostly consumed and the reality of interest hikes in Hungary may affect future profitability of the division. Thus, we forecast EBITDA of PLN 114.7m, 114.9m and 127m in 2021E, 2022E and 2023E, respectively, vs. PLN 136.1m in 2020.

Post-pandemic reality. Robust demand that emerged during the pandemic stemmed from an unusual worldwide situation which is unlikely to be repeated. The shift in consumer spending towards home decorating from traveling and culture is likely to be reversed in 2021. Therefore, we expect that a slight reduction in sales in 2021E(-2.1%) is reasonable. Nevertheless, we still assume minor growth in subsequent years given some stabilization of consumer spending and expansion in Hungary. More visible growth will probably be hindered by looming interest hikes in Poland and Hungary (already being introduced).

Growing material costs. Factors that may be crucial this year and next year are growing material costs, which even if will start to decrease in coming months may still affect margins in 2022E. First of all this might be caused by prolonged, gradual and not significant decrease in material costs (which was the case also in 2011, when the company noted high costs of titanium white). Secondly, there is a certain lag in transfer of those costs from inventory to the cost of sold goods which may also prolong this negative impact. Therefore, we are expecting the EBITDA margin to decrease to 14-15% in 2021-23E from almost 17% noted in 2020.

Completing its investment program. Sniezka is in the process of completing its investments aimed at streamlining the production process through construction of a new logistics center to be finished by the end of 2021, as well as the digital transformation and completion of automation and extension of the production lines in Lubzina and Pustkow. Therefore, we expect PLN 100m in CAPEX this year and a gradual return to the PLN 45m maintenance capex levels as of 2023E (PLN 50m in 2022E). Thus, Sniezka should be able to pay dividends with a dividend yield of c. 4.5-6% from 2023E and maintain a 80% DPR in the long run (in 2022E we would still expect lower DPR due to high investment outlays in 2021). This translates into a DPS of PLN 2.9 to be paid in 2022E and PLN 3.9 in 2023E.

Figure 1. Sniezka financial forecasts summary

	2018	2019	2020	2021E	2022E	2023E
Revenues (PLN m)	586.8	717.1	821.3	803.9	812.0	831.8
EBITDA (PLN m)	98.4	106.8	136.1	114.7	114.9	127.0
EBIT (PLN m)	79.6	79.0	102.5	81.1	74.8	85.8
Net income (PLN m)	61.6	59.5	78.0	60.5	54.2	63.0
EPS (PLN)	5.0	5.0	6.8	5.3	4.9	5.5
DPS (PLN)	2.2	2.6	2.6	3.6	2.9	3.9
P/E (x)	14.6	16.0	13.0	15.6	17.2	15.0
EV/EBITDA (x)	10.0	11.1	10.0	11.5	11.3	10.1

Source: Company, IPOPEMA Research

Industrials

Sniezka

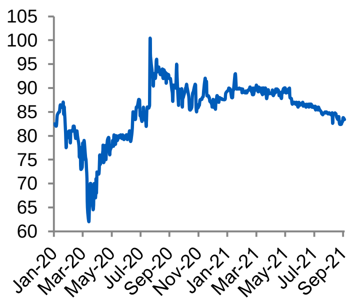
SELL

FV PLN 71.39

14% downside

Price as of 6 September 2021 PLN 83.40

Coverage re-initiation



Share data

Number of shares (m)	12.6
Market cap (EUR m)	232.6
12M avg daily volume (k)	0.6
12M avg daily turnover (EUR m)	0.01
12M high/low (PLN)	81.60/91.20
WIG weight (%)	0.11%
Reuters	SKA.WA
Bloomberg	SKA PW

Total performance

1M	-1.4%
3M	-3.5%
12M	-9.4%

Shareholders (% of equity)

Mr Stanisław Cymbor	20.14%
Mr Jerzy Pater	20.14%
OFE Aviva Santander	11.58%
Mr Rafał Mikrut	10.07%
Mr Piotr Mikrut	10.07%
OFE NN	9.35%
Others	18.65%

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SNIEZKA

SELL **FV PLN 71.39**

Mkt Cap EUR 233m Downside -14%

Valuation multiples	2019	2020	2021E	2022E	2023E	2024E
P/E (x)	16.0	13.0	15.6	17.2	15.0	13.2
EV/EBITDA (x)	11.1	10.0	11.5	11.3	10.1	9.1
EV/Sales (x)	1.7	1.7	1.6	1.6	1.6	1.5
P/BV (x)	3.4	3.4	2.9	2.7	2.7	2.6
FCF yield (%)	1.1%	-0.5%	1.2%	4.3%	6.4%	7.3%
DY (%)	3.1%	3.1%	4.3%	3.5%	4.7%	5.3%

Per share	2019	2020	2021E	2022E	2023E	2024E
No. of shares (m units)	12.6	12.6	12.6	12.6	12.6	12.6
EPS (PLN)	5.0	6.8	5.3	4.9	5.5	6.3
BVPS (PLN)	23.6	25.9	28.6	30.5	32.1	34.0
FCFPS (PLN)	0.9	-0.5	1.0	3.6	5.3	6.1
DPS (PLN)	2.60	2.60	3.60	2.94	3.88	4.44

Change y/y (%)	2019	2020	2021E	2022E	2023E	2024E
Revenues	22.2%	14.5%	-2.1%	1.0%	2.4%	2.4%
EBITDA	8.6%	27.4%	-15.8%	0.2%	10.5%	9.3%
EBITDA adj.	8.6%	27.4%	-15.8%	0.2%	10.5%	9.3%
EBIT	-0.9%	29.8%	-20.9%	-7.9%	14.8%	13.3%
Net profit	-3.5%	31.0%	-22.4%	-10.3%	16.2%	15.0%

Leverage/return	2019	2020	2021E	2022E	2023E	2024E
Gross margin (%)	42.4%	42.1%	39.9%	39.3%	40.3%	41.3%
EBITDA margin (%)	14.9%	16.6%	14.3%	14.2%	15.3%	16.3%
EBIT margin (%)	11.0%	12.5%	10.1%	9.2%	10.3%	11.4%
Net margin (%)	8.3%	9.5%	7.5%	6.7%	7.6%	8.5%
Net debt / EBITDA (x)	1.74	1.71	2.29	2.19	1.81	1.48
Net debt / Equity (x)	0.6	0.7	0.7	0.7	0.6	0.5
Net debt / Assets (x)	0.3	0.3	0.3	0.3	0.3	0.3
ROE (%)	21.0%	26.4%	18.7%	15.9%	17.3%	18.5%
ROA (%)	9.0%	11.0%	8.0%	6.9%	8.0%	9.2%
ROIC (%)	19.5%	21.6%	16.6%	13.9%	14.9%	16.3%

Assumptions	2020	2021E	2022E	2023E	2024E
Revenues by country					
Poland	524.47	519.91	527.82	557.29	570.84
Hungary	162.07	148.38	154.29	162.20	170.40
Ukraine	76.36	74.12	77.14	70.70	68.16
Belarus	22.63	25.24	24.36	23.29	24.71
Other	35.80	36.23	28.42	18.30	17.89
Revenues by produts					
Decorative products	635.53	621.87	627.72	643.31	659.30
Construction chemicals	109.51	107.15	108.16	110.85	113.60
Industrial products	8.98	8.79	8.87	9.09	9.31
Merchandise	55.07	53.97	55.05	56.15	57.27
Other	6.90	6.76	6.89	7.03	7.17
Materials	5.34	5.34	5.34	5.34	5.34

P&L (PLN m)	2019	2020	2021E	2022E	2023E	2024E
Revenues	717.1	821.3	803.9	812.0	831.8	852.0
COGS	413.0	475.7	483.2	492.8	496.5	500.2
Gross profit	304.1	345.6	320.7	319.2	335.3	351.8
Selling costs	142.2	156.3	152.9	156.0	159.1	162.3
G&A costs	77.0	84.8	86.6	88.5	90.4	92.4
Other operating income (cost) ne	-5.9	-2.0	0.0	0.0	0.0	0.0
EBITDA	106.8	136.1	114.7	114.9	127.0	138.8
EBITDA adj.	106.8	136.1	114.7	114.9	127.0	138.8
EBIT	79.0	102.5	81.1	74.8	85.8	97.2
Financial income (cost) net	-0.4	0.9	0.1	-0.6	-1.0	-0.8
Pre-tax profit	79.0	104.0	81.8	74.7	85.4	96.9
Income tax	16.3	17.8	14.3	13.4	15.4	17.4
Minorities	3.1	8.2	7.0	7.0	7.0	7.0
Net profit	59.5	78.0	60.5	54.2	63.0	72.5
Net profit adj.	59.5	78.0	60.5	54.2	63.0	72.5

BALANCE SHEET (PLN m)	2019	2020	2021E	2022E	2023E	2024E
Non-current assets	415.7	492.4	525.9	529.1	525.3	522.0
Goodwill and intangible assets	79.2	84.6	80.1	71.5	67.5	63.9
PP&E	330.5	401.9	440.9	452.8	452.9	453.2
Other non-current assets	6.0	5.9	4.9	4.9	4.9	4.9
Current assets	248.0	217.2	231.1	257.9	259.9	263.9
Inventories	108.5	104.1	107.9	113.5	116.2	119.0
Trade receivables	100.8	95.3	99.1	104.6	107.1	109.7
Cash and equivalents	36.3	15.5	21.8	37.6	34.3	32.8
Other current assets	2.4	2.3	2.3	2.3	2.3	2.3
Total assets	663.7	709.6	757.0	787.0	785.2	785.9
Equity	298.0	326.3	360.4	384.5	405.6	429.0
Minorities	32.9	32.8	32.8	32.8	32.8	32.8
Non-current liabilities	158.8	119.3	172.7	152.7	112.7	87.7
Loans and borrowings	112.8	96.6	150.0	130.0	90.0	65.0
Other non-current liabilities	46.0	22.7	22.7	22.7	22.7	22.7
Current liabilities	206.9	264.0	223.9	249.8	267.0	269.2
Trade payables	90.1	72.3	88.1	89.0	91.2	93.4
Loans and borrowings	106.5	147.4	129.0	154.0	169.0	169.0
Other current liabilities	10.3	44.3	6.8	6.8	6.8	6.8
Equity & liabilities	663.7	709.6	757.0	787.0	785.2	785.9
Cash conversion cycle (days)	61	56	54	58	58	58
Gross debt (PLN m)	221.8	248.9	283.9	288.9	263.9	238.9
Net debt (PLN m)	185.5	233.4	262.1	251.3	229.6	206.1

CASH FLOW (PLN m)	2019	2020	2021E	2022E	2023E	2024E
Operating cash flow	99.2	120.7	113.1	95.2	112.0	121.9
Gross income	79.0	104.0	81.8	74.7	85.4	96.9
D&A	27.9	33.6	33.5	40.2	41.2	41.7
Minorities	-0.4	0.0	0.0	0.0	0.0	0.0
Change in WC	9.0	0.0	8.1	-10.1	-3.1	-3.2
Other	-16.3	-16.9	-10.4	-9.5	-11.4	-13.5
Investment cash flow	-175.6	-124.8	-98.1	-49.0	-43.1	-44.0
Change in intangibles and PP&E	-88.0	-126.8	-100.0	-50.0	-45.0	-45.0
Other	-87.6	2.0	1.9	1.0	1.9	1.0
Financial cash flow	105.7	-12.8	-8.7	-30.4	-72.3	-79.3
Change in equity	0.0	0.0	0.0	0.0	0.0	0.0
Change in debt	149.8	29.0	35.0	5.0	-25.0	-25.0
Interest paid	-3.4	-3.3	-3.3	-3.3	-3.3	-3.3
Dividend	-40.5	-38.0	-45.4	-37.1	-49.0	-56.0
Other	-0.2	-0.5	5.0	5.0	5.0	5.0
Change in cash	29.3	-16.9	6.3	15.8	-3.3	-1.5
Cash as of eop	36.3	15.5	21.8	37.6	34.3	32.8

Source: Company data, IPOPEMA Research

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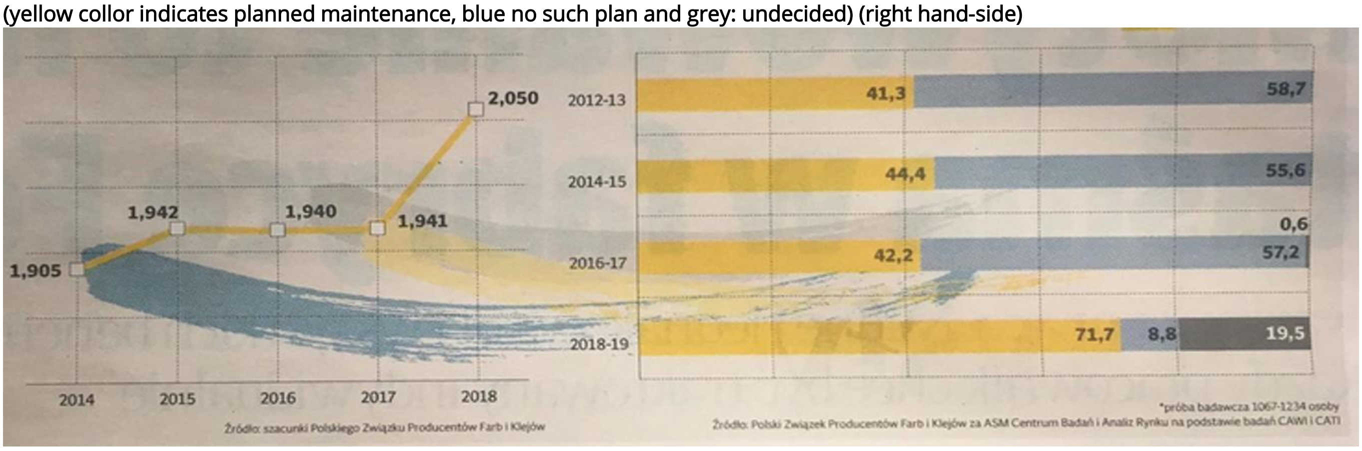
Key investment thesis

Post-pandemic reality may prove to be disappointing

The COVID-19 pandemic affected the results of Sniezka in quite an unexpected way. While overall consensus initially expected a sudden decrease in sales due to closure of home retailer shops, it actually caused the exact opposite. With rather loose restrictions in those kinds of shops and the necessity to remain isolated, consumers exhibited increased demand for home maintenance improvement. The company noted record high results after a still quite decent 2018 and 2019. This supports the notion held by the management of the company that Sniezka's results are strongly driven by customers' propensity for home maintenance.

Figure 2. Sell-in sale of paints in PLN bn (left hand-side) and maintenance plans of Poles based on sample of 1067-1234 respondents (yellow collor indicates planned maintenance, blue no such plan and grey: undecided) (right hand-side)



Source: Puls Biznesu, ZPFiK

This can be seen on the above chart, on which a high share of respondents (71.7%) showed an interest in home maintenance in 2018-19. That's exactly when Sniezka was noting robust growth in revenues from the Polish market (5.9% y/y in 2018 and 5.4% in 2019). According to the EB website (link), a similar share of respondents (approximately 73%) decided to do just that during the pandemic. While we acknowledge the fact that some maintenance work could have been postponed as a result of significant demand and resulting delays (this might indeed have positively affected 1Q21 results by Sniezka), we assume that the situation will reverse in the full year 2021 and that customers will switch to different types of spending. We can already see that in the press, as the share of respondents planning home renovation has decreased to roughly 40% (link). There may be various reasons for that, but we believe that one of them is crucial; a shift in consumer spending from home maintenance (lower spending on paints, white goods and furniture) to expenditures on traveling and culture.

Figure 3. Statistics Poland (GUS) data on Poles spending by segment in 2020 (in %)

Segments	2022-25E	2021E	2020	2019	2018	2017	2016	2015
Food and non-alcoholic drinks			27.7%	25.1%	24.8%	24.3%	24.2%	24.0%
Alcoholic beverages, tobacco products and drugs			2.9%	2.5%	2.5%	2.4%	2.5%	2.5%
Clothing and footwear			4.1%	4.8%	4.9%	5.3%	5.6%	5.4%
Use of an apartment or a house and energy carriers			18.8%	18.0%	18.3%	19.5%	19.6%	20.1%
Including energy carriers			10.3%	9.8%	10.3%	10.7%	10.8%	11.4%
Furnishing the apartment and running the household	5.0-5.5%	5.0%	5.7%	5.6%	5.7%	5.2%	5.1%	5.0%
Health			5.3%	5.1%	5.0%	5.5%	5.3%	5.3%
Transport			8.8%	9.7%	10.5%	8.7%	8.7%	8.8%
Communication			4.9%	4.4%	4.0%	4.7%	5.0%	5.0%
Recreation and culture	6.5-7.0%	7.0%	5.7%	6.6%	6.5%	6.9%	6.9%	6.7%
Education			1.0%	1.5%	1.0%	1.0%	0.9%	1.0%
Restaurants and hotels	4.5-5.0%	5.0%	3.8%	4.9%	5.0%	4.6%	4.4%	4.2%
Other goods and services			6.1%	6.2%	6.1%	6.1%	6.0%	5.9%
Other expenses			3.7%	4.0%	4.2%	4.2%	4.3%	4.4%

Source: Statistics Poland (GUS), Ipopema Research

It can be clearly seen that furnishing the apartment and running the household had an increased share in consumer spending over the last three years (this is in line with our point on maintenance plans by Poles: the highest share emerged in 2018-20). 2020 further strengthened this trend through restricting the ability to travel and access to culture. A year afterwards we would expect a sudden shift but in the opposite direction. Thanks to loosening of restrictions, spending on travel and culture should increase abnormally high in 2021 (at the same time expenditures on home renovation should decrease) and return to the long-term average beyond 2022.

Long-term sector outlook

In emerging countries, coatings are growing at a much faster rate than in developed economies. For example, in Western Europe the market is mature and reflects the health of the economy, thus the average annual rates of 2% growth in coming years prove to be the maximum expected by IHS Markit. The same source predicts at least two times higher growth in emerging markets. The best prospects for growth are in China (5–6% average annual growth), India (6%), Poland (3–4%), and Saudi Arabia (4.0–4.5%). Total global growth in volume terms is estimated at about 4% per year in 2018-23.

We assume that on a valuation basis, it is likely that growth will be slightly lower. An expected hike in interest rates due to reasonably high inflation may play a role here. In 2019-20, the trend of customer migration towards premium products (with a higher margin) due to greater financial possibilities as well as increasing awareness (environmental factors, durability of paints, overall living standard increase, etc.) was particularly visible in markets such as Poland, but this is also likely to fade away with increased propensity to save money (also an effect of higher interest rates). On the other hand, the company argues that the average annual paint consumption in litres per capita is still lower than in Western Europe, suggesting still significant long-term market growth potential in Poland.

Figure 4. Forecast of average annual increase in paint volumes/value in 2018-23

Country	Volume growth rate (IHS)	Sniezka growth rate in 2022-25E (Ipopema)
Japan	0%	
Western Europe	1.5-2%	
United States	2%	
Poland	3-4%	2-3%
Saudi Arabia	4-4.5%	
China	5-6%	
India	6%	
Global	4%	

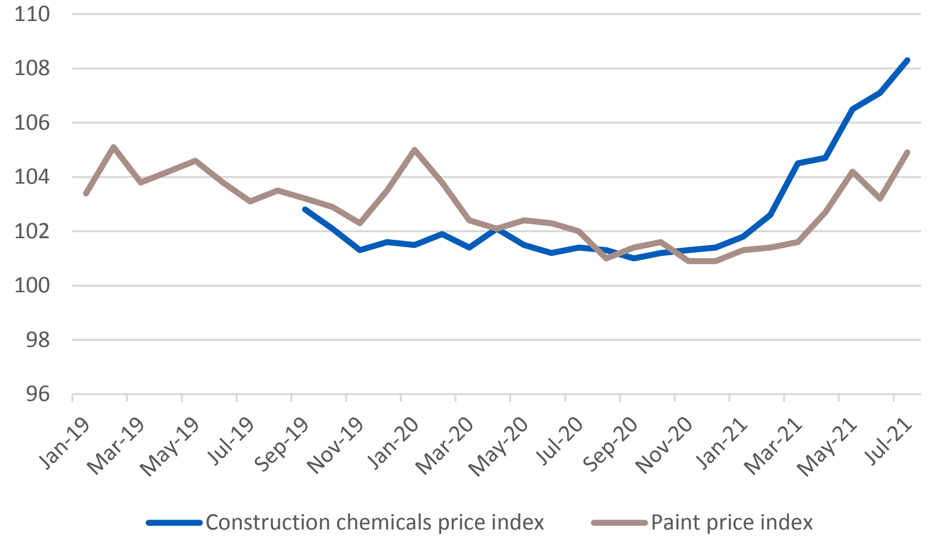
Source: Company, IHS, IPOPEMA Research

While we would remain cautious towards forecasting any significant growth over 5% for Sniezka in subsequent years, the overall long-term outlook remains solid. Disposable income in 2020 was growing y/y (even adjusting for inflation). This may lead to increased expenditures in the context of home renovation and remodelling projects. Climate change allows for a wider span in which work can be conducted - long and dry summer and autumn seasons are conducive to prolonging the seasonality of renovations, which may boost sales growth.

The total number of dwellings completed in 2020 was even higher than in 2019 (the year when a 20-year high was reached). In 7M'2021 the number of completed flats was up 2.3% y/y and number of construction permits is also exhibiting y/y growth (according to Statistics Poland [GUS]). While this is supportive, Sniezka itself points to a rather low correlation between the construction of new apartments and sales of paint.

The prices of building materials will probably increase further, especially those whose production is energy-intensive. However, the price hikes for paints slowed down in 2021 and lags the overall index, which might be worrying given the current inflationary trend in materials (decreased ability to transfer rising costs on final customer).

Figure 5. Paint and construction chemicals price index in 2019-21 in Poland (100 = previous year)



Source: PSB, IPOPEMA Research

Macroeconomic forecasts for Poland are slightly better than what was expected in 2020. According to current Bloomberg consensus, estimated GDP in Poland fell by 2.7% y/y vs. 3.8% expected earlier in 2020 and in 2021 is supposed to grow by 5% vs. the initially seen 3.7%.

Company overlook

Sniezka is the leader of the paint and varnish market in Poland and Ukraine as well as the leader of the finishing plaster market in Belarus, according to the company's estimates.

The core operations of the company consist of the manufacture of paints, varnishes, solvents, mortars, and finishing plasters etc., and wholesale and retail sales of construction materials. The company has a 30 years of expertise in the production of paints, manufacturing roughly 190 million litres of various construction chemical products annually. More than 1,000 employees comprise the Sniezka Group currently. In December 2003, the company held an IPO on the Warsaw Stock Exchange.

Sniezka intends to improve its market potential by expansion in new markets and continuing to develop their product offer under the Sniezka, Magnat, Poli Farbe, Vidaron, Foveo-Tech, Rafil and Beston brands.

The decorative segment accounts for approximately 80% of the company's revenues. It is characterized by sustainable growth (up 14% y/y in 1Q21 and up 16% y/y in 2020). In 2020, the value of decorative product sales was PLN 635.53m vs. PLN 545.96m in 2019. The range of paints offered by Sniezka is very wide, with different parameters and intended for a variety of applications. Most of the products for painting walls and ceilings are latex and acrylic emulsions.

The construction chemicals segment accounts for approximately 13% of the company's revenues. So far this segment is noting a decrease of sales in 2021 (down 11% y/y in 1Q21). Construction chemicals are a group of products used in construction materials, insulating or finishing. These include products based on mineral and organic binders and coating materials (paints, varnishes, impregnates, and primers). The remaining segments are industrial products (approximately 1% of revenues), merchandise (roughly 5%) and materials (about 1%).

In terms of geographical split, as of 1Q21 most sales originate in Poland (69%), while the Hungarian unit surprised negatively due to a decrease in share to 17% from 19.7% noted in 2020. However, Hungary still remains the second largest market for the company. Its target share was set at over 1/3 of revenues, but we believe that Sniezka's expansion there may be hampered by hiked interest rates. Ukraine and Belarus account for 9% and 2% of sales, respectively, but those markets exhibit higher risk as they are prone to the geopolitical situation.

Figure 6. Sniezka revenues geographical split in 1Q21

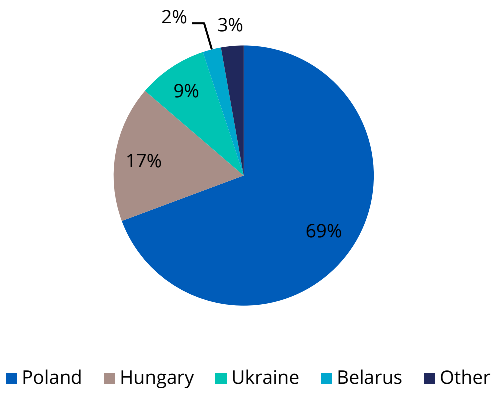
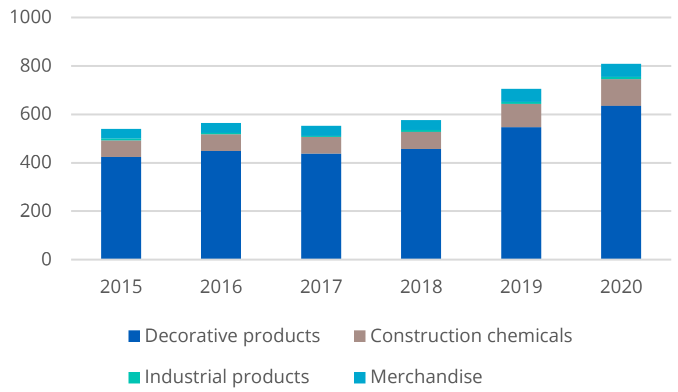


Figure 7. Revenues by segments in 2015-20 (in PLNm)



Source: Company, IPOPEMA Research

Concluding 3-year investment plan

The company is in the process of completing its investments which are aimed at streamlining the production process. Among them are modernization of the colour paint line and automation activities in production plants. Sniezka is also cooperating with SAP in the field of digital transformation - in the scope of tools supporting the management with cooperation with clients and improving marketing activities.

Within the scope of investments will also fall the construction of a new logistics centre, which in 2022 will allow the more efficient distribution of products. The new centre will, among other things, solve the company's problem of storing materials. Due to the seasonality of demand, Sniezka must increase the supply of their products at certain times. Thus, there is a need for such a building in Zawada, near Debica. This will allow for faster and cheaper supply in the peak periods. Its close proximity to the motorway will also significantly improve the company's logistics processes. According to the CEO, Sniezka could increase its capacity by "tens of percent" but such an increase could only be gradual for individual production lines and will be implemented over time.

In the coming quarters, the company will also place an emphasis on systematic development of numerical distribution, i.e. an increase in the number of stores where customers can buy ready-made paints. The strategy assumes strengthening of its market share in the product segment dedicated to metals, sold under the Rafil brand.

In the DIY channel, Sniezka intends to increase the number of outlets in Polish retail chains, e.g. PSB Mrowka (up to 450 stores in 2023) and Bricomarché. In addition, the company will develop cooperation with both Castorama and Leroy Merlin chains as well as Obi (which, according to the new strategy, also plans to expand into smaller cities). In addition, each of the abovementioned DIY shops is expanding its e-commerce channel.

Poli-Farbe – most synergies already exhausted in 2020

Poli-Farbe's EBITDA margin at the moment of acquisition was about 8.5 p.p. lower than Sniezka's, which meant that the acquisition was perceived as a high risk for margin erosion in the long run. However, Sniezka managed to return to 2018 margin levels a mere two years after the transaction. We believe that this was mostly achieved thanks to synergies such as cost and pricing optimization, which played a crucial role here. Naturally, economic environment characterized by strong demand aided the margins, but going forward we would expect that synergies will be less significant.

We still assume that the acquisition of Poli-Farbe will help with expansion into the markets of south-eastern Europe (e.g. the Balkans and Romania) as it has two foreign subsidiaries, in Slovakia and Romania, which should lead to gradual revenue stream improvement in the region.

The crucial market for the Hungarian unit is its home turf, where it books the vast majority of its revenues. After the acquisition, Poli-Farbe intends to sell its products under its own brand. Sniezka has committed to maintaining production for at least eight years at the plant in Hungary.

The Hungarian paint market is estimated at EUR 150m, compared to EUR 500m in Poland, with a 2-3% rate of volume growth. Major paint and coating producers in Hungary include Trilak Festékgyártó Kft (PPG), Poli Farbe Kft and Akzo Nobel. These companies represent a 70% share of the Hungarian paint market. According to ditp.go.th, Trilak Festékgyártó Kft. is a member of the US-based PPG EMEA Group. Its market share comprised around 40% in 2012, and Akzo Nobel has another approximate 10% share of the market.

The gradual transition of consumers towards more expensive, greener products with less volatile organic compounds is also more and more visible in Hungary. However, recent hikes in interest rates may slow down this trend due to a higher propensity to save money (in August 2021 Hungarian Central Bank announced third hike by 30 basis points taking the benchmark to 1.5%).

The shareholders adopted a dividend policy at Poli-Farbe, under which the company will pay a dividend at a minimum level of 50% of the profit each year. We assume that Sniezka will repay its full debt incurred for the acquisition in equal annual payments of approximately PLN 15m for 8 years. Therefore, we expect the net debt/EBITDA ratio of Sniezka to gradually decrease to 1.3x at the end of 2025E.

Material cost pressure on

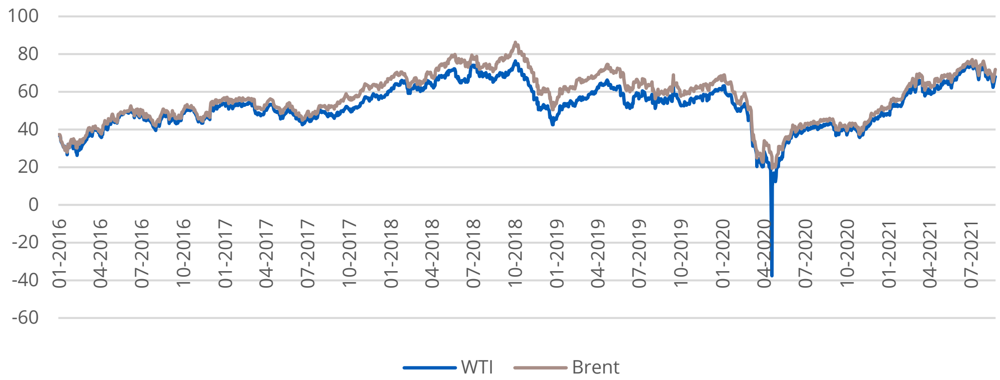
The main intermediates used in the manufacture of paints are petrochemicals and pigments such as titanium white. Steel is mainly used for packaging. Binders and film-forming substances are ingredients that are found in all types of paints, varnishes and emulsions. Thinners are to dissolve the polymer and reduce the viscosity of the binder.

Figure 8. Sniezka's approximate paint cost structure

Source: Company, IPOPEMA Research

In order to grasp the latest developments in material costs, we will look at oil prices as a proxy for binders, price of titanium white and the price of steel – the three key components of paints.

Figure 9. Crude oil price (WTI & Brent) 2016-21 (in USD/bbl.)



Source: Bloomberg, IPOPEMA Research

Oil prices have rebounded from the levels noted during the pandemic and the current average price for 2021 is 62% and 54% higher than the average in 2020, and 12% and 4% higher compared to 2019 (WTI and Brent, respectively). While Sniezka does not incur oil costs directly (as a component of its products), an upward trend in oil prices may affect the cost of binders and eventually impart a negative impact on margins. Packaging and binders are contracted on a quarterly basis (unlike most materials, which are contracted on a full year basis). This provides a risk of increased cost to emerge quite early (2Q-3Q21). Moreover, a weak PLN vs. EUR exchange rate does not help here, and the company lacks natural hedging in the form of sales in countries with EUR currency.

Figure 10. Titanium dioxide price in EU 2017-21 (in EUR/t)

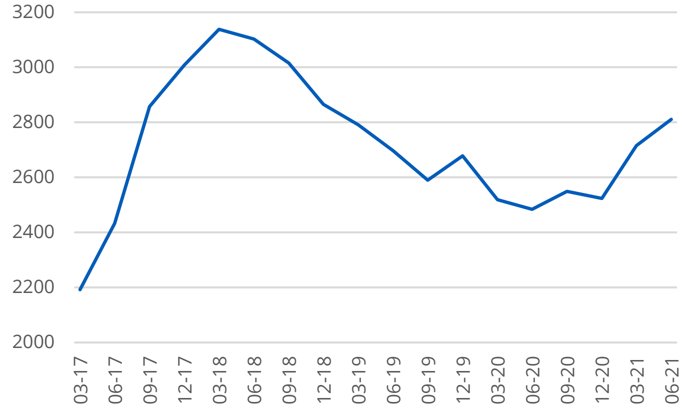
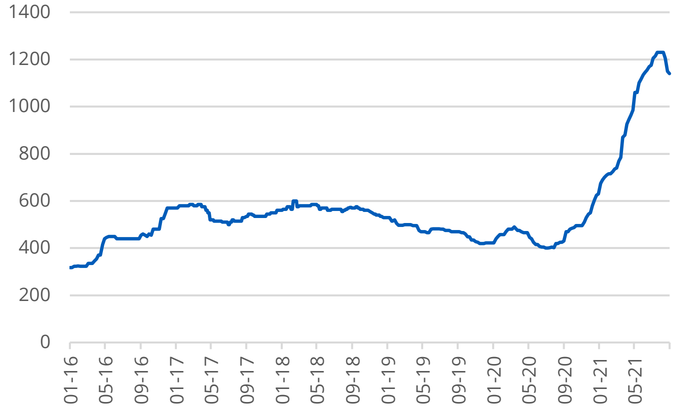


Figure 11. Price of hot rolled steel coil in N. Europe 2016-21 (in EUR/t)



Source: Bloomberg, IPOPEMA Research

Unlike oil, titanium white and steel constitute a more direct costs. Price for both materials increased considerably, especially for steel. The average price in 2Q21 for titanium white was 10% higher than in 2020 and up 3% vs. 2019. As for steel, average price in 2021 was 110% higher than in 2020 and increased by 107% vs. the average price in 2019.

As already mentioned, Sniezka contracts most of its raw materials for a full year, so elevated titanium white cost may appear only in 2022. In case of steel, as packaging are negotiated quarterly we would (similarly to binders) see the negative effect already in 2021.

It is quite common that after a drastic hike in cost of particular material the subsequent decrease is not as significant, rather prolonging and gradual, affecting the margins for over a year (this was also seen in 2011 when price of titanium white increased). Moreover, there is a certain lag in transfer of those costs from inventory to cost of sold goods which may also prolong this negative impact.

This together with lower inflation in paint pricing prompts our gross margin reduction in 2021E from 2020 (40% vs. 42%) and further in 2022E (39%), followed by gradual increase to 42% in 2025E.

In the case of SG&A costs, we assume those to be elevated for a while as a result of marketing expenses linked to new brand promotion (products of Poli-Farbe) and overall increase of their cost (cost of advertisement decreased during pandemic), which will also have a negative impact on EBITDA and net profit margins.

Seasonality

Sniezka's sales are seasonal, depending on the intensity of renovation and construction activity in particular periods of the year, which is generally greater in spring and summer. The company usually generates higher revenues in the second and third quarters each year. They represent about 65% of annual revenues. In the winter months, sales drop even to around 50% compared to the summer ones. The occurrence of seasonality affects the change in demand for working capital, which is significantly higher in the second and third quarter.

Figure 12. Sniezka revenues seasonality (PLN m)

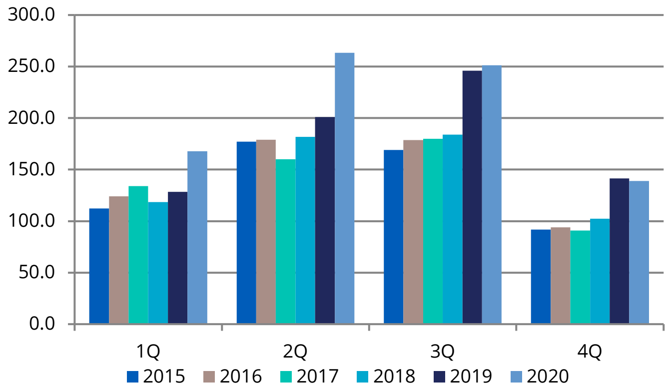
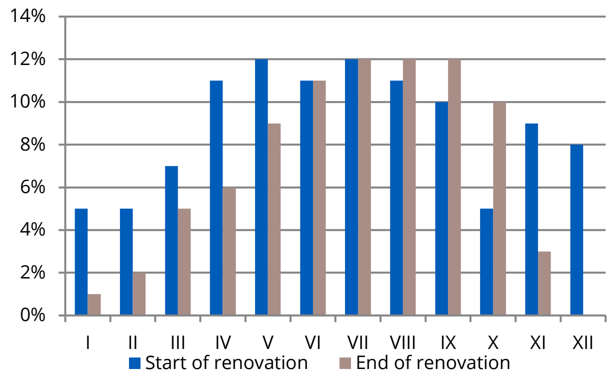


Figure 13. Seasonality of rennovations in Poland in 2019 (%)



Source: Fixly.pl, Company, IPOPEMA Research

Polish paint market outlook

About 70 companies operate on the Polish paint and varnish market, with Sniezka maintaining its position among the top three. The three biggest players on the domestic market besides Sniezka (with around 25% share) are PPG Deco Polska (Dekoral brand), AkzoNobel (brands: Dulux, Nobiles and Hammerite) and Tikkurila (Jedynka, Polifarb and Debica). Those account for over 80% of total sales on the market. In turn, global paint production is very fragmented, but most companies operate locally. The paint market typically grows proportionally to GDP growth (despite 2020).

Sniezka's adj. EBITDA margin reached 16.8% in 2020, almost 6.7 p.p. higher than the average of peers that have already published the data for 2020. In 2019 company's adj. EBITDA margin was higher by 4.4 p.p. so it looks like Sniezka is enhancing its advantage over its peers.

Figure 14. Financials of paint and coating producers in Poland (PLN m)

Company	Revenues (PLNm)	Net Profit (PLNm)	EBIT (PLNm)	EBITDA (PLNm)	CFO (PLNm)	EBITDA margin (%)
Ppg Cieszyn S.A.	812	52*	66	76**	69	9.4%
Ppg Deco Polska Sp. z o.o.	676	38	44	64**	91	9.5%
Tikkurila Polska S.A.*	480	36	45	50**	36	10.4%
Hempel Paints Sp. z o.o.*	460	35	36	47**	54	10.2%
Mapei Polska Sp. z o.o.	450	49	63	77**	63	17.1%
Akzo Nobel Decorative Paints Sp. z o.o.*	315	4	10	15**	-19	4.8%
Orion PU Sp. z o.o.	309	8	13	14**	21	4.5%
Soudal Manufacturing Sp. z o.o.*	272	20	26	29**	15	10.7%
Novol Sp. z o.o.*	333	6	11	27**	14	8.1%
Fabryka Farb i Lakierow Sniezka S.A.	821	78	103	138**	121	16.8%

*data for 2019
**adjusted

Source: e-krs, IPOPEMA Research

According to Sniezka's estimates, the sale of decorative products on the Polish market takes place at the following distribution points:

- about 100 so-called 1st degree wholesalers (redistributing products purchased directly from producer)
- around 700 chain DIY stores
- around 6,000 retail stores

- around 700 specialized stores

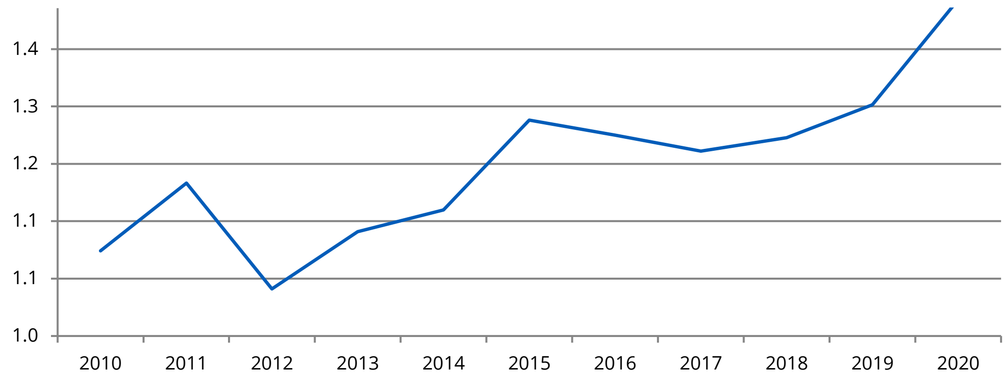
A relatively small share of sales is made directly to construction companies. In the broadly understood deco category, the primary distribution channels are the independent channel including e-commerce (around 67%) and DIY stores such as Castorama and Mrowka (around 33%).

In Poland, demand for decorative paint has two main sources: renovations (approximately 80% of demand) and design of new apartments (20%). The paint industry in Poland has been systematically expanding at single-digit revenue growth of 2-3% except for 2018, when a slight decline was witnessed. In 2020 there was a visible pandemic impact which increased market growth to 3.4% (in units) and 6.2% (value).

The share of Poles who have engaged in renovation work increased by a stunning 24 p.p. to 73% in 2020 (in 2019 that growth amounted to 3 p.p.). Between 2012 and 2018 the ratio fluctuated around 45% and increased to 49% in 2019. Such growth stems primarily from fast-growing wages in the economy, as well as the 500+ program (around 20% of households allocate funds received from the 500+ program for renovations). Approximately 86% of renovations include painting walls or ceilings, out of which 35% hire a specialist for painting.

This is clearly seen in data by Statistics Poland (GUS) on volumes of paint and varnish production in 2020 which was up 10% y/y, vs. the average annual growth rate in the last 10 years of around 1.9%.

Figure 15. Paints volume in Poland 2010-20 (in m tons)



Source: Statistics Poland (GUS), IPOPEMA Research

Construction and assembly production in Poland (treated by us as a proxy for household maintenance activity), after a strong 2017-2019, noted a slight decrease in 2020. So far 2021 is below 2020 levels, pointing to a risk of decreased demand for paint products. On the other hand, the number of dwellings completed in 2020 surpassed the record-high 2019 result and 2021 looks so far even better than the previous year. Still, as Sniezka underlines itself, construction of new apartments has little correlation with its product sales.

Figure 16. Dynamics of construction and assembly production in Poland (constant prices; monthly average 2015 = 100)

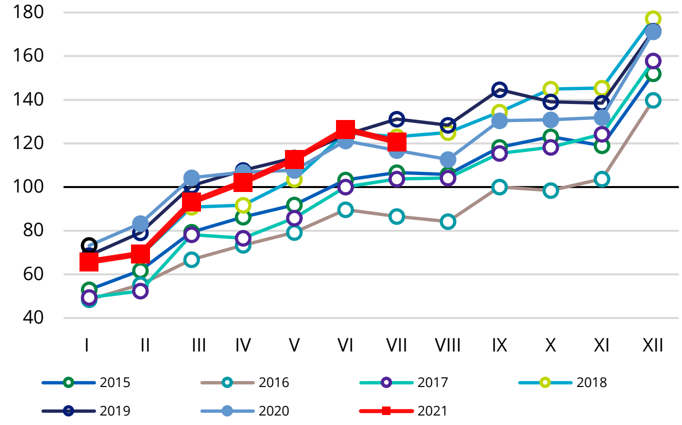
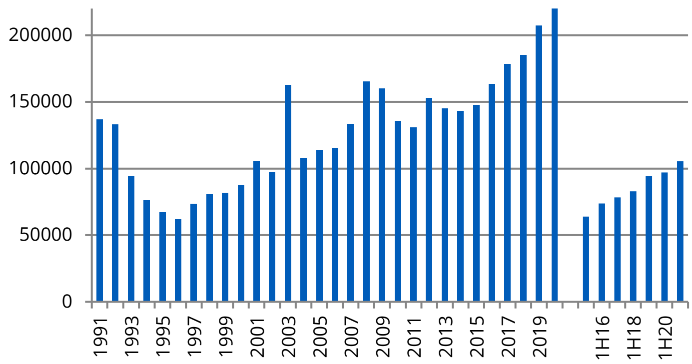


Figure 17. Number of dwellings handed over in Poland 1991-20 (in m)



Source: Statistics Poland (GUS), IPOPEMA Research

According to PZPFiK (Polski Zwiazek Producentow Farb i Klejow), the value of decorative paint sales increased by 6.2% y/y, to over PLN 2.3bn in 2020. This dynamic was slightly higher than a year earlier (in 2019 it was up 4.3% y/y, at PLN 2.2bn). Unit sales increased by 3.4% y/y vs. a -1.6% y/y decrease in 2019, showing that inflation played a role in improved revenues for the sector. PZPFiK also confirms an ongoing trend of increased popularity of premium paints.

Ukrainian/Belarusian paint market outlook

There are about 30 paint and varnish manufacturers with a stable position in Ukraine. Sniezka is one of them and markets its products under the brands of Sniezka and Otto Farbe. According to a Transparency Market Research (TMR) study, leaders in the field of the production of decorative paints on the Ukrainian market are: Sniezka, Meffert Hansa Farben, ZIP, Kaparol Dnieper, Eskaro, Faydal UA, Polysan and PE Olejníkov. The vast majority of revenues are realized in the western and central part of Ukraine. According to the calculations of Chem-Courier, the situation on the Ukrainian market of paints and varnish materials is vulnerable to fluctuations and can be explained by constantly changing preferences of local consumers. Ukrainians are less wealthy than Polish consumers, which makes the market more demanding. Customers carefully plan expenses, and carefully analyse the price-quality ratio of the products before purchasing. Nevertheless, there is still visibly increased demand from the final consumer for higher quality paints and varnishes, i.e. from medium and premium price segments. Thus, in the long-term perspective, Ukraine remains an important and promising market for the company.

Competition on the Belarusian market is slightly stronger than in its southern neighbour, both with global and Russian brands such as: DAW (Caparol/Alpina), Eskaro (Condor), MAW, Tajfun, Ilmax, Ceresit and Knauf. Sniezka is one of the leading paint and varnish producers, with a dominant position in the finishing plaster segment. The company is present both in the B2C channel, being the main player through the DIY network and the group's distributors retail outlets, as well as in the B2B channel (to a lesser extent). As the customer's purchasing power is even lower than in Ukraine, Sniezka's products are treated as very prestigious, which makes the realized margins quite attractive.

We expect, as on the Polish market, a further boost in the share of products from higher price segments. Some Belarusian consumers are known for their prejudices against Belarusian and Russian brands, preferring high quality paints from well-known brands with their own facilities in Belarus. On the other hand, market protectionism is still observed, manifesting itself in customs policy, applying certification requirements for imported goods and preferring trade within the Eurasian Customs Union, thus there exists increased competition from cheaper products from Russian producers.

According to recent Bloomberg consensus, estimated real GDP in Ukraine will increase by 4% y/y in 2021 and will grow by 3.9% in 2022. In the case of Belarus, the IMF forecasts a decrease of 0.4% y/y in 2021 and moderate increase in 2022 at 0.8%.

Figure 18. Sniezka's revenues from Ukraine (in PLNm) vs. Ukrainian GDP growth y/y (in %)

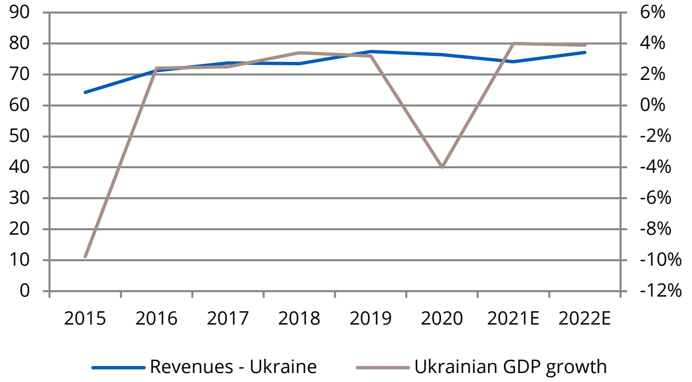
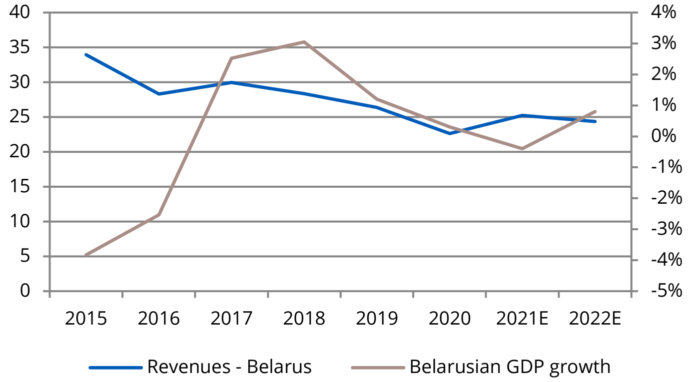


Figure 19. Śnieżka's revenues from Belarus (PLNm) vs. Belarusian GDP growth y/y (in %)



Source: Bloomberg, IMF, IPOPEMA Research

The chart with data from Ukraine shows the unusual nature of 2020 in which the correlation between GDP growth and Sniezka's sales reversed (the same thing was observed in Poland). We would expect this to return to normal from 2022 onwards.

Shareholder structure

We present the shareholder structure of Sniezka by showing stakes in the number of shares and in voting rights.

Figure 20. Sniezka shareholder structure based on 1Q21 report (in %)

Source: Company, IPOPEMA Research

Main risks to our assumptions

Key risks to our assumptions are as follows:

- **Strong demand from 2020 to persist also in 2021.** There is a possibility that the abnormally high demand will also be present in 2021. This could be caused by two factors in our view. First of all, greater interest in maintenance activity by individuals revealed the lack of supply of specialists, causing delays. If this persisted until the end of 2020, some delayed demand could have appeared even in 2021. This might have been a reason for decent results by Sniezka in 1Q21. Secondly, there is a chance of another wave of COVID-19 what might again restrict travelling. However, we would place a rather low probability to that scenario.
- **Uncertainty over key currencies.** Currencies affect the company's results both from the sales and cost side. With the acquisition of Poli-Farbe revenues are more dependent on foreign currencies. At the moment, not only do a stronger Ukrainian hryvnia and Belarusian ruble would have a positive impact on sales, but approximately 17% of revenues in 1Q21 originated from Hungary. The local currency (forint) may benefit from recent interest rates hikes, an effect that might turn out to be more positive than we estimated. From the cost side, materials that are bought with EUR may benefit or suffer from respective EU currency depreciation or appreciation.
- **Political risk.** Sniezka operates in two markets (Belarus and Ukraine) that are susceptible to foreign involvement. Unstable markets are usually tougher to build a business in. However, if the situation were to suddenly improve, sales in those markets may show hefty growth.
- **Potential execution of Poli-Farbe option.** While we would not place too much emphasis in the importance of this factor, there is always a risk that the minority owner in the Poli-Farbe unit would like to exercise put option. This would be linked to the cash outlay of approximately PLN 38m (currently valued in Group's equity). This is a significant amount of money if we look at Sniezka's current cash position. However, the process of a sale would take at least one year and the company has quite safe credit lines, so as we argued in the beginning, this risk is not that significant.

Valuation summary

In order to value Sniezka we used two methods, applying a 50% weight to our DCF-based valuation and a 50% weight to our DDM-based valuation.

Based on our forecasts, we arrive at a fair value of PLN 71.39 per share, which is below the current market price and implies a SELL recommendation.

Figure 21. Sniezka valuation summary

I Method: DCF	
Fair Value (PLN per share)	72.9
Weight	50%
II Method: DDM	
Fair Value (PLN per share)	69.9
Weight	50%
Fair Value (PLN per share)	**71.39**

Source: IPOPEMA Research

Capex

The company is on track to finish its investment program consisting of the completion of automation and extension of the production lines for the production of coloured paints at the plant in Lubzina and white paints in Pustkow, as well as implementations planned as part of the IT digital transformation (SAP systems), which is to provide Sniezka with further competitive advantages in modern methods of sales management and customer service. Accumulation of investments is also associated with the construction of a new logistics center, which in 2022 will allow further optimization of logistics processes.

We assume PLN 100m of investment outlays in 2021 and a gradual return to the maintenance capex level of around PLN 45m as of 2023.

Discounted cash flow model

Our assumptions for cost of equity were established by using a 2.0% risk-free rate and adding a 5.0% equity risk premium in each year. We use a leveraged beta for our equity cost calculation. We use various tax rates throughout the forecast period ranging from 17.5% to 18%.

Figure 22. Sniezka 2021-25E DCF valuation

DCF (PLN m)	2021E	2022E	2023E	2024E	2025E	Terminal Year
Revenue Growth Rate	-2.1%	1.0%	2.4%	2.4%	2.4%	1.0%
Revenues	**804**	**812**	**832**	**852**	**873**	**881**
Gross margin	40%	39%	40%	41%	42%	
SG&A costs	240	244	250	255	260	
EBIT	**81**	**75**	**86**	**97**	**104**	**105**
EBIT margin	10%	9%	10%	11%	12%	12%
Effective Tax Rate	18%	18%	18%	18%	18%	18%
NOPAT	**67**	**61**	**70**	**80**	**85**	**86**
+ Depreciation	34	40	41	42	42	42
EBITDA	**115**	**115**	**127**	**139**	**146**	**147**
- Capex	-100	-50	-45	-45	-45	-42
- Change in WC	8	-10	-3	-3	-3	-2
FCF	**9**	**41**	**63**	**73**	**79**	**84**
Terminal Value						1 368
WACC	**7.5%**	**7.4%**	**7.3%**	**7.2%**	**7.1%**	**7.1%**
Present Value of FCF	**8**	**38**	**54**	**58**	**58**	**1 011**

NPV FCF	216
+ Present Value of Terminal Value	1 011
Operating Assets of the Firm =	**1 227**
+ Value of Cash	22
Value of Firm =	**1 249**
- Value of Outstanding Debt =	-249
- Minorities adjustment/ dividend paid =	-80
Value of Equity =	**919**
Number of shares (m)	13
Fair Value of Equity per share (PLN)	**72.9**

Key Assumptions	
Revenue CAGR 2021E-2025E	2.1%
Average EBIT margin in 2021E-2025E	10.6%
Market Risk Premium	5.0%
Beta	1.00
Growth in residual period	1.0%
Average WACC in 2021E-2025E	7.3%

DCF Sensitivity (PLN per share)

		WACC in perpetuity						
		8.6%	**8.1%**	**7.6%**	**7.1%**	**6.6%**	**6.1%**	**5.6%**
	0.5%	**53.6**	**57.6**	**62.1**	**67.3**	**73.4**	**80.6**	**89.1**
Terminal Growth	**1.0%**	**57.2**	**61.7**	**66.8**	**72.9**	**80.0**	**88.4**	**98.7**
	1.5%	**61.2**	**66.3**	**72.3**	**79.4**	**87.8**	**98.0**	**110.7**

DCF Sensitivity (PLN per share)

		EBIT margin in perpetuity						
		8.9%	**9.9%**	**10.9%**	**11.9%**	**12.9%**	**13.9%**	**14.9%**
	0.5%	**48.3**	**54.7**	**61.0**	**67.3**	**73.7**	**80.0**	**86.4**
Terminal growth	**1.0%**	**52.2**	**59.1**	**66.0**	**72.9**	**79.8**	**86.6**	**93.5**
	1.5%	**56.8**	**64.3**	**71.8**	**79.4**	**86.9**	**94.4**	**102.0**

WACC	2021E	2022E	2023E	2024E	2025E	Terminal Year
WACC	**7.5%**	**7.4%**	**7.3%**	**7.2%**	**7.1%**	**7.1%**
Equity cost	**8.1%**	**8.1%**	**8.0%**	**7.9%**	**7.8%**	**7.8%**
Debt cost	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**
Risk free rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Unlevered beta	1.0	1.0	1.0	1.0	1.0	1.0
Levered beta	1.2	1.2	1.2	1.2	1.2	1.2
Debt share	11%	13%	14%	14%	13%	13%
Debt premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	18%	18%	18%	18%	18%	18%

Source: IPOPEMA Research

Dividend discount model valuation

Sniezka has been constantly paying at least 49% of its consolidated net profit. This year Snieżka will pay 53% DPR translating into a DPS of PLN 3.6 (DY of 4.3%).

We assume that Sniezka will be able to pay dividends with a dividend yield of approximately 3.5-6.0% after 2021. This translates into a DPS of PLN 2.9 in 2022 and 3.9 in 2023. In the terminal year we estimate Sniezka's total potential DPS at PLN 5.0, with 1.0% of terminal growth. In the DDM model, we applied the same assumptions as in the DCF model with regards to cost of capital and levered beta.

Figure 23. Sniezka 2021-25E DDM valuation

Sniezka: DDM		2021E	2022E	2023E	2024E	2025E	Terminal Year
DPS (PLN)		**3.6**	**2.9**	**3.9**	**4.4**	**5.0**	**5.0**
Risk free rate		2.0%	2.0%	2.0%	2.0%	2.0%	
Equity premium risk		5.0%	5.0%	5.0%	5.0%	5.0%	
Unlevered beta		1.00	1.00	1.00	1.00	1.00	
Levered beta		1.22	1.23	1.21	1.19	1.17	
Cost of Equity		8.1%	8.1%	8.0%	7.9%	7.8%	
Discount multiple		0.98	0.90	0.84	0.77	0.72	
Discounted DPS (PLN)		3.5	2.7	3.2	3.4	3.6	
Sum of discounted DPS in forecast period (PLN)	**16.5**						
Terminal growth							1.0%
Terminal Cost of Equity							7.8%
Present value of terminal value DPS (PLN)							**53.4**
Fair Value (PLN ps)							**69.9**

Source: IPOPEMA Research

Relative valuation

In relative valuation we used domestic industrial companies and European and American paint producers.

Based on our forecasts, Sniezka trades at a 2021E P/E of 15.6x. This is a 25% discount to the median of peer multiples. On our forecasts, Sniezka trades at 2021E EV/EBITDA of 11.5x, representing a 13% discount to peers. We believe that the discount is justified given the local scope of the business and lack of expansion of Western Europe markets.

Figure 24. Sniezka relative valuation

COMPANY	Last price	Market Cap	P/E			EV/EBITDA			DY	ND/EBITDA	NI CAGR	EBITDA CAGR	EBITDA margin
		EUR m	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2021E	2021-23E	2021-23E	2021E
AKZO NOBEL N.V.	EUR 102.4	19 195	22.7	19.9	17.9	13.2	11.9	10.9	2.2%	1.2	*12.1%*	*9.2%*	16.6%
SHERWIN-WILLIAMS CO/THE	USD 307.4	68 190	20.7	18.1	16.9	14.4	12.5	11.3	1.2%	na	*9.1%*	*8.3%*	18.6%
FERRO SA	40.8 PLN	192	32.6	29.2	27.4	23.5	21.1	19.9	9.1%	0.8	*-5.0%*	*12.9%*	14.5%
AMICA SA	158.8 PLN	273	10.8	12.4	11.0	5.4	5.7	5.3	2.5%	-0.1	*-1.0%*	*2.0%*	6.7%
WIELTON SA	12.6 PLN	168	11.4	9.8	9.2	6.7	5.7	5.3	3.2%	1.9	*11.4%*	*6.9%*	6.3%
MEDIAN			**20.7**	**18.1**	**16.9**	**13.2**	**11.9**	**10.9**	**2.5%**	**1.0**	**9.1%**	**8.3%**	**14.5%**
SNIEZKA	83.4	233	15.6	17.2	15.0	11.5	11.5	10.2	4.3%	2.3	*1.9%*	*5.2%*	14.3%
premium/discount to all peers (median)			*-25%*	*-5%*	*-11%*	*-13%*	*-3%*	*-6%*					
Implied Price (PLN)			**110.8**	**87.6**	**93.9**	**99.3**	**87.0**	**90.2**					

Source: Company, IPOPEMA Research

Figure 25. Sniezka financials 2016-2024E

Income statement (PLN m)	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Revenues	**576**	**564**	**587**	**717**	**821**	**804**	**812**	**832**	**852**
y/y change (%)		*-2%*	*4%*	*22%*	*15%*	*-2%*	*1%*	*2%*	*2%*
Costs of goods sold	352	342	341	413	476	483	493	496	500
Gross profit	**224**	**223**	**246**	**304**	**346**	**321**	**319**	**335**	**352**
Selling and marketing costs	117	105	105	142	156	153	156	159	162
Administrative costs	40	44	58	77	85	87	89	90	92
Other operating income/costs	-2	1	-3	-6	-2	0	0	0	0
EBIT	**65**	**74**	**80**	**79**	**103**	**81**	**75**	**86**	**97**
y/y change (%)		*14%*	*8%*	*-1%*	*30%*	*-21%*	*-8%*	*15%*	*13%*
EBITDA	**83**	**90**	**98**	**107**	**136**	**115**	**115**	**127**	**139**
y/y change (%)		*9%*	*10%*	*9%*	*27%*	*-16%*	*0%*	*11%*	*9%*
Financial income / cost	-1	-4	-1	0	1	0	-1	-1	-1
Pretax profit	**64**	**70**	**78**	**79**	**104**	**82**	**75**	**85**	**97**
Income tax	10	14	15	16	18	14	13	15	17
Net income	**54**	**57**	**63**	**63**	**86**	**67**	**61**	**70**	**79**
EPS (PLN)	**4.27**	**4.49**	**5.02**	**4.96**	**6.83**	**5.35**	**4.85**	**5.55**	**6.30**

Profitability ratios	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Gross margin	38.9%	39.5%	41.9%	42.4%	42.1%	39.9%	39.3%	40.3%	41.3%
EBITDA margin	14.4%	15.9%	16.8%	14.9%	16.6%	14.3%	14.2%	15.3%	16.3%
EBIT margin	11.2%	13.1%	13.6%	11.0%	12.5%	10.1%	9.2%	10.3%	11.4%
Net margin	9.4%	10.0%	10.8%	8.7%	10.5%	8.4%	7.5%	8.4%	9.3%
ROE	24.5%	24.8%	23.6%	21.0%	26.4%	18.7%	15.9%	17.3%	18.5%

Balance sheet (PLN m)	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Total current assets	**159**	**186**	**170**	**248**	**217**	**231**	**258**	**260**	**264**
Inventory	68	79	84	108	104	108	113	116	119
Receivables	78	78	77	101	95	99	105	107	110
Cash and equivalents	10	21	6	36	16	22	38	34	33
Other current assets	3	8	3	2	2	2	2	2	2
Total non-current assets	**179**	**183**	**235**	**416**	**492**	**526**	**529**	**525**	**522**
Property, plant and equipment	161	166	218	331	402	441	453	453	453
Intangible assets	1	2	10	75	80	75	71	68	64
Other non-current assets	17	15	6	11	11	9	5	5	5
Total assets	**338**	**369**	**404**	**664**	**710**	**757**	**787**	**785**	**786**
Stockholders` equity	**220**	**229**	**269**	**298**	**326**	**360**	**385**	**406**	**429**
Total current liabilities	**57**	**75**	**65**	**107**	**147**	**129**	**154**	**169**	**169**
Trade and other payables	52	54	57	90	72	88	89	91	93
Other liabilities	9	11	13	169	164	179	159	119	95
Total equity & liabilities	**338**	**369**	**404**	**664**	**710**	**757**	**787**	**785**	**786**
BVPS (PLN)	17	18	21	24	26	29	30	32	34
Net debt	48	54	60	185	233	262	251	230	206
Net debt / EBITDA	0.6x	0.6x	0.6x	1.7x	1.7x	2.3x	2.2x	1.8x	1.5x
Balance sheet ratios	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
Current ratio	2.8	2.5	2.6	2.3	1.5	1.8	1.7	1.5	1.6
Quick ratio	1.6	1.4	1.3	1.3	0.8	1.0	0.9	0.9	0.9
Debt / assets	19%	23%	19%	42%	44%	41%	40%	37%	34%
Debt / equity	30%	38%	29%	92%	95%	86%	82%	71%	61%

Cash flow (PLN m)	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Profit before the tax	64	70	78	79	104	82	75	85	97
Depreciation and amortisation	18	16	19	28	34	34	40	41	42
Other (incl. WC change)	0	-14	-3	9	3	12	-6	1	1
Operating cash flows	**82**	**73**	**94**	**116**	**141**	**127**	**109**	**127**	**139**
Capital expenditures	-31	-31	-70	-88	-127	-100	-50	-45	-45
Other	1	4	13	-88	2	2	1	2	1
Investing cash flows	**-30**	**-27**	**-56**	**-176**	**-125**	**-98**	**-49**	**-43**	**-44**
Change in debt	0	20	-10	150	76	35	5	-25	-25
Dividends paid	-41	-40	-28	-40	-38	-45	-37	-49	-56
Other	-3	-2	-3	-4	-51	2	2	2	2
Financing cash flows	**-44**	**-22**	**-40**	**106**	**-13**	**-9**	**-30**	**-72**	**-79**
Beginning cash	11	10	21	6	36	16	22	38	34
Increase / decrease in cash	-1	13	-16	29	-17	6	16	-3	-1
Ending cash	**10**	**22**	**5**	**35**	**19**	**22**	**38**	**34**	**33**
DPS (PLN)	3.2	3.2	2.2	2.6	2.6	3.6	2.9	3.9	4.4

Source: Company, IPOPEMA Research

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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.
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DY – dividend yield – dividend of a given year divided by the current price.
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Date	Recommendation	Fair Value	Price at recommendation	Author
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08/12/2020	U/R	-	-	-
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