

Sniezka

On the road to increased profits

We keep our BUY recommendation on Sniezka while raising our FV to PLN 92.69 per share, which implies 27% upside. Our growth assumption is based not only on the Ukrainian market anymore, as Poland showed surprisingly good results in 1Q23. What was not expected by the market and quite unusual for a Polish industrial company this year was that Sniezka managed to introduce a double-digit price hike in 2023. This factor paired with lower pressure from key costs provided for major improvement on margins (gross margin at 42.2% in 1Q23 vs. 39.7% expected by us in 2023 in our previous report). We increase our EBITDA estimate for the forecast period (2023-27E). In 2023E we would expect PLN 138m EBITDA (vs. previously expected PLN 119m) and PLN 153m in 2024E (vs. previous PLN 132m). This translates to EV/EBITDA of 8.7x and 7.8x in respective years (upside towards the last 5-year 1Y forward ratio of 11x).

Improved outlook for the Polish market. Management flagged that it introduced a double-digit price hike in 2023. It was clearly seen in the level of sales in the quarter (growth y/y despite a flagged significant decrease in volumes) and in EBIT results for 1Q23 in Poland at PLN 29m (the highest result since 2021 when the company started to show EBIT by country). Going forward, we would expect that improved margins will outweigh the negative effect of lower volumes due to the weak purchasing power of Polish consumers.

Ukraine still going strong. The y/y growth in 1Q23 in Ukraine is not surprising given the past year's circumstances. We continue to expect above-average results over the next years given a potential "Ukraine rebuild" story (the latest report by Kyiv School of Economics estimates damages at USD 138bn). So far, revenues from the country look decent, but it seems that Sniezka competitors found a way to shift production from the Eastern part of the country to safer regions. Margins remain high with a 23.4% EBIT margin in 1Q23. Management confirms that production is challenging, but it is being continued on two shifts from 6-8h per shift.

Cost outlook & FX impact. Key costs like titanium dioxide and steel, following a rebound in pricing in the beginning of the year, returned to the low pricing from the end of 2022. Most importantly, the PLN strengthened against the EUR which will positively impact margins in 2023 (management flags that it books around EUR 50m in costs in EU currency).

Capex & dividend. 2022 was the last year of elevated capex, after which we forecast it at around PLN 45m annually each year in 2023-27E. This should provide room for a dividend payout. Even though management initially reported that it will pay out 50% of net profit until reaching a 1.0x net debt/EBITDA ratio, the payout amounted to 69% in 2023 (2.7x net debt/EBITDA ratio by the end of the year). We estimate the nd/EBITDA ratio at 1.8x and therefore assume 80% payout in 2024 and 2025 with dividend yields at 6% and 7%.

Figure 1. Summary of financials

	2020	2021	2022	2023E	2024E	2025E
Revenues (PLN m)	821.3	794.9	791.7	787.5	832.6	958.3
EBITDA (PLN m)	136.1	111.4	106.2	138.5	152.9	184.5
EBIT (PLN m)	102.5	75.5	69.4	100.6	114.7	145.9
Net income (PLN m)	78.0	59.7	36.7	64.5	80.9	108.1
EPS (PLN)	6.2	4.7	2.9	5.1	6.4	8.6
DPS (PLN)	2.6	3.6	2.5	2.0	4.1	5.1
P/E (x)	14.4	16.1	21.3	14.2	11.3	8.5
EV/EBITDA (x)	10.2	11.4	10.3	8.7	7.8	6.3

Source: Company, IPOPEMA Research

Other sectors | Industrials

Sniezka

BUY

FV PLN 92.69 from PLN 73.87

27% upside

Price as of 26 June 2023 PLN 72.80

Maintained



Share data

Number of shares (m)	12.6
Market cap (EUR m)	207.4
12M avg daily volume (k)	0.6
12M avg daily turn. (EUR m)	0.0
12M high/low (PLN)	76.00/54.40
WIG weight	0.10
Reuters	SKA.WA
Bloomberg	SKA.PW

Total performance

1M	1.1%
3M	11.7%
12M	7.3%

Shareholders

Mr Stanislaw Cymbor	21.95%
Mr Jerzy Pater	21.95%
Mr Piotr Mikrut	12.80%
PTE Allianz Polska	12.43%
Mr Rafal Mikrut	9.15%
OFE NN	8.11%
Other	13.61%

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SNIEZKA

BUY

Mkt Cap EUR 207m

FV PLN 92.69

Upside 27.3%

Valuation multiples	2021	2022	2023E	2024E	2025E
P/E (x)	16.1	21.3	14.2	11.3	8.5
EV/EBITDA (x)	11.4	10.3	8.7	7.8	6.3
EV/Sales (x)	1.6	1.4	1.5	1.4	1.2
P/BV (x)	2.9	2.4	2.5	2.3	2.1
FCF yield (%)	1.3%	5.6%	7.4%	7.1%	9.1%
DY (%)	4.7%	4.0%	2.7%	5.6%	7.0%

Per share	2021	2022	2023E	2024E	2025E
No. of shares (m units)	12.6	12.6	12.6	12.6	12.6
EPS (PLN)	4.7	2.9	5.1	6.4	8.6
BVPS (PLN)	26.5	25.5	28.9	31.6	35.4
FCFPS (PLN)	1.0	3.5	5.4	5.2	6.6
DPS (PLN)	3.6	2.5	2.0	4.1	5.1

Change y/y (%)	2021	2022	2023E	2024E	2025E
Revenues	-3.2%	-0.4%	-0.5%	5.7%	15.1%
EBITDA	-18.2%	-4.7%	30.4%	10.4%	20.6%
EBITDA adj.	-18.2%	-4.7%	30.4%	10.4%	20.6%
EBIT	-26.4%	-8.0%	44.9%	14.0%	27.2%
Net profit	-23.4%	-38.6%	75.7%	25.6%	33.6%

Leverage/return	2021	2022	2023E	2024E	2025E
Gross margin (%)	39.7%	38.4%	41.8%	42.8%	44.2%
EBITDA margin (%)	14.0%	13.4%	17.6%	18.4%	19.2%
EBIT margin (%)	9.5%	8.8%	12.8%	13.8%	15.2%
Net margin (%)	7.5%	4.6%	8.2%	9.7%	11.3%
Net debt / EBITDA (x)	2.5	2.7	1.8	1.6	1.2
Net debt / Equity (x)	0.8	0.9	0.7	0.6	0.5
Net debt / Assets (x)	0.3	0.4	0.3	0.3	0.3
ROE (%)	19.3%	12.8%	18.9%	21.4%	25.2%
ROA (%)	7.4%	4.6%	8.2%	10.4%	13.3%
ROIC (%)	10.6%	9.1%	13.3%	15.0%	18.2%

Assumptions	2021	2022	2023E	2024E	2025E
Revenues by country					
Poland	527.1	543.1	551.3	574.5	603.7
Hungary	144.5	139.2	110.3	112.4	134.2
Ukraine	80.3	78.1	82.7	108.2	172.5
Revenues by products					
Decorative products	620.5	625.5	605.0	641.9	746.6
Construction chemicals	106.3	107.2	103.7	110.0	127.9
Industrial products	10.6	10.6	10.3	10.9	12.7
Merchandise	45.0	55.0	56.1	57.3	58.4
Other	6.7	6.9	7.0	7.2	7.3
Materials	5.8	5.3	5.3	5.3	5.3
EBIT by country					
Poland		60.0	65.0	70.0	80.0
Hungary		10.7	10.0	12.0	17.0
Ukraine		15.8	18.0	23.0	35.0
Unassigned costs		29.3	6.4	5.3	3.1

P&L (PLN m)	2020	2021	2022	2023E	2024E	2025E
Revenues	821.3	794.9	791.7	787.5	832.6	958.3
COGS	475.7	479.6	487.5	458.5	476.4	534.6
Gross profit	345.6	315.3	304.2	329.0	356.1	423.8
Selling costs	156.3	151.9	142.6	133.9	145.7	172.5
G&A costs	84.8	88.1	92.8	94.5	95.7	105.4
Other op. income (cost) net	-2.0	0.2	0.6	0.0	0.0	0.0
EBITDA	136.1	111.4	106.2	138.5	152.9	184.5
EBITDA adj.	134.2	111.6	106.8	138.5	152.9	184.5
EBIT	102.5	75.5	69.4	100.6	114.7	145.9
Financial income (cost) net	0.9	1.0	-16.5	-15.7	-9.5	-7.2
Pre-tax profit	104.0	76.8	53.0	85.2	105.6	139.2
Income tax	17.8	12.5	11.7	16.2	20.1	26.4
Minorities	8.2	4.6	4.6	4.6	4.6	4.6
Net profit	78.0	59.7	36.7	64.5	80.9	108.1

BALANCE SHEET (PLN m)	2020	2021	2022	2023E	2024E	2025E
Non-current assets	492.4	577.3	572.9	580.1	583.7	587.0
Goodwill and intangible assets	84.6	83.2	72.4	74.3	73.4	72.6
PP&E	401.9	489.6	496.1	501.4	505.9	510.0
Other non-current assets	5.9	4.5	4.4	4.4	4.4	4.4
Current assets	217.2	225.7	221.1	207.1	195.1	228.4
Inventories	104.1	136.0	124.6	107.9	114.1	131.3
Trade receivables	95.3	63.2	65.3	65.0	68.7	79.1
Cash and equivalents	15.5	16.2	19.9	22.9	1.1	6.7
Other current assets	2.3	10.3	11.3	11.3	11.3	11.3
Total assets	709.6	803.0	794.0	787.2	778.8	815.4
Equity	326.3	334.0	321.2	365.1	399.0	447.0
Minorities	32.8	29.9	28.3	28.3	28.3	28.3
Non-current liabilities	119.3	270.6	244.9	241.5	210.5	194.5
Loans and borrowings	96.6	247.6	225.9	222.5	191.5	175.5
Other non-current liabilities	22.7	23.0	19.0	19.0	19.0	19.0
Current liabilities	264.0	198.4	227.9	180.6	169.3	173.9
Trade payables	72.3	103.2	103.2	97.1	98.1	107.6
Loans and borrowings	147.4	39.1	70.9	50.0	50.0	50.0
Other current liabilities	44.3	56.1	53.8	33.6	21.2	16.3
Equity & liabilities	709.6	803.0	794.0	787.2	778.8	815.4
Cash conversion cycle (days)	56	44	40	35	37	39
Gross debt (PLN m)	248.9	293.7	302.4	278.1	247.1	231.1
Net debt (PLN m)	233.4	277.5	282.5	255.2	246.1	224.4

CASH FLOW (PLN m)	2020	2021	2022	2023E	2024E	2025E
Operating cash flow	120.7	124.1	98.2	114.4	111.4	129.8
Gross income	104.0	76.8	53.0	85.2	105.6	139.2
D&A	33.6	36.0	36.8	37.9	38.3	38.6
Change in WC	0.0	27.3	18.8	10.9	-8.9	-18.0
Tax	-20.3	-17.4	-23.8	-16.2	-20.1	-26.4
Other	3.4	1.5	13.4	-3.5	-3.5	-3.5
Investment cash flow	-124.8	-108.5	-47.5	-45.0	-45.0	-45.0
Capex	-126.8	-110.5	-53.3	-45.0	-45.0	-45.0
Other	2.0	2.0	5.8	0.0	0.0	0.0
Financial cash flow	-12.8	-16.1	-43.8	-66.4	-93.3	-89.1
Change in debt	29.0	42.0	12.5	-24.3	-31.0	-16.0
Interest paid	-3.3	-4.2	-20.7	-15.7	-9.5	-7.2
Dividend	-38.0	-53.2	-34.4	-25.2	-51.6	-64.8
Other	-0.5	-0.7	-1.2	-1.2	-1.2	-1.2
Change in cash	-20.8	0.7	6.9	3.0	-21.8	5.7
Cash as of eop	15.5	16.2	19.9	22.9	1.1	6.7

Source: Company data, IPOPEMA Research

Figure 2. Sniezka valuation summary

Sniezka, valuation summary	Weight	Price
DCF: Fair Value (PLN per share)	50%	96.55
DDM: Fair Value (PLN per share)	50%	88.83
Fair Value (PLN per share)		92.69

DCF (PLN m)	2023E	2024E	2025E	2026E	2027E	Terminal Year
Revenues	788	833	958	1104	1219	1255
EBITDA	138	153	184	225	236	243
EBIT	101	115	146	186	197	200
Effective Tax Rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
NOPAT	81	93	118	150	159	162
+ Depreciation	38	38	39	39	39	43
+ Capex	-45	-45	-45	-45	-45	-42
+ Change in WC	11	-9	-18	-16	-12	-6
+ Leasing	-1	-1	-1	-1	-1	-1
FCFF	84	76	92	127	140	156
Discount multiple (x)	0.95	0.85	0.77	0.69	0.62	
Present Value of FCFF	80	65	71	88	87	1 164
Terminal Value						1 876
Risk free rate	6.0%	6.0%	6.0%	6.0%	6.1%	6.1%
Equity risk premium	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Unlevered beta	1.0	1.0	1.0	1.0	1.0	1.0
Levered beta	1.3	1.2	1.2	1.2	1.2	1.2
Cost of equity	12.9%	12.8%	12.7%	12.7%	12.6%	12.7%
Debt risk premium	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Effective Tax Rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Cost of debt	5.2%	5.2%	5.3%	5.3%	5.3%	5.4%
Debt share	24.4%	22.9%	20.8%	19.7%	18.6%	18.6%
WACC	11.1%	11.1%	11.1%	11.2%	11.3%	11.3%
Sum of PV of FCFF	390					
+ PV of Terminal Value	1 164					
Value of EV =	1 554					
+ Value of Cash	20					
+ Value of Outstanding Debt	-302					
+ Minorities adjustment/ dividend paid	-54					
Value of Equity =	1 218					
Number of shares (m)	13					
Fair Value of Equity per share (PLN)	96.55					

DCF Sensitivity (PLN per share)				WACC in perpetuity				
		12.8%	12.3%	11.8%	11.3%	10.8%	10.3%	9.8%
Terminal Growth	2.5%	78.66	82.45	86.65	91.32	96.56	102.47	109.18
	3.0%	82.44	86.64	91.31	96.55	102.45	109.17	116.87
	3.5%	86.62	91.30	96.53	102.44	109.15	116.85	125.77

Sniezka: DDM	2023E	2024E	2025E	2026E	2027E	Terminal Year
DPS (PLN)	0.0	4.1	5.1	6.9	9.0	11.6
Cost of Equity	12.9%	12.8%	12.7%	12.7%	12.6%	12.7%
Discount multiple	0.94	0.83	0.74	0.66	0.58	
Discounted DPS (PLN)	0.0	3.4	3.8	4.5	5.2	
Sum of discounted DPS in forecast period (PLN)						16.9
Terminal growth						3.0%
Present value of terminal value DPS (PLN)						71.9
Fair Value (PLN ps)						88.83

Source: Company, IPOPEMA Research

Figure 3. Change in forecasts

	2023E			2024E			2025E		
	Curr.	Prev.	y/y	Curr.	Prev.	y/y	Curr.	Prev.	y/y
Revenues	787.5	782.3	1%	832.6	827.1	1%	958.3	949.5	1%
EBITDA	138.5	119.0	16%	152.9	132.2	16%	184.5	158.3	17%
EBIT	100.6	80.1	26%	114.7	92.9	23%	145.9	118.5	23%
Net Profit	64.5	49.9	29%	80.9	64.0	26%	108.1	86.1	26%

Source: IPOPEMA Research

Sniezka peer comparison

Figure 4. Sniezka peers comparison

COMPANY	Last price	Market Cap	P/E			EV/EBITDA			DY
		EUR m	2023E	2024E	2025E	2023E	2024E	2025E	2023E
AKZO NOBEL N.V.	EUR 73.3	12 496	19.5	15.1	13.7	11.9	10.0	9.1	2.9%
PPG INDUSTRIES INC	USD 144.4	32 599	19.9	18.0	16.7	13.6	12.1	11.1	1.8%
SHERWIN-WILLIAMS CO/THE	USD 256.7	63 484	29.7	26.4	23.7	20.2	18.5	16.9	1.0%
RPM INTERNATIONAL INC	USD 84.6	10 454	20.4	18.9	15.8	13.5	12.6	11.0	2.1%
AXALTA COATING SYSTEMS LTD	USD 32.4	6 875	20.8	17.7	15.5	10.8	9.6	8.8	0.3%
KANSAI PAINT CO LTD	JPY 2,121.5	4 101	14.6	20.3	19.5	10.0	9.0	7.7	1.8%
NIPPON PAINT HOLDINGS CO LTD	JPY 1,186.0	19 935	25.9	23.1	21.1	16.5	15.0	14.0	1.3%
ASIAN PAINTS LTD	INR 3,346.1	39 060	63.0	56.1	50.9	42.0	37.2	32.4	1.0%
MEDIAN			20.6	19.6	18.1	13.5	12.3	11.0	1.5%
SNIEZKA	72.8	207.4	14.2	11.3	8.5	8.7	7.8	6.4	4.0%
premium/discount to all peers (median)			-31%	-42%	-53%	-36%	-36%	-42%	

Source: Bloomberg, IPOPEMA Research, prices as of 26 June 2023

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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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Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

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

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

Sniezka – Rating's history

Date	Recommendation	Fair Value	Price at recommendation	Author
10.07.2020	BUY	PLN 97.30	PLN 86.00	Piotr Jusiński
08.12.2020	U/R	-	-	-
08.09.2021	SELL	PLN 71.39	PLN 83.40	Michał Pilch
13.12.2021	SELL	PLN 64.61	PLN 77.80	Michał Pilch
04.07.2022	SELL	PLN 53.27	PLN 75.00	Michał Pilch
14.12.2022	BUY	PLN 75.87	PLN 61.40	Michał Pilch
30.06.2023	BUY	PLN 92.69	PLN 72.80	Michał Pilch