

# Sniezka

## Paint not dry yet

We maintain our SELL recommendation on Sniezka and decrease our FV to PLN 53.27 per share, which implies 29% downside. The start of 2022 was not fortunate for the company with 1Q22 EBITDA seeing a 14% decrease y/y. Margins should be under pressure of persisting high costs. However, implemented price hikes and slowly declining titanium white and steel prices should hamper that effect in 2H22. In 2023 we believe that the company may benefit from secured, elevated selling prices, while main costs should decrease significantly. Our EBITDA forecast for 2022 and 2023 amount respectively to PLN 107.6m (down 3% y/y) and PLN 143.9m (up 34% y/y), translating into EV/EBITDA of 11.6x and 8.2x, respectively (compared to the 5-years average 1Y forward ratio of 10.3x).

**Demand outlook.** The declines in volumes were confirmed by management and we would expect them to persist over the current and next year. This year we would see hiked interest rates as the key factor negatively affecting the disposable income of consumers in Poland and Hungary. Unlike management we would also see a decline in demand for premium products given the higher propensity to save money. Regarding the potential demand stemming from post-war damages in Ukraine, we would assume a CAGR of sales in 2022E-26E at 22%. Assumed limited growth mostly stems from the fact that currency depreciation favours local producers as foreign companies tend to rise prices in response, so Sniezka's growth won't go much beyond output capacity of its Jaworow plant. Sales are expected to increase by 1.5% y/y in 2022 and decline by 2.1% y/y in following year.

**Cost outlook.** The situation here slightly improved with the current titanium white price (19% of total material costs) in China down 2.3% compared to the Apr'22 high. Even more substantial declines can be seen in steel prices (packaging including steel & plastic accounts for 19% of material costs) with 28% declines vs. the Mar'22 high. However, binders may still be at elevated levels given current oil prices. Additionally, lower sales of products with better margins will affect profitability. Finally, Sniezka likely has secured quite expensive inventory for a couple of quarters. In 2022 we expect gross margins to decline to 39% from 40% in 2021 and increase to 43% in 2023 as we expect further material cost declines while product prices should be more or less sticky in 2023.

**Capex & dividend expectations.** In 2022 Sniezka will be concluding its investment in the Zawada logistics centre. In ensuing years we are expecting capex at levels slightly above depreciation. We increase our capex estimate for 2022E to PLN 60m vs. PLN 50m assumed earlier (management guides PLN 55m). In case of DPS, amid slightly lower net profit (PLN 44.2m vs. PLN 46.2m expected previously) and the company guiding a 50% payout (instead of 80% assumed by us earlier) until reaching a 1.0x net debt/EBITDA ratio, we expect it at PLN 1.7 from 2022 net profit vs. PLN 3.3 expected earlier.

Figure 1. Summary of financials

	2019	2020	2021	2022E	2023E	2024E
Revenues (PLN m)	717.1	821.3	794.9	807.0	789.7	820.0
EBITDA (PLN m)	106.8	136.1	111.4	107.6	143.9	164.7
EBIT (PLN m)	79.0	102.5	75.5	68.9	104.1	124.5
Net income (PLN m)	59.5	78.0	59.7	42.2	72.3	91.6
EPS (PLN)	5.0	6.8	5.1	3.3	5.7	7.3
DPS (PLN)	2.6	2.6	3.6	2.5	1.7	2.9
P/E (x)	16.5	13.0	15.0	22.4	13.1	10.3
EV/EBITDA (x)	11.4	10.0	11.1	11.6	8.2	6.8

Source: Company, IPOPEMA Research

Other sectors | Industrials

## Sniezka

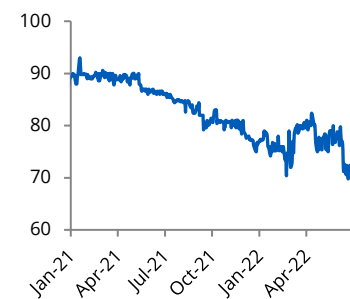
SELL

FV PLN 53.27 from PLN 64.61

29 % downside

Price as of 30 June 2022 PLN 75.00

Maintained



### Share data

Number of shares (m)	12.6
Market cap (EUR m)	202.2
12M avg daily volume (k)	0.4
12M avg daily turn. (EUR m)	0.01
12M high/low (PLN)	86.40/67.20
WIG weight	0.13
Reuters	SKA.WA
Bloomberg	SKA.PW

### Total performance

1M	1.0%
3M	-3.8%
12M	-9.8%

### Shareholders

Mr Stanislaw Cymbor	21.95%
Mr Jerzy Pater	21.95%
Mr Piotr Mikrut	12.80%
OFE Aviva Santander	9.99%
Mr Rafal Mikrut	9.15%
OFE NN	8.07%
Other	16.09%

### Analyst

Michal Pilch  
 michal.pilch@ipopema.pl  
 + 48 517 381 455

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The definitions of terms used in the document include:  
NII - Net interest income - interest income minus interest expense.

Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.  
 LLP – loan loss provisions – an expense set aside as an allowance for bad loans.  
 NPL – non-performing loan – loans that are in default or close to be in default.  
 Cost/Income – operating expenses divided by total banking revenue.  
 ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.  
 ROA – return on assets – net income (or adjusted net income) divided by the average assets.  
 EBIT – earnings before interests and tax.  
 EBITDA – earnings before interests, tax, depreciation and amortization.  
 EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.  
 P/E – price to earnings ratio – price divided by earnings per share.  
 PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.  
 CAGR – compound annual growth rate.  
 BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.  
 P/BV – price to book value - price divided by the BVPS.  
 DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.  
 DY – dividend yield – dividend of a given year divided by the current price.  
 DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.  
 FV – Fair Value, calculated based on valuation methods outlined in the document.

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

#### IPOPEMA Research - Distribution by rating category (April 1 – June 30, 2022)

	Number	%
Buy	17	71%
Hold	5	21%
Sell	2	8%
Total	24	100%

#### Rating History – Sniezka

Date	Recommendation	Fair Value	Price at recommendation	Author
08/12/2020	U/R	-	-	-
08/09/2021	SELL	PLN 71.39	PLN 83.40	Michał Pilch
14/12/2021	SELL	PLN 64.61	PLN 77.80	Michał Pilch
04/07/2022	SELL	PLN 53.27	PLN 75.00	Michał Pilch