

Sniezka

Struggling to paint over cost pressure

We maintain our SELL recommendation on Sniezka and decrease our FV to PLN 64.61 per share, which implies 17% downside. In 2021 the company continued to underperform our expectations, prompting a decrease to our forecasts for 2021. Looking at the demand and cost outlook, we would expect results to remain flat in 2022 and slightly improve in the ensuing years. Our EBITDA forecast for 2021/22 amount to PLN 106.3m (down 22% y/y) & PLN 108.9m (up 3% y/y), translating into EV/EBITDA of 11.8x and 11.4x, respectively.

Demand outlook. Since our September report, the company has underperformed our quarterly expectations twice. We forecasted PLN 803.9m in revenues in 2021, but after 9M21 figures we would expect them to drop to PLN 785m (down 4.4% y/y). It turned out that factors such as a shift in consumer spending had a larger impact than anticipated. In terms of geographical segmentation, we were mostly disappointed by the Polish market, while Ukraine outperformed. In case of the latter, this might change drastically given a potential conflict with Russia.

Costs outlook. The issue of the high cost of key materials is just as challenging as it was when we wrote our previous report. The only positives we currently see are declines in titanium dioxide prices in China and in steel prices in North Europe (down 1.5% and 14%, respectively). Moreover, the company seems to be more aggressive in terms of implementing price hikes (according to PSB, for the Polish paint market they are still lower than for overall construction chemicals, though). On the other hand, binders' costs might be further affected by growing oil prices (up 4.8% vs. Sep'21). We would also expect higher pressure from labor costs caused by inflation and the FX impact from approx. EUR 50m of components bought in the EU currency (weakening PLN). The cost of energy is not a major concern as it accounts for a mere 1% of total manufacturing costs. In this environment, any major improvement in margins in 2022 is unlikely.

Capex & dividend expectations. Our initial assumption towards capex amounted to PLN 100m for 2021, but after the company's latest guidance we would increase it to PLN 105m. The dividend payout ratios assumed were maintained, but due to a lower net profit forecast for 2021 (PLN 53.2m vs. the previous PLN 67.1m), the DPS to be paid out in 2022 is expected to amount to PLN 2.5 vs. PLN 2.9 in our previous forecast (for the period 2023-25 DPS were also decreased).

Changes compared to the previous report. First of all, we noticed that sales are weaker than we anticipated (we underestimated price growth and overestimated volume growth). Also, we reevaluated our assumption for terminal growth, admitting that we were too conservative, thus we increase the terminal growth rate from 1% to 2%. Our DCF valuation has been deeply affected by a higher risk-free-rate caused by the current monetary policy of the Polish government.

Figure 1. Summary of financials

	2018	2019	2020	2021E	2022E	2023E
Revenues (PLN m)	586.8	717.1	821.3	785.4	793.4	812.7
EBITDA (PLN m)	98.4	106.8	136.1	106.3	108.9	126.9
EBIT (PLN m)	79.6	79	102.5	70.6	65.8	83.0
Net income (PLN m)	61.6	59.5	78	53.2	46.2	58.9
EPS (PLN)	5	5	6.8	4.6	4.1	5.2
DPS (PLN)	2.2	2.6	2.6	3.6	2.5	3.3
P/E (x)	14.6	16	13	16.9	18.8	14.9
EV/EBITDA (x)	10	11.1	10	11.8	11.4	9.6

Source: Company, IPOPEMA Research

Other sectors | Industrials

Sniezka

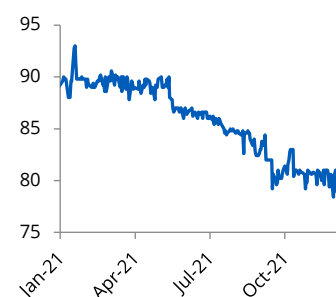
SELL

FV PLN 64.61 from PLN 71.39

17 % downside

Price as of 9 December 2021 PLN 77.80

Maintained



Share data

Number of shares (m)	12.6
Market cap (EUR m)	212.5
12M avg daily volume (k)	0.6
12M avg daily turnover (EUR 1)	0.01
12M high/low (PLN)	94.0/77.40
WIG weight	0.11
Reuters	SKA.WA
Bloomberg	SKA.PW

Total performance

1M	-2.3%
3M	-5.1%
12M	-7.6%

Shareholders

Mr Stanislaw Cymbor	20.14%
Mr Jerzy Pater	20.14%
OFE Aviva Santander	11.58%
Mr Rafal Mikrut	10.07%
Mr Piotr Mikrut	10.07%
OFE NN	9.35%
Other	18.65%

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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 (July 1 – September 30, 2021)

	Number	%
Buy	52	74%
Hold	14	20%
Sell	4	6%
Total	70	100%

Rating History – Sniezka

Date	Recommendation	Fair Value	Price at recommendation	Author
13/12/2021	SELL	PLN 64.61	PLN 77.80	Michał Pilch
08/09/2021	SELL	PLN 71.39	PLN 83.40	Michał Pilch
08/12/2020	U/R	-	-	-
10/07/2020	BUY	PLN 97.30	PLN 86.00	Piotr Jusiński