CEE Equity Strategy

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CEE Equity Research

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How to finish surfing the money wave?

Our baseline scenario assumes that bankers and politicians will stay in the tightening mode to address inflationary pressures. In an environment of fading stimulus, we prefer equities to other asset classes. We are negative on cash because of the negative real rates. We are sceptical about investing in either fixed income or real estate ahead of tapering and rate hikes. The inflation protection provided by equities, and the fact that some sectors will benefit from rate hikes, outweigh our doubts on demanding valuations and concerns about the impact of tightening on the outlook for EPS growth. Our bottom up approach implies close to 20% upside potential for regional stocks.

Central banks in the tightening mode? German Nov'21 CPI inflation at 6.0% was the highest since 1992, US inflation at 6.2% was the highest since 1990 and Polish inflation at 7.7% was the highest since 2001. All these records are beaten in an environment of expansionary monetary and expansionary fiscal policy. Politicians and bankers have long acted as if the economy is still in emergency mode and downplayed the need for normalization for instance by naming inflation as transitory. In the meantime, the rising cost of living and wage-price spiral have become a topic for the main street and therefore an issue to be prioritised by politicians. The process of eroding extremely low interest rates is beginning. It may be too late for taking small policy steps, and the delayed reaction to the inflationary environment may cause bankers to raise rates quickly and strongly. Looking into data for GDP and especially employment data we conclude that major economies including the CEE region, can accommodate sharp tightening at a relatively low risk of derailing the recovery.

Top Picks. We are **positive on banks** expecting them to benefit from rate hikes. Within consumer sector, we choose **Allegro** (74% upside), **Inter Cars** (82% upside) and **LPP** (51% upside) as top picks owing to their low valuations and the quality we see in their business models. We are positive on the Oil & Gas sector within which numerous companies are trading at trade double digit FCF yields - **MOL** is our top pick. In Utilities, we assume carve-out will finally take place, which would unlock very substantial upsides in all three State-controlled utilities (**Tauron** 125% upside, **Enea** 84% upside, **PGE** 74% upside). Re-rating of the European peers also comes in supportive. We are positive on **Budimex**, due to a record and high quality backlog. Taking into account supply shortages, we are positive on chemicals with **Ciech** being our preferred investment idea. Within industrials, we like the fundamentally solid **Grupa Kęty**. In gaming, we see **11 Bit** (36% upside) ir our top pick, as its long awaited busy publishing period has just started to materialize. **We like WPL** as a secular growth story at a reasonable price.

Risks. The range of potential outcomes related to the pandemic, inflation, and monetary policy seems wider now, which is reflected in the recent jump in the VIX. We have built a positive scenario for CEE equities, assuming the emerging risks to be manageable. The main risks relate to the virus, macro data (inflation, wage growth), monetary policy of NBP and the main central banks, and the fiscal policy of Poland, EU and the US.

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Top Buys:

11B, ALE, BDX, CAR, CIE, ENA, KTY, LPP, MOL, PEO, PGE, PKO, WPL

Throughout the report we use prices as November, 26 2021.

Fig. 1. Bottom-up target for indices

	12M upside	Index target (Dec'22)
WIG20	19.4%	2,550
mWIG40	18.0%	6,200

*Source: Santander Brokerage Poland, *WIG20 & mWIG40 coverage universe*

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Santander CEE Large/ Mid Caps Universe

Fig. 2. Recommendation summary and ratios

Company	Mkt Cap (local mn)	Rec.	Price	12M TP	Upside/ downside	P/E (x) 2021E	2022E	2023E	EV/EBITDA/ P/BV (x) 2021E	2022E	2023E
Financials						**12.2**	**11.2**	**9.3**	**1.24**	**1.22**	**1.16**
ALIOR BANK SA	7,024	BUY	53.8	63.0	17%	13.0	8.6	7.5	1.04	0.93	0.84
HANDLOWY	7,539	HOLD	57.7	59.0	2%	11.4	14.3	9.0	0.99	1.02	0.92
INGBSK	33,761	SELL	259.5	251.0	-3%	15.3	12.8	11.5	1.87	1.69	1.55
KOMERCNI BANKA	162,017	BUY	852.5	960.0	13%	13.3	11.9	12.3	1.27	1.32	1.27
MBANK SA	20,917	SELL	493.6	448.0	-9%	39.4	18.3	13.3	1.26	1.21	1.14
MILLENNIUM	9,280	SELL	7.7	6.4	-16%	-7.8	44.4	32.5	1.19	1.22	1.19
OTP BANK PLC	4,797,800	BUY	17,135.0	19,200.0	12%	10.1	9.7	8.9	1.70	1.54	1.40
PKOBP	52,375	BUY	41.9	47.0	12%	10.7	9.0	8.8	1.22	1.17	1.11
PEKAO	29,502	BUY	112.4	137.0	22%	14.4	9.5	8.5	1.15	1.06	1.03
PZU	30,189	HOLD	35.0	38.0	9%	10.6	10.6	9.5	1.61	1.62	1.57
Consumer Goods						**24.0**	**21.3**	**17.8**	**11.2**	**10.6**	**9.0**
ALLEGRO.EU SA	42,977	BUY	42.0	73.0	74%	33.0	37.1	29.1	22.0	22.3	17.0
AMREST HOLDINGS	6,191	BUY	28.2	41.4	47%	24.0	19.3	13.8	8.7	7.8	6.7
CCC SA	5,378	SELL	98.0	81.0	-17%	NM	42.2	27.9	27.6	13.7	9.8
DINO POLSKA SA	32,814	BUY	334.7	379.0	13%	40.2	31.5	24.2	25.7	20.1	15.5
EUROCASH	1,483	BUY	10.7	14.4	35%	NM	23.9	20.3	5.9	5.5	5.2
INTERCARS	5,837	BUY	412.0	750.0	82%	9.4	8.6	8.2	7.2	6.4	5.8
LPP	22,081	BUY	11,920.0	18,025.0	51%	15.1	14.3	12.0	8.7	8.0	6.7
NEUCA	3,545	HOLD	800.0	815.0	2%	17.3	16.4	14.4	11.2	10.6	9.0
PEPCO GROUP NV	26,393	BUY	45.9	61.5	34%	26.9	21.3	17.8	15.2	12.4	10.3
Energy/ Materials						**5.2**	**6.5**	**7.6**	**3.7**	**3.6**	**4.5**
LOTOS	10,260	BUY	55.5	70.0	26%	4.0	6.7	7.4	3.4	3.3	3.3
MOL	2,007,602	BUY	2,450.0	3,400.0	39%	3.7	5.9	7.9	2.8	3.1	3.1
OMV AG	15,127	BUY	46.22	65.0	41%	6.3	6.0	7.7	3.8	3.8	4.3
PKN ORLEN	31,496	HOLD	73.6	85.0	15%	4.1	9.3	9.0	4.1	4.9	4.7
PGNIG	32,913	BUY	5.7	7.7	35%	8.7	6.4	6.8	3.6	2.8	2.6
PGE SA	14,939	BUY	8.0	13.9	74%	4.1	7.9	6.9	4.3	7.0	5.5
POLENERGIA SA	3,604	HOLD	79.3	81.6	3%	10.2	27.2	26.9	12.8	15.3	15.5
TAURONPE	4,762	BUY	2.7	16.4	504%	7.0	6.3	3.2	5.0	7.3	5.8
ENEA	3,935	BUY	8.9	16.4	84%	2.6	2.8	5.4	3.6	3.3	5.2
CEZ AS	384,663	BUY	715.0	819.0	15%	18.4	12.9	13.0	9.9	8.6	8.9
KGHM	26,620	BUY	133.1	155.0	16%	5.3	6.5	7.1	3.0	2.9	2.8
JSW	4,464	SELL	38.0	26.0	-32%	5.0	3.0	11.8	2.2	1.3	2.3
Gaming						**30.6**	**51.0**	**15.1**	**23.8**	**31.1**	**7.8**
11 BIT STUDIOS S	1,180	BUY	499.0	682.0	37%	110.1	82.6	99.4	39.7	82.8	5.6
CD PROJEKT SA	18,689	SELL	185.5	115.0	-38%	39.7	82.8	5.6	29.9	46.2	3.5
TEN SQUARE GAMES	2,702	BUY	370.0	444.0	20%	14.2	12.4	11.4	11.5	11.7	10.0
PLAYWAY SA	2,897	BUY	439.0	555.0	26%	21.5	19.4	18.8	17.6	16.0	15.4
Industrials						**9.9**	**9.1**	**8.6**	**5.7**	**5.4**	**5.0**
AMICA	902	HOLD	116.0	149.0	28%	8.5	9.1	7.7	6.1	6.3	5.4
CIECH	2,229	BUY	42.3	56.6	34%	8.2	8.5	8.1	5.3	5.1	4.9
FAMUR	1,500	BUY	2.6	3.2	23%	13.9	9.5	12.4	5.0	4.4	5.1
GRUPA AZOTY SA	3,355	BUY	33.8	39.7	18%	10.1	7.0	9.1	4.2	3.8	3.9
KETY	5,501	BUY	570.0	686.8	20%	9.9	10.8	11.4	7.4	8.1	8.3
PKP CARGO SA	642	SELL	14.3	12.3	-14%	NM	NM	6.1	6.3	5.6	4.3
IT Sector						**16.4**	**15.6**	**15.0**	**7.6**	**7.3**	**7.1**
ASSECOPOL	7,536	BUY	90.8	100.0	10%	15.1	14.5	14.2	5.8	5.9	6.1
ASSECOSEE	2,439	HOLD	47.0	51.5	10%	17.7	16.6	15.8	9.3	8.6	8.1
COMARCH	1,732	BUY	213.0	272.0	28%	13.8	13.7	13.3	5.3	5.3	5.0
LIVECHAT SOFTWARE	3,157	BUY	122.6	136.0	11%	26.5	23.0	21.0	22.1	19.1	17.4
Pharmaceuticals						**25.3**	**27.1**	**10.9**	**18.7**	**15.8**	**8.8**
CELON PHARMA SA	1,427	BUY	31.7	49.0	55%	NM	NM	NM	45.1	NM	NM
RICHTER GEDEON N	1,607,483	BUY	8,625.0	10,600.0	23%	13.5	12.6	10.9	8.7	7.8	6.7
MABION	1,215	BUY	75.2	99.0	32%	NM	27.1	10.8	NM	21.9	8.8
SELVITA CRO SA	1,395	BUY	76.0	90.0	18%	37.1	28.7	24.0	18.7	15.8	13.1
Real Estate/Constr.						**9.2**	**8.2**	**9.8**			
BUDIMEX	5,949	BUY	233.0	320.0	37%	15.1	16.3	16.0	4.8	5.5	5.5
DOMDEV	2,834	BUY	111.6	137.0	23%	8.7	8.2	9.8	2.3	2.2	2.3
DEVELIA SA	1,202	BUY	2.7	3.4	27%	9.2	7.0	8.6	0.9	0.9	0.9
Telecoms						**6.1**	**13.4**	**12.8**	**4.1**	**5.2**	**5.0**
ORANGE POLSKA SA	11,076	SELL	8.4	7.1	-16%	6.1	16.0	13.5	5.0	5.2	5.0
CYFRPLSAT	21,783	SELL	34.1	33.2	-3%	4.9	13.4	12.8	3.6	7.4	7.1
MAGYAR TELEKOM	440,037	HOLD	422.0	466.0	10%	9.6	8.2	8.2	4.1	3.7	3.7
Other						**23.3**	**17.8**	**14.7**	**49.3**	**9.8**	**7.8**
WIRTUALNA POLSKA	3,977	BUY	136.0	180.0	32%	23.3	21.2	18.6	13.4	11.5	9.8
WIZZ AIR HOLDING	3,843	HOLD	3,729.0	4,500.0	21%	NM	14.3	10.7	85.2	8.1	5.8

*Source: Company data, Santander Brokerage Poland estimates *P/BV for Financials*

Changes in recommendations and TPs

Fig. 3. Changes to valuations & recommendations for companies in WIG20

Company	Mkt Cap (PLNmn)	Recommendation				12M Target Price			
		current	previous	change	Prev. Rec.	current	previous	chng. %	upside %
ALLEGRO.EU SA	42,977	BUY	BUY	–	10.08.2021	73	81	-10%	74%
ASSECOPOL	7,536	BUY	BUY	–	16.06.2021	100	85	18%	10%
CCC SA	5,378	SELL	SELL	–	16.06.2021	81	89	-9%	-17%
CD PROJEKT SA	18,689	SELL	SELL	–	16.06.2021	115	148	-22%	-38%
CYFRPLSAT	21,783	SELL	SELL	–	09.11.2021	33.2	32.9	1%	-3%
DINO POLSKA SA	32,814	BUY	HOLD	▲	29.10.2021	379	376	1%	13%
JSW	4,464	SELL	SELL	–	26.08.2021	26	14	86%	-32%
KGHM	26,620	BUY	HOLD	▲	17.09.2021	155	181	-14%	16%
LOTOS	10,260	BUY	BUY	–	02.11.2021	70	72	-3%	26%
LPP	22,081	BUY	HOLD	▲	16.06.2021	18,025	12,133	49%	51%
ORANGE POLSKA SA	11,076	SELL	SELL	–	30.07.2021	7.1	6.4	11%	-16%
PEKAO	29,502	BUY	BUY	–	02.12.2021	137	137	0%	22%
PGE SA	14,939	BUY	BUY	–	17.11.2021	13.9	13.7	1%	74%
PGNIG	32,913	BUY	BUY	–	06.09.2021	7.7	7.7	0%	35%
PKN ORLEN	31,496	HOLD	HOLD	–	29.10.2021	85	90	-6%	15%
PKOBP	52,375	BUY	BUY	–	02.12.2021	47	47	0%	12%
PZU	30,189	HOLD	HOLD	–	19.11.2021	38	39	-3%	9%
TAURONPE	4,762	BUY	BUY	–	17.11.2021	6.1	6.0	2%	125%

Source: Santander Brokerage Poland estimates

Fig. 4. Changes to valuations & recommendations for companies in mWIG40

Company	Mkt Cap (PLNmn)	Recommendation				12M Target Price			
		current	previous	change	Prev. Rec.	current	previous	chng. %	upside %
11 BIT STUDIOS S	1,180	BUY	BUY	–	16.06.2021	682	667	2%	37%
ALIOR BANK SA	7,024	BUY	BUY	–	02.12.2021	63	63	0%	17%
AMICA	902	HOLD	HOLD	–	16.06.2021	149	174	-14%	28%
ASSECOSEE	2,439	HOLD	BUY	▼	27.01.2021	51.5	46	12%	10%
GRUPA AZOTY SA	3,355	BUY	HOLD	▲	16.06.2021	39.7	35.9	11%	18%
BUDIMEX	5,949	BUY	BUY	–	15.10.2021	320	320	0%	37%
HANDLOWY	7,539	HOLD	HOLD	–	02.12.2021	59	59	0%	2%
INTERCARS	5,837	BUY	BUY	–	28.10.2021	750	610	23%	82%
CIECH	2,229	BUY	HOLD	▲	16.06.2021	56.6	53.6	6%	34%
CELON PHARMA SA	1,427	BUY	BUY	–	23.07.2021	49	55	-11%	55%
COMARCH	1,732	BUY	BUY	–	16.06.2021	272	275	-1%	28%
DOMDEV	2,834	BUY	BUY	–	27.08.2021	137	160	-14%	23%
DEVELIA SA	1,202	BUY	BUY	–	10.09.2021	3.4	4	-15%	27%
AMREST HOLDINGS	6,191	BUY	BUY	–	29.09.2021	41.4	39.6	5%	47%
ENEA	3,935	BUY	BUY	–	17.11.2021	16.4	16.1	2%	84%
EUROCASH	1,483	SELL	BUY	▲	03.11.2021	14.4	9.2	57%	35%
FAMUR	1,500	BUY	BUY	–	16.06.2021	3.21	2.96	8%	23%
INGBSK	33,761	SELL	SELL	–	02.12.2021	251	251	0%	-3%
KETY	5,501	BUY	HOLD	▲	30.09.2021	686.8	696.5	-1%	20%
LIVECHAT SOFTWARE	3,157	BUY	HOLD	▲	16.06.2021	136	125	9%	11%
MABION	1,215	BUY	HOLD	▲	11.10.2021	99	99	0%	32%
MBANK SA	20,917	SELL	SELL	–	02.12.2021	448	448	0%	-9%
MILLENNIUM	9,280	SELL	SELL	–	02.12.2021	6.4	6.4	0%	-16%
NEUCA	3,545	HOLD	HOLD	–	05.08.2021	815	976	-16%	2%
POLENERGIA SA	3,604	HOLD	SELL	▲	09.11.2021	81.6	81.9	0%	3%
PKP CARGO SA	642	SELL	SELL	–	27.08.2021	12.3	17.2	-28%	-14%
PLAYWAY SA	2,897	BUY	BUY	–	16.06.2021	555	605	-8%	26%
SELVITA SA	1,395	BUY	BUY	–	24.09.2021	90	86	5%	18%

Source: Santander Brokerage Poland estimates

Fig. 5. Changes to valuations & recommendations for CEE companies

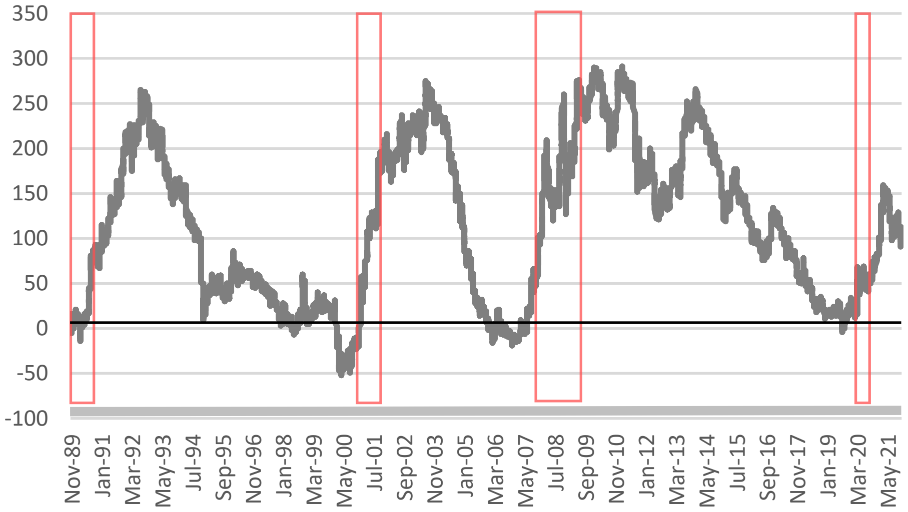
Company	Mkt Cap (local mn)	Curr.	Recommendation				12M Target Price			
			current	previous	change	Prev. Rec.	current	previous	chng. %	upside %
CEZ AS	384,663	CZK	**BUY**	**HOLD**	▲	16.06.2021	819	639	28%	15%
RICHTER GEDEON N	1,607,483	HUF	**BUY**	**BUY**	–	09.11.2021	10,600	10,600	0%	23%
KOMERCNI BANKA	162,017	CZK	**BUY**	**BUY**	–	24.11.2021	960.0	960.0	0%	13%
MAGYAR TELEKOM	440,037	HUF	**HOLD**	**BUY**	▼	18.08.2021	466	578	-19%	10%
MOL	2,007,602	HUF	**BUY**	**BUY**	–	08.11.2021	3,400	3,400	0%	39%
OMV AG	15,127	EUR	**BUY**	**BUY**	–	03.11.2021	65.0	66.0	-2%	41%
OTP BANK PLC	4,797,800	HUF	**BUY**	**BUY**	–	16.06.2021	19,200.0	19,000.0	1%	12%
PEPCO GROUP NV	26,393	PLN	**BUY**	**BUY**	–	25.06.2021	61.5	61.1	1%	34%
WIZZ AIR HOLDING	3,843	GBp	**HOLD**	**HOLD**	–	05.11.2021	4,500	5,000	-10%	21%

Source: Santander Brokerage Poland estimates

Investment summary

We think that current economic cycle should be shorter than the previous one that last 10 years. But we hope that it is still too early to be concerned about the crisis. We assume that the recent decline in difference between 10Y and 2Y is explained with the assumption of transitory inflation – something that market prices and we disagree with. We would expect long end of the yield curve to go up next making the chart below look less worrisome.

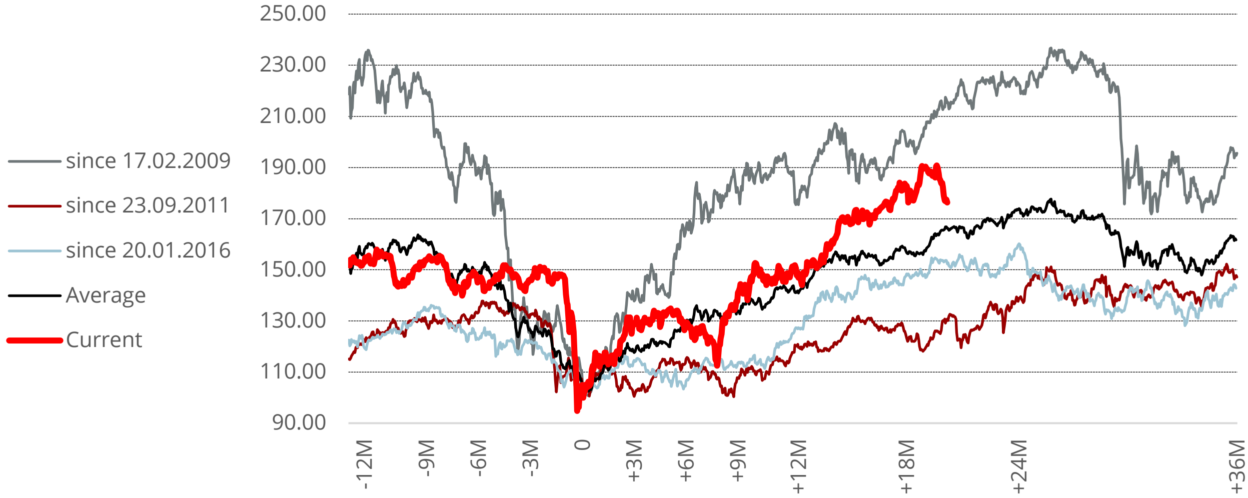
Fig. 6. 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity



Source: https://fred.stlouisfed.org/series/T10Y2Y, Santander Brokerage Poland

Less than 2 years passed since the covid outbreak. Historically this point in the cycle was marked with increased volatility but still offered some upside in the coming months. We would use the recent sell-off as buy opportunity.

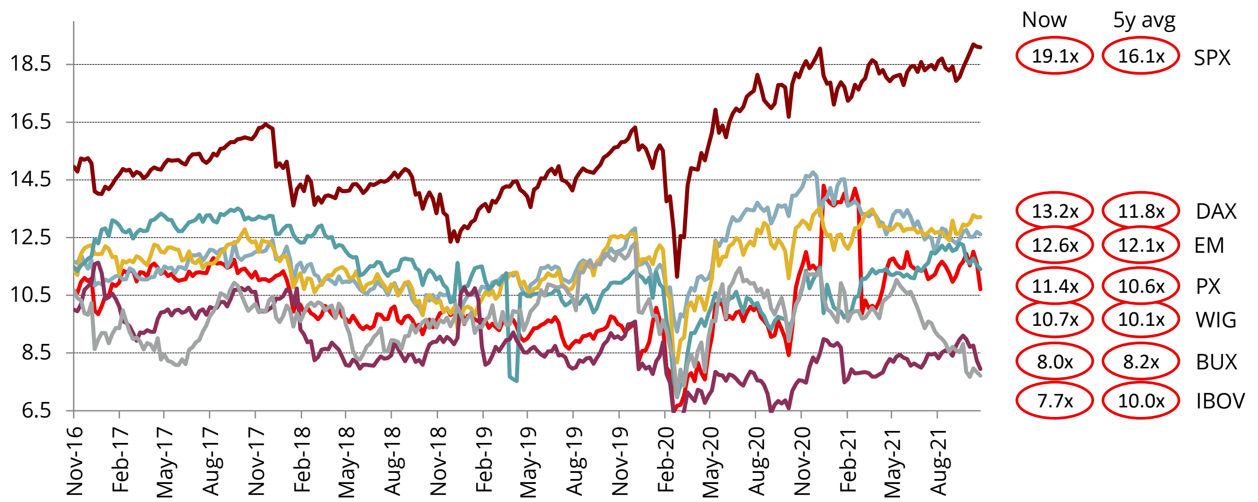
Fig. 7. WIG index – historical rebounds from local bottoms



Source: Bloomberg, Santander Brokerage Poland

Valuations in the region (WIG, PX, BUX) are close to the historical average for the last 5Y, e.g. according to Bloomberg consensus WIG trades at 12M FWD P/E of 10.7x vs 5y average of 10.1%. We have hopes for EPS expansion (e.g. at Polish banks) therefore still see some upside. We note that SPX and DAX trade at visible premium, whereas troubled IBOV offers double digit discount.

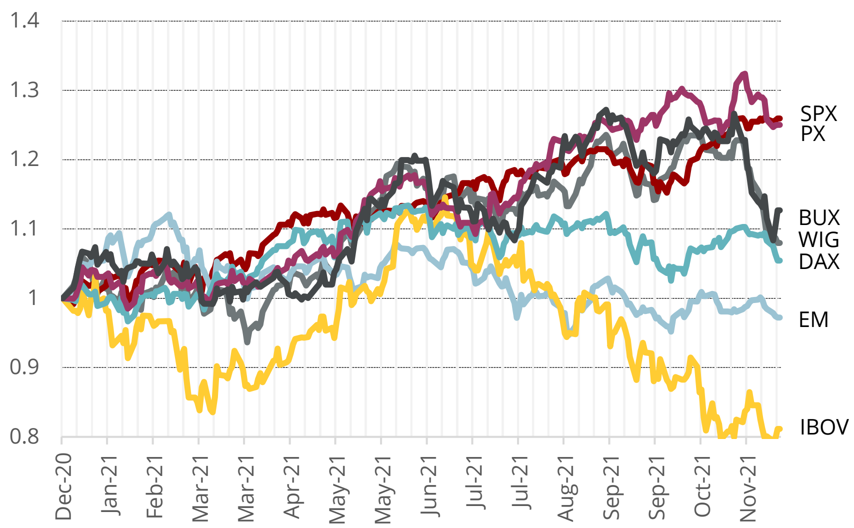
Fig. 8. Best P/E Ratio (2022E, Next two annuals)



Source: Bloomberg, Santander Brokerage Poland

After 3Y of visible underperformance (2018,2019 and 2020) CEE indices were catching up with SPX and outperforming DAX during most of 2021. But during the last month, BUX and WIG, were one of the weakest indices globally. Possibly due to the concerns around EU funds.

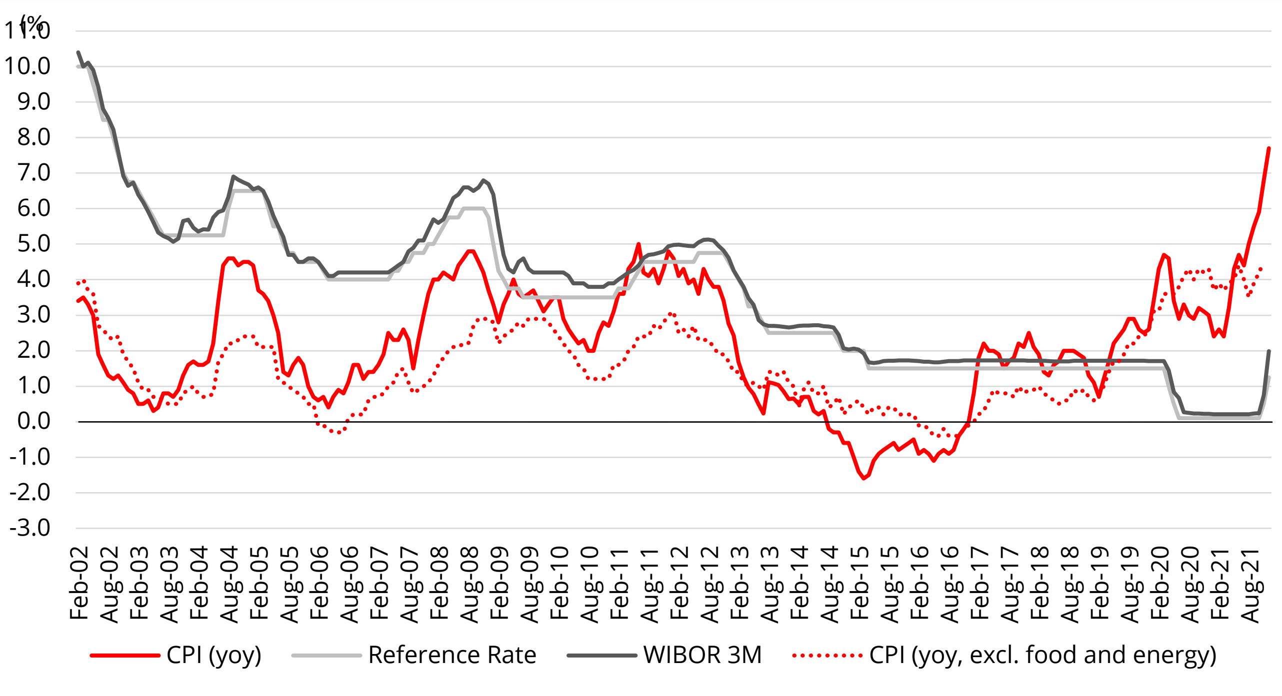
Fig. 9. Performance of main indices, USD terms



Source: Bloomberg, Santander Brokerage Poland.

German Nov'21 CPI inflation at 6.0% was highest since 1992, US inflation at 6.2% was highest since 1990, Polish inflation at 7.7% was highest since 2001. All those records are beaten in the environment of expansionary monetary and expansionary fiscal policies. Politicians and bankers long acted as if economy was still in the emergency mode and downplayed the need for normalization by e.g. naming inflation transitory. On the contrary we are concerned that inflation may be persistent, we think that wage-price spiral is already here. Raising cost of living is becoming the topic for the main street and therefore an issue to be prioritized by politicians. It may be too late for taking small steps, delayed reaction to inflationary environment and political pressure may cause bankers to raise rates quickly and strongly. Looking into GPD and especially employment data we conclude that major economies including CEE region can accommodate sharp tightening at relatively low risk of causing economic crises.

Fig. 10. Key rates in Poland



Source: NBP, Bloomberg, Santander Brokerage Poland

Technical Analysis

Looking for technical confirmation of fundamental calls

In this section we present our top picks which look most attractive based on technical analysis. We focus on the most probable technical patterns which may support fundamental ratings. Methodologically our technical analysis is based on Elliott's wave theory but it also contains technical oscillators (e.g. RSI) and some elements from the classical technical analysis.

11 BIT: A long term contracting triangle

From 2018 year (peak of wave 3) 11 BIT is developing a contracting triangle pattern which is in fact a consolidation in a long term uptrend. This pattern is about to end what may take place in a price zone of: PLN444 - PLN458 (typical Fibonacci retracement of wave d). After that, bulls are supposed to resume an uptrend what will build the last part of an impulse (wave 5). Wave 5 should at least exceed the termination point of a wave 3 (PLN548), but it is more common for a wave 5 to establish a new all-time high (above PLN619). A move below the termination point of a wave c (PLN395) invalidates presented technical scenario.

Fig. 11. 11 BIT – technical analysis

Source: AmiBroker for tool, Santander Brokerage Poland for technical indicators

CD Projekt: A breakout (to the downside) from a triangle pattern

In simple words CD Projekt is still in a downtrend, which has not been finalised yet. Last week, a corrective pattern (triangle) might have been finalised, from which price broke out to the downside. Currently price is below a strong resistance that consists of: a broken arm of a triangle, 50-day simple moving average and 200-day simple moving average. To sum up, one may assume that correction is over and downtrend has been resumed. In this technical scenario, price may plunge further below the termination point of brown wave 3 (PLN151). A move above termination point of a blue wave a (PLN212) invalidates presented wave count.

Fig. 12. CD Projekt – technical analysis

Source: AmiBroker for tool, Santander Brokerage Poland for technical indicators

Budimex: A correction is about to end

In a long term, Budimex is developing a corrective pattern (zigzag: a-b-c), that will finalise a brown wave 4 in an impulse. Currently price is heading to a very strong support that consists of: Fibonacci retracements of a brown wave 3, a price relationship and termination point of a black wave 4. In addition, on technical oscillator RSI one can spot a positive divergence that suggests a possible trend reversal. Finally, the time consumed by wave 4 is almost equal to the time consumed by wave 2, what is a typical relationship between corrective waves in an impulse. To sum up, a price is in a perfect place to reverse the downtrend.

Fig. 13. Budimex – technical analysis

Source: AmiBroker for tool, Santander Brokerage Poland for technical indicators

LPP: A new all-time high in sight

LPP is moving in a rising wedge pattern, developing an impulse (i-ii-iii-iv-v) which is supposed to establish a new all-time high. A corrective wave iv might have been finalised what means that the last part of a rising trend (wave v) has started. Price may continue its move upwards till PLN 18300, where strong resistance is located (wave proportion and upper band of a rising wedge).

Fig. 14. LPP – technical analysis

Source: AmiBroker for tool, Santander Brokerage Poland for technical indicators

Consumer goods

Fig. 15. Recommendation and valuation summary

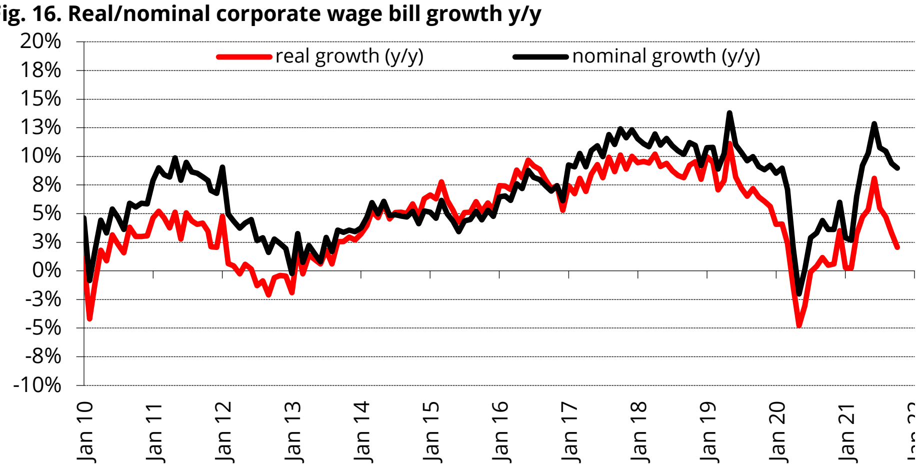
Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2021E	2022E	2023E	EV/EBITDA (x) 2021E	2022E	2023E
Allegro	Buy	73.0	42.0	74%	33.0	37.1	29.1	22.0	22.3	17.0
Amrest	Buy	41.4	28.2	47%	24.0	19.3	13.8	8.7	7.8	6.7
CCC	Sell	81.0	98.0	-17%	n.a.	42.2	27.9	27.6	13.7	9.8
Dino	Buy	379	335	13%	40.2	31.5	24.2	25.7	20.1	15.5
Eurocash	Buy	14.4	10.7	35%	n.a.	23.9	20.3	5.9	5.5	5.2
Inter Cars	Buy	750	412	82%	9.4	8.6	8.2	7.2	6.4	5.8
LPP	Buy	18,025	11,920	51%	15.1	14.3	12.0	8.7	8.0	6.7
Neuca	Hold	815	800	2%	17.3	16.4	14.4	11.2	10.6	9.0
Pepco	Buy	61.5	45.9	34%	26.9	21.3	17.8	15.2	12.4	10.3
Average					**23.7**	**23.8**	**18.6**	**14.7**	**11.9**	**9.6**

Source: Company data, Santander Brokerage Poland estimates

Consumer goods sector still offers growth opportunities

We remain optimistic toward the consumer goods sector as we have 7 Buy recommendations, 1 Hold and 1 Sell. Even though we think that 2022 might be a year of a worse-off consumer (declining real disposable income growth y/y due to the rising inflation), we think that anti-inflation shield and tax system reform might give some relief supporting consumer sentiment. We think that Polish consumer goods sector still offers a growth story. Apart from the well-known stories such as (1) long-term structural online shift (Allegro; Buy with TP PLN73), (2) rising importance of more rural food retail (Dino; Buy with TP PLN379), (3) ever rising popularity of the discount format (Pepco; Buy with TP PLN61.5), we see 'pricing power' theme as crucial for investors in the year of the likely high inflation of costs. The ability to pass it on to consumers seems indispensable from the perspective of protecting the margin. We see (1) Inter Cars (Buy with TP PLN750) - 'basic' service provider with high market share, (2) LPP (Buy, TP PLN18,025) - strong brands, on-trend collections and (3) Neuca (Hold with TP at PLN815 purely on valuation matters) – basic goods/service provider with high market share as the companies with the highest pricing power from consumer goods sector. We also try to catch the potential restructuring story in Eurocash (Buy from Sell with TP raised to PLN14.4). Despite the vulnerability to a potential lockdown, we see Amrest (Buy, TP PLN41.4) as well prepared for it. We still regard CCC as a Sell (TP PLN81) due to high implied valuation of its traditional retail. Apart from (1) operating costs inflation, (2) logistics bottlenecks and (3) stronger-than-expected decline of real disposable income, we see the resurgence of the Covid-19 pandemic as the largest threat to the consumer goods sector. We also see the risk of escalation of Russia vs. Ukraine conflict and resulting sanctions as the risk for companies with the exposure to Russia (LPP, CCC, Amrest).

Fig. 16. Real/nominal corporate wage bill growth y/y



Source: CSO

Allegro

Bloomberg: ALE PW, Reuters: ALEP.WA

CEE Equity Research

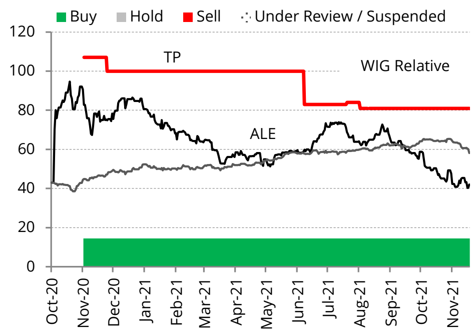
Consumer, Poland

Cheap leader of Polish e-commerce

- **Equity story.** We reiterate our Buy rating with a TP of PLN73 (-10% vs. prior PLN81), since Allegro offers attractively valued exposure on the growing e-comm sector. It has low multiples based on its (1) market share (2022E EV/GMV at 0.9x vs. peers 1.0x) and (2) earnings (2022E EV/EBIT at 34x vs. Amazon's ex-cloud 52x). Also, we see EBITDA/GMV margin decreasing temporarily due to (1) first-time recognition of investments costs in the Fulfilment Center (cPLN150mn adverse impact), (2) own parcel lockers chain, (3) resignation from direct take rate increases in 2022, and (4) expected special offer in the Smart! loyalty scheme in 2022. We decreased the 2022E adj. EBITDA by 8%, while GMV and sales forecast went down by 3%/1%, respectively. We think that Allegro's margin might improve afterwards mainly on (1) lower cost burden from the already implemented investments and (2) further development of financial services based mostly on the finder fee. We also see room for a take-rate improvement (c10% in Allegro vs. 15%+ in peers and 20%+ in Amazon). We think Allegro and Polish online market are well prepared for absorption of the newcomer, Amazon, which should ultimately grab some market share, benefiting from the acceleration of the growth of the online segment share in retail without any significant disruption to Allegro's market share.
- **Mall Group's takeover.** We estimate that recently announced Mall Group's takeover might add to our Allegro's DCF valuation c1%, which is not a meaningful impact. The largest upside to our MG's valuation stems from higher-than-assumed long-term EBITDA/GMV margin (now assumed at 3.0% vs. ALE's 4.5%). We estimate upside to our current DCF valuation at PLN5/shr.
- **Earnings forecasts.** Following 3Q21, we are decreasing our 2021E EBITDA and net profit forecast by 3%/2% due to lower-than-expected growth in 4Q21E. Our 2022E EBITDA/net profit went down by 8% and 12% on higher-than-expected adverse impact of new investments on costs.
- **Valuation and risks.** Our valuation went down by 10% to PLN73 (vs. prior PLN81) due to a lower multiple valuation, now at PLN53 (-14%) due to a lower EV/GMV multiple of 1.1x NTM GMV (vs. 1.4x before), which is 5% above intl. peers' multiple at 1.0x (much better margins). Our DCF valuation points at PLN93/shr. (vs. PLN101 before). Key risks to our valuation are: a sudden slowdown in the structural growth of the online segment in total retail, higher-than-expected increase in competitive pressure and a share overhang from the current owners.

RECOMMENDATION	Buy
Current price (PLN)	42.0
Target price (PLN)	**73.0**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Allegro: Financial summary and ratios *

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
GMV	22,802	35,111	42,183	57,438	72,616
Sales	2,592	3,998	5,305	10,116	12,045
Adj. EBITDA	1,338	1,750	2,108	2,185	2,784
Adj. net profit	617	952	1,304	1,196	1,524
EV/GMV (x)	3.2	2.1	1.0	0.9	0.7
P/E (x)	118.0	78.4	33.0	37.1	29.1
EV/EBITDA (x)	54.5	42.6	22.0	22.3	17.0

*Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices, * pro-forma P&L with estimated Mall Group's consolidation impact in 2022E*

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Fig. 17. Allegro: Quarterly results review

PLNmn	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	SANe	Cons.
GMV	8,253	10,851	9,596	10,440	9,897	19.9%	-5.2%	9,813	9,929
Sales	929	1,299	1,210	1,308	1,234	32.9%	-5.7%	1,219	1,223
adj. EBITDA	409	534	536	560	472	15.5%	-15.8%	475	480
margin	44.0%	41.1%	44.3%	42.8%	38.2%	-5.8	-4.6	38.9%	39.2%
GMV margin	4.9%	4.9%	5.6%	5.4%	4.8%	-0.2	-0.6	4.8%	4.8%
EBITDA	285	514	528	548	457	60.5%	-16.5%	475	480
margin	30.7%	39.5%	43.6%	41.9%	37.0%	6.4	-4.8	38.9%	39.2%
adj. net profit	22	337	330	359	390	1661.7%	8.4%	290	262
margin	0.3%	3.1%	3.4%	3.4%	3.9%	3.7	0.5	23.8%	21.4%
net profit	-132	261	270	296	324	n.a.	9.6%	237	n.a.
margin	-14.2%	20.1%	22.3%	22.6%	26.3%	40.5	3.7	19.4%	n.a.
Key KPI's									
Take rate (%)	9.4%	9.4%	10.4%	10.5%	10.3%	0.9	-0.2	10.2%	10.2%
Active Buyers (mn)	12.6	13.0	13.2	13.2	13.3	5.8%	0.8%	13.4	13.5

Source: Company data, Santander Brokerage Poland estimates

Fig. 18. Allegro: Forecasts changes *

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
GMV	42,183	43,059	-2.0%	52,604	54,027	-2.6%	66,257	68,040	-2.6%
Sales	5,305	5,402	-1.8%	6,592	6,640	-0.7%	8,407	8,370	0.4%
Adj. EBITDA	2,108	2,168	-2.8%	2,317	2,531	-8.4%	2,834	3,207	-11.6%
Adj. net profit	1,304	1,335	-2.3%	1,371	1,556	-11.9%	1,631	2,057	-20.7%

*Source: Santander Brokerage Poland estimates, * forecast change in Allegro alone; does not include Mall Group consolidation since 2022E*

Fig. 19. Allegro: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	93	101	-7%
Comparable valuation	53	61	-14%
Target Price	**73**	**81**	**-10%**

Source: Santander Brokerage Poland estimates, DCF/comparable valuation weights at 50%/50%

Fig. 20. Allegro: Financial statements forecast *

PLNmn	2019	2020	2021E	2022E	2023E
GMV	22,802	35,111	42,183	57,438	72,616
Net sales	2,592	3,998	5,305	10,116	12,045
Adj. EBITDA	1,338	1,750	2,108	2,185	2,784
EBIT	886	1,123	1,550	1,428	1,814
Profit before tax	513	617	1,452	1,212	1,617
Net profit (reported)	393	419	1,147	982	1,310
Adj. net profit	617	952	1,304	1,196	1,524
Adj. EBITDA/GMV margin	5.9%	5.0%	5.0%	3.8%	3.8%
Adj. EBITDA margin	51.6%	43.8%	39.7%	21.6%	23.1%
EBIT margin	34.2%	28.1%	29.2%	14.1%	15.1%
Adj. net margin	23.8%	23.8%	24.6%	11.8%	12.7%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	852	1,945	3,397	4,795	6,572
Fixed assets	13,426	13,202	13,180	13,217	13,247
Total assets	14,278	15,148	16,577	18,012	19,820
Current liabilities	809	890	1,172	1,450	1,841
bank debt	360	1	1	1	1
Long-term liabilities	6,785	6,168	6,168	6,168	6,168
bank debt	6,059	5,535	5,437	5,437	5,437
Equity	6,684	8,090	9,236	10,394	11,811
Total liability and equity	14,278	15,148	16,577	18,012	19,820
Net debt	6,010	4,326	3,476	4,436	2,980
Net Debt/ EBITDA (x)	4.5	2.5	1.6	2.0	1.1

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	1,247	1,510	1,272	2,365	2,356
CF from investment	-203	-218	-500	-700	-900
CF from financing, incl.	-1,434	-511	0	0	0
dividends	-2,736	0	0	0	0
Net change in cash	-390	781	772	1,665	1,456

*Source: Company data, Santander Brokerage Poland estimates, * Pro-forma P&L and net debt with estimated Mall Group's consolidation impact in 2022E*

Santander

AmRest

Bloomberg: EAT PW, Reuters: AMRR.WA

CEE Equity Research

Consumer, Poland

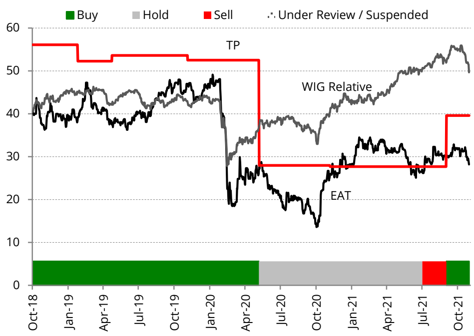
3Q21 resilient to Covid-19

RECOMMENDATION	Buy
Current price (PLN)	28.2
Target price (PLN)	**41.4**

- **Equity story.** We are leaving our Buy recommendation unchanged. We are increasing our TP to PLN41.4 (+5%) after better-than-expected financial results in 3Q21. We are increasing our 2021E EBITDA/net profit forecast by 4%/29%, respectively. Our key rationale behind our Buy rating are the following: (1) Amrest is well prepared for the looming lockdown risk in 4Q21 and is ready to earn profit despite unfavourable conditions, (2) we believe that the Covid-19 would ultimately be a sad history, not a 'new normal', (3) Amrest's QSR segment should benefit from the likely worse-off consumer next year, (4) Amrest should be able to successfully address cost pressures in 2022E through operating efficiencies, increase of dine-in share (now at 39% vs. 55% before the pandemic) leading to a better fixed costs leverage and, last but not least (4) Amrest's balance sheet should be much stronger with net debt/EBITDA at 2.4x comparing to looming >9x in 2020.
- **Earnings forecasts.** Following 3Q21, we are increasing our 2021E EBITDA and net profit forecast by 4%/29% thanks to better-than-expected margins. Our 2022E EBITDA/net profit went up by 1% and 57% (lower D&A assumption), respectively. We have included current anti-Covid restrictions in Russia in our forecast.
- **4Q21E results preview.** Our early forecast of 4Q21E points at sales growth at 26% y/y to EUR499mn and EBITDA doubling y/y to EUR96mn. Net profit should amount to EUR1mn vs. EUR23mn loss last year. Please note that so far Amrest has been enjoying low base from the previous year as dine-ins were closed since 24 Oct 2020 in Poland, while restrictions on other markets had been imposed even earlier. So far, the only restrictions we have included in our forecast are the ones in Russia (flat EBITDA y/y) in 4Q21E.

  Valuation and risks. We value Amrest at PLN41.4/shr. on 12M forward perspective. Our TP has increased 5% thanks to a 6% higher DCF valuation, now at PLN40.1/shr. (50% weight) and a 4% higher multiple valuation at PLN42.8/shr. (higher NTM EBITDA forecast; target multiple at 11.8x reiterated; 50% weight). Apart from the looming lockdown risk, we see (1) labour force shortages, (2) inflationary pressure on opex, (3) faster moves by competitors with stronger balance sheets in the M&A field, as the main risks in the short/medium term.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Amrest: Financial summary and ratios

Year to Dec, EURmn	2019	2020	2021E	2022E	2023E
Sales	1,962	1,523	1,877	2,024	2,227
EBITDA (pre lease)	258	62	216	244	290
EBIT	106	-143	98	116	153
Net profit (adj., pre lease)	55	-151	57	71	98
P/E (x)	38.5	n.a.	24.0	19.3	13.8
EV/EBITDA (x)	10.6	31.8	8.7	7.8	6.7
DY	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 21. Amrest: Quarterly results review

EURmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	Cons.	SANe
Sales	411.9	272.1	441.4	397.5	380.0	464.4	533.6	20.9%	14.9%	518.2	533.7
EBITDA	42.6	32.7	79.5	46.9	49.6	104.1	107.5	35.2%	3.3%	98.3	103.4
EBITDA margin	10.3%	12.0%	18.0%	11.8%	13.1%	22.4%	20.1%	2.1	-2.3	19.0%	19.4%
net profit	-41.6	-110.7	-6.3	-23.4	-19.9	21.8	26.6	n.a.	22.0%	21.7	24.6
net margin	-10.1%	-40.7%	-1.4%	-5.9%	-5.2%	4.7%	5.0%	n.a.	0.3	4.2%	4.6%

Source: Company data, Santander Brokerage Poland estimates

Fig. 22. Amrest: Forecasts changes

EURmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	1,877	1,879	0%	2,024	1,995	1%	2,227	2,177	2%
EBITDA (pre lease)	216	207	4%	244	242	1%	290	283	3%
EBIT	98	81	20%	116	83	40%	153	114	35%
net profit (adj., pre lease)	57	44	29%	71	45	57%	98	69	43%

Source: Santander Brokerage Poland estimates

Fig. 23. Amrest: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	40.1	37.9	*6%*
Comparable valuation	42.8	41.2	*4%*
Target Price	**41.4**	**39.6**	***5%***

Source: Santander Brokerage Poland estimates, DCF/comparable valuation weights at 50%/50%

Fig. 24. Amrest: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	1,962	1,523	1,877	2,024	2,227
EBITDA	394	202	358	390	447
EBITDA (pre lease)	258	62	216	244	290
EBIT	106	-143	98	116	153
Profit before tax	93	-201	49	68	105
Net profit	65	-182	35	49	77
Net profit (adj., pre lease)	55	-151	57	71	98
EBITDA margin	13.1%	4.0%	11.5%	12.0%	13.0%
EBIT margin	5.4%	n.a.	5.2%	5.7%	6.9%
Net margin	3.3%	n.a.	1.9%	2.4%	3.4%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	265	312	383	383	350
Fixed assets	2,170	1,803	1,837	1,913	2,063
Total assets	2,435	2,114	2,220	2,296	2,413
Current liabilities	499	478	534	557	589
bank debt	64	94	94	94	94
Long-term liabilities	1,459	1,372	1,388	1,395	1,405
bank debt	656	677	677	677	677
Equity	477	265	298	345	420
Total liability and equity	2,435	2,114	2,220	2,296	2,413
Net debt	614	566	520	530	577
Net Debt/ EBITDA (x)	1.6	9.2	2.4	2.2	2.0

EURmn	2019	2020	2021E	2022E	2023E
CF from operations	326	179	328	331	385
CF from investment	-220	12	-139	-192	-275
CF from financing, incl.	-118	-92	-143	-148	-158
dividends	0	0	0	0	0
Net change in cash	-12	99	46	-10	-47

Source: Company data, Santander Brokerage Poland estimates

CCC

Bloomberg: CCC PW, Reuters: CCCC.WA

CEE Equity Research

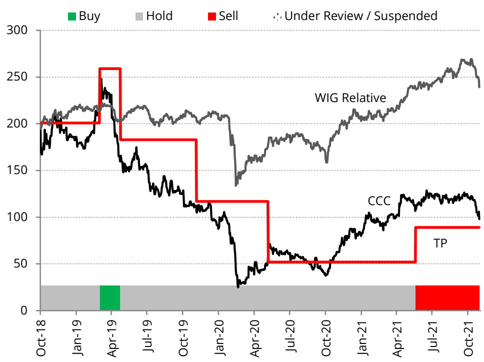
Consumer, Poland

Too expensive

RECOMMENDATION	Sell
Current price (PLN)	98.0
Target price (PLN)	**81.0**

- **Equity story.** We are leaving our Sell recommendation with the TP at PLN81/shr. purely on valuation matters. Our SOTP valuation (70% of valuation) of CCC's traditional and online business points at PLN67/shr. We estimate that the traditional business (all other than the online) is valued at 14x FY22E EBITDA (pre-lease) of PLN188mn (58% of the pre-pandemic pre-lease EBITDA at PLN319mn). This is much above LPP's FY22E pre-lease EV/EBITDA at 8.0x, which we think is unjustified.
- **Strategy update.** Update to GO.22 strategy was vast and robust. It appears that CCC plans to address all new trends in both online and omni-channel, starting from going more into fashion through building some bigger presence in the merchandising platform model to even going into the most state-of-the art technologies (cryptocurrencies, meta verse). Summing up, CCC plans to triple the business (vs. LTM sales in 3Q21) in 2025E and achieve at least 12% EBITDA margin at that time. We see the strategy as ambitious.
- **Valuation.** Our DCF valuation is going up 26% to PLN113/shr. reflecting CCC's strategy update. In brief, we assumed (1) sales at PLN15bn (71% of the target at cPLN20bn) in FY25E, (2) 12% EBITDA margin (IFRS16), (3) capex at 4.0% of revenues. SOTP is based on the FY22E pre-lease EBITDA for both traditional (PLN188mn, which is 58% of the pre-pandemic pre-lease EBITDA at PLN319mn) and online (PLN327mn, +20% y/y, 7.3% margin) businesses. We applied (1) 21x multiple for online valuation (in line with the recent transactions of selling minority stakes to new shareholders in e-obuwie), which results in EV at PLN6,871mn and (2) 7.0x (discount to LPP's FY22E pre-lease EV/EBITDA at 8.0x due to material differences in the business model quality), which results in EV at PLN1,315mn. We excluded the net debt at PLN1.7bn and the minority share of PLN2.4bn (35% of e-obuwie EV estimated at PLN6.9bn). We also applied 10% of a conglomerate discount.
- **Earnings forecasts.** We decreased our 2021E EBITDA forecast by 18%. We now expect the 2021E net loss at PLN70mn (vs. profit of PLN14mn). The 2021E sales went up 5%. 2022E sales forecast went up 7%, while the EBITDA forecast remained unchanged.
- **Valuation and risks.** We are decreasing our valuation by 7% to PLN81 per share vs. the prior PLN89. We are more focused on the SOTP (70% weight vs. 50% before, PLN67/shr.) than DCF valuation (30% weight vs. 50% before, PLN113/shr.) as we would like to concentrate on the medium term rather than on the long-term strategy, which we see ambitious. The main risks to our TP are (1) faster-than-expected rebound of profitability in traditional business and (2) faster-than-expected growth of EBITDA in the online segment.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

CCC: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	5,403	5,639	7,569	8,529	10,146
EBITDA	412	-47	257	515	717
EBIT	207	-627	-1	200	279
Net profit	-88	-803	-30	128	192
P/E (x)	n.a.	n.a.	n.a.	42.2	27.9
EV/ EBITDA (x)	13.3	n.a.	27.6	13.7	9.8
Dividend Yield	0.5%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 25. CCC: Quarterly results review

PLNmn	1Q20/21	2Q20/21	3Q20/21	4Q20/22	1Q21/22	2Q21/22	3Q21/22	y/y	q/q	3Q21/22P
Sales	772	1,457	1,621	1,412	1,428	2,048	2,070	27.7%	1.1%	2,067
EBITDA	-142	23	146	-74	35.4	233	216	47.7%	-2.8%	226
EBITDA margin	-18.4%	1.6%	9.0%	-5.3%	2.5%	11.4%	10.4%	1.4	-0.4	10.9%
EBIT	-288	-130	5	-178	-101	79.6	73	14x	-8.2%	80
EBIT margin	-37.3%	-8.9%	0.3%	-12.6%	-7.1%	3.9%	3.5%	3.2	-0.4	3.9%
net profit	-368	-212	-21	-319	-134	42	12	n.a.	-70.7%	53
net margin	-47.7%	-14.5%	-1.3%	-22.6%	-9.4%	2.1%	0.6%	1.9	-1.5	1.6%

Source: Company data, Santander Brokerage Poland estimates

Fig. 26. CCC: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	7,569	7,240	5%	8,529	7,955	7%	10,146	8,710	16%
EBITDA	638	779	-18%	951	940	1%	1,153	1,068	8%
EBIT	-1	92	-101%	200	245	-18%	279	350	-20%
Net profit	-70	14	-604%	87	141	-38%	152	226	-33%

Source: Santander Brokerage Poland estimates, DCF/SOTP valuation weights at 30%/70%

Fig. 27. CCC: Valuation changes

PLN per share	New	Previous	Change
DCF valuation	113	90	26%
SOTP	67	88	-24%
Target Price	**81**	**89**	**-9%**

Source: Santander Brokerage Poland estimates, DCF/SOTP valuation weights at 30%/70% as we are more focused on the medium term rather than on the long-term strategy

Fig. 28. CCC: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	5,403	5,639	7,569	8,529	10,146
Gross profit	2,595	2,457	3,301	3,850	4,587
EBITDA	923	57	638	951	1,153
EBITDA (adj., pre lease)	412	-47	257	515	717
- B&M (pre lease)	319	-241	-14	188	326
- online (pre lease)	93	194	271	327	392
EBIT	207	-627	-1	200	279
Profit before tax	105	-968	-86	108	188
Net profit	-27	-1,280	-70	87	152
Net profit (adj., pre lease)	-88	-803	-30	128	192
EBITDA margin	7.6%	-0.8%	3.4%	6.0%	7.1%
EBIT margin	3.8%	-11.1%	0.0%	2.3%	2.8%
Net margin	-0.5%	-22.7%	-0.9%	1.0%	1.5%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	2,933	3,272	3,919	4,023	4,323
Fixed assets	4,211	3,375	3,432	3,458	3,425
Total assets	7,144	6,647	7,351	7,480	7,748
Current liabilities	2,958	3,552	2,798	2,840	2,956
bank debt	1,197	400	400	400	400
Long-term liabilities	3,096	2,785	4,313	4,313	4,313
bank debt	683	473	2,000	2,000	2,000
Equity	1,090	310	240	327	479
Total liability and equity	7,144	6,647	7,351	7,480	7,748
Net debt	972	1,211	1,716	1,702	1,648
Net Debt/ EBITDA (x)	2.4	-25.9	6.7	3.3	2.3

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	987	-62	190	791	896
CF from investment	-714	-262	-260	-341	-406
CF from financing, incl.	-106	240	295	-436	-436
dividends	-24	0	0	0	0
Net change in cash	167	-84	225	14	54

Source: Company data, Santander Brokerage Poland estimates

Santander

Dino

Bloomberg: DNP PW, Reuters: DNP.WA

CEE Equity Research

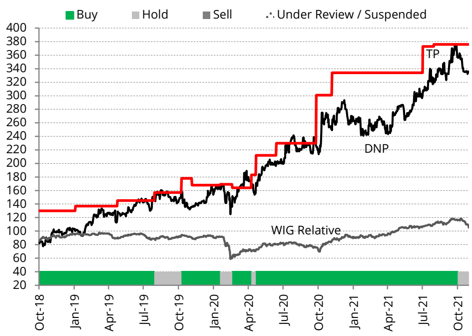
Consumer, Poland

Long term growth story

- **Equity story.** We are increasing our recommendation to a Buy with a nearly unchanged TP at PLN379. Lower (1%) DCF valuation was covered by increased (3%) multiple valuation. We think that the ongoing share price correction brought it to the point, which might be seen as attractive from the mid-/long term perspective (13% upside to our TP). We think that short-term margin setbacks should be overcome by a more affordable comparable base starting from the 2Q22, steadily increasing Dino's bargaining power and superior care about operating efficiency. We think that the growth story with 2020-23E CAGR of sales and EPS at 27%/28% should prevail and an ongoing correction would create an attractive entry point from the long-term perspective.
- **Earnings forecasts.** Following the 3Q21 results release, we are decreasing our sales/EBITDA/net profit forecast by 1%/4%/6% in 2021E due to a slightly lower LFL (10.1% vs. prior 10.9%) and a more conservative look at the gross margin. Our 2022E sales/EBITDA/net profit forecasts were also decreased by 1%/4%/5% for sales reasons.
- **4Q21E results preview.** Our early look points at (1) sales of PLN3,592mn (+30% y/y; LFL at 10.6%, NSC at 19%, (2) gross profit at PLN926mn (+24.7% y/y, margin at 24.7%, down 110 bps y/y), (3) opex at PLN606mn (16.9% vs. sales; 64bps down). All in all, we see EBITDA at PLN389mn (+24% y/y, margin at 10.8%, down 51bps y/y). We see net profit at PLN246mn (+21% y/y).
- **Valuation and risks.** We are leaving our valuation nearly unchanged at PLN379/shr. (vs. prior PLN376). Lower (1%) DCF valuation (PLN449/share; 50% weight) was covered by increased (3%) multiple valuation (PLN309, 50% weight) on higher NTM EBITDA forecast (+7%). In the multiple valuation, we continue to use a 32x target P/E (10% discount to Dino's 2017-20 avg. P/E of 36x) on NTM net profit and 20x target EV/EBITDA (10% discount to the 2017-20 avg. EV/EBITDA of 22x). A sudden slowdown of new store rollout and same-store sales growth, as well as increased competition from discounters, are the key downside risks to our TP.

RECOMMENDATION	Buy
Current price (PLN)	334.7
Target price (PLN)	**379.0**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Dino: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	7,647	10,126	13,091	16,639	20,889
EBITDA	725	1,036	1,300	1,643	2,083
EBIT	562	838	1,052	1,338	1,720
Net profit	411	644	816	1,042	1,356
P/E (x)	34.4	44.0	40.2	31.5	24.2
EV/ EBITDA (x)	20.5	28.3	25.7	20.1	15.5
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 29. Dino: Quarterly results review

PLNmn	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	Cons.	SANe
Sales	2,123	2,220	2,465	2,676	2,764	2,761	3,250	3,487	30.3%	7.3%	3,499	3,540
EBITDA	219	190	239	294	313	243	310	358	21.7%	15.5%	367	386
EBITDA margin	*10.3%*	*8.6%*	*9.7%*	*11.0%*	*11.3%*	*8.8%*	*9.5%*	*10.3%*	-0.7	0.7	*10%*	*11%*
EBIT	174	144	191	243	260	188	251	293	20.3%	16.8%	306	321
EBIT margin	*8.2%*	*6.5%*	*7.8%*	*9.1%*	*9.4%*	*6.8%*	*7.7%*	*8.4%*	-0.7	0.7	*9%*	*9%*
net profit	130	104	148	188	204	145	196	229	21.4%	16.6%	240	253
net margin	*6.1%*	*4.7%*	*6.0%*	*7.0%*	*7.4%*	*5.2%*	*6.0%*	*6.6%*	-0.5	0.5	*7%*	*7%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 30. Dino: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	13,091	13,226	-1.0%	16,639	16,873	-1.4%	20,889	21,252	-1.7%
EBITDA	1,300	1,360	-4.4%	1,643	1,714	-4.1%	2,083	2,128	-2.1%
EBIT	1,052	1,113	-5.5%	1,338	1,412	-5.2%	1,720	1,768	-2.7%
Net profit	816	863	-5.5%	1,042	1,103	-5.5%	1,356	1,397	-2.9%

Source: Santander Brokerage Poland estimates

Fig. 31. Dino: Valuation changes

PLN per share	New	Previous	Change
DCF	449	450	-0.2%
Comparable valuation:	309	302	2.3%
EV/EBITDA (x)	*300*	*292*	*2.7%*
P/E (x)	*318*	*311*	*2.3%*
Target price	**379**	**376**	**0.8%**

Source: Santander Brokerage Poland estimates, DCF/comparable valuation weights at 50%/50%

Fig. 32. Dino: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	7,647	10,126	13,091	16,639	20,889
Gross profit	1,861	2,604	3,309	4,196	5,331
EBITDA	725	1,036	1,300	1,643	2,083
EBIT	562	838	1,052	1,338	1,720
Profit before tax	502	789	1,004	1,287	1,673
Net profit	411	644	816	1,042	1,356
EBITDA margin	9.5%	10.2%	9.9%	9.9%	10.0%
EBIT margin	7.3%	8.3%	8.0%	8.0%	8.2%
Net margin	5.4%	6.4%	6.2%	6.3%	6.5%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	1,135	1,517	2,169	2,978	4,175
Fixed assets	3,216	4,054	4,754	5,629	6,556
Total assets	4,351	5,571	6,923	8,606	10,730
Current liabilities	1,868	2,081	2,614	3,252	4,016
bank debt	295	260	260	260	260
Long-term liabilities	860	1,223	1,226	1,229	1,233
bank debt	849	1,214	1,214	1,214	1,214
Equity	1,622	2,267	3,083	4,125	5,481
Total liability and equity	4,351	5,571	6,923	8,606	10,730
Net debt	748	992	643	197	-565
Net Debt/ EBITDA (x)	1.0	1.0	0.5	0.1	-0.3

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	799	820	1,296	1,626	2,052
CF from investment	-828	-1,000	-947	-1,179	-1,290
CF from financing, incl.	155	267	0	0	0
dividends	0	0	0	0	0
Net change in cash	126	86	349	446	763

Source: Company data, Santander Brokerage Poland estimates

Eurocash

Bloomberg: EUR PW, Reuters: EUR.WA

CEE Equity Research

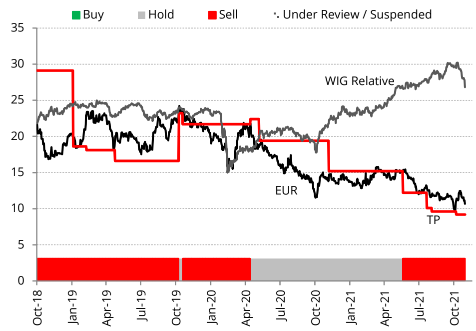
Consumer, Poland

Deep value stock

RECOMMENDATION	Buy
Current price (PLN)	10.7
Target price (PLN)	**14.4**

- **Equity story.** We are reversing our recommendation to a Buy from a Sell. We are increasing our valuation to PLN 14.4/shr. (up by 57%) after a positive surprise in 3Q21. We are raising the 2021-23E financial forecast mainly due to the higher profitability forecast of the retail segment. We think it should be fuelled by (1) organic cost improvement, which we see at PLN10mn/quarter, (2) PLN17mn annual cost savings from the closed stores. We also think that Arhelan's consolidation that started in 4Q20E should be margin-accretive (5% EBITDA margin on PLN400mn sales). We also expect that the low-base effect additionally depressed by the PLN80mn provision in retail in 2Q20 might contribute to the growth. We think that the quarterly results' improvement might be a catalyst behind the share price increase, as we see Eurocash's valuation as low with EV (ex. Frisco) / EBITDA at just 3.5x. We believe that this price is a too pessimistic scenario for the whole/retail segments. We also think that the recent successful restructuring story in Tesco or Marks&Spencer shows that it is possible to conduct in a troubled food industry.
- **Earnings forecasts.** Following the 3Q21 results release, we are increasing our sales/EBITDA forecast by 2%/12% respectively in 2021E mainly thanks to the increased margin projection in 4Q21E. Our 2022E sales/EBITDA forecast were also increased by 4%/16% for the same reasons.
- **4Q21E results preview.** Our first look points at sales growth at 5.8% y/y to PLN6,657mn, EBITDA advance at 6.8% y/y to PLN259mn (11% y/y to PLN162mn in pre-lease terms). Our 4Q22E EBITDA forecast went up by 10% thanks to both higher EBITDA forecast in retail (PLN109mn vs. prior PLN92mn) and wholesale (PLN180mn vs. prior PLN166mn).
- **Risks.** The main risk to our recommendation is worse-than-expected profitability of both wholesale and retail segment and higher-than-assumed loss in the New Businesses segment. The main short-term business risks remain the same and include (1) inflationary pressure on opex and (2) unfavourable regulatory rulings with regards to anti-trust law and 1% tax on revenues implementation. The main long-term business risks are (1) unfavourable changes in the retail market structure and (2) intensified competition landscape in e-grocery, which might prevent Frisco's value from flourishing in the coming years.
- **Valuation.** We are increasing our valuation by 57% to PLN14.4/shr. from PLN9.2/shr. DCF valuation increased 61% to PLN14.0/shr. (increased 2021-23E financial forecast, 50% share). We also switched our multiple valuation (50% share) to SOTP, where we value separately (1) Eurocash's wholesale and retail assets (6.2x 2022E EBITDA at PLN490mn (Eurocash's EBITDA of PLN423mn increased by an est. EBITDA loss attributable to Frisco at PLN67mn) and (2) e-grocery Frisco (2x 2022E sales at PLN685mn). We assumed minority (Arhelan) share at PLN90mn, 2022E net debt at PLN644mn and 20% of conglomerate discount. Our SOTP valuation points at PLN14.8/shr.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Eurocash: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	24,852	25,411	26,149	26,985	27,419
EBITDA (adj., pre lease)	415	416	403	428	445
EBIT	245	250	102	141	149
Net profit (adj., pre lease)	100	103	-1	68	80
P/E (x)	30.4	19.0	n.a.	23.9	20.3
EV/ EBITDA (x)	8.6	6.5	5.9	5.5	5.2
Dividend Yield	4.6%	0.0%	4.1%	1.2%	1.2%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 33. Eurocash: Quarterly results review

PLNmn	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	Cons.	SANe
Sales	6,257	5,919	6,196	7,006	6,290	5,812	6,551	7,030	0.3%	7.3%	7,088	7,042
EBITDA	237	126	210	225	242	116	87	236	4.8%	170.8%	209	203
EBITDA margin	3.8%	2.1%	3.4%	3.2%	3.9%	2.0%	1.3%	3.4%	0.1	2.0	3.0%	2.9%
EBIT	88	-10	72	88	101	-34	-58	94	6.9%	n.a.	61	50
EBIT margin	1.4%	-0.2%	1.2%	1.3%	1.6%	-0.6%	-0.9%	1.3%	0.1	2.2	0.9%	0.7%
Net profit	42	-61	41	32	49	-70	-97	27	-14.8%	n.a.	26	12
Net margin	0.7%	-1.0%	0.7%	0.5%	0.8%	-1.2%	-1.5%	0.4%	-0.1	1.9	0.4%	0.2%

Source: Company data, Santander Brokerage Poland estimates

Fig. 34. Eurocash: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	26,149	25,761	2%	26,985	26,016	4%	27,419	26,421	4%
EBITDA	403	358	12%	428	370	16%	445	372	20%
EBIT	102	28	265%	141	107	31%	149	101	48%
Net profit	-1	13	-104%	69	45	53%	80	36	123%

Source: Santander Brokerage Poland estimates

Fig. 35. Eurocash: Valuation changes

PLN per share	New	Previous	*Change*
DCF	14.0	8.7	61%
SOTP	14.8	9.7	52%
Target price	**14.4**	**9.2**	**57%**

Source: Santander Brokerage Poland estimates, DCF/SOTP valuation weights at 50%/50%

Fig. 36. Eurocash: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	24,852	25,411	26,149	26,985	27,419
Gross profit	3,243	3,367	3,375	3,509	3,577
EBITDA	809	804	702	811	829
EBITDA pre lease	415	416	403	428	445
EBIT	245	250	102	141	149
Profit before tax	113	108	-25	12	26
Net profit	70	62	-85	10	21
Net profit (adj., pre lease)	100	103	-1	69	80
EBITDA pre lease margin	3.3%	3.2%	2.7%	3.0%	3.0%
EBIT margin	1.0%	1.0%	0.4%	0.5%	0.5%
Net margin	0.3%	0.2%	-0.3%	0.0%	0.1%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	2,972	2,978	2,709	2,798	2,885
Fixed assets	4,913	5,088	5,217	5,208	5,193
Total assets	7,885	8,066	7,926	8,006	8,079
Current liabilities	4,959	4,494	4,611	4,687	4,750
bank debt	670	259	270	250	250
Long-term liabilities	1,558	2,134	2,039	2,039	2,039
bank debt	0	595	500	500	500
Equity	897	935	783	773	774
Total liability and equity	7,885	8,066	7,926	8,006	8,079
Net debt	523	736	760	716	673
Net Debt/ EBITDA (x)	1.3	1.8	1.9	1.7	1.5

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	683	557	784	720	725
CF from investment	-300	-301	-404	-269	-274
CF from financing, incl.	-433	-285	-487	-427	-407
dividends	-143	-3	-67	-19	-19
Net change in cash	-50	-29	-108	24	44

Source: Company data, Santander Brokerage Poland estimates

Santander

Inter Cars

Bloomberg: CAR PW, Reuters: IRCR.WA

CEE Equity Research

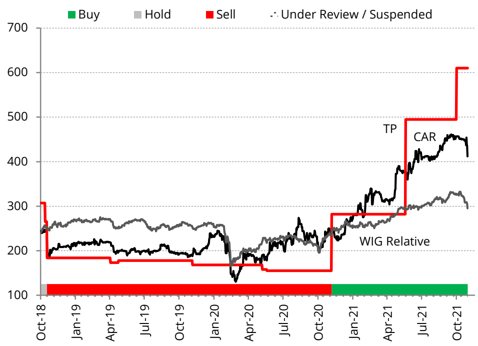
Consumer, Poland

On the wave

- **Equity story.** We are reiterating our Buy rating with another increase in the 12M target price to PLN750/shr. (+23%). The key rationale behind the TP increase is the earnings forecast rise after a strong 3Q21. Our Buy recommendation is based on an upbeat outlook from the company pointing at (1) high sales growth momentum in the coming months, (2) continued sales growth in 2022E, and (3) scope for a further positive operating leverage effect resulting from price/unit increases. We agree that most factors responsible for the car repairs market growth should stay intact next year (low new cars supply, high imports of used cars and the rising utilisation of car parks). All in all, we expect sales and net profit 2021-23E CAGR at 16.3% and 32.9%, respectively. We also expect high returns to persist 2021-23E with ROCE at >20%.
- **Earnings forecasts.** After the 3Q21 results release, we are again raising our 2021E sales/EBITDA/net profit forecast by 1%/15%/18% respectively in 2021-23E. 2022E EBITDA/net profit forecast is going up by 15%/18%. The 2022E sales forecast remains unchanged.
- **4Q21E results preview.** Our early look points at another strong quarter. We see sales growth at 27% y/y to PLN3,244mn, EBITDA at PLN310mn (+46% y/y) and net profit at PLN215mn (+94% y/y). Our 4Q21E EBITDA and net profit forecast is 20%/24% higher than our previous forecast.
- **Valuation.** We are increasing our TP by 23% to PLN750/shr. thanks to the DCF valuation 32% increase to PLN779/shr. (50% weight) and comparable valuation 15% increase to PLN721/shr. (50% weight). A sudden slowdown of car repairs market growth and a lack of cost control poses the largest risk to the margins projection. We would also point to problems with logistics and the possible intensification of competition, as the key risks to our TP.

RECOMMENDATION	Buy
Current price (PLN)	412
Target price (PLN)	**750**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Inter Cars: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	8,764	9,159	11,997	13,305	14,399
EBITDA (adj., pre lease)	420	583	969	1,047	1,087
EBIT	332	507	892	968	1,008
Net profit (adj., pre lease)	226	341	687	749	782
P/E (x)	12.7	9.8	8.5	7.8	7.5
EV/ EBITDA (x)	9.2	7.1	6.6	5.8	5.2
Dividend Yield	0.4%	0.0%	0.3%	1.2%	1.3%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 37. Inter Cars: Quarterly results review

PLNmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	Cons.
Sales	2,250	2,273	1,955	2,166	2,492	2,546	2,557	3,026	3,170	27%	5%	3,121
EBITDA	134.7	80.9	83.8	170.7	171.1	212.7	185.3	238.6	286.1	67%	20%	215.5
EBITDA margin	6.0%	3.6%	4.3%	7.9%	6.9%	8.4%	7.2%	7.9%	9.0%	2.2	1.1	6.9%
EBIT	95.4	68.7	50.6	138.9	138.6	178.9	153.1	206.4	255.4	84%	24%	182.5
EBIT margin	4.2%	3.0%	2.6%	6.4%	5.6%	7.0%	6.0%	6.8%	8.1%	2.5	1.2	5.8%
Net profit	65.8	45.8	26.4	107.7	88.3	110.7	116.1	162.0	195.8	122%	21%	140.6
Net margin	2.9%	2.0%	1.3%	5.0%	3.5%	4.3%	4.5%	5.4%	6.2%	2.6	0.8	4.5%

Source: Company data, Santander Brokerage Poland estimates

Fig. 38. Inter Cars: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	11,997	11,902	1%	13,305	13,257	0%	14,399	14,349	0%
EBITDA	969	844	15%	1,047	911	15%	1,087	940	16%
EBIT	892	768	16%	968	832	16%	1,008	861	17%
Net profit	687	584	18%	749	639	17%	782	663	18%

Source: Santander Brokerage Poland estimates,

Fig. 39. Inter Cars: Valuation changes

PLN per share	New	Previous	*Change*
DCF	779	592	32%
multiple valuation	721	627	15%
Target P/E (x)	*708*	*622*	14%
Target EV/EBITDA (x)	*733*	*632*	16%
Target Price	**750**	**610**	**23%**

Source: Santander Brokerage Poland estimates, DCF/multiple valuation weights at 50%/50%

Fig. 40. Inter Cars: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	8,764	9,159	11,997	13,305	14,399
Gross profit	2,583	2,743	3,636	4,032	4,321
EBITDA	462	638	1,024	1,101	1,142
EBITDA pre lease	420	583	969	1,047	1,087
EBIT	332	507	892	968	1,008
Profit before tax	280	444	861	936	978
Net profit	227	333	689	749	782
Net profit (adj., pre lease)	226	341	687	749	782
EBITDA pre lease margin	4.8%	6.4%	8.1%	7.9%	7.6%
EBIT margin	3.8%	5.5%	7.4%	7.3%	7.0%
Net margin	2.6%	3.6%	5.7%	5.6%	5.4%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	3,225	3,465	4,231	4,967	5,710
Fixed assets	1,199	1,214	1,233	1,261	1,297
Total assets	4,424	4,679	5,463	6,228	7,007
Current liabilities	1,355	1,273	1,389	1,474	1,545
bank debt	576	493	493	493	493
Long-term liabilities	1,023	1,010	1,010	1,010	1,010
bank debt	566	536	536	536	536
Equity	2,047	2,395	3,064	3,744	4,452
Total liability and equity	4,424	4,679	5,463	6,228	7,007
Net debt	999	796	554	227	-173
Net Debt/ EBITDA (x)	2.4	1.4	0.6	0.2	-0.2

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	459	444	413	557	645
CF from investment	-105	-71	-96	-106	-115
CF from financing, incl.	-325	-282	-75	-124	-130
dividends	-10	0	-20	-69	-75
Net change in cash	29	90	242	327	400

Source: Company data, Santander Brokerage Poland estimates

Santander

LPP

Bloomberg: LPP PW, Reuters: LPPP.WA

CEE Equity Research

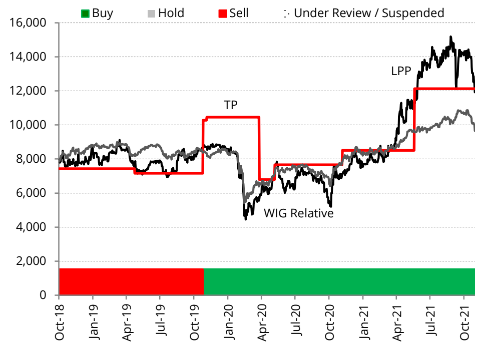
Consumer, Poland

Strength of business model

- **Equity story.** We are increasing our recommendation to a Buy, as we think that LPP is likely to report strong financial results in 2H21/22E and successfully address most of adverse issues likely impacting apparel retailers in FY22E. We are rising the TP to PLN18,025/shr. (+49%) thanks to financial results forecast increase. We think that the 2H21/22E results growth should be seen as a proof of LPP's business model's high quality and outperformance. Its competitive edge driven by technological advancement boosts its high responsiveness to the fast changing environment (strong or weak demand, pandemic induced shock, supply-side challenges) and results in the superior customer proposition (on-trend collections, in-store experience, online proposition, fulfilment etc.) in a well-integrated omni-channel model, which is as advanced as that of global fast fashion leaders. In this light, we expect that after a strong FY21E, LPP should continue improving financial results with sales and EBITDA growing at +24%/+9% y/y in FY22E, respectively. We also expect attractive DPS at PLN467 (DY at 3.9%).
- **Earnings forecasts.** Expecting strong 2H21 driven by sound online sales growth and strong demand in offline, we increase the FY21E sales/EBITDA/net profit forecast by 20%/42%/130%, respectively. We also increase FY22E sales/EBITDA/net profit forecast by 31%/40%/107%, respectively.
- **3Q2122E results preview.** We expect that 3Q21/22E was a buoyant period for LPP. We expect that (1) the continued strong consumer demand coupled with (2) high quality of LPP's fashion offer and (3) low prior year's base (LFL at -8.3% y/y last year) resulted in a strong LFL growth in offline (+20% y/y) and an even more spectacular growth in online (+100% y/y) resulted from investments in logistics on foreign markets. All in all, we expect the 3Q21/22E sales at PLN3,563mn (+46% y/y), gross profit at PLN2,070mn (+50% y/y; margin at 58.1%; +150bps), EBITDA at PLN836mn (+49% y/y; margin at 23.5%; +50bps y/y) and net profit at PLN357mn (+45% y/y, margin at 10.0%).
- **Valuation.** We are increasing our TP by 49% to PLN18,025/shr. thanks to DCF valuation 34% increase to PLN18,307/shr. (50% weight) and 68% increase of comparable valuation to PLN17,743/shr. (50% weight; 12.0x FY22E pre lease EBITDA at PLN2,685mn). EV/EBITDA at 12.0x is a long-term average of global apparel peers (ITX and HM) and we think LPP deserves such valuation because of high quality of its business. A sudden slowdown of consumer demand, increase of competition pressure or lower-than-expected demand for LPP's collection are key business risks. Also, we would point at the external risk to our equity story, namely a likely escalation of Russia of and Ukraine conflict, which might result in some international sanctions imposed on Russia's economy – a meaningful driver of LPP's business.

RECOMMENDATION	Buy
Current price (PLN)	11,920
Target price (PLN)	**18,025**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

LPP: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	9,899	7,848	13,664	16,895	19,504
EBITDA (adj., pre lease)	1,244	609	2,465	2,685	3,170
EBIT	806	153	1,911	2,019	2,406
Net profit (adj., pre lease)	529	60	1,452	1,535	1,833
P/E (x)	30.6	253.0	15.1	14.3	12.0
EV/ EBITDA (x)	12.1	24.0	8.7	8.0	6.7
Dividend Yield	0.7%	0.0%	3.8%	3.9%	4.2%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 41. LPP: Quarterly results review

PLNmn	2Q19/20	3Q19/20	4Q19/20	1Q20/21	2Q20/21	3Q20/21	4Q20/21	1Q21/22	2Q21/22	3Q21/22E	y/y	q/q
Sales	2,345	2,332	2,724	1,179	2,129	2,446	2,094	2,350	3,643	3,563	*46%*	*-2%*
EBITDA	423	581	594	18	308	563	337	344	864	854	*52%*	*-1%*
EBITDA margin	*18.0%*	*24.9%*	*21.8%*	*1.5%*	*14.5%*	*23.0%*	*16.1%*	*14.7%*	*23.7%*	*24.0%*	*1.0*	*0.3*
EBIT	186	335	294	-261	32	301	80	87	595	549	*82%*	*-8%*
EBIT margin	*7.9%*	*14.4%*	*10.8%*	*-22.1%*	*1.5%*	*12.3%*	*3.8%*	*3.7%*	*16.3%*	*15.4%*	*3.1*	*-0.9*
Net profit	32	236	194	-362	-31	247	-44	22	459	371	*50%*	*-19%*
Net margin	*1.4%*	*10.1%*	*7.1%*	*-30.7%*	*-1.4%*	*10.1%*	*-2.1%*	*0.9%*	*12.6%*	*10.4%*	*0.3*	*-2.2*

Source: Company data, Santander Brokerage Poland estimates

Fig. 42. LPP: Forecasts changes

PLNmn	FY21E			FY22E			FY23E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	13,664	11,404	19.8%	16,895	12,930	30.7%	19,504	14,398	35.5%
EBITDA	3,131	2,210	41.6%	3,502	2,511	39.5%	4,120	2,838	45.2%
EBIT	1,911	931	105.2%	2,019	1,069	88.8%	2,406	1,267	89.9%
Net profit	1,362	592	130.1%	1,445	698	107.0%	1,743	851	104.8%

Source:, Santander Brokerage Poland estimates

Fig. 43. LPP: Valuation changes

PLN per share	New	Previous	*Change*
DCF	18,307	13,705	34%
multiple valuation	17,743	10,561	68%
Target Price	**18,025**	**12,133**	**49%**

Source: Santander Brokerage Poland estimates, DCF/multiple valuation weights at 50%/50%

Fig. 44. LPP: Financial statements forecast

PLNmn	01.20	01.21	01.22E	01.23E	01.24E
Net sales	9,899	7,848	13,664	16,895	19,504
Gross profit	5,146	4,084	7,651	8,952	10,528
EBITDA	1,899	1,226	3,131	3,502	4,120
EBITDA pre lease	1,244	609	2,465	2,685	3,170
EBIT	806	153	1,911	2,019	2,406
Profit before tax	665	-117	1,769	1,876	2,264
Net profit	421	-190	1,362	1,445	1,743
Net profit (adj., pre lease)	529	60	1,452	1,535	1,833
EBITDA pre lease margin	12.6%	7.8%	18.0%	15.9%	16.3%
EBIT margin	8.1%	1.9%	14.0%	11.9%	12.3%
Net margin	5.3%	0.8%	10.6%	9.1%	9.4%

PLNmn	01.20	01.21	01.22E	01.23E	01.24E
Current assets	3,735	4,733	5,074	5,715	6,724
Fixed assets	5,871	5,621	6,456	7,226	7,801
Total assets	9,606	10,354	11,530	12,941	14,525
Current liabilities	2,510	3,516	4,136	4,956	5,702
bank debt	109	521	521	521	521
Long-term liabilities	3,849	3,770	3,790	3,795	3,800
bank debt	171	191	191	191	191
Equity	3,247	3,068	3,604	4,190	5,023
Total liability and equity	9,606	10,354	11,530	12,941	14,525
Net debt	-1,081	-566	-438	-414	-820
Net Debt/ EBITDA (x)	-0.6	-0.5	-0.1	-0.1	-0.2

PLNmn	01.20	01.21	01.22E	01.23E	01.24E
CF from operations	1,848	1,075	2,753	3,088	3,606
CF from investment	-861	-1,007	-1,388	-1,437	-1,339
CF from financing, incl.	-670	-151	-1,493	-1,675	-1,861
dividends	-110	0	-827	-858	-910
Net change in cash	316	-84	-129	-24	406

Source: Company data, Santander Brokerage Poland estimates

Santander

Neuca

Bloomberg: NEU PW, Reuters: TORF.WA

CEE Equity Research

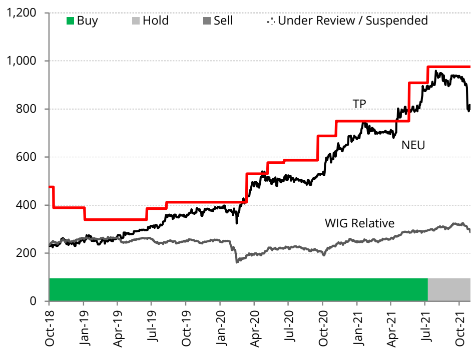
Consumer, Poland

Still too expensive

RECOMMENDATION	Hold
Current price (PLN)	800
Target price (PLN)	**815**

- **Equity story.** We are reiterating Hold with the TP at PLN815 (-18%) purely due to valuation matters. We think that Neuca's multiples at 2021/22E P/E at 17.3x/16.4x and EV/EBITDA at 11.2x/10.6x are too high. The 5Y average P/E and EV/EBITDA amounts to 13.1x and 8.6x. Besides, we think that Neuca might find it hard to improve its financial results in 2022E to justify such a high valuation due to the rising pressure on operating costs (labour also inflating logistics costs) and high comparable base from 2020. While we agree that Neuca is a quality stock (leadership position of the growing drug wholesale market, strong exposure on retail through partnerships, strong own labels, rising presence in clinical trials and, recently, medical insurance), we do see current share price as an attractive entry point to that story.
- **Earnings forecasts.** After the 3Q21 results release, we are decreasing our 2021E EBITDA/net profit forecast by 3%/5%,. 2022E EBITDA/net profit forecast is going down by 14%/16%. 2021E/22E sales forecast went up by 3%/1%. More cautious look at margins was the main culprit behind the profit forecast decrease.
- **4Q21E results preview.** Our early look points at flattish financial results growth in 4Q21E. We see sales growth at 8% y/y to PLN2,591mn, EBITDA at PLN62mn (+2.3% y/y) and adj. net profit at PLN33mn (+19% y/y). Our 4Q21E EBITDA and net profit forecast is 14%/12% lower than our previous forecast.
- **Valuation.** We are decreasing our valuation by 17% to PLN815/ shr. due to both lower DCF valuation (-18% to PLN953 on decreased financial forecasts, 50% weight) and comparable valuation (-14% to PLN676, 50% weight). The latter includes equally weighted (1) mid-cycle valuation (based on 13.1x/8.6x (decreased from the prior 14.4x/9.4x due to the expected profits growth slowdown) target P/E and the EV/EBITDA multiple on NTM pre-lease net profit (PLN191mn) / EBITDA (PLN286mn) and (2) peer valuation (PLN676/share). Apart from the market and legal risks, pressure on labour/logistics costs or problems with the delivery of the strategy in the Patient Care segment are the main risks to our TP.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Neuca: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	8,272	9,254	9,774	10,616	11,365
EBITDA (adj., pre lease)	204	261	291	297	333
EBIT	157	213	201	222	242
Net profit (adj., pre lease)	124	170	185	196	223
P/E (x)	12.7	11.9	17.3	16.4	14.4
EV/ EBITDA (x)	8.8	8.3	11.2	10.6	9.0
Dividend Yield	7.6%	2.7%	1.4%	1.5%	1.7%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 45. Neuca: Quarterly results review

PLNmn	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	Cons.	SANe
Sales	2,150	2,637	1,910	2,306	2,400	2,299	2,331	2,552	10.7%	9.5%	2,495	2,515
EBITDA	48.2	84.9	56.4	75.3	60.6	83.3	55.7	78.7	4.5%	41.3%	77.6	85.4
EBITDA margin	2.2%	3.2%	3.0%	3.3%	2.5%	3.6%	2.4%	3.1%	-0.2	0.7	3.1%	3.4%
EBIT	33.7	70.1	40.3	59.0	43.2	64.7	36.6	59.7	1.2%	63.1%	61.3	65.1
EBIT margin	1.6%	2.7%	2.1%	2.6%	1.8%	2.8%	1.6%	2.3%	-0.2	0.8	2.5%	2.6%
net profit	24.9	49.7	29.9	45.3	18.8	49.9	36.0	40.1	-11.4%	11.4%	45.3	52.7
net margin	1.2%	1.9%	1.6%	2.0%	0.8%	2.2%	1.5%	1.6%	-0.4	0.0	1.8%	2.1%

Source: Company data, Santander Brokerage Poland estimates

Fig. 46. Neuca: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	9,774	9,498	*2.9%*	10,616	10,504	*1.1%*	11,365	11,248	*1.0%*
EBITDA	291	300.81	*-3.2%*	297	344.25	*-13.8%*	333	385.961	*-13.8%*
EBIT	201	238.65	*-15.9%*	222	266.11	*-16.5%*	242	291.822	*-17.1%*
Net profit	185	195.74	*-5.4%*	196	231.35	*-15.5%*	223	267.671	*-16.8%*

Source: Santander Brokerage Poland estimates

Fig. 47. Neuca: Valuation changes

PLN per share	New	Previous	*Change*
DCF	953	1,168	*-18.4%*
multiple valuation	676	783	*-13.6%*
Target Price	**815**	**976**	***-16.5%***

Source: Santander Brokerage Poland estimates, DCF/multiple valuation weights at 50%/50%

Fig. 48. Neuca: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	8,272	9,254	9,774	10,616	11,365
Gross profit	835	981	1,010	1,116	1,195
EBITDA	212	277	280	315	351
EBITDA (pre lease)	204	261	291	297	333
EBIT	157	213	201	222	242
Profit before tax	155	194	205	228	262
Net profit	117	142	157	185	212
Net profit (adj., pre lease)	124	170	185	196	223
EBITDA pre lease margin	2.5%	2.8%	3.0%	2.8%	2.9%
EBIT margin	1.9%	2.3%	2.1%	2.1%	2.1%
Net margin	1.4%	1.5%	1.6%	1.7%	1.9%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	2,397	2,427	2,642	2,972	3,308
Fixed assets	1,055	1,179	1,216	1,247	1,271
Total assets	3,451	3,606	3,858	4,220	4,579
Current liabilities	2,653	2,545	2,683	2,907	3,106
bank debt	291	64	64	64	64
Long-term liabilities	155	285	286	287	289
bank debt	0	97	97	97	97
Equity	642	766	879	1,016	1,174
Total liability and equity	3,451	3,606	3,858	4,220	4,579
Net debt	212	139	55	-61	-207
Net Debt/ EBITDA (x)	1.0	0.5	0.2	-0.2	-0.6

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	202	325	244	289	331
CF from investment	-136	-147	-98	-106	-114
CF from financing, incl.	-20	-234	-63	-67	-72
dividends	-32	-37	-44	-49	-53
Net change in cash	46	-56	83	116	146

Source: Company data, Santander Brokerage Poland estimates

PEPCO

Bloomberg: PCO PW, Reuters: PEPP.WA

CEE Equity Research

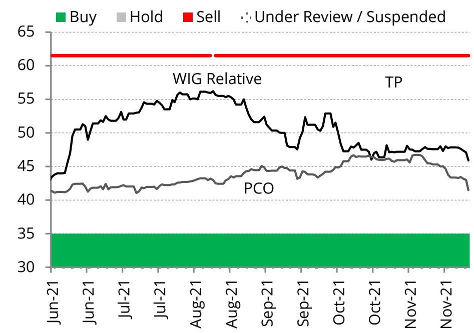
Consumer, Poland

Well positioned for slowdown

- **Equity story.** We are leaving our Buy recommendation with a barely changed TP at PLN61.5/shr (vs. PLN61.1/shr). We think that Pepco as a discounter is well positioned for consumers who are likely to be worse off in 2022E. In our opinion, Pepco is well prepared to address cost pressure issues with utilising internal operating efficiencies, while its discount price tag makes it well-positioned to benefit from intensified traffic during times of increased inflation. Also, anti-inflation shield and tax system reform should positively impact the demand for Pepco's prices. The long-term equity story behind investments in Pepco's shares remains unchanged. We see it as appealing from the perspective of the further store chain roll-out potential, not only in CEE but also in the Western Europe, (2) LFL growth enhancement, and (3) operating efficiencies. We also believe that it should be a beneficiary of a post Covid-19 world characterised by discounters' continued market share growth in retail. Last but not least, Pepco Group plans to start dividend payments from 2022E, which we assume at EUR64mn (DPR at 40%).
- **Earnings forecasts.** After the 1H21 results release, we are leaving our 2021E sales/EBITDA/net profit forecast unchanged. 2022E sales/EBITDA/net profit forecast were increased by 2%/1%/1%, respectively mainly due to the slightly higher LFL growth in Pepco than we expected.
- **Valuation.** We are leaving our valuation barely changed at PLN61.5/shr. The DCF valuation points at PLN75.9/shr. (50% weight) and multiple valuation at PLN47.1/shr. (50% weight). The latter includes (1) Pepco's EV at PLN5,718mn (14.1x 2022E pre-lease EBITDA of PLN406mn) and (2) P/D's EV at PLN379mn (5.4x 2022E pre-lease EBITDA of PLN70mn) and (3) 2022E pre-lease net debt at PLN76mn. As the main risks for Pepco we see (1) prolonged Covid-19 pandemic, (2) further growth of the online competition, (3) slower rollout of new stores, (4) increased competition from other discounters, (5) wage pressure, (6) logistics disruption and (7) risk of potential share overhang from the parent company.

RECOMMENDATION	Buy
Current price (PLN)	45.9
Target price (PLN)	**61.5**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Pepco: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	3,415	3,518	4,080	4,687	5,322
EBITDA (adj., pre lease)	333	230	395	475	559
EBIT	255	152	295	359	425
Net profit (adj., pre lease)	149	64	216	273	326
P/E (x)	39.2	90.7	26.9	21.3	17.8
EV/ EBITDA (x)	18.9	26.8	15.2	12.4	10.3
Dividend Yield	0.0%	0.0%	0.0%	0.2%	0.4%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 49. Pepco: Interim results review

EURmn, year to Sept.	1H20	1H21
Sales	1,911	1,995
chng.	n.a.	4.4%
LFL	n.a.	-2.1%
trading stores LFL	n.a.	5.0%
Underlying EBITDA	277	324
chng	n.a.	16.8%
Underlying PBT	76	112
chng	n.a.	47.2%
store number	2,844	3,246

Source: Company data, Santander Brokerage Poland estimates

Fig. 50. Pepco: Forecasts changes

EURmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	4,080	4,080	0.0%	4,687	4,617	1.5%	5,322	5,240	1.6%
EBITDA	395	395	0.0%	475	472	0.7%	559	555	0.7%
EBIT	295	295	0.0%	359	355	0.9%	425	421	0.9%
Net profit	216	216	0.0%	273	271	0.9%	326	323	0.9%

Source: Santander Brokerage Poland estimates

Fig. 51. Pepco: Valuation changes

PLN per share	New	Previous	*Change*
DCF	75.9	75.4	0.7%
multiple valuation	47.1	46.8	0.7%
Target Price	**61.5**	**61.1**	**0.7%**

Source: Santander Brokerage Poland estimates, DCF/multiple valuation weights at 50%/50%

Fig. 52. Pepco: Financial statements forecast

EURmn	2019	2020	2021E	2022E	2023E
Net sales	3,415	3,518	4,080	4,687	5,322
Gross profit	1,443	1,433	1,714	1,975	2,252
Underlying EBITDA	333	443	640	748	867
Underlying EBITDA (pre lease)	333	230	395	475	559
Underlying EBIT	255	152	295	359	425
Profit before tax	259	18	200	294	357
Net profit	148	32	188	242	292
Net profit (adj., pre lease)	149	64	216	273	326
EBITDA pre lease margin	9.8%	12.6%	15.7%	16.0%	16.3%
EBIT margin	9.8%	6.5%	9.7%	10.1%	10.5%
Net margin	7.6%	0.5%	4.9%	6.3%	6.7%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	870	1,020	1,134	1,369	1,631
Fixed assets	1,208	2,050	2,233	2,397	2,551
Total assets	2,079	3,070	3,366	3,767	4,182
Current liabilities	477	883	1,007	1,147	1,263
bank debt	22	9	9	9	9
Long-term liabilities	806	1,434	1,454	1,543	1,653
bank debt	725	723	613	613	613
Equity	796	754	905	1,077	1,266
Total liability and equity	2,079	3,070	3,366	3,767	4,182
Net debt	486	328	202	76	-69
Net Debt/ EBITDA (x)	1.5	0.7	0.3	0.1	-0.1

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	142	560	554	623	723
CF from investment	-131	-165	-198	-181	-197
CF from financing, incl.	52	-241	-340	-317	-382
dividends	0	0	0	-61	-93
Net change in cash	62	153	17	125	145

Source: Company data, Santander Brokerage Poland estimates

Construction

Fig. 53. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2021E	P/E (x) 2022E	P/E (x) 2023E	EV/EBITDA (x) 2021E	EV/EBITDA (x) 2022E	EV/EBITDA (x) 2023E
Budimex	Buy	320	233	37%	15.1	16.3	16.0	4.8	5.5	5.5

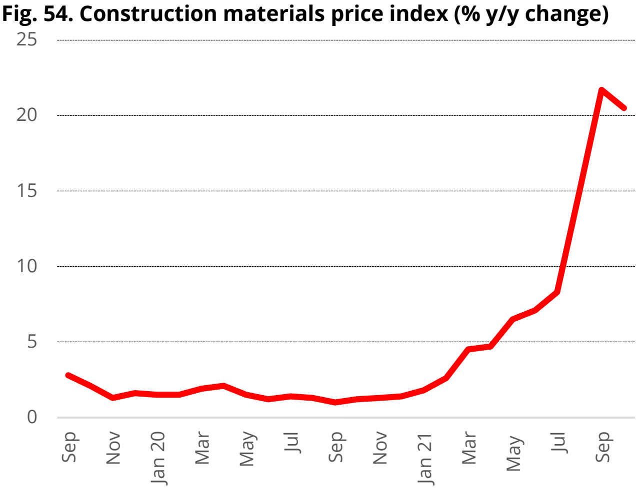
Source: Santander Brokerage Poland estimates

Appealing long run story/stabilised construction costs

We like the long-run story for the construction sector in Poland. We believe in high public contracts supply in the light of the scheduled EU2021-27 funds flow (EUR72bn of which EUR25.1bn on infrastructure, -9% vs. 2014-20 budget) and a likely c. EUR58bn funds from the Recovery fund, partially dedicated to supporting construction works (EUR3.3bn). Overall, the 2021-27 fund for infrastructure construction might reach EUR33.7bn vs. EUR30bn in 2014-20, which we expect to start to flow to the sector as of 2022E. The supply of large-size public contracts is temporarily low due to the transition period between funds flow from the 'old' and 'new' EU budgets, but contractors as **Budimex** managed to expand their backlog to the record-ever level and may focus on the most lucrative (high-margin) contracts next year.

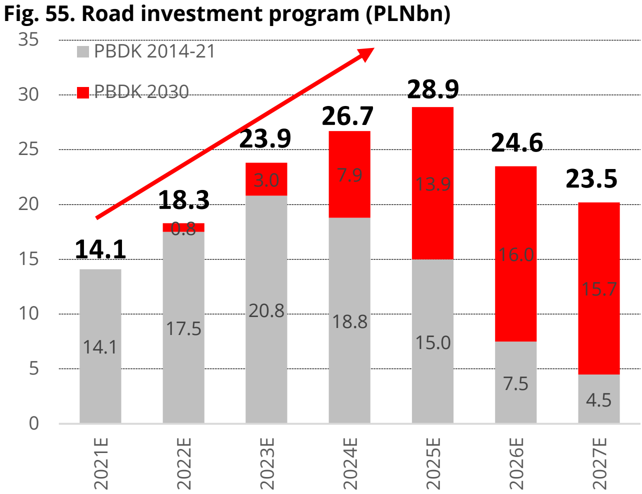
The external environment became adverse for the general contractors in 9M21. The prices of construction materials have accelerated the growth driven by soaring power prices and the supply constraints. Locally, the prices of construction material growth have stabilised in 4Q21 QTD, while globally the commodity prices have terminated the growth trend, which mitigates the risks of margin erosion, we think.

Fig. 54. Construction materials price index (% y/y change)



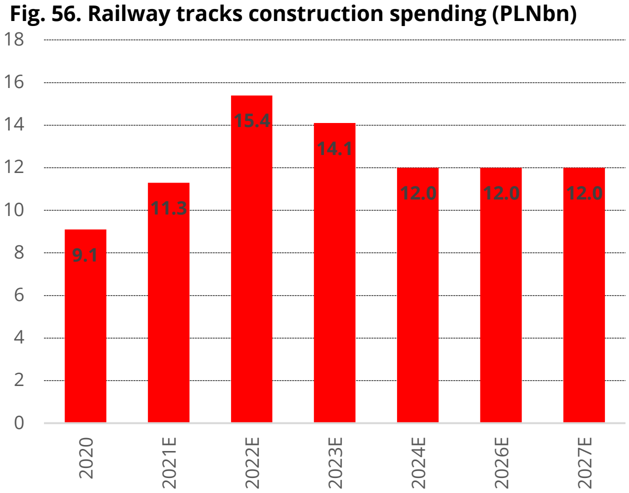
Source: PSB, Santander Brokerage Poland

Fig. 55. Road investment program (PLNbn)



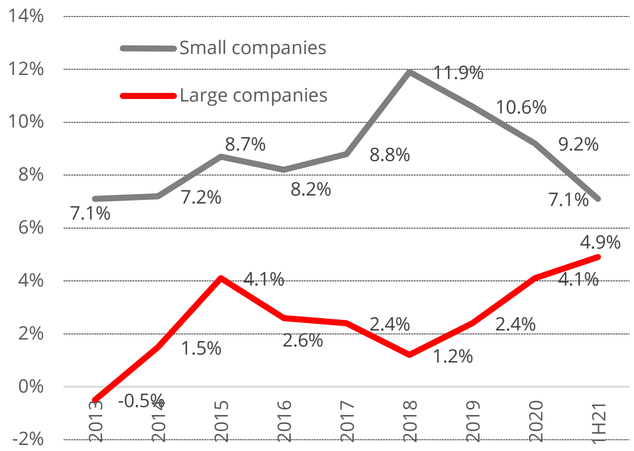
Source: Budimex, GDDKiA, Santander Brokerage Poland

Fig. 56. Railway tracks construction spending (PLNbn)



Source: Budimex, PKP PLK, Santander Brokerage Poland

Fig. 57. Net margin of construction companies



Source: Budimex, CSO, Santander Brokerage Poland

Budimex

Bloomberg: BDX PW, Reuters: BDX.WA

CEE Equity Research

Construction, Poland

Record-ever backlog

RECOMMENDATION	Buy
Current price (PLN)	233
Target price (PLN)	**320**

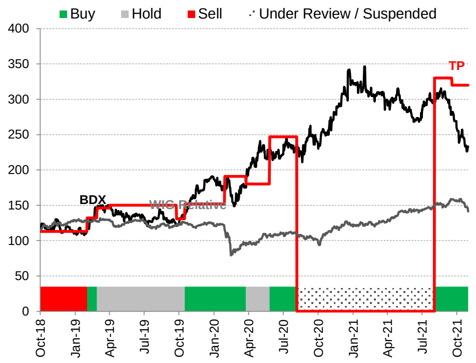
- **Equity story.** We stay positive on Budimex. The company has fully secured its 2022-23E sales, thanks to its well-developed backlog, which mitigates the risk of potential delays in EU funds distribution to Poland. Moreover, we expect a very good quality of backlog, suggesting y/y margin increase in the construction segment next year. Finally, we believe that the company has effectively hedged against the growth in the prices of construction materials. Budimex is trading at a premium to its WSE-listed peers, which we find as justified due to 1) high net cash (representing almost 50% of market cap), 2) strong backlog, 3) effective hedging mechanism, 4) 2022E EV/EBITDA below the past 5Y average.
- **Backlog.** The backlog rose to the record-ever amount of c. PLN14bn, which fully secured the 2022-23E sales in the construction segment, we estimate. We expect the company to entirely focus on picking the most lucrative contracts in 2022E. We expect 20% CAGR in spending on roads in 2022E-25E, which may drive further backlog development in the mid- to-long run. Moreover, we expect Budimex to expand in the neighbouring countries, which may mitigate the long-run risk of the fall in public expenditures on infrastructure works in Poland.
- **4Q21E outlook.** We expect Budimex to deliver good results. The prices of construction materials have recently stopped rising, thus we do not expect the company to create any provisions in 4Q21E (as it did in 3Q21). Overall, we expect the gross margin to come in slightly higher q/q in the construction segment and to stay flattish q/q in the FB Serwis segment. Moreover, we expect Budimex to deliver seasonally solid operating CF.
- **Earnings forecasts.** We have fine-tuned our financial forecasts for Budimex. We expect slight y/y margins growth in 2022E, thanks to a very good quality of backlog. Moreover, Budimex completed the majority of loss-making contracts already in 2021E. We expect FB Serwis' sales to rise rapidly in 2021E and the growth rate to decelerate in 2022E, due to the stabilisation in prices on waste and roads maintenance.
- **Valuation and risks.** Any further growth in prices of construction materials incl. asphalt, steel, and concrete represents a risk to our margin forecast. Also, any more delays in EU funds distribution to Poland may escalate the price war between contractors and depress margin in the long run. Our DCF-implied Target Price settles at PLN320.

Budimex: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	7,570	8,382	7,869	8,159	8,208
EBITDA	424	742	639	573	580
EBIT	318	638	535	469	476
Net profit	226	464	395	365	371
P/E (x)	15.1	12.1	15.1	16.3	16.0
EV/ EBITDA (x)	5.3	5.0	4.8	5.5	5.5
Dividend Yield	2.7%	2.0%	13.6%	6.6%	6.1%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 58. Budimex: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q
Sales	**1475**	**2260**	**2435**	**2213**	**1245**	**1997**	**2293**	***-6%***	***15%***
o/w construction	1,426	1,955	2,130	2,028	1,180	1,849	2,089	*-2%*	*13%*
o/w real estate	5	269	278	120	0	0	0	*n.m.*	*n.m.*
o/w other and consolidation corrections	43	35	26	65	64	148	203	*678%*	*37%*
Gross profit on sales	**111**	**217**	**274**	**335**	**97**	**279**	**213**	***-22%***	***-23%***
o/w construction	98	133	171	227	77	165	182	*6%*	*10%*
o/w real estate	1	74	76	85	0	0	0	*n.m.*	*n.m.*
o/w other and consolidation corrections	12	10	27	23	20	114	32	*18%*	*-72%*
EBITDA	**65.6**	**155.9**	**248.0**	**306.5**	**99.0**	**249.8**	**177.9**	***-28%***	***-29%***
EBITDA margin	*4.4%*	*6.9%*	*10.2%*	*13.9%*	*8.0%*	*12.5%*	*7.8%*	*-2.4*	*-4.7*
EBIT	**33.3**	**123.3**	**212.7**	**269.3**	**62.8**	**213.6**	**140.0**	***-34%***	***-34%***
EBIT margin	*2.3%*	*5.5%*	*8.7%*	*12.2%*	*5.0%*	*10.7%*	*6.1%*	*-2.6*	*-4.6*
Net profit*	**22.0**	**88.5**	**146.5**	**202.4**	**42.4**	**158.3**	**101.0**	***-31%***	***-36%***
Net margin	*1.5%*	*3.9%*	*6.0%*	*9.1%*	*3.4%*	*7.9%*	*4.4%*	*-1.6*	*-3.5*

*Source: Company data, *excluding discontinued activity*

Fig. 59. Budimex: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	7869	7,994	*-2%*	8159	8,516	*-4%*	8208	8,563	*-4%*
EBITDA	639	612	*4%*	573	544	*5%*	580	550	*5%*
EBIT	535	508	*5%*	469	440	*7%*	476	446	*7%*
Net profit	395	390	*2%*	365	342	*7%*	371	347	*7%*

Source: Santander Brokerage Poland estimates

Fig. 60. Budimex: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	320	320	*0%*
Comparable valuation	210	220	*-5%*
Target Price	**320**	**320**	***0%***

Source: Santander Brokerage Poland estimates, TP represents 100% DCF as it fully reflects business development in the long-run

Fig. 61. Budimex: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	7570	8382	7869	8159	8208
Gross profit	552	937	801	757	765
EBITDA	424	742	639	573	580
EBIT	318	638	535	469	476
Profit before tax	332	621	512	451	458
Net profit	226	460	395	365	371
EBITDA margin	5.6%	8.9%	8.1%	7.0%	7.1%
EBIT margin	4.2%	7.6%	6.8%	5.7%	5.8%
Net margin	3.0%	5.5%	5.0%	4.5%	4.5%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	5239	5926	5620	5717	5739
Fixed assets	1415	1526	1494	1496	1498
Total assets	6654	7452	7114	7213	7237
Current liabilities	4331	4624	4657	4774	4790
bank debt	178	189	189	189	189
Long-term liabilities	1507	1647	1691	1700	1702
bank debt	293	282	282	282	282
Equity	837	1187	771	741	747
Total liability and equity	6654	7452	7114	7213	7237
Net debt	-1165	-1916	-2889	-2821	-2747
Net Debt/ EBITDA (x)	-2.75	-2.58	-4.52	-4.93	-4.74

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	385	992	1011	449	414
CF from investment	-199	18	797	-103	-105
CF from financing, incl.	41	-141	-835	-413	-384
dividends	-161	-116	-811	-395	-365
Net change in cash	227	870	973	-68	-74

Source: Company data, Santander Brokerage Poland estimates

Financials

Fig. 62. Recommendation and valuation summary

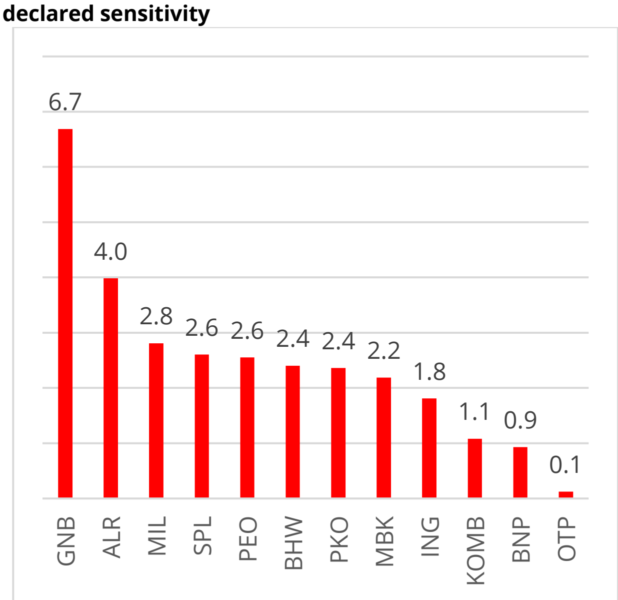
Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2021E	2022E	2023E	EV/EBITDA (x) 2021E	2022E	2023E
PZU	Hold	38.0	34.96	9%	10.6	10.6	9.5	1.61	1.62	1.57
PKO	Buy	47.0	41.90	12%	10.7	9.0	8.8	1.22	1.17	1.11
PEO	Buy	137.0	112.4	22%	14.4	9.5	8.5	1.15	1.06	1.03
MBK	Sell	448.0	493.6	-9%	39.4	18.3	13.3	1.26	1.21	1.14
ING	Sell	251.0	259.5	-3%	15.3	12.8	11.5	1.87	1.69	1.55
BHW	Hold	59.0	57.7	2%	11.4	14.3	9.0	0.99	1.02	0.92
MIL	Sell	6.40	7.65	-16%	-7.8	44.4	32.5	1.19	1.22	1.19
ALR	Buy	63.0	53.8	17%	13.0	8.6	7.5	1.04	0.93	0.84
OTP	Buy	19,200.0	17,135.0	12%	10.1	9.7	8.9	1.70	1.54	1.40
KOMB	Buy	960.0	852.5	13%	13.3	11.9	12.3	1.27	1.32	1.27
Median					**13.0**	**11.9**	**9.5**	**1.22**	**1.18**	**1.14**

Source: Company data, Santander Brokerage Poland estimates

In our base scenario, Polish banks are set to book record high earnings in 2022E and 2023E, driven by cyclical expansion in NIM (on rate hikes), mid-single digit loan growth (with upside potential) and low cost of risk (as unemployment is likely to stay low).

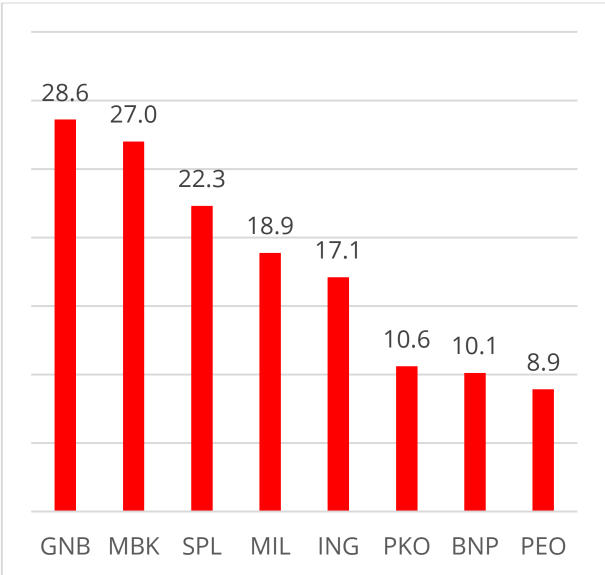
Top picks for 2022. We rate three state controlled banks as Buys. Our perception is that they all have underperformed recently (e.g. when it comes to loan originations or fee repricing) but we think that the impact of higher rates should automatically improve the earnings of these banks. We rate Pekao as a Buy, expecting catch-up in loan growth, delayed fee repricing, lower pressure on opex and the potential for reversal of Covid risk provisions. We rate Alior as Buy, pointing to its highest interest rate sensitivity in our coverage and expecting further reduction in NPLs. We rate PKO as Buy seeing potential upside in higher loan originations and fee repricing. We rate MIL and MBK as Sells on CHF-mortgage related risks. We think ING has been the most successful Polish bank in the recent years, but it seems expensive to us and may disappoint NIM-wise – therefore we rate ING Sell.

Fig. 63. ROE sensitivity to 100bps rate hike based on declared sensitivity



Source: Companies, Santander Brokerage Poland

Fig. 64. Percentage of CHF-borrowers that have sued a particular bank, %



Source: Companies, Santander Brokerage Poland

Alior Bank

Bloomberg: ALR PW, Reuters: ALRR.WA

CEE Equity Research

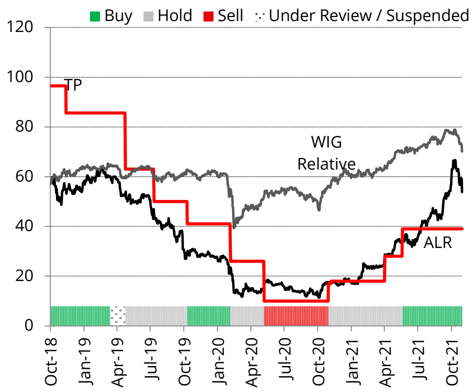
Banks, Poland

In new hands but times look good

RECOMMENDATION	Buy
Current price (PLN)	53.80
Target price (PLN)	**63.0**

- **Equity story.** The equity story of Alior Bank changed once it became state controlled. Alior Bank's loan growth is lower than the market average, while it has reported a declining number of retail clients and faces turbulent changes in the management team. Despite these structural challenges, Alior shows above-market sensitivity to rate hikes and we think it could benefit more than average to improvement in loan quality.
- **PLN300-350mn NII sensitivity to 100bps rate hike** according to management guidance, which would make Alior one of the most sensitive banks to rate hikes – e.g. compared to net income of PLN502mn reported in the last 12 months.
- **Cost of risk less of a problem at this moment in the cycle.** Strong macro and falling unemployment helped reduce the NPL (Stage 3) ratio at Alior Bank from 14.7% (PLN4.9bn) in 3Q20 to 12.5% (PLN4.5bn) in 3Q21.
- **Governance: new management board.** On 10 November, Alior announced replacement of 4 board members, including the CEO. All of the new board members come directly from Bank Pekao. According to press comments, the changes in the management board were as the result of politics.
- **Valuation and risks.** We rate Alior as a Buy with a 12M TP of PLN63.0 (unchanged). We think that loan quality, the outlook for rates and state control seem to be the major risks.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Alior Bank: Financial summary and ratios

Year to Dec	2019	2020	2021E	2022E	2023E
P/E (reported)	14.8x	-7.1x	13.0x	8.6x	7.5x
P/BV	0.55x	0.34x	1.04x	0.93x	0.84x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EPS (PLN)	1.9	-2.4	4.1	6.3	7.1
DPS (PLN)	0.00	0.00	0.00	0.00	0.00
BVPS (PLN)	51.8	50.2	51.7	57.6	63.9
Net Income (PLN mn)	253	-311	540	820	933

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 65. Valuation summary (PLN/share)

Recommendation	Buy
12M Target Price (PLN)	63.0
Current price (PLN)	53.8
Prospective upside (%)	17

**Our 12M Target Price is calculated as rounded weighted average of DDM Valuation (100%) and Comparative valuation (0%) less the estimated impact of CHF-mortgages.*

DDM valuation (PLN/share)	58.1
Discounted dividends (PLN/share)	0.0
Terminal value (PLN/share)	58.1
Terminal ROE (%)	10.35
g (%)	2.00
CoE (%)	9.50
RFR (%)	3.00
Beta (x)	1.30
ERP (%)	5.0

Comp. Valuation PLN/share	70.8
Net Income (PLN mn, next 12 months)	770
Applied P/E (x)	12.0
P/E peers (x)	12.0
CHF impact/ per share	-1.0

Fig. 66. DDM Valuation sensitivity (PLN/share)

	ROE->	6.3%	8.3%	10.3%	12.3%	14.3%
	1.0%	34.9	45.8	56.8	67.8	78.8
	2.0%	32.8	45.1	57.4	69.7	81.9
g	3.0%	30.2	44.2	58.1	72.0	85.9
	4.0%	26.9	42.9	59.0	75.0	91.1
	5.0%	22.3	41.2	60.2	79.2	98.2

Fig. 67. DDM Valuation sensitivity (PLN/share)

	ERP->	1.0%	3.0%	5.0%	7.0%	9.0%
	2.0%	129.8	92.2	69.8	55.2	44.8
	2.5%	112.6	82.3	63.5	50.8	41.7
RFR	3.0%	99.0	74.1	58.1	46.9	38.8
	3.5%	88.0	67.2	53.3	43.5	36.2
	4.0%	78.9	61.2	49.2	40.5	33.9

Fig. 68. Our forecast vs Bloomberg consensus

Consensus	2021C	vs. C	2022C	vs. C	2023C	vs. C
Net income	520	*4%*	676	*21%*	877	*6%*
DPS (PLN)	0.00		0.00		0.46	*-100%*
ROE (%)	8.04	*0.1 pp*	9.50	*2.0 pp*	10.29	*1.5 pp*

Fig. 69. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	9.0x	10.0x	11.0x	12.0x	14.0x	16.0x
vs. peers (%)	-25	-17	-8	0	17	33
Sensitivity	53.1	59.0	64.9	70.8	82.6	94.4

Fig. 70. Ratios, Assumptions and Forecasts

P&L (PLN mn, year to Dec)	2019	2020	2021E	2022E	2023E
NII	3,181	2,847	2,756	3,451	3,551
F&C	667	636	744	813	829
Trading Income	149	164	120	142	145
Total Revenue	3,794	3,544	3,655	4,450	4,570
Cost	-1,630	-1,665	-1,584	-1,733	-1,788
NLLP	-1,443	-1,865	-1,035	-1,309	-1,311
Pre-tax Profit	721	14	1,036	1,408	1,471
Banking tax	-226	-221	-233	-236	-244
Net Income	253	-311	540	820	933
Net Income (adj.)	253	-311	540	820	933

PLN bn	2019	2020	2021E	2022E	2023E
Total Assets	76.7	78.6	78.6	81.0	83.8
Bonds	15.8	15.7	14.6	15.4	16.2
Loans	55.9	56.2	58.1	59.5	61.3
Loans growth (%)	3	1	3	2	3
Deposits	62.4	65.8	66.6	68.2	70.3
Equity	6.8	6.6	6.8	7.5	8.3
Mortgage loans	11.4	13.4	15.1	15.3	15.6
CHF mortgages	0.1	0.1	0.1	0.1	0.1
Other retail loans	20.5	21.5	23.0	24.0	25.4
Corporate loans	24.5	26.9	26.8	21.0	22.4

NIM ratios (%)	2019	2020	2021E	2022E	2023E
Asset yield	5.49	4.39	3.83	5.53	5.51
Funding cost	1.19	0.60	0.17	1.09	1.08
NIM	4.43	3.84	3.68	4.54	4.52

Risk ratios (%)	2019	2020	2021E	2022E	2023E
Stage 3 ratio	14.0	14.1	12.5		
Stage 3 coverage	48.5	55.8	56.3		
Cost of risk	2.61	3.09	1.80	2.23	2.17

Du Pont (%)	2019	2020	2021E	2022E	2023E
NII/assets	4.24	3.67	3.50	4.32	4.31
CoR/assets	-1.92	-2.40	-1.32	-1.64	-1.59
F&C/assets	0.89	0.82	0.95	1.02	1.01
Other rev/assets	-0.07	0.08	0.20	0.23	0.23
Costs/assets	-2.17	-2.14	-2.01	-2.17	-2.17
Taxes&other/assets	-0.62	-0.42	-0.63	-0.74	-0.65
ROA	0.34	-0.40	0.69	1.03	1.13
Leverage (x)	11.3	11.7	11.8	11.2	10.4
ROE (reported)	3.82	-4.67	8.12	11.48	11.76

Capital & dividends	2019	2020	2021E	2022E	2023E
Tier-1 (PLN bn)	6.7	6.5	6.6	7.1	7.7
Tier-2 (PLN bn)	1.3	1.1	0.9	0.9	0.9
TCR (PLN bn)	4.0	3.9	3.8	3.9	4.3
RWA (PLN mn)	45.2	44.2	43.9	44.9	49.7
CT1 ratio (%)	13.5	13.6	13.7	14.5	14.2
CAR ratio (%)	16.2	15.9	15.6	16.3	15.8
Div. payout (%)	0.0	0.0	0.0	0.0	0.0
Dividend (PLN mn)	0	0	0	0	0
No. of shares (mn)	131	131	131	131	131

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

Santander

Bank Handlowy

Bloomberg: BHW PW, Reuters: BHW.WA

CEE Equity Research

Banks, Poland

At a turning point?

- **Equity story.** BHW seems to be in a difficult period, it keeps losing market share in lending and risks becoming a sub-scale institution, more adversely affected than other banks by rate hikes. It is in the process of divesting its retail, sits on cash, has a new CEO and is about to announce new strategy.
- **High hopes for rate sensitivity.** BHW estimates the impact of a 115bps rate hike to be PLN215-235mn on a static balance sheet. Additionally BHW has PLN15bn cash on its balance sheet, and our valuation assumes most of those funds are invested in 1Q23 at 3.0%. Around 65% of the interest rate sensitivity is generated in the retail segment. We also note that around half of corporate deposits at BHW are linked to market rates (overnight or WIBOR) which automatically push deposit prices up.
- **Retail divestments.** Citi announced the planned divestment of its retail business in Poland. The transaction is being managed by the strategic shareholder and BHW has shared no information about the deal agenda or stage of the transaction. BHW has hired legal advisors to support management in the divestment process. Potentially management could take further steps to protect the interest of clients, employees and minority shareholders. We expect little interest in BHW's assets, mostly because of its relatively small size and its profile and dependence on the Citi brand and offering.
- **Capital surplus.** BHW still has PLN479mn (PLN3.66 per share, DY of 6.3%) of 2019 undivided net income on its balance sheet. We wonder how KNF will react to BHW's application to pay excess capital from the sale of its retail segment. If the retail segment is sold, BHW's surplus equity would increase further.
- **New strategy in Dec'21.** Despite the divestment process, we would not be surprised if BHW's strategy update mentions a number of retail related issues aimed at bringing retail back to profitability, perhaps including the credit card business, partnerships or BLIK.
- **Continuation of disappointing loan growth.** BHW loans at 3Q21 stood at PLN20.8bn, 8% down y/y and the lowest since 1Q18. BHW's multinational clients tend to have material over-liquidity and little demand for loans. SMEs exhibit demand for loans but are not making a meaningful difference to BHW's balance sheet.

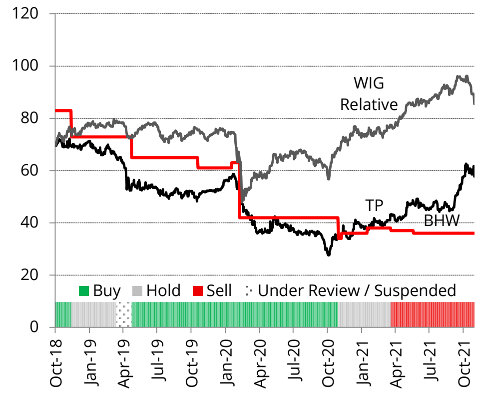
Bank Handlowy: Financial summary and ratios

Year to Dec	2019	2020	2021E	2022E	2023E
P/E (reported)	13.9x	43.7x	11.4x	14.3x	9.0x
P/BV	0.96x	0.99x	0.99x	1.02x	0.92x
Dividend Yield	7.2%	0.0%	2.1%	8.7%	7.0%
EPS (adjusted) (PLN)	3.7	2.7	5.0	4.0	6.4
DPS (PLN)	3.74	0.00	1.20	5.05	4.04
BVPS (PLN)	54.2	58.0	58.3	56.8	62.5
Net Income (PLN mn)	487	172	659	528	837

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

RECOMMENDATION	Hold
Current price (PLN)	57.70
Target price (PLN)	**59.0**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

- **Valuation and risks.** We rate BHW as a Hold with a 12M TP of PLN59.0 (unchanged). We point to dividends, divestment of the retail segment, volatile trading results and surprises in the cost of risk as the main risks.

Analyst

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Fig. 71. Valuation summary (PLN/share)

Recommendation	Hold
12M Target Price (PLN)	59.00
Current price (PLN)	57.70
Prospective upside (%)	2

**Our 12M Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less estimated impact of CHF-mortgages.*

DDM valuation (PLN/share)	75.8
Discounted dividends (PLN/share)	15.9
Terminal value (PLN/share)	59.9
Terminal ROE (%)	10.87
g (%)	1.00
CoE (%)	8.50
RFR (%)	3.00
Beta (x)	1.10
ERP (%)	5.0

Comp. Valuation PLN/share	43.0
Net Income (PLN mn, next 12 months)	468
Applied P/E (x)	12.0
P/E peers (x)	12.0
CHF impact	0.0

Fig. 72. DDM Valuation sensitivity (PLN/share)

	ROE->	8.9%	9.9%	10.9%	11.9%	12.9%
	0.0%	63.4	68.8	74.1	79.5	84.9
	0.5%	63.6	69.3	74.9	80.6	86.3
g	1.0%	63.7	69.8	75.8	81.9	88.0
	2.0%	64.0	71.0	78.1	85.1	92.1
	3.0%	64.5	72.8	81.1	89.3	97.6

Fig. 73. DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	2.0%	136.9	107.7	88.4	74.8	64.6
	2.5%	121.9	98.0	81.7	69.8	60.8
RFR	3.0%	109.8	89.9	75.8	65.4	57.4
	3.5%	99.8	82.9	70.7	61.5	54.3
	4.0%	91.4	76.9	66.3	58.1	51.6

Fig. 74. Our forecast vs Bloomberg consensus

Consensus	2021C	vs. C	2022C	vs. C	2023C	vs. C
Net income	635	*4%*	380	*39%*	560	*50%*
DPS (PLN)	0.00	*n.a.*	4.15	*22%*	4.12	*-2%*
ROE (%)	8.31	*0.4 pp*	4.80	*2.2 pp*	7.15	*3.6 pp*

Fig. 75. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	17.0x	18.0x	19.0x	20.0x	22.0x	24.0x
vs. peers (%)	-25	-17	-8	0	17	33
Sensitivity	32	36	39	43	50	57

Fig. 76. Ratios, Assumptions and Forecasts

P&L (PLN mn, year to Dec)	2019	2020	2021E	2022E	2023E
NII	1,154	1,002	716	1,049	1,398
F&C	565	560	642	655	668
Trading Income	502	543	936	514	543
Total Revenue	2,216	2,068	2,282	2,218	2,609
Cost	-1,215	-1,222	-1,187	-1,266	-1,255
NLLP	-238	-190	-55	-82	-85
Pre-tax Profit	764	441	1,039	870	1,268
Banking tax	-98	-124	-156	-168	-177
Net Income	487	172	659	528	837
Net Income (adj.)	487	346	659	528	837

PLN bn	2019	2020	2021E	2022E	2023E
Total Assets	52.0	60.9	61.0	62.5	52.9
Bonds	20.9	31.7	21.7	22.2	10.8
Loans	23.7	21.9	21.1	22.1	23.4
Loans growth (%)	8	-8	-4	5	6
Deposits	39.8	43.4	45.6	47.3	39.1
Equity	7.1	7.6	7.6	7.4	8.2
Mortgage loans	1.9	2.2	2.5	2.9	3.2
CHF mortgages	0.1	0.1	0.1	0.1	0.1
Other retail loans	5.8	5.4	5.1	5.4	5.5
Corporate loans	16.7	15.1	14.3	14.8	15.6

NIM ratios (%)	2019	2020	2021E	2022E	2023E
Asset yield	2.88	2.00	1.24	2.10	2.96
Funding cost	0.58	0.18	0.03	0.42	0.53
NIM	2.39	1.85	1.22	1.76	2.52

Risk ratios (%)	2019	2020	2021E	2022E	2023E
Stage 3 ratio	4.0	4.3	4.5		
Stage 3 coverage	66.4	77.2	75.1		
Cost of risk	1.04	0.83	0.25	0.38	0.38

Du Pont (%)	2019	2020	2021E	2022E	2023E
NII/assets	2.28	1.77	1.17	1.70	2.42
CoR/assets	-0.47	-0.34	-0.09	-0.13	-0.15
F&C/assets	1.12	0.99	1.05	1.06	1.16
Other rev/assets	0.98	0.82	1.52	0.83	0.94
Costs/assets	-2.40	-2.16	-1.95	-2.05	-2.17
Taxes&other	-0.55	-0.48	-0.62	-0.55	-0.75
ROA	0.96	0.61	1.08	0.86	1.45
Leverage (x)	7.2	7.7	8.0	8.2	7.4
ROE (reported)	6.88	4.72	8.68	7.02	10.74

Capital & dividends	2019	2020	2021E	2022E	2023E
Tier-1 (PLN bn)	5.1	6.2	5.8	5.9	5.9
Tier-2 (PLN bn)	0.0	0.0	0.0	0.0	0.0
TCR (PLN bn)	2.4	2.2	2.5	2.6	2.7
RWA (PLN mn)	29.7	27.6	28.5	29.9	31.5
CT1 ratio (%)	17.2	22.5	18.5	18.0	17.2
CAR ratio (%)	17.2	22.5	18.5	18.0	17.2
Div. payout (%)	0.0	90.9	100.0	100.0	75.0
Dividend (PLN mn)	489	0	157	659	528
No. of shares (mn)	130.7	130.7	130.7	130.7	130.7

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

ING Bank Śląski

Bloomberg: ING PW, Reuters: INGP.WA

CEE Equity Research

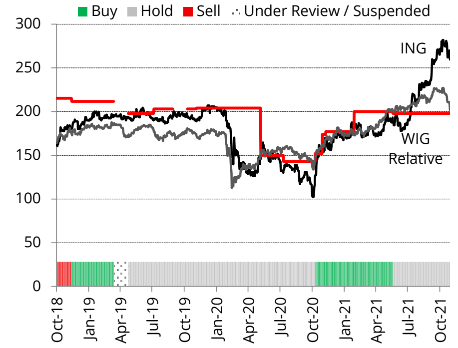
Banks, Poland

Insensitive growth leader

RECOMMENDATION	Sell
Current price (PLN)	259.5
Target price (PLN)	**251.0**

- **Equity story.** ING has been reporting higher loan growth than peers for years now. It was relatively less affected by rate cuts than peers because of interest rate hedging, but would benefit less from rate hikes.
- **Above-market loan growth.** ING increased its loan book by 15% y/y (vs. market growing at 3% y/y). ING has been actively growing in all its main categories – mortgages (+21% vs market +7%), non-mortgage retail (+14% vs market +0%), corporate loans (+11% vs market +0%). We believe that ING will stand out for loan growth among peers – growing its loan book by around 10% in 2022E and 2023E.
- **Below-market sensitivity to rate hikes.** ING stated PLN140-180mn sensitivity to 40bps rate hike, which implies PLN400mn sensitivity to 100bps hike (1.8% higher ROE). This would be the lowest sensitivity of the banks we cover, after OTP. Also, ING would need to pay WIBOR on its IRS positions and, additionally, ING was among the first banks to start actively marketing promotional deposit prices among clients.
- **Cost of risk could disappoint?** We find that the cost of risk is very variable as volatile macro assumptions play a material role in the risk modelling – possibly ING could assume higher rates and slower GPD growth – both of which could be short-term negative to its cost of risk.
- **Headcount up.** ING was the only bank under our coverage to increase headcount during the Covid-19 crisis. Going forward we assume higher OpEx growth at ING than peers.
- **Valuation and risks.** We rate ING as a Sell with a 12M TP of PLN251 (unchanged). ING trades at a premium to its Polish peers at 2022E P/BV of 1.9x for 2022E ROE of 13.9%; 2022E P/E of 12.8x. Among the risk factors we note: low turnover traded in ING shares, sensitivity to rates, volatility in NLLP and growth outlook.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

ING BSK: Financial summary and ratios

Year to Dec	2019	2020	2021E	2022E	2023E
P/E (reported)	15.9x	16.6x	15.3x	12.8x	11.5x
P/BV	1.7x	1.2x	1.9x	1.7x	1.5x
Dividend Yield	1.7%	0.0%	2.0%	2.0%	2.3%
EPS (adjusted) (PLN)	13.04	11.9	17.0	20.3	22.6
DPS (PLN)	3.50	0.00	5.10	5.10	6.10
BVPS (PLN)	117.0	143.1	139.0	153.6	167.9
Net Income (PLN mn)	1,661	1,338	2,213	2,644	2,938

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 77. Valuation summary (PLN/share)

Recommendation	Sell
12M Target Price (PLN)	251.00
Current price (PLN)	259.50
Prospective upside (%)	-3

**Our 12M Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less impact of CHF-mortgage portfolio.*

DDM valuation (PLN/share)	269.1
Discounted dividends (PLN/share)	24.5
Terminal value (PLN/share)	244.6
Terminal ROE (%)	13.44
g (%)	3.00
CoE (%)	8.50
RFR (%)	3.00
Beta (x)	1.10
ERP (%)	5.0

Comp. Valuation PLN/share	237.1
Net Income (PLN mn, next 12 months)	2,571
Applied P/E (x)	12.0
P/E peers (x)	12.0
CHF impact/ per share	-2.0

Fig. 78. DDM Valuation sensitivity (PLN/share)

	ROE->	11.4%	12.4%	13.4%	14.4%	15.4%
	0.0%	212	228	244	261	277
	1.0%	218	236	255	274	292
g	2.0%	226	248	269	290	312
	3.0%	238	263	288	314	339
	4.0%	254	285	316	347	378

Fig. 79. DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	2.0%	578	420	326	264	220
	2.5%	495	372	295	243	204
RFR	3.0%	431	333	269	224	190
	3.5%	381	301	247	207	178
	4.0%	341	274	227	193	167

Fig. 80. Our forecast vs Bloomberg consensus

Consensus	2021C	vs. C	2022C	vs. C	2023C	vs. C
Net income	2,084	*6%*	2,203	*20%*	2,549	*15%*
DPS (PLN)	5.03	*-100%*	6.94	*-26%*	7.90	*-14%*
ROE (%)	11.00	*1.1 pp*	11.15	*2.7 pp*	11.90	*2.1 pp*

Fig. 81. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	11.0x	12.0x	13.0x	14.0x	16.0x	18.0x
vs. peers (%)	-25	-17	-8	0	17	33
Sensitivity	178	198	217	237	277	316

Fig. 82. Ratios, Assumptions and Forecasts

P&L (PLN mn, yr to Dec)	2019	2020	2021E	2022E	2023E
NII	4,294	4,542	4,859	6,013	6,577
F&C	1,372	1,528	1,812	1,864	1,912
Trading Income	124	144	99	196	196
Total Revenue	5,790	6,215	6,770	8,073	8,684
Cost	-2,497	-2,766	-2,894	-3,169	-3,370
NLLP	-561	-805	-403	-745	-769
Pre-tax Profit	2,694	2,393	3,499	4,177	4,563
Banking tax	-434	-482	-537	-601	-660
Net Income	1,661	1,338	2,213	2,644	2,938
Net Income (adj.)	1,697	1,554	2,213	2,644	2,938

PLN bn	2019	2020	2021E	2022E	2023E
Total Assets	158.6	186.6	205.8	223.4	231.6
Bonds	35.0	57.0	55.7	59.8	52.3
Loans	118.3	124.7	145.1	158.6	174.1
Loans growth (%)	15	5	16	9	10
Deposits	130.9	152.4	169.7	185.5	192.5
Equity	15.2	18.6	18.1	20.0	21.8
Mortgage loans	40.8	47.9	57.7	63.7	69.6
CHF mortgages	0.9	0.9	0.8	0.8	0.7
Other retail loans	7.6	7.9	9.3	10.9	12.6
Corporate loans	71.9	71.5	80.7	87.3	96.1

NIM ratios (%)	2019	2020	2021E	2022E	2023E
Asset yield	3.59	3.10	2.77	3.81	3.90
Funding cost	0.75	0.47	0.28	1.07	1.07
NIM	2.92	2.68	2.52	2.85	2.94

Risk ratios (%)	2019	2020	2021E	2022E	2023E
Stage 3 ratio	3.0	3.3	2.7	2.7	
Stage 3 coverage	54	61	63	63	
Cost of risk	0.51	0.66	0.30	0.49	0.46

Du Pont (%)	2019	2020	2021E	2022E	2023E
NII/assets	2.86	2.63	2.48	2.80	2.89
CoR/assets	-0.37	-0.47	-0.21	-0.35	-0.34
F&C/assets	0.91	0.89	0.92	0.87	0.84
Other rev/assets	0.08	0.06	0.06	0.10	0.09
Costs/assets	-1.66	-1.60	-1.48	-1.48	-1.48
Taxes&other	-0.69	-0.61	-0.66	-0.71	-0.71
ROA	1.13	0.90	1.13	1.23	1.29
Leverage (x)	10.5	10.2	10.7	11.3	10.9
ROE (adjusted)	11.88	9.18	12.06	13.89	14.05

Capital & dividends	2019	2020	2021E	2022E	2023E
Tier-1 (PLN bn)	12.5	14.1	14.9	14.9	16.7
Tier-2 (PLN bn)	2.1	2.3	2.2	2.2	2.2
TCR (PLN bn)	6.9	7.0	8.2	8.9	10.2
RWA (PLN mn)	75.7	77.5	90.5	99.0	111.4
CT1 ratio (%)	14.5	16.1	14.6	13.4	13.1
CAR ratio (%)	16.9	18.7	16.8	15.4	14.9
Div. payout (%)	0.0	0.0	30.0	30.0	30.0
Dividend (PLN mn)	455	0	664	664	793
No. of shares (mn)	130.1	130.1	130.1	130.1	130.1

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

Komerční banka

Bloomberg: KOMB CP, Reuters: BKOM.PR

CEE Equity Research

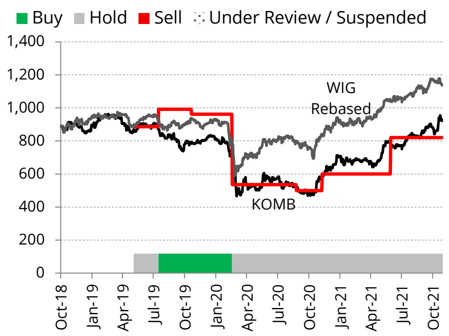
Banks, Czechia

Higher dividends coming?

RECOMMENDATION	Buy
Current price (CZK)	852.5
Target price (CZK)	**960**

- **Equity story.** We think the expected 11.7% DY backs our Buy recommendation. Additionally there could be an upward revision in the financial results after the recent rate hike and given the outlook for a lower cost of risk.
- **DY of 11.7% after two years of limited dividends?** We see a potential for Komerční banka (KOMB) to pay an additional CZK55 per share in excess dividends if it decides to compensate investors for the last two years of limited payouts. KOMB has a 700bps capital buffer (TCR, excluding 2021 profits stood at 23.0% vs. the current minimum requirement of 15.2%). We also note that achieving the strategic ROE target of 15% would make it easier to provide higher payouts. We have seen Czech banks paying dividends higher than their annual earnings.
- **Recent 125bp rate hike is 11% EPS accretive**, we estimate. The Nov'21 125bp rate hike to 2.75% came as a surprise to the market. We see a potential upside risk that the Central Bank will overshoot with rate hikes to 3.5% or higher, but we prefer to build a terminal scenario with the reference rate at 3.0%. On average, Komerční's sensitivity to rate hikes is lower than in Polish banks, but higher than OTP, comparing managements' guidance.
- **2022E cost of risk could be 20bps** vs. below 10bps guided for 2021E and 30-40bps cross-cycle average. KOMB could release part of its Covid provisions (currently at 18bps of loans), we estimate.
- **Ambitious strategy.** There are 10 initiatives that form base of the KOMB's 2025 strategy. The new digital bank seems well on track. A year after the launch, with only 300 employees, it offers base functionalities that are being tested by 500 "family and friends." The final effects of the strategy may be seen from 2024 onwards.
- **Valuation and risks.** KOMB trades at 2021E P/BV 1.3x for 2022E ROE of 11%, and 2022E P/E of 12.9x. We forecast the next year's dividend at 11.7%. KOMB targets 15% ROE, and our valuation is based on the assumption of terminal ROE of 10.8%. Major risks relate to delays in the strategy implementation, macro, rates, capital requirements and competition.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Komercni banka: Financial summary and ratios

Year to Dec	2019	2020	2021E	2022E	2023E
P/E (reported)	9.9x	15.2x	13.3x	11.9x	12.3x
P/BV	1.4x	1.1x	1.3x	1.3x	1.3x
Dividend Yield	6.5%	0.0%	2.8%	11.7%	5.5%
EPS (CZK)	78.9	43.2	64.1	71.5	69.4
DPS (CZK)	51.00	0.00	23.86	100.00	46.50
BVPS (CZK)	558.8	602.7	673.3	644.5	669.5
Net Income (CZK mn)	14,904	8,161	12,108	13,510	13,110

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

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Santander

Fig. 83. Valuation summary* (CZK/share)

Recommendation	Buy
12M Target Price (CZK)	960.0
Current price (CZK)	852.5
Prospective upside (%)	13

**Our 12M Target Price is calculated as rounded average of DDM Valuation (50%) and Comp (50%).*

DDM valuation (CZK/share)	923.2
Discounted dividends (CZK/share)	208.8
Terminal value (CZK/share)	714.4
Terminal ROE (%)	10.81
g (%)	2.00
CoE (%)	8.00
RFR (%)	2.50
Beta (x)	1.10
ERP (%)	5.0

Comp. Valuation CZK/share	995.9
Net Income (CZK mn, next 12 months)	13,435
Applied P/E (x)	14.0

Fig. 84. DDM Valuation sensitivity (CZK/share)

	ROE->	8.8%	9.8%	10.8%	11.8%	12.8%
	1.0%	746	806	867	928	989
	2.0%	753	822	892	961	1,031
g	3.0%	762	843	923	1,005	1,087
	4.0%	776	873	970	1,068	1,165
	5.0%	796	917	1,039	1,161	1,282

Fig. 85. DDM Valuation sensitivity (CZK/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	2.0%	2,012	1,436	1,113	908	765
	2.5%	1,702	1,269	1,010	837	714
RFR	3.0%	1,474	1,137	923	776	669
	3.5%	1,299	1,029	850	723	629
	4.0%	1,161	939	788	677	593

Fig. 86. Our forecast vs. Bloomberg consensus

Consensus	2021C	vs. C	2022C	vs. C	2023C	vs. C
Net income	10,294	*18%*	12,037	*12%*	13,308	*-1%*
DPS (CZK)	38.72	*-38%*	59.45	*68%*	47.66	*-5%*
ROE (%)	8.50	*1.5 pp*	10.20	*0.7 pp*	10.90	*-0.3 pp*

Fig. 87. Comps Valuation sensitivity (CZK/share)

Fair P/E (x)	11.0x	12.0x	13.0x	14.0x	16.0x	18.0x
Sensitivity	783	854	925	996	1,138	1,281

Fig. 88. Ratios, Assumptions and Forecasts

P&L (CZK mn)	2019	2020	2021E	2022E	2023E
NII	23,590	21,361	20,843	24,440	25,451
F&C	5,984	5,211	5,531	5,525	5,562
Trading Income	2,805	2,885	3,805	3,400	3,003
Total Revenue	32,574	29,668	30,368	33,485	34,170
Cost	14,930	14,994	14,789	14,790	15,028
NLLP	571	-4,578	-627	-1,953	-2,893
Pre-tax Profit	18,594	10,289	15,220	16,926	16,432
Banking tax	0	0	0	0	0
Net Income	14,904	8,161	12,108	13,510	13,110
Net Income (adj.)	14,904	8,161	12,108	13,510	13,110

CZK bn	2019	2020	2021E	2022E	2023E
Total Assets	1,077	1,167	1,402	1,464	1,533
Bonds	131	159	189	207	220
Loans	647	680	722	764	806
Loans growth (%)	4	5	6	6	5
Deposits	822	906	1,113	1,178	1,242
Equity	106	114	127	122	126
Mortgage loans	286	309	337	365	393
Other retail loans	38	39	39	39	33
Corporate loans	333	351	356	367	391

NIM ratios (%)	2019	2020	2021E	2022E	2023E
Asset yield	4.26	3.37	2.64	3.28	3.28
Funding cost	2.23	1.58	1.08	1.70	1.70
NIM	2.29	1.97	1.67	1.75	1.74

Risk ratios (%)	2019	2020	2021E	2022E	2023E
Stage 3 ratio	2.1	2.6	2.6		
Stage 3 coverage	58.5	50.1	52.1		
Cost of risk	-0.09	0.69	0.09	0.26	0.37

Du Pont (%)	2019	2020	2021E	2022E	2023E
NII/assets	2.21	1.90	1.62	1.71	1.70
CoR/assets	0.05	-0.41	-0.05	-0.14	-0.19
F&C/assets	0.56	0.46	0.43	0.39	0.37
Other rev/assets	0.32	0.29	0.33	0.26	0.22
Costs/assets	-1.40	-1.34	-1.15	-1.03	-1.00
Taxes&other	-0.35	-0.19	-0.24	-0.24	-0.22
ROA	1.39	0.73	0.94	0.94	0.88
Leverage (x)	10.4	10.2	10.7	11.5	12.1
ROE (reported)	14.51	7.44	10.05	10.86	10.57

Capital & dividends	2019	2020	2021E	2022E	2023E
Tier-1 (CZK bn)	84.1	97.9	104.2	108.9	113.5
Tier-2 (CZK bn)	2.5	2.8	2.3	2.3	2.3
TCR (CZK bn)	35.1	36.1	38.3	40.6	42.5
RWA (CZK mn)	368	376	396	419	441
CT1 ratio (%)	19.1	21.7	21.7	21.5	21.4
CAR ratio (%)	19.7	22.3	22.2	21.9	21.8
Div. payout (%)	0.0	55.2	156.0	65.0	65.0
Dividend (CZK mn)	9,632	0	4,506	18,886	8,782
No. of shares (mn)	188.9	188.9	188.9	188.9	188.9

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

mBank

Bloomberg: MBK PW, Reuters: MBK.WA

CEE Equity Research

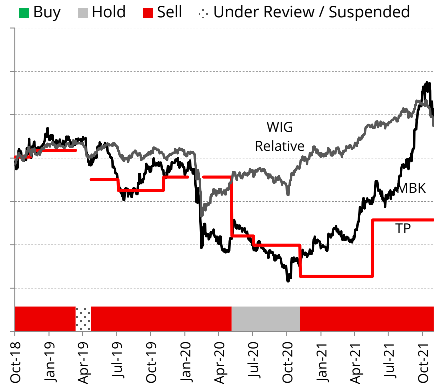
Banks, Poland

Demographic dividend

RECOMMENDATION	Sell
Current price (PLN)	493.6
Target price (PLN)	**448.0**

- **Strategy based on demographic dividend.** The recently announced 2025 strategy seems to be a more developed version of the 2023 strategy. It is difficult to comment on financial targets of ROE>10% (vs ROE>10.5% before), C/I around 40% (unchanged), 9-10% revenue CAGR, CoR at 80bps and NIM at 2.5% (vs 3.0% before) as those have been built on the rather conservative assumption of the 2025 reference rate being 1.0%. We note that the strategy presentation does not mention dividends once (vs previous assumption of 50% pay-outs) and there is no separate discussion of the FX portfolio. Key topics have not changed: mBank's demographic dividend, client life cycle management, focus on prospective sectors, bank management with the C/I of 40%. Among new topics we note: higher growth potential in retail, new payment gate 'paynow', and targeted inflows to a mutual fund start-up at 1.5-2.0bn annually.
- **CHF issue unresolved.** 27% of its CHF-borrowers have already sued mBank, according to our calculations based on company data. Most of those clients should have their mortgages annulled. mBank booked PLN2.2bn of provisions against its PLN12.6bn balance sheet value for CHF-mortgages. The number would need to double to achieve a provisioning level similar to those for PKO BP or ING.
- **8% 2021-2025 loan CAGR** targeted by mBank strategy would imply mBank growing visibly above the market, but this seems possible as these growth rates would be lower than mBank reported in 2018, 2019 or 2021 ytd.
- **PLN450mn sensitivity to 100bps rate hike** would imply that 100bps higher rate increases ROE by 2.2%.
- **Valuation and risks.** We rate mBank as a Sell with a 12M TP of PLN448 (unchanged), expecting the coming quarters to be under pressure from CHF provisions. Among the major risks, we note legal risk related to CHF provisions, news flow on dividends, and read-across from the news flow on Commerzbank.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

mBank: Financial summary and ratios

Year to Dec	2019	2020	2021E	2022E	2023E
P/E (adjusted)	13.1x	18.6x	12.4x	9.8x	8.1x
P/BV	1.0x	1.3x	1.3x	1.2x	1.1x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EPS (PLN)	22.8	26.6	39.7	50.6	60.8
DPS (PLN)	0.0	0.0	0.0	0.0	0.0
BVPS (PLN)	381	393	393	408	434
Net Income (PLN mn)	966	104	531	1,143	1,577

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 89. Valuation summary (PLN/share)

Recommendation	Sell
12M Target Price (PLN)	448.0
Current price (PLN)	493.6
Prospective upside (%)	-9

**Our 12M Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less the impact of CHF mortgage portfolio.*

DDM valuation (PLN/share)	573.5
Discounted dividends (PLN/share)	0
Terminal value (PLN/share)	573
Terminal ROE (%)	14.02
g (%)	2.00
CoE (%)	9.00
RFR (%)	3.00
Beta (x)	1.20
ERP (%)	5.0

Comp. Valuation PLN/share	590.6
Net Income (PLN mn, next 12 months)	2,085
Applied P/E (x)	12.0
P/E peers (x)	12.0
CHF impact	-134.0

Fig. 90. DDM Valuation sensitivity (PLN/share)

	ROE->	12.0%	13.0%	14.0%	15.0%	16.0%
	0.0%	446	483	520	557	594
	1.0%	460	502	544	585	627
g	2.0%	478	526	573	621	669
	3.0%	502	558	613	669	725
	4.0%	536	603	669	736	803

Fig. 91. DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	2.0%	1,286	917	697	553	451
	2.5%	1,105	813	630	507	417
RFR	3.0%	965	727	573	466	387
	3.5%	852	656	524	430	360
	4.0%	760	595	482	399	336

Fig. 92. Our forecast vs Bloomberg consensus

Consensus	2021C	vs. C	2022C	vs. C	2023C	vs. C
Net income	511	*4%*	1,413	*-19%*	1,599	*-1%*
DPS (PLN)	0.00		30.90	*-100%*	32.09	*-100%*
ROE (%)	3.15	*0.0 pp*	8.10	*-1.4 pp*	10.51	*-1.7 pp*

Fig. 93. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	6.0x	8.0x	10.0x	12.0x	14.0x	16.0x
vs. peers (%)	-50	-33	-17	0	17	33
Sensitivity	295	394	492	591	689	787

Fig. 94. Ratios, Assumptions and Forecasts

P&L (PLN mn, yr to Dec)	2019	2020	2021E	2022E	2023E
NII	4,003	4,009	4,000	4,867	5,270
F&C	1,271	1,508	1,879	1,991	2,031
Trading Income	324	366	303	312	312
Total Revenue	5,430	5,867	6,116	7,130	7,572
Cost	-2,329	-2,411	-2,436	-2,650	-2,774
NLLP	-794	-1,293	-829	-854	-823
CHF-provisions	-293	-1,022	-1,152	-1,000	-1,000
Pre-tax Profit	2,014	1,141	1,698	2,626	2,976
Banking tax	-503	-531	-605	-686	-744
Net Income	966	104	531	1,143	1,577
Net Income (adj.)	1,259	1,126	1,683	2,143	2,577

PLN bn	2019	2020	2021E	2022E	2023E
Total Assets	158.7	180.1	210.6	226.8	242.4
Bonds	36.2	52.6	49.2	54.0	57.1
Loans	105.2	109.6	121.3	132.3	143.7
Loans growth (%)	11	4	11	9	9
Deposits	134.1	151.7	181.9	197.0	213.9
Equity	16.2	16.7	16.6	17.3	18.4
Mortgage loans	39.0	46.0	52.5	61.0	69.3
CHF mortgages	13.4	13.6	12.4	11.4	10.5
Other retail loans	15.5	18.2	21.4	24.5	25.7
Corporate loans	39.2	44.8	48.0	51.5	54.1

NIM ratios (%)	2019	2020	2021E	2022E	2023E
Asset yield	3.44	2.87	2.27	2.94	2.96
Funding cost	0.83	0.47	0.16	0.69	0.69
NIM	2.72	2.45	2.12	2.31	2.33

Risk ratios (%)	2019	2020	2021E	2022E	2023E
Stage 3 ratio	3.9	4.2			
Stage 3 coverage	63.4	60.7			
Cost of risk	0.79	1.20	0.72	0.67	0.60

Du Pont (%)	2019	2020	2021E	2022E	2023E
NII/assets	2.63	2.37	2.05	2.23	2.25
CoR/assets	-0.52	-0.76	-0.42	-0.39	-0.35
F&C/assets	0.83	0.89	0.96	0.91	0.87
Other rev/assets	-0.09	-0.40	-0.47	-0.33	-0.31
Costs/assets	-1.53	-1.42	-1.25	-1.21	-1.18
Taxes&other	-0.69	-0.61	-0.60	-0.68	-0.60
ROA	0.63	0.06	0.27	0.52	0.67
Leverage (x)	9.7	10.3	11.7	12.9	13.2
ROE (reported)	6.16	0.63	3.19	6.74	8.84

Capital & dividends	2019	2020	2021E	2022E	2023E
Tier-1 (PLN bn)	13.9	14.9	15.2	15.4	16.5
Tier-2 (PLN bn)	2.5	2.5	2.3	2.3	2.3
TCR (PLN bn)	6.7	7.1	8.1	8.8	9.2
RWA (PLN mn)	84.1	88.5	101.3	104.4	114.9
CT1 ratio (%)	16.5	16.9	15.0	13.9	14.4
CAR ratio (%)	19.5	19.8	17.3	16.0	16.4
Div. payout (%)	0.0	0.0	0.0	0.0	0.0
Dividend (PLN mn)	0	0	0	0	0
No. of shares (mn)	42.4	42.4	42.4	42.4	42.4

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

Bank Millennium

Bloomberg: MIL PW, Reuters: MILP.WA

CEE Equity Research

Banks, Poland

My CHF-way

RECOMMENDATION	Sell
Current price (PLN)	8.54
Target price (PLN)	**6.40**

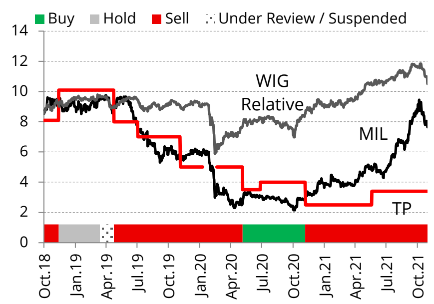
- **Equity story.** Bank Millennium is the most exposed to CHF-mortgage risk of the banks we cover. Interestingly, it was the most active in increasing retail loan origination during the Covid-19 pandemics.
- **Own approach to CHF-mortgage issue.** Bank Millennium had PLN12.1bn of CHF mortgages at the end of 3Q21, with PLN2.4bn covered by provisions. MIL would need to book an additional PLN1.9bn of provisions to achieve a coverage level similar to PKO BP or ING (in line with the conversion proposal prepared by KNF). 18.9% (9.7k) of MIL CHF-borrowers have sued Bank Millennium, another 10% (5.7k) have accepted voluntary conversion proposed by MIL. MIL stands out for its active approach towards CHF-borrowers, its conversion proposal is relatively more attractive for MIL (than KNF's proposal) but we think may be easier to be questioned on legality later on.
- **Risk appetite during pandemics.** Originations of non-mortgage retail loans in Poland are down 5% in 9M21 vs pre pandemic period 9M19. In 9M21 only BNP (+13%) and MIL (+38%) reported higher originations than before Covid. MIL was the only bank to keep increasing originations in this segment in 2020 y/y and 2021E y/y. It is a similar situation in the mortgage segment, where originations in Poland in 9M21 were 57% above pre-Covid levels, but MIL outgrew the market and showed 134% higher originations (PLN7.1bn in 9M21 vs PLN3.0bn in 9M19).
- **PLN290mn sensitivity to 100bps rate hike.** MIL guides for 100bps higher rates to add 11% to its NII in the coming 12 months, which implies PLN290mn and potentially adds 2.8% to MIL ROE.
- **New strategy to be published on 6 Dec.** We assume continuation of above-market organic growth and its efforts to continuously work on cost.
- **Valuation and risks.** We rate MIL as a Sell with a 12M TP of PLN6.40 (unchanged). The potential cost related to CHF mortgages is the most important driver of our valuation. We assume that the negative impact of CHF mortgages on MIL's valuation is PLN4.6 per share. Among other risks, we would point especially to the CHF portfolio, dividends and the loan portfolio originated during the Covid-19 pandemic.

Bank Millennium: Financial summary and ratios

Year to Dec	2019	2020	2021E	2022E	2023E
P/E (reported)	12.9x	406.7x	-7.8x	44.4x	32.5x
P/BV	0.8x	1.0x	1.2x	1.2x	1.2x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EPS (adjusted) (PLN)	0.74	0.67	0.67	1.00	1.1
DPS (PLN)	0.00	0.00	0.00	0.00	0.00
BVPS (PLN)	7.4	7.4	6.5	6.3	6.4
Net Income (PLN mn)	561	23	-1,192	209	286

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 95. Valuation summary (PLN/share)

Recommendation	Sell
12M Target Price (PLN)	6.40
Current price (PLN)	7.65
Prospective upside (%)	-16

**Our 12M Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less the estimated impact of CHF-mortgage portfolio.*

DDM valuation (PLN/share)	10.8
Discounted dividends (PLN/share)	0.0
Terminal value (PLN/share)	10.8
Terminal ROE (%)	17.96
g (%)	2.00
CoE (%)	9.00
RFR (%)	3.00
Beta (x)	1.20
ERP (%)	5.0

Comp. Valuation PLN/share	11.1
Net Income (PLN mn, next 12 months)	1,126
Applied P/E (x)	12.0
P/E peers (x)	12.0
CHF impact	-4.6

Fig. 96. DDM Valuation sensitivity (PLN/share)

	ROE->	14.0%	16.0%	18.0%	20.0%	22.0%
	0.0%	16.1	18.8	21.5	24.2	26.9
	1.0%	12.3	14.4	16.5	18.5	20.6
g	2.0%	8.1	9.5	10.8	12.2	13.5
	3.0%	6.8	8.0	9.1	10.2	11.4
	4.0%	6.3	7.3	8.4	9.4	10.5

Fig. 97. DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	2.0%	24.3	17.3	13.2	10.4	8.5
	2.5%	20.9	15.4	11.9	9.6	7.9
RFR	3.0%	18.2	13.7	10.8	8.8	7.3
	3.5%	16.1	12.4	9.9	8.1	6.8
	4.0%	14.3	11.2	9.1	7.5	6.3

Fig. 98. Our forecast vs Bloomberg consensus

Consensus	2021C	vs. C	2022C	vs. C	2023C	vs. C
Net income	-1,065	*12%*	725	*-71%*	1,212	*-76%*
DPS (PLN)	0.00	*n.a*	0.00	*n.a*	0.15	*-100%*
ROE (%)	-16.92	*2.7 pp*	2.57	*0.1 pp*	13.86	*-10.2 pp*

Fig. 99. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	9.0x	10.0x	11.0x	12.0x	14.0x	16.0x
vs. peers (%)	-25	-17	-8	0	17	33
Sensitivity	8.4	9.3	10.2	11.1	13.0	14.8

Fig. 100. Ratios, Assumptions and Forecasts

P&L (PLN mn, year to Dec)	2019	2020	2021E	2022E	2023E
NII	2,499	2,583	2,649	3,340	3,572
F&C	699	746	810	818	835
Trading Income	279	337	-22	15	16
Total Revenue	3,472	3,578	3,563	4,153	4,403
Cost	-1,726	-1,753	-1,605	-1,762	-1,825
NLLP	-439	-621	-363	-433	-495
CHF-provisions	-223	-714	-2,173	-1,000	-1,000
Pre-tax Profit	1,083	490	-579	957	1,083
Banking tax	-248	-279	-310	-333	-359
Net Income	561	23	-1,192	209	286
Net Income (adj.)	899	811	808	1,209	1,286

PLN bn	2019	2020	2021E	2022E	2023E
Total Assets	98.1	97.8	104.5	110.8	119.5
Bonds	24.1	20.0	22.0	22.7	25.7
Loans	69.8	74.1	78.1	83.7	89.3
Loans growth (%)	32	6	5	7	7
Deposits	82.6	82.1	91.5	98.1	104.7
Equity	8.9	9.0	7.8	7.6	7.8
Mortgage loans	36.5	40.9	44.0	48.8	53.1
CHF mortgages	13.8	13.6	11.8	10.9	10.0
Other retail loans	13.9	14.5	15.9	16.2	17.1
Corporate loans	19.7	19.5	20.3	21.2	22.1

NIM ratios (%)	2019	2020	2021E	2022E	2023E
Asset yield	3.92	3.26	2.80	4.29	4.28
Funding cost	1.21	0.64	0.14	1.21	1.21
NIM	2.85	2.70	2.68	3.17	3.17

Risk ratios (%)	2019	2020	2021E	2022E	2023E
Stage 3 ratio	4.6	4.5	4.3		
Stage 3 coverage	46.8	50.6	51.6		
Cost of risk	0.66	0.77	0.51	0.54	0.57

Du Pont (%)	2019	2020	2021E	2022E	2023E
NII/assets	2.80	2.64	2.62	3.10	3.10
CoR/assets	-0.49	-0.63	-0.36	-0.40	-0.43
F&C/assets	0.78	0.76	0.80	0.76	0.73
Other rev/assets	0.06	-0.47	-2.05	-0.93	-0.87
Costs/assets	-1.93	-1.79	-1.59	-1.64	-1.58
Taxes&other	-0.59	-0.48	-0.61	-0.70	-0.69
ROA	0.63	0.02	-1.18	0.19	0.25
Leverage (x)	10.3	10.9	12.0	14.0	14.9
ROE (reported)	6.47	0.25	-14.20	2.71	3.71

Capital & dividends	2019	2020	2021E	2022E	2023E
Tier-1 (PLN bn)	8.1	8.4	7.3	6.7	6.5
Tier-2 (PLN bn)	1.5	1.5	1.5	1.5	1.5
TCR (PLN bn)	3.8	4.1	4.1	4.4	4.9
RWA (PLN mn)	48.1	51.1	53.9	57.7	61.6
CT1 ratio (%)	16.9	16.5	14.3	12.4	10.6
CAR ratio (%)	20.1	19.5	17.4	15.2	13.1
Div. payout (%)	0.0	0.0	0.0	0.0	0.0
Dividend (PLN mn)	0	0	0	0	0
No. of shares (mn)	1,213	1,213	1,213	1,213	1,213

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

Santander

OTP

Bloomberg: OTP HB, Reuters: OTP.HU

CEE Equity Research

Banks, Hungary

Growth, growth, growth

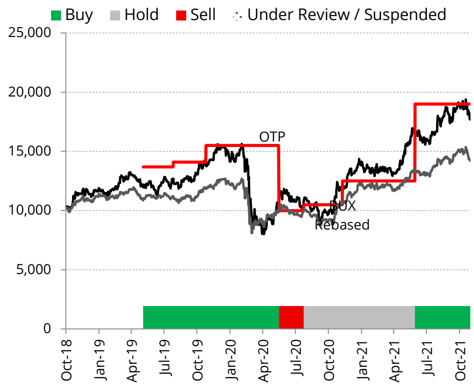
- **Equity story.** OTP exhibits a strong growth driven both by M&A and organic efforts. But in this moment of the cycle it has low interest rate sensitivity and offers lower dividend yield compared to its CEE peers.
- **Muted rate sensitivity.** OTP CFO warned that another 100bps rate hike in Hungary could have a negative impact on OTP NII, depending on what portion of the current account deposits would transfer into term deposits. In a series of hikes, the base rate in Hungary (37% of OTP loans and 47% of OTP deposits) went from 0.6% in June'21 to 2.1% in Nov'21 (BUBOR increased even stronger, from 0.8% to 2.7% now). OTP estimates the 10bps-higher reference rate to result in the NII higher by HUF0.3-0.5bn. If this sensitivity holds, the 100bps hike in Hungary could increase the OTP's net income by 1% only, we think.
- **Loans up 15% in 2021.** OTP upgraded its guidance on loan growth in 2021 from 10% before to 15% now after having reported 11% YTD growth in 9M21. Loans in Hungary (37% of OTP net loans) increased by 15% YTD, driven by the 25% YTD increase in consumer loans and 14% growth in corporate loans. Bulgaria (17% of net loans) grew by 7%, Croatia (10%) by 6%, Ukraine (4% of loans) was the fastest +31% YTD followed by Moldova (1% of loans) +18% YTD and Romania (6% of loans) +17% YTD.
- **Back into M&A.** In 2019 OTP took over SocGen operations in six countries (Bulgaria, Albania, Moldova, Montenegro, Serbia and Slovenia). There have been no M&As since then till now. In Jun'21 OTP agreed to buy Nova KBM (HUF1633bn of loans, 10.9% of OTP loans, OTP's market share in Slovenia will increase from 8.2% now to 28.7% once the deal is executed). In Sep'21 OTP agreed to buy Ipoteka Bank in Uzbekistan (loans at HUF 690bn, 4.6% of OTP loans and 8.3% market share in Uzbekistan).
- **Dividend remains a weak part of the OTP investor story.** OTP dividend yield would be at only 3.8%, even if OTP decides to pay the dividend for three years in one go (after two years of regulator prohibiting dividends). As of 3Q21 OTP had HUF183.5bn worth of provisions for the dividend in the regulatory capital. It has paid no dividend from either the 2019 or 2020 net income. During the 3Q21 analyst call, the Management reiterated the intention to distribute HUF119bn (HUF425 per share, DY of 2.5%) as shareholders' remuneration for 2019 and 2020. Additionally OTP deducted HUF64.6bn (HUF 230per share, DY of 1.3%) in 9M21 from the regulatory capital as a provision for the dividend from the 2021 net income.

OTP: Financial summary and ratios

Year to Dec	2019	2020	2021E	2022E	2023E
P/E (reported)	10.3x	14.0x	10.1x	9.7x	8.9x
P/BV	1.9x	1.5x	1.7x	1.5x	1.4x
Dividend Yield	1.4%	0.0%	0.0%	3.8%	2.5%
EPS (adjusted) (HUF)	1,497	1,156	1,833	1,816	1,987
DPS (HUF)	221	0	0	655	431
Net Income (adj. HUF bn)	419	324	513	509	556
Net Income (HUF bn)	417	267	474	493	540

RECOMMENDATION	Buy
Current price (HUF)	17,135
Target price (HUF)	**19,200**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

- **Valuation and risks.** We rate OTP as a Buy with a 12M TP of HUF19,200 (vs a Buy with a 12M TP of HUF19,000 before). OTP trades at 2022E P/E of 10.1x, 2022E P/BV of 1.7x for the 2022E ROE of 16.6%. Among the main risks, we would mention volatility of the cost or risk, regulatory changes, loan growth, M&A, and dividend.

Analyst

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Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Fig. 101. OTP: Valuation summary (HUF/share)

Recommendation	Buy
12M Target Price (HUF)	19,200
Current price (HUF)	17,135
Prospective upside (%)	12

**Our 12M Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%).*

DDM valuation (HUF/share)	20,302
Discounted dividends (HUF/share)	1,655.1
Terminal value (HUF/share)	18,646.5
Terminal ROE (%)	14.94
g (%)	3.00
CoE (%)	9.50
RFR (%)	3.50
Beta (x)	1.20
ERP (%)	5.0

Comp. Valuation HUF/share	18,064
Net Income (HUF mn, 12 months)	506
Applied P/E (x)	10.0
P/E peers (x)	12.0

Fig. 102. OTP: DDM Valuation sensitivity HUF/share)

	ROE->	12.9%	13.9%	14.9%	15.9%	16.9%
	1.0%	17,177	18,739	20,302	21,864	23,426
	2.0%	17,625	19,317	21,009	22,702	24,394
g	3.0%	17,177	18,739	20,302	21,864	23,426
	4.0%	18,788	20,819	22,849	24,880	26,911
	5.0%	19,563	21,820	24,076	26,333	28,589

Fig. 103. OTP: DDM Valuation sensitivity (HUF/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	2.5%	46,871	32,636	24,664	19,589	16,086
	3.0%	39,776	28,823	22,297	17,983	14,931
RFR	3.5%	34,425	25,739	20,302	16,592	13,909
	4.0%	30,247	23,194	18,597	15,376	13,001
	4.5%	26,899	21,061	17,126	14,303	12,188

Fig. 104. OTP: Our forecast vs Bloomberg consensus

Consensus	2021C	vs. C	2022C	vs. C	2023C	vs. C
Net income	489	*5%*	544	*-7%*	608	*-9%*
DPS (HUF)	379	*-100%*	442	*48%*	559	*-23%*
ROE (%)	17.2	*0.5 pp*	17.1	*-0.5 pp*	16.7	*-0.2 pp*

Fig. 105. OTP: Comps Valuation sensitivity (HUF/share)

Fair P/E (x)	6.0x	8.0x	10.0x	12.0x	14.0x
vs. peers (%)	-67	-50	-33	-17	0
Sensitivity	7,225	10,838	14,451	18,064	21,676

Fig. 106. OTP: Ratios, Assumptions and Forecasts

P&L (HUF bn)	2019	2020	2021E	2022E	2023E
NII	697	783	859	988	1,131
F&C	350	398	436	464	479
Trading Income	61	38	37	40	44
Total Revenue	1,163	1,208	1,321	1,496	1,657
Cost	-641	-708	-729	-811	-878
NLLP	-55	-205	-46	-136	-157
Pre-tax Profit	467	295	545	548	622
Banking tax	-16	-17	-19	-16	-16
Net Income	417	267	474	493	540
Net Income (adj.)	419	324	513	509	556

HUF tr	2019	2020	2021E	2022E	2023E
Total Assets	20.1	23.3	26.9	31.9	33.1
Bonds	4.7	5.0	6.2	7.7	7.2
Loans	12.2	13.5	15.3	18.9	20.4
Loans growth (%)	52	10	13	23	8
Deposits	15.5	17.9	20.2	25.0	25.8
Equity	2.3	2.5	2.8	3.1	3.4
Loans - HU	3.9	4.6	5.4	6.0	6.5
Loans - BG	2.4	2.6	2.9	3.1	3.3
Loans - CR	1.4	1.6	1.8	1.9	2.1
Loans - other	4.6	4.6	5.2	7.9	8.5

NIM ratios (%)	2019	2020	2021E	2022E	2023E
Asset yield	5.41	4.74	4.45	4.48	4.54
Funding cost	1.35	1.06	0.96	1.10	1.04
NIM	4.22	3.79	3.60	3.51	3.62

Risk ratios (%)	2019	2020	2021E	2022E	2023E
Stage 3 ratio	5.9	5.6	5.4		
Stage 3 coverage	65.2	64.7	63.3		
Cost of risk	0.54	1.59	0.32	0.80	0.80

Du Pont (%)	2019	2020	2021E	2022E	2023E
NII/assets	4.02	3.60	3.42	3.36	3.48
CoR/assets	-0.31	-0.94	-0.19	-0.46	-0.48
F&C/assets	2.02	1.83	1.74	1.58	1.47
Other rev/assets	0.67	0.13	0.11	0.15	0.15
Costs/assets	-3.69	-3.26	-2.91	-2.76	-2.70
Taxes&other/assets	-0.20	-0.05	-0.28	-0.19	-0.25
ROA	2.50	1.31	1.89	1.68	1.66
Leverage (x)	8.4	9.0	9.4	9.9	9.9
ROE (reported)	21.07	11.81	17.73	16.59	16.49

Capital & dividends	2019	2020	2021E	2022E	2023E
Tier-1 (HUF tr)	1.9	2.2	2.5	2.8	3.0
Tier-2 (HUF tr)	0.3	0.4	0.3	0.3	0.3
TCR (HUF tr)	1.1	1.2	1.3	1.6	1.9
RWA (HUF tr)	13.3	15.8	17.9	22.1	23.8
CT1 ratio (%)	14.3	14.6	16.1	14.3	12.4
CAR ratio (%)	16.8	17.0	18.3	16.1	13.9
Div. payout (%)	0.0	0.0	38.7	24.5	25.7
Dividend (HUF bn)	61	0	0	184	121
No. of shares (mn)	280.0	280.0	280.0	280.0	280.0

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

Pekao SA

Bloomberg: PKO PW, Reuters: PKO.WA

CEE Equity Research

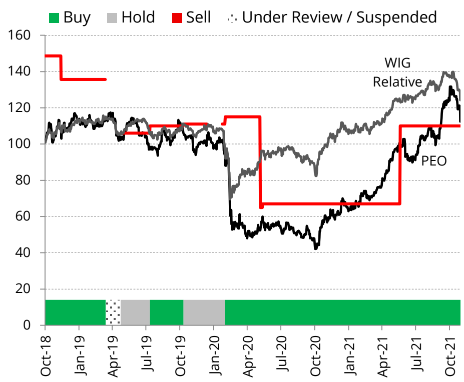
Banks, Poland

Time to catch up?

- **Equity story.** We think that governance issues, 30 changes in the management board since the bank became state controlled in 2017 (according to Puls Biznesu calculations), low NPS, the unfavourable demographic structure of Pekao's retail clients, technological disadvantages and involvement in projects that have generated little or no value added for stakeholders (e.g. Idea acquisition, marketing of collector's banknotes) seem to be reasons why Pekao has underperformed the market in the recent quarters.
- **Idea acquisition makes Pekao performance difficult to assess but Pekao looks relatively weaker on a number of KPIs.** Idea-adjusted NII dynamics at Pekao would be -4% y/y (vs 1% decline expected for the market), on our analysis. Idea was earning c. PLN500mn NII annually when it was acquired by Pekao. Pekao keeps underperforming on F&C: in the last 2 years, F&C in the Polish banking sector increased by 28.3%, while at Pekao it was only by 5.9%. Also when we compare originations – Pekao's sales of mortgages in 9M21 at PLN8.1bn are 10% higher than PLN7.4bn sold in 9M19, which are weaker than the corresponding 57% market growth.
- **PLN700-800mn NII sensitivity to 100bps rate hike.** PEO guides for 30-40bps higher NIM if rates are hiked 100bps. This implies 2.2pp ROE sensitivity to 100bps hike.
- **Possibly lower cost growth than elsewhere.** We think that in 2022E, the PLN100mn cost related to IDA should not be repeated, nor the PLN120mn group lay-off provisions, while the bank should benefit from reducing employment by 1,100 FTEs (8% of staff) and reorganizing further 1,250 FTEs. This should more than offset the expected PLN160mn raise in BFG contributions y/y to c. PLN400mn in 2020.
- **Valuation and risks.** We rate Pekao as a Buy with a 12M TP of PLN137.0 (unchanged). Among the risks, we point out to Pekao being state-controlled, dividends and potential deterioration of the loan portfolio.

RECOMMENDATION	Buy
Current price (PLN)	112.40
Target price (PLN)	**137.0**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Pekao SA: Financial summary and ratios

Year to Dec	2019	2020	2021E	2022E	2023E
P/E (reported)	12.2x	14.6x	14.4x	9.5x	8.5x
P/BV	1.1x	0.6x	1.2x	1.1x	1.0x
Dividend Yield	6.6%	0.0%	2.9%	5.2%	7.9%
EPS (adjusted) (PLN)	8.2	5.2	7.8	11.8	13.2
DPS (PLN)	6.60	0.00	3.21	5.87	8.86
BVPS (PLN)	89.1	97.1	97.5	106.1	109.0
Net Income (PLN mn)	2,165	1,102	2,053	3,100	3,455

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Santander

Fig. 107. Valuation summary (PLN/share)

Recommendation	Buy
12M Target Price (PLN)	137.00
Current price (PLN)	112.40
Prospective upside (%)	22

**Our 12M Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less the estimated cost related to CHF-mortgages.*

DDM valuation (PLN/share)	150.5
Discounted dividends (PLN/share)	29.7
Terminal value (PLN/share)	120.8
Terminal ROE (%)	12.76
g (%)	2.00
CoE (%)	9.00
RFR (%)	3.00
Beta (x)	1.20
ERP (%)	5.0

Comp. Valuation PLN/share	130.3
Net Income (PLN mn, next 12 months)	2,849
Applied P/E (x)	12.0
P/E peers (x)	12.0
CHF impact	-3.0

Fig. 108. DDM Valuation sensitivity (PLN/share)

	ROE->	10.8%	11.8%	12.8%	13.8%	14.8%
	0.0%	123.7	132.4	141.1	149.9	158.6
	1.0%	125.6	135.4	145.2	155.1	164.9
g	2.0%	128.1	139.3	150.5	161.8	173.0
	3.0%	131.4	144.5	157.6	170.7	183.8
	4.0%	136.0	151.7	167.4	183.1	198.9

Fig. 109. DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	2.0%	303.5	224.6	177.4	146.1	123.7
	2.5%	265.0	202.3	162.9	135.9	116.2
RFR	3.0%	234.9	183.9	150.5	127.0	109.5
	3.5%	210.7	168.4	139.8	119.1	103.5
	4.0%	190.9	155.3	130.4	112.1	98.1

Fig. 110. Our forecast vs Bloomberg consensus

Consensus	2021C	vs. C	222C	vs. C	2023C	vs. C
Net income	2,125	*-3%*	2,886	*7%*	3,185	*8%*
DPS (PLN)	4.57	*-30%*	5.84	*0%*	7.09	*25%*
ROE (%)	8.29	*-0.2 pp*	9.21	*2.4 pp*	10.90	*1.3 pp*

Fig. 111. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	9.0x	10.0x	11.0x	12.0x	14.0x	16.0x
vs. peers (%)	-25	-17	-8	0	17	33
Sensitivity	97.7	108.5	119.4	130.3	152.0	173.7

Fig. 112. Ratios, Assumptions and Forecasts

P&L (PLN mn, yr to Dec)	2019	2020	2021E	2022E	2023E
NII	5,468	5,202	5,500	7,212	7,557
F&C	2,534	2,434	2,683	2,770	2,825
Trading Income	237	257	224	145	149
Total Revenue	8,269	7,872	8,421	10,187	10,593
Cost	-3,992	-3,849	-4,087	-4,289	-4,412
NLLP	-696	-1,306	-783	-889	-850
Pre-tax Profit	3,594	2,386	3,553	5,008	5,331
Banking tax	-591	-661	-714	-744	-783
Net Income	2,165	1,102	2,053	3,100	3,455
Net Income (adj.)	2,165	1,370	2,053	3,100	3,455

PLN bn	2019	2020	2021E	2022E	2023E
Total Assets	203	233	252	265	268
Bonds	47	72	70	75	70
Loans	141	142	159	166	174
Loans growth (%)	9	1	12	4	5
Deposits	164	184	205	214	225
Equity	23	25	26	28	29
Mortgage loans	61	65	69	73	78
CHF mortgages	4	4	4	3	3
Other retail loans	14	15	16	17	17
Corporate loans	69	65	70	85	89

NIM ratios (%)	2019	2020	2021E	2022E	2023E
Asset yield (%)	3.53	2.81	2.46	3.47	3.52
Funding cost (%)	0.73	0.35	0.09	0.61	0.62
NIM (%)	2.89	2.50	2.38	2.92	2.96

Risk ratios (%)	2019	2020	2021E	2022E	2023E
Stage 3 ratio	5.7	5.8	5.3	5.3	
Stage 3 coverage	68.0	66.3	69.0	69.0	
Cost of risk	0.52	1.11	0.52	0.55	0.50

Du Pont (%)	2019	2020	2021E	2022E	2023E
NII/assets	2.77	2.38	2.27	2.79	2.84
CoR/assets	-0.35	-0.60	-0.32	-0.34	-0.32
F&C/assets	1.28	1.11	1.11	1.07	1.06
Other rev/assets	0.14	0.08	0.10	0.08	0.08
Costs/assets	-2.02	-1.76	-1.68	-1.66	-1.66
Taxes&other	-0.72	-0.59	-0.62	-0.74	-0.70
ROA	1.10	0.63	0.85	1.20	1.30
Leverage (x)	8.5	8.9	9.5	9.7	9.4
ROE (reported)	9.37	5.61	8.04	11.60	12.24

Capital & dividends	2019	2020	2021E	2022E	2023E
Tier-1 (PLN bn)	20.4	23.3	23.3	23.3	23.3
Tier-2 (PLN bn)	2.8	2.8	4.0	5.3	5.3
TCR (PLN bn)	10.8	11.2	12.0	12.5	13.2
RWA (PLN mn)	135.5	139.8	150.1	156.4	164.4
CT1 ratio (%)	15.0	16.7	15.5	14.9	14.1
CAR ratio (%)	17.1	18.7	18.2	18.2	17.3
Div. payout (%)	0.0	76.5	75.0	75.0	75.0
Dividend (PLN mn)	1,732	0	843	1,540	2,325
No. of shares (mn)	262	262	262	262	262

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

PKO BP

Bloomberg: PKO PW, Reuters: PKO.WA

CEE Equity Research

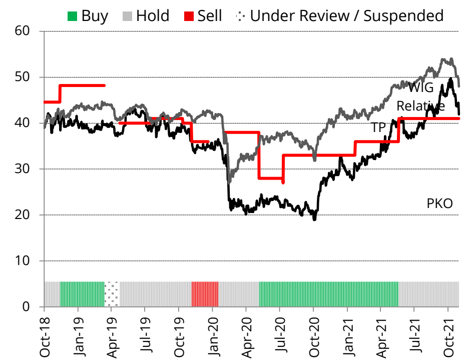
Banks, Poland

Sector play

RECOMMENDATION	Buy
Current price (PLN)	41.90
Target price (PLN)	**47.0**

- **Equity story.** PKO shows seems fairly inexpensive at 2022E P/E of 9.0x. It shows strong rate sensitivity, and is relatively more advanced in addressing CHR-mortgage issue than peers.
- **PLN1,000-1,200mn sensitivity to 100bps rate hike** according to management guidance, which implies 2.4pp higher ROE.
- **16k (16%) of CHF borrowers in the mediation process.** On 29 November, PKO said 16k CHF borrowers had applied for mediation, while 1.7k (82%) of 2.0k already-processed clients had accepted conditions prepared by PKO. Around 11k of CHF borrowers have already sued PKO BP. PKO made PLN7.0bn provisions for its CHF mortgage portfolio of PLN21.1bn as of 3Q21, which means it should be fully covered in the scenario that all CHF-borrowers accept the conversion model proposed by KNF.
- **Weak mortgage originations YTD.** In 9M21 PKO sold PLN12.1bn of mortgages, 2% more than in pre-Covid 9M19, which is the weakest growth rate among the banks we cover (the market grew 57%). In 9M21 PKO BP was second in mortgage originations to ING. PKO has kept increasing quarterly originations since 1Q21 and we would expect PKO to be back as leader of the mortgage market soon.
- **Upside in F&C?** PKO BP reported slower F&C growth than the market, on average. Comparing 9M21 y/y, we note slower growth of account and payment fees (+11% at PKO vs +28% for the market) and slower dynamics in loan related fees (+8% at PKO).
- **Valuation and risks.** We rate PKO as a Buy with a 12M TP of PLN47.0 (unchanged). PKO currently trades at 2022E P/BV of 1.2x and 2022E P/E of 9.0x. The major risks are governance, another wave of pandemics, CHF-related lawsuits and negative sentiment towards banks.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

PKO BP: Financial summary and ratios

Year to Dec	2019	2020	2021E	2022E	2023E
P/E (reported)	10.7x	-14.0x	10.7x	9.0x	8.8x
P/BV	1.04x	0.90x	1.22x	1.17x	1.11x
Dividend Yield	3.9%	0.0%	0.0%	7.0%	8.3%
EPS (PLN)	3.2	2.6	3.9	4.6	4.8
DPS (PLN)	1.33	0.00	0.00	2.95	3.49
BVPS (PLN)	33.3	31.9	34.2	35.8	37.9
Net Income (PLN mn)	4,031	-2,562	4,913	5,809	5,973

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 113. Valuation summary (PLN/share)

Recommendation	Buy
12M Target Price (PLN)	47.00
Current price (PLN)	41.90
Prospective upside (%)	12

**Our 12M Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less estimated impact of CHF-mortgages.*

DDM valuation (PLN/share)	50.3
Discounted dividends (PLN/share)	10.4
Terminal value (PLN/share)	39.8
Terminal ROE (%)	13.14
g (%)	2.00
CoE (%)	9.50
RFR (%)	3.00
Beta (x)	1.30
ERP (%)	5.0

Comp. Valuation PLN/share	54.0
Net Income (PLN mn, next 12 months)	5,628
Applied P/E (x)	12.0
P/E peers (x)	12.0
CHF impact/ share	-5.3

Fig. 114. DDM Valuation sensitivity (PLN/share)

	ROE->	11.1%	12.1%	13.1%	14.1%	15.1%
	0.0%	41.9	44.7	47.5	50.4	53.2
	1.0%	42.4	45.6	48.8	51.9	55.1
g	2.0%	43.1	46.7	50.3	53.9	57.4
	3.0%	44.0	48.2	52.3	56.4	60.5
	4.0%	45.3	50.1	55.0	59.9	64.8

Fig. 115. DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	2.0%	100.6	74.4	58.6	48.2	40.8
	2.5%	88.7	67.5	54.2	45.1	38.4
RFR	3.0%	79.2	61.7	50.3	42.3	36.4
	3.5%	71.4	56.8	46.9	39.8	34.5
	4.0%	65.0	52.5	43.9	37.6	32.8

Fig. 116. Our forecast vs Bloomberg consensus

Consensus	2021C	vs. C	2022C	vs. C	2022C	vs. C
Net income	4,770	*3%*	5,104	*14%*	5,875	*2%*
DPS (PLN)	0.00		2.01	*47%*	2.32	*51%*
ROE (%)	11.33	*0.6 pp*	11.20	*2.1 pp*	12.70	*0.3 pp*

Fig. 117. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	6.0x	8.0x	10.0x	12.0x	14.0x	16.0x
vs. peers (%)	-50	-33	-17	0	17	33
Sensitivity	27.0	36.0	45.0	54.0	63.0	72.0

Fig. 118. Ratios, Assumptions and Forecasts

P&L (PLN mn, yr to Dec)	2019	2020	2021E	2022E	2023E
NII	10,279	10,346	9,805	12,017	12,535
F&C	3,742	3,904	4,289	4,392	4,480
Trading Income	437	275	669	357	370
Total Revenue	14,670	14,098	14,876	16,926	17,553
Cost	-6,148	-6,034	-6,115	-6,780	-7,069
NLLP	-1,261	-2,174	-1,134	-1,305	-1,364
CHF provisions	-451	-6,552	0	0	0
Pre-tax Profit	6,841	-646	7,660	8,882	9,162
Banking tax	-1,022	-1,055	-1,057	-1,119	-1,174
Net Income	4,031	-2,562	4,913	5,809	5,973
Net Income (adj.)	4,031	3,200	4,914	5,809	5,973

PLN bn	2019	2020	2021E	2022E	2023E
Total Assets	348	377	410	425	440
Bonds	81	124	141	146	148
Loans	230	223	234	244	256
Loans growth (%)	*7*	*-3*	*5*	*4*	*5*
Deposits	258	282	304	317	332
Equity	42	40	43	45	47
Mortgage loans	120	119	122	130	136
CHF mortgages	22	22	21	19	18
Other retail loans	26	27	31	34	36
Corporate loans	78	80	86	90	95

NIM ratios (%)	2019	2020	2021E	2022E	2023E
Asset yield (%)	3.99	3.44	2.82	3.92	3.94
Funding cost (%)	0.97	0.53	0.21	1.04	1.04
NIM (%)	3.21	3.01	2.65	3.07	3.09

Risk ratios (%)	2019	2020	2021E	2022E	2023E
Stage 3 ratio (%)	4.2	4.4			
Stage 3 coverage (%)	56.1	61.9			
Cost of risk (%)	0.57	0.96	0.50	0.55	0.54

Du Pont (%)	2019	2020	2021E	2022E	2023E
NII/assets	3.06	2.85	2.49	2.88	2.90
CoR/assets	-0.38	-0.60	-0.29	-0.31	-0.32
F&C/assets	1.05	1.05	1.09	1.05	1.04
Other rev/assets	0.26	-0.01	0.21	0.13	0.13
Costs/assets	-1.83	-1.66	-1.55	-1.62	-1.63
Taxes&other/assets	-0.97	-2.34	-0.70	-0.74	-0.74
ROA	1.20	-0.71	1.25	1.39	1.38
Leverage (x)	8.3	8.9	9.5	9.5	9.4
ROE (reported)	9.99	-6.29	11.88	13.27	12.96

Capital & dividends	2019	2020	2021E	2022E	2023E
Tier-1 (PLN bn)	36.7	40.7	38.2	39.4	40.9
Tier-2 (PLN bn)	2.7	2.7	2.7	2.7	2.7
TCR (PLN bn)	17.1	16.5	17.4	18.2	19.1
RWA (PLN mn)	197.9	191.3	201.3	210.0	220.3
CT1 ratio (%)	17.2	19.7	17.5	17.4	17.2
CAR ratio (%)	18.4	21.0	18.8	18.5	18.3
Div. payout (%)	0.0	50.0	75.0	75.0	75.0
Dividend (PLN mn)	1,663	0	0	3,685	4,357
No. of shares (mn)	1,250	1,250	1,250	1,250	1,250

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

Santander

PZU

Bloomberg: PZU PW, Reuters: PZU.WA

CEE Equity Research

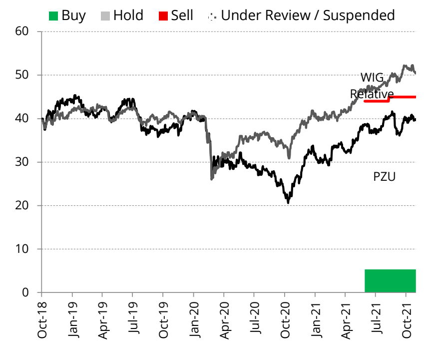
Insurance, Poland

Facing deterioration in main segments

RECOMMENDATION	Hold
Current price (PLN)	34.96
Target price (PLN)	**38.0**

- **Equity story.** We expect a decrease in the profitability of the life segment driven by Covid-related mortality and assume a higher combined ratio in non-life business in the coming quarters. However, we find the dividend yield attractive.
- **3Q21 showed a strong margin in the life and deterioration in the non-life segment.** 3Q21 net income of PLN759mn came in 1% above the consensus. However, its composition was surprising – life margin came extraordinarily strong at 21.8%, especially in the light of 4th Covid wave. On the contrary, a deterioration in the non-life combined ratio was stronger than expected – the ratio went down to 93% from 87% a quarter ago, of which 2pp (PLN70mn) could be explained by weather-related claims, we think.
- **Non-Life – in a wrong moment of the cycle.** The 3Q21 profit in mass non-life (PLN234mn) was the lowest since 2Q17. PZU pointed to further declines in the average MTPL price to c. PLN600 (vs close to PLN700 a year ago), and pressure on claims driven by inflation, weakening PLN and especially normalization in claims frequency.
- **Life segment – 3Q21 improvement was only temporary?** 3Q20 life margin stood at 21.8% (PLN383mn). The improvement was anticipated (based on lower mortality). We assume this, however, to be only temporary, to be followed by higher claims in the next three quarters that could cost PZU PLN300mn. Be reminded, in 9M21 PZU booked additional claims of PLN450mn related to higher mortality driven by Covid according to the CFO's comments during the analyst call.
- **Valuation and risks.** PZU trades at 2022E P/E of 10.6x, P/BV of 1.6x for 2022E ROE of 15.0% and offers DY of 7.5%. Our 12M TP for PZU at PLN38.0 (vs Hold TP at PLN39.0 before) is derived as a weighted average of DDM Valuation (50% weight, PLN40.8) and Comparative Valuation (50% weight, PLN35.9). Among the risk factors, we would point to the state control, broad dividend policy with pay-outs ranging from 50%-100%, volatility of investment results, volatility of the combined ratio and life margin, M&A risk, regulatory risk and risks related to the banking sector and operations outside Poland.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

PZU: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
P/E	10.5x	14.6x	10.6x	10.6x	9.5x
P/BV	2.60x	1.73x	1.61x	1.62x	1.57x
ROE	18.9%	10.2%	15.0%	14.6%	15.6%
Dividend Yield	0.0%	10.0%	7.5%	7.6%	8.4%
EPS (PLN)	3.82	2.21	3.28	3.31	3.68
DPS (PLN)	0.00	3.50	2.63	2.65	2.94
BVPS (PLN)	15.4	18.7	21.7	21.5	22.2
Net Income (PLN mn)	3,295	1,912	2,837	2,858	3,177

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on eoy prices

Analyst

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Fig. 119. PZU: Valuation summary (PLN/share)

Recommendation	Hold
12M Target Price (PLN)	38.00
Current price (PLN)	34.96
Prospective upside (%)	9

**Our 12M Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%).*

DDM valuation (PLN/share)	40.8
Discounted dividends (PLN/share)	14.4
Terminal value (PLN/share)	26.5
Terminal ROE (%)	15.22
g (%)	1.00
CoE (%)	9.50
RFR (%)	3.00
Beta (x)	1.30
ERP (%)	5.0

Comp. Valuation PLN/share	35.9
Net Income (PLN mn, next 12 months)	2,581
Applied P/E (x)	12.0
P/E peers (x)	12.0

Fig. 120. PZU: DDM Valuation sensitivity (PLN/share)

	ROE->	13.2%	14.2%	15.2%	16.2%	17.2%
	-1.0%	35.8	37.3	38.8	40.3	41.8
	0.0%	36.4	38.0	39.7	41.4	43.0
g	1.0%	37.1	39.0	40.8	42.7	44.6
	2.0%	38.0	40.1	42.2	44.4	46.5
	3.0%	39.2	41.7	44.1	46.5	49.0

Fig. 121. PZU: DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	2.0%	68.8	54.9	45.9	39.5	34.8
	2.5%	62.7	51.0	43.2	37.6	33.3
RFR	3.0%	57.6	47.7	40.8	35.8	32.0
	3.5%	53.3	44.8	38.7	34.2	30.7
	4.0%	49.6	42.2	36.8	32.8	29.6

Fig. 122. PZU: Our forecast vs Bloomberg consensus

Consensus	2021C	vs. C	2022C	vs. C	2023C	vs. C
Net income	2,827	*0%*	2,921	*-2%*	3,107	*2%*
DPS (PLN)	2.81	*-6%*	2.82	*-6%*	2.92	*1%*
ROE (%)	16.8	*-1.8 pp*	16.0	*-1.4 pp*	15.8	*-0.2 pp*

Fig. 123. PZU: Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	9.0x	10.0x	11.0x	12.0x	14.0x	16.0x
vs. peers (%)	-25	-17	-8	0	17	33
Sensitivity	26.9	29.9	32.9	35.9	41.8	47.8

Fig. 124. PZU: Ratios, Assumptions and Forecasts

P&L (PLN mn)	2019	2020	2021E	2022E	2023E
GWP	24,191	23,866	24,925	25,290	25,664
NEP	23,090	23,024	23,286	24,004	24,348
Claims	-15,695	-15,580	-16,393	-16,475	-16,359
Inv. result - own portfolio	1,268	1,889	2,111	1,474	1,429
Inv. result - inv. products	248	381	96	0	0
Inv. result - other	-148	-228	-240	-205	-200
Acquisition cost	-3,363	-3,317	-3,385	-3,421	-3,470
Admin cost	-1,739	-1,802	-1,834	-1,951	-1,978
Operating result	3,661	4,367	3,641	3,426	3,770
Net income - insurance	**2,781**	**3,106**	**2,246**	**2,118**	**2,391**
Banks	514	149	590	740	786
Bank impairments	0	-1,343	0	0	0
Net Income	**3,295**	**1,912**	**2,837**	**2,858**	**3,177**

P&L (PLN mn)	2019	2020	2021E	2022E	2023E
Life - Group	1,497	1,391	1,018	965	1,638
Life - Individual	271	244	238	298	245
Corporate non-life	327	313	318	339	340
Mass non life	1,449	1,671	1,268	1,256	1,256
Pension	101	73	76	76	76
Investment result	397	383	717	400	400
Banks	3,498	194	3,643	4,723	5,103
Baltics and Ukraine	224	274	253	254	254
Others	-684	-485	-950	-872	-1,143
PBT	**7,080**	**4,058**	**6,581**	**7,439**	**8,169**
CIT	-1,895	-1,528	-1,725	-2,014	-2,205
Minorities	-1,890	-618	-2,019	-2,566	-2,787
Net Income	**3,295**	**1,912**	**2,837**	**2,858**	**3,177**

KPI (%)	2019	2020	2021E	2022E	2023E
Combined ratio	90%	90%	93%	91%	90%
Loss ratio	68%	68%	70%	69%	67%
Admin cost ratio	11%	12%	11%	12%	12%
Acquisition ratio	15%	14%	15%	14%	14%
Expense ratio	26%	26%	26%	26%	26%
Margin - life	**21%**	**19%**	**14%**	**14%**	**21%**
Margin - life group	21%	20%	14%	14%	23%
Margin - life individual	17%	14%	13%	16%	13%
CoR (non-life)	**88%**	**88%**	**89%**	**90%**	**90%**
CoR (mass non-life)	88%	87%	90%	90%	90%
CoR (corporate)	90%	93%	89%	89%	89%
Yield on debt	4.3%	3.5%	3.4%	3.3%	3.3%
Investment yield	**4.2%**	**4.5%**	**4.7%**	**3.4%**	**3.3%**

Balance sheet (PLN bn)	2019	2020	2021E	2022E	2023E
Equity - attr.	16.2	18.8	18.6	19.2	20.1
Equity - total	39.3	43.4	44.5	47.0	48.9
Investment assets	39.7	43.6	46.6	47.5	48.5
Total assets	343	379	404	418	425
Solvency Ratio	245%	236%	219%	219%	221%
Own funds (PLN bn)	25.5	25.3	24.1	24.7	25.6
Capital req (PLN bn)	10.4	10.7	11.0	11.3	11.6

Capital & dividends	2019	2020	2021E	2022E	2023E
Net income standalone	2,153	1,919	2,519	2,538	2,821
Dividend (PLN mn)	0	3,022	2,269	2,286	2,541
payout - standalone	0%	157%	90%	90%	90%
payout - consolidated	0%	158%	80%	80%	80%
DPS (PLN)	**0.00**	**3.50**	**2.63**	**2.65**	**2.94**
No shares (mn)	864	864	864	864	864

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

Gaming

Fig. 125. Recommendation and valuation summary

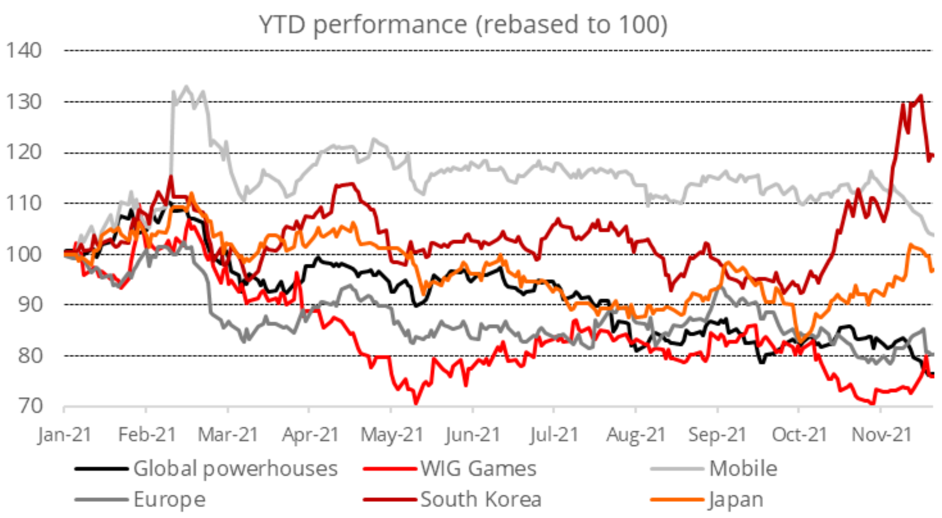
Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2021E	P/E (x) 2022E	P/E (x) 2023E	EV/EBITDA (x) 2021E	EV/EBITDA (x) 2022E	EV/EBITDA (x) 2023E
CD Projekt	Sell	115	185	-38%	110.1	82.6	99.4	73.9	57.0	68.6
11 Bit Studios	Buy	682	499	37%	39.7	82.8	5.6	29.9	46.2	3.5
PlayWay	Buy	555	439	26%	21.5	19.4	18.8	17.6	16.0	15.4
Ten Square Games	Buy	444	370	20%	14.2	12.4	11.4	11.5	11.7	10.0
Median					**30.6**	**51**	**15.1**	**23.75**	**31.1**	**12.7**

Source: Company data, Santander Brokerage Poland estimates

Time of stable growth and lower multiples is coming

Gaming is a diverse market that is difficult to categorize due to the different nature and stage of development of the various companies listed on the WSE. Currently, out of the 70 companies listed on the Polish stock exchange, we cover four that are in the WIG60. The gaming market in 2021 was going through stagnation caused by the massive growth in 2020, which was often associated with missed revenue targets for AAA game developers and margins for mobile game developers. Despite high takeover premiums that have been driving up the index component valuations strongly, most gaming companies (from which we have created the index below) have been underperforming YTD.

Fig. 126. Gaming industry performance *



*Source: Santander Brokerage Poland, Bloomberg, * equal-weighted performance index*

Despite challenging conditions caused by low availability of microchips and raw materials in the world, which made purchase of new generation consoles more difficult, their supply is constantly growing. PS5 - sold 13.4mn units till October, Nintendo Switch is the best-selling console in the UK, USA and Japan and Xbox Series S/X has also outperformed the Xbox ONE over the same period after premiere. We think that in 2022E their presence will be more noticeable, which will support game developers for these platforms.

The big 2020 launches caused the biggest 2021 premieres to shift to a very dense October-November release window, where each of the most anticipated games (Battlefield 2042, GTA: Definitive Edition, or FarCry 6) failed to achieve positive reviews from gamers, pointing to significant underperformance in the games, bugs, and other gameplay issues.

The mobile gaming market fluctuated much more strongly in 2021, especially in 2H2021 as indicated by the results of global companies in the segment (Nexon, Zynga, Playtika). Apple's new IDFA privacy policy, coming into effect as of iOS 14.5, forced companies to either a) significantly increase advertising spending to achieve flat (or mildly higher) q/q revenues or b) cut the UA spending to maintain margins.

A weak USDPLN exchange rate above 4.0 may be further supportive for game developers and publishers, who incur most of their costs in Poland due to a premium on margins at low production prices, which may prove supportive for Polish companies in the months ahead.

In this complex but promising market environment, we highlighted four companies. The first is CDPR, which we still regards as Sell (TP PLN115) as we do not see any major catalyst in the years ahead. We do not see big potential in terms of copy sales (in full price) behind next-gen CP77 and W3. The only story is the Next Witcher, which might be published someday by the end of this decade. We think it is too early to play it. We see 11B as our top pick (Buy, TP PLN682) as we assume a success of Frostpunk 2 (4.9mn copies sold expected by us). The situation for PLWs is much different. We think that this diversified gaming holding has good prospects both in the short and long term. The successful launch of CMS21 and the still-counting strong releases from the previous years can support sales as they are typical long-sellers, and the expected releases of dozens of games (nine of which are on the TOP100 Global Steam Wishlist) can provide growth in 2022 due to the aging back-catalogue. The announced release of a sequel to the top-rated "House Flipper" may again turn out to be a success as was the case with CMS. Revenue growth in 2022E (+12.6% y/y) is lower than we expected in our previous recommendation, but this has been affected by delays in the release of games and the mediocre sales performance of productions delivered in November, which will translate into lower total title sales through the atypical life cycle. Ten Square Games halted its UA spending in 3Q21 to maintain the adjusted EBITDA margins, but this may translate into quieter growth of the top games in their portfolio ("Fishing Clash" and "Hunting Clash"). Still, they have four launches scheduled for 1H22E and one for 2H22E, which will add revenue to the steady performance of their current portfolio. With multiples lower than competitors (P/E 2021E 14.2x vs. 18.0x peers), the company seems to be an attractive investment target due to its strong cash-creation ability and high dividend payout.

Santander

11 BIT

Bloomberg: 11B PW, Reuters: 11B.WA

CEE Equity Research

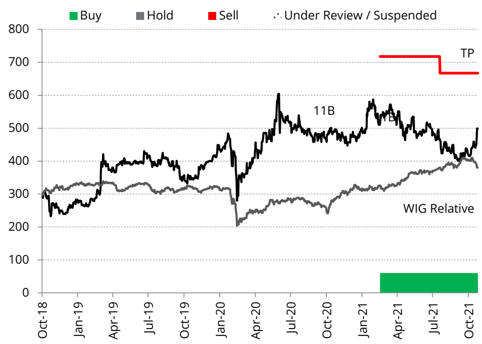
Gaming, Poland

Awaiting Frostpunk 2

- **Equity story.** We are reiterating our Buy recommendation with the TP at PLN682 (+2%). TP increase would be even higher if it was not for the gaming sector's 7Y avg. P/E de-rating in 2021 to 17.0x from 20.8x. We are significantly increasing our 2021E forecasts thanks to much better margins that 11B is achieving on the back catalogue selling. We also materially increased the 'Frostpunk 2' 4Y copy sales forecast to 4.9mn from the previous 3.6mn to reflect the company's message on wish list for 'Frostpunk 2', which is now significantly higher, comparing to 'Frostpunk's wish list the day before the release. In this light, we assume a success of 'Frostpunk 2' and see the potential of a further upside to our forecast. Besides, we see the company's willing to engage in M&A as an opportunity of an expansion in new genres or strengthening the competences in genres the company is currently working on.
- **Earnings forecasts.** After a positive surprise during the 3Q21 results release, we are increasing our 2021E EBITDA/net profit forecast by 44%/109% on lower sales (-21%) due to lower-than-expected operating costs. 2022E sales/EBITDA/net profit forecast is going down by 26%/20%/34% due to the expected lower sales from the back catalogue. 2023E sales/EBITDA/net profit forecast increased by 29%/54%/64% respectively thanks to higher forecast of Frostpunk 2 copy sales.
- **Risks.** Apart from the obvious risks such as (1) delays in releases and (2) potential difficulties in hiring new staff or (3) loss of key persons, we think that the main one is the lower-than-expected popularity of Frostpunk 2 among gamers (low conversion of wish list). Any potential discontent of players after the Frostpunk 2 release due to the disappointing technical quality of the game or not immersive story might hugely dampen the sentiment towards the stock as nobody would believe in success of other games in the pipeline.
- **Valuation.** We value 11B share at PLN682 (+2% from prior PLN667). DCF valuation goes up 28% to PLN834/shr., 30% weight) thanks to a higher forecast of Frostpunk 2 copy sales. Multiple valuation decreased 8% to PLN617/shr., 70% weight) due to the gaming sector valuation de-rating by 16% to 7Y avg. P/E at 17.0x from 20.8x. Multiple valuation is based on the 16.6x target P/E multiple (5% discount to the average 2021-27E P/E for global peers now at 17.0x). We decreased the multiple discount to 5% from 10% to reflect 11B's potential record material jump in its profit after an assumed success of Frostpunk 2.

RECOMMENDATION	Buy
Current price (PLN)	499
Target price (PLN)	**682**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

11 Bit: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	72	87	81	103	392
EBITDA	40	55	43	30	289
EBIT	26	41	32	14	252
Net profit	31	37	32	15	225
P/E (x)	30.6	27.2	39.7	82.8	5.6
EV/ EBITDA (x)	27.0	20.2	29.9	46.2	3.5
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 126. 11 Bit: Quarterly results review

PLNmn	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	Cons.	SANe
Sales	21.8	30.5	19.6	18.0	19.0	14.8	20.9	13.4	-25.5%	-35.9%	13.3	14.3
EBITDA	14.0	19.6	11.6	11.3	8.6	6.4	13.4	5.8	-48.6%	-56.7%	4.8	7.0
EBITDA margin	64%	64%	59%	63%	45%	43%	64%	43%	-19.4	-20.8	36%	49%
EBIT	12.1	17.2	9.1	8.7	5.8	3.4	11.1	3.9	-55.3%	-64.9%	2.4	4.0
EBIT margin	56%	56%	46%	49%	31%	23%	53%	29%	-19.4	-24.0	18%	28%
Net profit	13.2	14.5	10.5	7.1	5.3	3.6	9.7	4.1	-42.3%	-57.7%	2.6	3.5
Net margin	61%	48%	53%	40%	28%	24%	46%	31%	-8.9	-15.8	20%	24%

Source: Company data, Santander Brokerage Poland estimates

Fig. 127. 11 Bit: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	81	103	*-21%*	103	139	*-26%*	392	304	*29%*
EBITDA	43	30	*44%*	30	37	*-20%*	289	188	*54%*
EBIT	32	14	*124%*	14	22	*-35%*	252	153	*65%*
Net profit	32	15	*109%*	15	23	*-34%*	225	137	*64%*

Source: Santander Brokerage Poland estimates

Fig. 128. 11 Bit: Valuation changes

PLN per share	New	Previous	*Change*
DCF	834	652	*28%*
Comparable valuation*	617	673	*-8%*
Target Price	**682**	**667**	**2%**

*Source: Santander Brokerage Poland estimates, * 30% DCF/70% peer valuation*

Fig. 129. 11 Bit: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	72	87	81	103	392
EBITDA	32	51	39	26	285
adj. EBITDA	40	55	43	30	289
Profit before tax	27	41	32	14	252
Net profit	24	37	28	12	222
Adj. net profit	31	41	32	15	225
EBITDA margin	45.1%	58.4%	48.3%	25.1%	72.7%
adj. EBITDA margin	56.4%	63.0%	53.3%	29.0%	73.7%
Net profit margin	33.1%	42.7%	35.2%	11.7%	56.5%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	106	116	132	110	343
Fixed assets	50	70	82	119	140
Total assets	156	186	214	228	482
Current liabilities	24	11	10	12	45
bank debt	0	1	2	3	4
Long-term liabilities	12	10	11	11	11
bank debt	12	9	11	11	11
Equity	120	165	193	205	427
Total liability and equity	156	186	214	228	482
Net debt	-70	-85	-103	-77	-271
Net Debt/ EBITDA (x)	-2.2	-1.7	-2.6	-3.0	-1.0

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	42	38	35	23	249
CF from investment	-49	-34	-18	-48	-54
CF from financing, incl.	-2	6	0	0	0
dividends	0	0	0	0	0
Net change in cash	-9	9	17	-26	194

Source: Company data, Santander Brokerage Poland estimates

CD PROJEKT

Bloomberg: CDR PW, Reuters: CDR.WA

CEE Equity Research

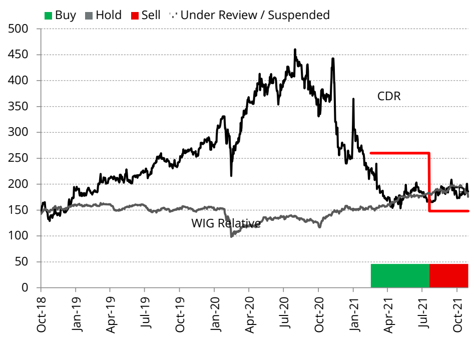
Gaming, Poland

Very thin tail of CP77

RECOMMENDATION	Sell
Current price (PLN)	185.5
Target price (PLN)	**115.0**

- **Equity story.** We are reiterating our Sell recommendation with a new TP at PLN115 (-22%) looking at weak copy sales of the flag product CP77 so far YTD (c1.4-1.5mn copies, in our view). We do not expect any game changers in the years ahead. We think that CP77 should remain 'just' an average quality game and any additional patch or improvement is unlikely to change this opinion anytime soon. In our opinion, new consoles upgrade of CP77 should not bring in any material sales improvements as (1) most gamers have already bought the broken CP77 version for old console at a deep discount with a right for free upgrade, (2) the game has still low user score despite patches (3.7 on Metascore), and, last but not least, (3) the game is getting old. Very thin tail of CP77 copy sales (c.1% of sales in first month after the release) proves the average quality of the product. We would attribute the recent 'improvement of sentiment' to CP77 (opinions and concurrent players on Steam) to a deep 50% discount to just USD30. We also do not see much sales potential behind the paid expansion copy sales estimating that c25% from c7-8mn people (just c50% from 15-16mn, who have bought the base game so far) might be still interested in the title. Next gen W3 and Monster Slayer are to small projects looking at the CDPR's valuation, while it is too early to play 'the Next Witcher' story.
- **Earnings forecasts.** We are decreasing our 2021-22E sales forecast by 1%/18%, respectively. At the same time, our EBITDA/net profit forecasts are going up by 36%/28% in 2021E, while are materially cut in 2022E by 23%/28%.
- **Valuation.** We value CDPR share at PLN115 (-8% from prior PLN148). DCF valuation goes down 8% to PLN162/shr., 30% weight) due to the lower forecast of CP77 base game and revision of paid expansions copy sales forecast. The multiple valuation decreased 20% to PLN95/shr., 70% weight) due to the gaming sector valuation de-rating by 16% to the 7Y avg. P/E at 17.0x from 20.8x. Multiple valuation is based on the 15.3x target P/E multiple (10% discount the average 2021-27E P/E for global peers now at 17.0x). We increased the multiple discount to 10% from 5% to reflect big disappointment related to CP77 release and decreased sentiment to CDPR, which had an opinion of the impeccable game developer. The main risk to our Sell rating is better-than-expected copy sales of CP77 and its higher-than-expected avg. selling price. Higher-than-expected copy sales of paid expansions planned someday in the future and the positive impact on opinions about CP77 is also a risk to our estimates of copy sales and avg. price forecast.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

CDPR: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	521	2,564	751	755	675
EBITDA	218	1,474	237	306	255
EBIT	180	1,234	194	259	215
Net profit	175	1,127	172	229	191
P/E (x)	153.7	23.5	110.1	82.6	99.4
EV/ EBITDA (x)	121.5	16.9	73.9	57.0	68.6
Dividend Yield	0.4%	0.0%	2.7%	0.5%	0.5%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

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Fig. 130. CDPR: Quarterly results review

PLNmn	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	Cons.	SAN
Sales	213	193	171	105	1,670	198	273	145	38.3%	-47.1%	175	221
EBITDA	116	107	67.5	37	1,213	71	107	43	15.2%	-59.9%	69	77
EBITDA margin	54.3%	55.4%	39.4%	35.6%	72.6%	35.9%	39.2%	35.0%	-0.6	-4.2	40%	35%
EBIT	104	98	58	29	973	43	79	16	-45.3%	-80.4%	42	48
EBIT margin	48.6%	50.6%	34.2%	27.3%	58.2%	21.9%	29.1%	10.8%	-16.5	-18.3	24%	22%
net profit	109	92	55	23	984	33	73	16	-30.3%	-77.5%	36	42
net margin	51.0%	47.7%	32.0%	22.4%	58.9%	16.4%	26.6%	19.0%	-3.4	-7.6	20%	19%

Source: Company data, Santander Brokerage Poland estimates

Fig. 131. CDPR: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	751	756	*-1%*	755	917	*-18%*	675	1,281	*-47%*
EBITDA	237	174	*36%*	306	398	*-23%*	255	775	*-67%*
EBIT	194	124	*57%*	259	329	*-21%*	215	685	*-69%*
Net profit	172	134	*28%*	229	318	*-28%*	191	642	*-70%*

Source:, Santander Brokerage Poland estimates

Fig. 132. CDPR: Valuation changes

PLN per share	New	Previous	*Change*
DCF	162	177	*-8%*
Comparable valuation*	95	136	*-30%*
Target Price	**115**	**148**	***-22%***

*Source: Santander Brokerage Poland estimates, *30% DCF/70% peer valuation*

Fig. 133. CDPR: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	521	2,139	751	755	675
EBITDA	360	1,648	536	528	445
adj. EBITDA	218	1,425	237	306	255
Profit before tax	180	1,157	194	259	215
Net profit	189	1,165	191	255	212
Adj. net profit	175	1,154	172	229	191
EBITDA margin	42%	67%	32%	41%	38%
adj. EBITDA margin	35%	54%	26%	34%	32%
Net profit margin	34%	54%	23%	30%	28%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	725	2,130	1,617	1,674	1,616
Fixed assets	679	764	696	769	911
Total assets	1,404	2,894	2,313	2,443	2,527
Current liabilities	273	541	392	392	386
bank debt	0	0	0	0	0
Long-term liabilities	25	166	27	27	26
bank debt	0	0	0	0	0
Equity	1,106	2,187	1,894	2,024	2,114
Total liability and equity	1,404	2,894	2,313	2,443	2,527
Net debt	-482	-1,636	-1,426	-1,482	-1,441
Net Debt/ EBITDA (x)	-2.2	-1.1	-6.0	-4.8	-5.6

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	312	712	421	276	239
CF from investment	-295	-106	-120	-120	-181
CF from financing, incl.	-73	-91	-510	-100	-100
dividends	-101	0	-510	-100	-100
Net change in cash	-55	514	-210	56	-42

Source: Company data, Santander Brokerage Poland estimates

Santander

PlayWay

Bloomberg: PLW PW, Reuters: PLW.WA

CEE Equity Research

Gaming, Poland

What after CMS21?

RECOMMENDATION	Buy
Current price (PLN)	439
Target price (PLN)	**555**

- **Equity story.** The PLW model continues to show remarkable flexibility and, despite the huge growth of capital group in 2020-21, the company continues to demonstrate the ability to create games that players love. Very diversified revenue streams, young teams, low production costs and well-known productions (CMS series or House Flipper) make a strong case for PLW's growth potential.
- **2022E outlook.** We think that this diversified gaming holding has good prospects both in the short and long term. The successful launch of CMS21 (expected 0.65mn copies sold in 2021E) and the still-good selling releases from the previous years can support the company's revenues as they are typical long-sellers. The expected releases of dozens of games (nine of which are on the TOP100 Global Steam WL) can provide growth in 2022E along with the back-catalogue. The announced release of a sequel to the top-rated "House Flipper" may again turn out to be a success as was the case with CMS. Revenue in 2022E (+12.6% y/y) is lower than we had expected in our previous recommendation, but this has been affected by delays in the release of games and the mediocre sales performance of productions released in November, which may translate into lower total title sales through the atypical life cycle. The relatively high USDPLN exchange rate remains supportive, as PLW incurs most of its costs in PLN and the majority of its sales are generated in the Western markets. The pace of the capital group's growth will rather slow down, and (as stated by the CEO) PLW will put more focus on internal integration of teams that can work together on, for example, porting titles to consoles/mobile/VR.
- **Earnings forecasts.** We assume that revenues will grow at a 2020-23E CAGR of +14.9%. PLW's strength is its margins, which should not be severely impacted by rising employee costs due to the strong cost discipline of the company and its subsidiaries. Paying out dividends could lead to a 2023E DY of 3.7%. Possible IPOs of subsidiaries along with sale of their shares and dividends from subsidiaries should provide additional support for PLW.
- **Valuation and risks.** We maintain a Buy recommendation with a TP at PLN555 based on the DCF model (PLN643sh, 50% weight) and multiples valuation (PLN467/sh, 50% weight). Among the risks, we would note rising production costs, delayed game launches and relatively lower demand for IPOs of gaming companies.

STOCK PERFORMANCE

The chart measures performance against the WIG index.

PLW: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	130.9	181.4	259.4	292.2	314.6
EBITDA	83.1	118.8	182.6	201.7	207.7
EBIT	82.5	118.1	181.8	200.8	206.8
Net profit	86.9	200.0	140.5	149.5	154.0
Adj. Net profit	67.2	84.8	134.9	149.5	154.0
P/E (x)	17.1	30.1	21.5	19.4	18.8
EV/ EBITDA (x)	12.2	18.5	17.6	16.0	15.4
Dividend Yield	1.8%	2.4%	2.9%	3.4%	3.6%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

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Fig. 134. PLW: Quarterly results review

PLNmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	Cons.	SANe
Sales	20.2	38.7	35.1	66.6	36.5	42.8	47.1	56.4	70.8	94.0%	25.6%	77	81.1
EBITDA	11.9	21.1	23.5	52.5	23.0	19.7	28.8	33.3	47.4	105.7%	42.4%	51.9	58.3
EBITDA margin	*58.8%*	*54.6%*	*67.0%*	*78.8%*	*63.2%*	*46.1%*	*61.2%*	*59.1%*	*66.9%*	6.0%	13.4%	*67%*	*72%*
EBIT	11.8	20.8	23.3	52.3	22.8	19.6	28.7	33.1	47.1	106.4%	42.3%	51.7	58.1
EBIT margin	*58.4%*	*53.7%*	*66.4%*	*78.6%*	*62.5%*	*45.8%*	*61.0%*	*58.7%*	*66.5%*	6.4%	13.3%	*67%*	*72%*
Net profit	6.9	32.5	21.2	20.9	21.6	29.2	25.5	25.6	42.8	98.2%	66.9%	40.2	43.5
Net margin	*34%*	*84%*	*60.3%*	*31.4%*	*59.2%*	*68.1%*	*54.2%*	*45.5%*	*60.5%*	2.2%	32.9%	*52%*	*54%*

Source: Company data, Santander Brokerage Poland estimates, PAP

Fig. 135. PLW: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	263.0	273.3	*-4%*	289.6	301.2	*-4%*	321.0	333.6	*-4%*
EBITDA	186.2	196.5	*-5%*	199.1	209.4	*-5%*	214.1	223.4	*-4%*
EBIT	185.4	195.7	*-5%*	198.3	208.6	*-5%*	213.2	222.5	*-4%*
Net profit	137.9	146.7	*-6%*	147.4	156.1	*-6%*	159.7	167.6	*-5%*

Source: Santander Brokerage Poland estimates

Fig. 136. PLW: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	643	686	*-6%*
Comparable valuation	467	525	*-11%*
Target Price*	**555**	**605**	**-8%**

*Source: Santander Brokerage Poland estimates, *(50% DCF/50% peer valuation)*

Fig. 137. PLW: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	130.9	181.4	259.4	292.2	314.6
Gross profit	85.8	127.9	191.5	210.7	216.9
EBITDA	83.1	118.8	182.6	201.7	207.7
EBIT	82.5	118.1	181.8	200.8	206.8
Profit before tax	109.1	269.0	188.8	200.8	206.8
Adj. net profit	67.2	84.8	134.9	149.5	154.0
EBITDA margin	63%	65%	70%	69%	66%
EBIT margin	63%	65%	70%	69%	66%
Net margin	51%	47%	52%	51%	49%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	162.6	256.9	236.6	230.5	278.9
Fixed assets	49.3	201.7	284.1	286.5	290.6
Total assets	211.8	458.6	520.7	517.0	569.5
Current liabilities	4.3	5.2	12.2	13.5	14.4
bank debt	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	0.0	0.0	0.0	0.0	0.0
bank debt	0.0	0.0	0.0	0.0	0.0
Equity	175.0	356.4	429.8	420.1	469.4
Total liability and equity	211.8	458.6	520.7	517.0	569.5
Net debt	-98.5	-180.9	-131.1	-113.5	-154.1
Net Debt/ EBITDA (x)	-1.2	-1.5	-0.7	-0.6	-0.7

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	42.8	53.8	95.6	141.9	149.0
CF from investment	-2.1	43.6	-66.1	-3.3	-4.9
CF from financing, incl.	-11.8	-15.1	-79.2	-156.2	-103.6
dividends	-21.2	-62.4	-84.1	-98.4	-104.7
Net change in cash	28.9	82.4	-49.7	-17.6	40.6

Source: Company data, Santander Brokerage Poland estimates

Ten Square Games

Bloomberg: TEN PW, Reuters: TEN.WA

CEE Equity Research

Gaming, Poland

Peaceful growth on the road to a rich portfolio

RECOMMENDATION	Buy
Current price (PLN)	370
Target price (PLN)	**444**

- **Equity story.** We see value in TEN's business model based on recurring revenues from flagship titles, relatively low valuation (2021E P/E 14.2x vs 18.0x peers), four upcoming premieres and ability to maintain the sales level of games with lower UA spending in the hardest quarter for mobile gaming (3Q21).
- **Four upcoming premieres in new market reality.** TEN has four games in the pipeline to be released in 1H22E, with a 5th release in 2H22E. The new launches that may begin to be profitable before the end of 2022E. In the same time, stable performance of "Fishing Clash" with increased marketing spending and assumed growth of "Hunting Clash" may lead the company more smoothly through a time of increased volatility in player cohorts and challenges with the new IDFA policy. The new market environment affecting TEN's competitors (Playtika, Nexon and Zynga) has significantly impacted margins, slowing the earlier market expectations for a continued double-digit growth, which has been further exacerbated by the improvement in the global pandemic situation relative to 2020.
- **Earnings forecasts.** We expect revenues to grow steadily to PLN663mn in 2021E with a CAGR of +9.3% through 2023E. The company will maintain its dividend policy, assuming payment of up to 75% of the generated profit. EBITDA margins through 2023E may not return to the 2019 levels, although they could be positively impacted by revenue from the Chinese market and USDPLN exchange rate. The amount of adjustments to EBITDA caused by: the non-cash impact of the incentive program and virtual payments will be significant driving the adjusted EBITDA to PLN218.3mn in 2021E.The company halted UA spending in 3Q21, but plans to launch a new campaign for flagship titles in the coming months, which will translate into revenue growth for growing titles.
- **Valuation and risks.** Our DCF model (50% weight) points to a value of PLN480/sh, while the comparative valuation (50% weight) to PLN408/sh. These translate into a TP of PLN444 and a +20.0% upside potential, supporting our Buy recommendation. Among the risks, we would note the rising user acquisition costs and failed game launches.

STOCK PERFORMANCE

The chart measures performance against the WIG index.

TEN: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	241.1	578.2	663.0	794.1	867.0
EBITDA	85.7	174.9	167.3	207.6	234.7
Adj. EBITDA	85.7	227.0	218.3	238.7	258.1
EBIT	84.6	171.8	165.2	205.4	232.4
Net profit	76.4	151.6	144.8	182.0	207.1
Adj. Net profit	76.4	151.6	185.4	213.1	230.5
P/E (x)	12.3	19.7	14.2	12.4	11.4
EV/ EBITDA (x)	10.1	12.2	11.5	11.7	10.0
Dividend Yield	1.0%	1.0%	2.8%	3.3%	4.5%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

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Fig. 138. TEN: Quarterly results review

PLNmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q
Sales	67.7	78.3	95.0	169.6	179.3	134.3	174.1	164.9	148.0	*-17.5%*	*-10.3%*
EBITDA	22.1	34.8	38.2	30.2	67.3	39.2	56.9	43.9	34.5	*-48.7%*	*-21.4%*
EBITDA margin	*33%*	*44%*	*40%*	*18%*	*38%*	*29%*	*33%*	*27%*	*23%*	*-14.2*	*-3.3*
Adj. EBITDA			38.2	36.7	74.4	77.6	65.1	46.9	54.8	*-26.3%*	*17.0%*
adj. EBITDA margin			*40%*	*22%*	*42%*	*58%*	*37%*	*28%*	*37%*	*-4.5*	*8.6*
EBIT	21.8	34.4	37.6	29.4	66.5	38.3	55.9	38.7	31.2	*-53.1%*	*-19.4%*
EBIT margin	*32%*	*44%*	*40%*	*17%*	*37%*	*29%*	*32%*	*23%*	*21%*	*-16.0*	*-2.4*
Net profit	18.1	34.8	35.3	25.6	58.8	31.9	52.7	33.4	24.8	*-57.8%*	*-25.7%*
Net profit margin	*27%*	*44%*	*37%*	*15%*	*33%*	*24%*	*30%*	*20%*	*17%*	*-16.0*	*-3.5*

Source: Company data, Santander Brokerage Poland estimates

Fig. 139. TEN: Forecasts changes*

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	663.0	671.6	*-1.3%*	794.1	764.0	*4%*	867.0	828.9	*5%*
EBITDA	167.3	177.0	*-6%*	207.6	221.5	*-6%*	234.7	252.2	*-7%*
EBIT	165.2	174.9	*-6%*	205.4	219.3	*-6%*	232.4	250.0	*-7%*
Net profit	144.8	157.5	*-8%*	182.0	197.3	*-8%*	207.1	224.8	*-8%*

*Source: Santander Brokerage Poland estimates, *reported values before adjustments*

Fig. 140. TEN: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	480	493	*-3%*
Comparable valuation	408	411	*-1%*
Target Price*	**444**	**452**	***-2%***

*Source: Santander Brokerage Poland estimates, *(50% DCF/50% peer valuation)*

Fig. 141. TEN: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	241.1	578.2	663.0	794.1	867.0
Gross profit	229.8	552.8	614.1	746.6	818.0
Adj. EBITDA	85.7	227.0	218.3	238.7	258.1
EBIT	84.6	171.8	165.2	205.4	232.4
Profit before tax	84.6	170.9	206.2	236.9	256.3
Adj. Net profit	76.4	151.6	185.4	213.1	230.5
Adj. EBITDA margin	35.6%	39.3%	32.9%	30.1%	29.8%
EBIT margin	35.1%	29.7%	24.9%	25.9%	26.8%
Adj. Net margin	31.7%	26.2%	28.0%	26.8%	26.6%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	101.1	307.6	232.8	314.3	408.0
Fixed assets	4.9	16.1	14.8	15.0	15.2
Total assets	106.0	323.7	464.5	552.1	666.6
Current liabilities	13.9	78.6	107.1	68.5	70.7
bank debt	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	0.0	7.0	7.0	7.0	7.0
bank debt	0.0	7.0	7.0	7.0	7.0
Equity	92.1	238.1	309.8	404.9	493.7
Total liability and equity	106.0	323.7	464.5	552.1	666.6
Net debt	-75	-230	-130	-204	-298
Net Debt/ EBITDA (x)	-0.9	-1.3	-0.8	-1.0	-1.3

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	66.4	193.2	193.0	168.7	235.5
CF from investment	-3.5	-3.8	-219.4	-8.2	-23.0
CF from financing, incl.	-27.3	-28.2	-73.0	-86.9	-118.3
dividends	-27.3	-27.4	-73.0	-86.9	-118.3
Net change in cash	35.7	161.2	-99.3	73.6	94.2

Source: Company data, Santander Brokerage Poland estimates

Industrials

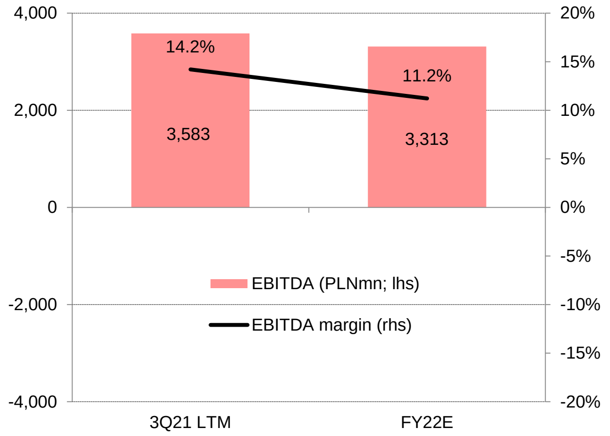
Fig. 142. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2021E	2022E	2023E	EV/EBITDA (x) 2021E	2022E	2023E
Amica	Hold	149.0	116.0	28%	8.5	9.1	7.7	6.1	6.3	5.4
Ciech	Buy	56.6	42.3	34%	8.2	8.5	8.1	5.3	5.1	4.9
Famur	Buy	3.2	2.6	23%	13.9	9.5	12.4	5.0	4.4	5.1
Grupa Azoty	Buy	39.7	33.8	18%	10.1	7.0	9.1	4.2	3.8	3.9
Grupa Kęty	Buy	686.8	570.0	20%	9.9	10.8	11.4	7.4	8.1	8.3
PKP Cargo	Sell	12.3	14.3	-14%	NM	NM	6.1	6.3	5.6	4.3
Median	-	-	-	-	**9.9**	**9.1**	**8.6**	**5.7**	**5.4**	**5.0**

Source: Company data, Santander Brokerage Poland estimates

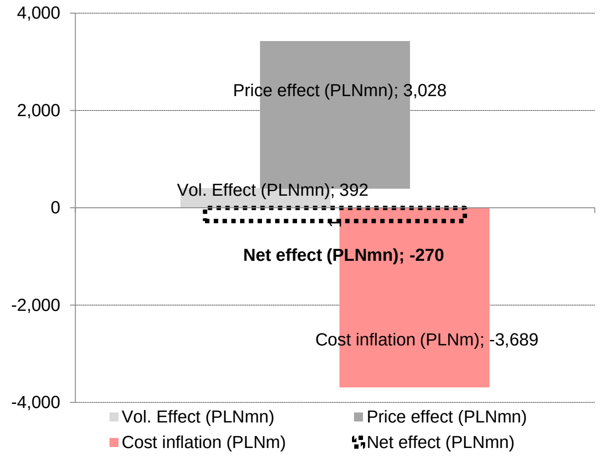
In our opinion, the industrials should take advantage of solid volume performance next year (thanks to structural changes to the global logistics chains). The price effect (triggered by surge of manufacturing costs) may come in ca. 2.3x times higher translating into relative operational margins erosion (estimates of 299bps contraction within our coverage universe).

Fig. 143. Est. covered industrials" FY22E EBITDA path



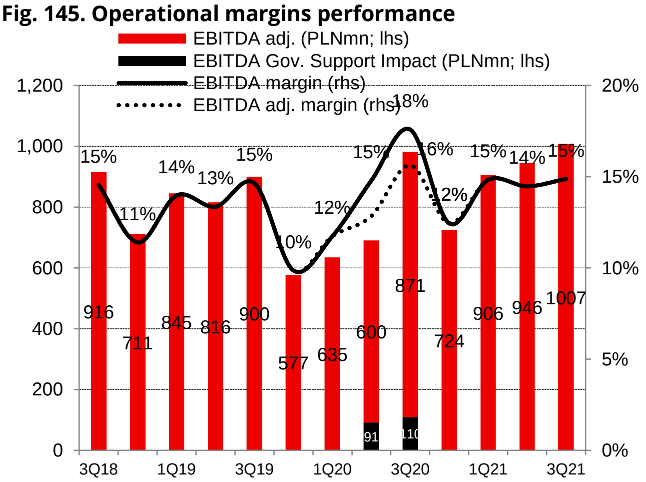
Source: Santander Brokerage Poland

Fig. 144. Covered industrials' FY22E EBITDA decomposition



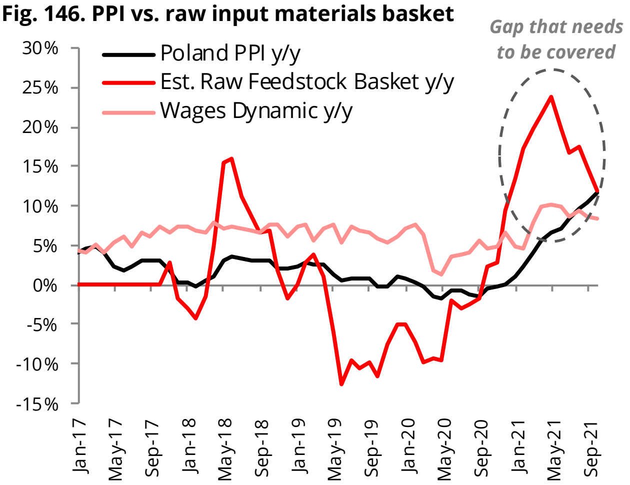
Source: Santander Brokerage Poland

Fig. 145. Operational margins performance



Source: Santander Brokerage Poland

Fig. 146. PPI vs. raw input materials basket



Source: Santander Brokerage Poland

Taking into account the aforementioned supply shortages, we are positive on chemicals with Ciech being our preferred investment idea. Within industrials, we position ourselves on fundamentally solid stock with hefty dividend pay-out potential (Grupa Kęty is our top-pick in the current business environment). PKP Cargo is a top-sell name within our coverage universe (we expect the operating leverage to take its toll in FY22E).

Amica

Bloomberg: AMC PW, Reuters: AMC.WA

CEE Equity Research

Industrials, Poland

Competitive pressure to take its toll

- **Equity story.** Amica has benefited from the changed customers' spending mix throughout the economic lockdown. The focus on the low-end market came in supportive with respect to sales volumes. Unfortunately, the entity currently faces headwinds attributable to inflated costs mix (60% of the manufacturing costs account for metal sheets and electric components with roughly equal weights) and tight competitive pressure. With respect to the margins squeeze, the goods segment suffered the most, while outlook remains gloomy. Amica gradually adjusts its price lists but the margins recovery may not happen soon in the view of a mentioned competitive pressure and still rising costs.
- **Recent developments.** The recent months were characterized with inflated materials and logistics costs. From the cash flow perspective, the company was rebuilding its stocks, which translated into normalization of the WC balance. In the effect the indebtedness increased to the historically observed levels (on average). For the time being, the business environment should remain roughly intact with the key headwinds still blowing.
- **Amica may focus on market share protection.** The dynamic feedstock / operational costs changes trigger active price books adjustments. Unfortunately, we expect the industry to focus on the price elasticity of a demand and protect their market share at costs of temporary operational margins squeeze. In the effect, we anticipate operational margins recovery to extend in time.
- **Threats and opportunities.** Prices of goods, raw input materials and logistics are on the rise, translating into pressure on operational margins. The pricing strategy is subject to the actions taken by key competitors. In effect, operational margins could remain under pressure for a while. Historically, Amica proved it could successfully tackle such issues. We attribute the highest risks to the trend in customers spending patterns that would be reflected by sales volumes. Among the opportunities, we point out Amica may benefit from the planned social/ tax reforms in Poland.
- **Valuation and risks.** The DCF model (75% weight) points to PLN144/sh, while comparative valuation (25% weight) to PLN165/sh. In effect, we decrease our 12M TP to PLN149. Taking into account limited pricing power in the mid run and vague outlook for the logistics prices we stick to our Hold recommendation for the stock despite upside potential above 10%. Sales volumes, path of raw input materials'/ wages costs and FX rates are the key risks to the presented valuation in the short run.

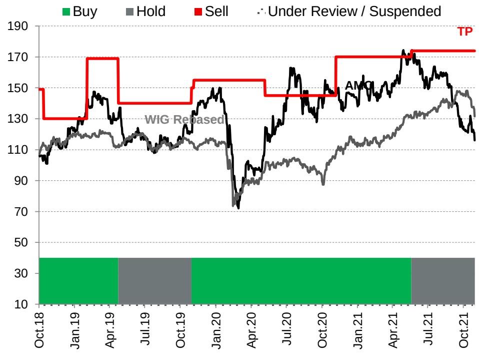
Amica: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	3,023	3,085	3,313	3,437	3,536
EBITDA	223	264	204	203	229
EBIT	167	204	141	134	155
Net profit	117	157	107	99	117
P/E (x)	8.4	6.3	8.5	9.1	7.7
EV/ EBITDA (x)	6.0	4.2	6.1	6.3	5.4
Dividend Yield	2.6%	2.0%	4.0%	3.7%	3.5%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

RECOMMENDATION	Hold
Current price (PLN)	116
Target price (PLN)	**149**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

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Fig. 147. Amica: Quarterly results review

PLNmn	4Q20	1Q21	2Q21	3Q21	y/y	q/q	LTM (E)	FY20	4Q21E	y/y	q/q
Sales	935.3	797.0	773.0	851.3	-1.9%	10.1%	3,357	3,069	891.3	-4.7%	4.7%
EBITDA	78.8	61.3	46.0	45.4	-51.3%	-1.3%	232	260	51.0	-35.3%	12.3%
EBITDA margin	*8.4%*	*7.7%*	*6.0%*	*5.3%*	*-5.4*	*-0.6*	*6.9%*	*8.5%*	*5.7%*	*-270.4*	*38.8*
EBIT	63.7	45.4	29.5	30.2	-61.4%	2.4%	169	201	35.8	-43.8%	18.5%
EBIT margin	*6.8%*	*5.7%*	*3.8%*	*3.5%*	*-5.5*	*-0.3*	*5.0%*	*6.5%*	*4.0%*	*-279.5*	*46.8*
Net profit	48.6	45.2	21.3	22.8	-63.5%	7.0%	138	151	17.4	-64.1%	-23.5%
Net margin	*5.2%*	*5.7%*	*2.8%*	*2.7%*	*-4.5*	*-0.1*	*4.1%*	*4.9%*	*2.0%*	*-324.0*	*-72.2*
LTM EBITDA	260	281	279	232	-8.9%	-17.1%	231.5	260			
y/y	16.8%	28.3%	25.5%	-8.9%	n.a.	n.a.	-8.9%	16.8%			
Net debt (ex. factoring)	-68	-18	140	239	234	99	239	-68			
Net debt / LTM EBITDA	-0.26	-0.06	0.50	1.03	1.0	0.5	1.03	-0.26			
OCF	58	-12	-101	-72	n.a.	n.a.	-128	353			

Source: Company data, Santander Brokerage Poland estimates

Fig. 148. Amica: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	3,313	3,295	*1%*	3,437	3,368	*2%*	3,536	3,469	*2%*
EBITDA	204	225	*-9%*	203	229	*-11%*	229	256	*-10%*
EBIT	141	162	*-13%*	134	161	*-16%*	155	182	*-15%*
Net profit	107	117	*-9%*	99	117	*-15%*	117	134	*-13%*

Source: Santander Brokerage Poland estimates

Fig. 149. Amica: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	144	168	*-14%*
Comparable valuation	165	192	*-14%*
Target Price*	**149**	**174**	***-14%***

*Source: Santander Brokerage Poland estimates, *DCF: 75%, CV: 25% - higher weight has been assigned to DCF as a prime valuation tool relying on the long-term outlook.*

Fig. 150. Amica: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	3023	3085	3313	3437	3536
Gross profit	852	845	891	895	938
EBITDA	223	264	204	203	229
EBIT	167	204	141	134	155
Profit before tax	144	194	134	126	148
Net profit	117	157	107	99	117
EBITDA margin	*7.4%*	*8.5%*	*6.1%*	*5.9%*	*6.5%*
EBIT margin	*3.9%*	*5.1%*	*3.2%*	*2.9%*	*3.3%*
Net margin	*3.9%*	*5.1%*	*3.2%*	*2.9%*	*3.3%*

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	1213	1461	1286	1315	1363
Fixed assets	710	730	770	810	830
Total assets	1934	2192	2056	2125	2193
Current liabilities	868	968	772	784	775
bank debt	190	124	119	106	77
Long-term liabilities	144	156	156	156	156
bank debt	118	114	114	114	114
Equity	920	1066	1126	1183	1260
Total liability and equity	1934	2192	2056	2125	2193
Net debt	212	-32	196	232	194
Net Debt/ EBITDA (x)	1.0	-0.1	1.0	1.1	0.8

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	119	353	-79	115	172
CF from investment	-39	-25	-103	-109	-94
CF from financing, incl.	-72	-158	-52	-56	-68
dividends	-30	-23	-47	-43	-40
Net change in cash	20	175	-233	-49	10

Source: Company data, Santander Brokerage Poland estimates

Ciech

Bloomberg: CIE PW, Reuters: CIE.WA

CEE Equity Research

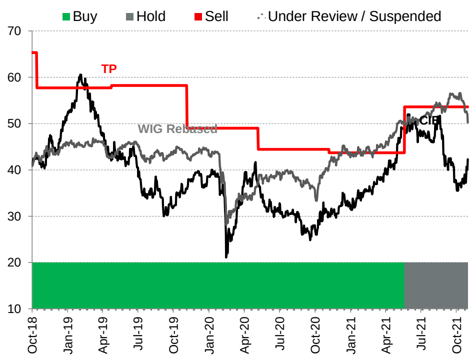
Industrials, Poland

Balancing global soda ash market

- **Equity story.** In our view, Ciech persistently continues its path towards laying firm foundations for diversified (in terms of business segments) and growth oriented business platform. From the anticipated finical performance perspective, we stress recent guidance shift towards positive one (regarding the soda ash segment in particular). The company representatives highlighted the demand / supply structural changes to the global soda ash market that should allow for visible soda ash price increase in the mid run. Brand new salt production site is expected to reach full production capacity in FY23E Ciech anticipates also positive trends to continue in the remaining key business segments in the mid run. FY22E capex should come in visibly lower y/y. Dividend pay-out from FY21E net profit cannot be ruled out, but this is subject to the AGM's decision.
- **Recent developments.** Costs of CO_2 emission allowances and primary energy sources squeezed the operational margins. Nevertheless, in view of a solid demand outlook supported by the company's guidance, we assume ca. 22% y/y soda ash prices increase in FY22E, fully offsetting the demanding costs increase. Above all, we identify some potential upside risks related to the agro segment (partially driven by food inflation) and expansionary capex.
- **ESG.** Ciech wants to achieve climate neutrality by 2040. New technologies that the company eyes to introduce in the long term include CO_2 capture, hydrogen as a separate fuel or co-combustion with gas, small modular reactors and energy storage solutions. The chemical group plans to eliminate coal from energy production by 2033. According to rough estimates, ESG-oriented capex may amount to approximately PLN400mn by 2026E.
- **Valuation and risks.** DCF-driven valuation points to PLN55.9. Comparable valuation implies PLN58.6 value per share. The weighted average approach points to a 12M TP at PLN56.6 /sh (increased from PLN53.6). In effect, we upgrade our current Hold recommendation for Ciech to Buy. Volumes delivery (including those related to new capacity) and costs of CO_2 emission allowances constitute the key risks to the valuation. The dynamics of the economic rebound is crucial for the path of the forecast operating margins.

RECOMMENDATION	Buy
Current price (PLN)	42.3
Target price (PLN)	**56.6**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Ciech: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	3,549	2,976	3,372	4,031	3,983
EBITDA	578	589	735	748	766
EBIT	268	250	370	362	372
Net profit	113	123	271	264	274
P/E (x)	20.8	13.5	8.2	8.5	8.1
EV/ EBITDA (x)	6.7	5.6	5.3	5.1	4.9
Dividend Yield	0.0%	0.0%	7.1%	6.1%	5.9%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

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Fig. 151. Ciech: Quarterly results review

PLNmn	4Q20	1Q21	2Q21	3Q21	*y/y*	*q/q*	LTM (E)	4Q21E	y/y	q/q
Sales	**807**	**861**	**835**	**772**	***12%***	***-8%***	**3,275**	**904**	***12%***	***17%***
EBITDA	**169**	**221**	**187**	**155**	***11%***	***-17%***	**732**	**172**	***2%***	***11%***
% EBITDA	*21%*	*26%*	*22%*	*20%*	*-7*	*-226*	*22%*	*19%*	*-191*	*-105*
Soda	*133*	*171*	*147*	*120*	*-3%*	*-19%*	*571*			
Organic	*34*	*56*	*41*	*25*	*180%*	*-38%*	*156*			
Silicates&glasses	*16*	*12*	*13*	*10*	*-24%*	*-23%*	*51*			
Other	*-14*	*-18*	*-15*	*0*	*n.a.*	*n.a.*	*-46*			
EBIT	**73**	**137**	**101**	**57**	***-4%***	***-43%***	**369**	**75**	***2%***	***30%***
% EBIT	*9%*	*16%*	*12%*	*7%*	*-122*	*-461*	*11%*	*8%*	*-80*	*85*
Net profit	**52**	**184**	**9**	**41**	***-2%***	***381%***	**285**	**38**	***-27%***	***-8%***
% Net profit	*6%*	*21%*	*1%*	*5%*	*-75*	*432*	*9%*	*4%*	*-223*	*-117*
adj. EBITDA	**172**	**173**	**188**	**155**	***9%***	***-17%***	**688**			
OCF	242	216	215	160	-21%	-26%	833			
Net debt (ND)	1,531	1,503	1,502	1,639	9%	9%	1,639			
ND / LTM EBITDA	2.78	2.45	2.10	2.24	n.a.	n.a.	n.a.			

Source: Company data, Santander Brokerage Poland estimates

Fig. 152. Ciech: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	3,372	3,285	*3%*	4,031	3,546	*14%*	3,983	3,576	*11%*
EBITDA	735	698	*5%*	748	746	*0%*	766	739	*4%*
EBIT	370	314	*18%*	362	346	*5%*	372	330	*13%*
Net profit	271	221	*23%*	264	250	*5%*	274	238	*15%*

Source: Santander Brokerage Poland estimates

Fig. 153. Ciech: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	55.9	49.9	*12%*
Comparable valuation	58.6	64.9	*-10%*
Target Price*	**56.6**	**53.6**	***6%***

*Source: Santander Brokerage Poland estimates, *DCF: 75%, CV: 25% - higher weight has been assigned to DCF as a prime valuation tool relying on the long-term outlook.*

Fig. 154. Ciech: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	3,549	2,976	3,372	4,031	3,983
Gross profit	782	631	690	701	716
EBITDA	578	589	735	748	766
EBIT	268	250	370	362	372
Profit before tax	180	188	298	290	301
Net profit	113	123	271	264	274
EBITDA margin	16.3%	19.8%	21.8%	18.6%	19.2%
EBIT margin	7.5%	8.4%	11.0%	9.0%	9.3%
Net margin	3.2%	4.1%	8.1%	6.5%	6.9%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	1,312	1,456	1,471	1,777	1,753
Fixed assets	3,734	4,251	4,632	4,772	4,865
Total assets	5,046	5,708	6,104	6,549	6,618
Current liabilities	1,122	3,188	3,464	3,780	3,710
bank debt	90	1,937	2,054	2,088	2,041
Long-term liabilities	1,947	401	407	409	407
bank debt	1,700	104	110	112	109
Equity	1,978	2,121	2,234	2,362	2,503
Total liability and equity	5,046	5,708	6,104	6,549	6,618
Net debt	1,490	1,597	1,662	1,599	1,557
Net Debt/ EBITDA (x)	2.6	2.7	2.3	2.1	2.0

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	532	767	851	785	734
CF from investment	-407	-834	-739	-514	-489
CF from financing, incl.	-17	212	-53	-173	-252
dividends	0	0	-158	-136	-132
Net change in cash	107	144	59	98	-7

Source: Company data, Santander Brokerage Poland estimates

Famur

Bloomberg: FMF PW, Reuters: FMF.WA

CEE Equity Research

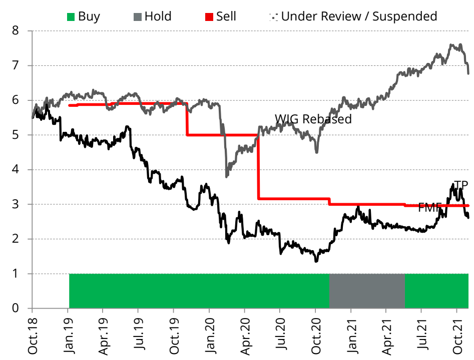
Industrials, Poland

Is mining capex recovery ahead?

- **Equity story.** Famur still struggles to diversify its revenues mix historically focused on the underground mining. The change in its strategic approach is related to the globally deteriorating market prospects ahead of thermal-coal business caused by the energy mix transformation towards renewables and ESG issues. In more detail, Famur assumes conversion of its manufacturing profile towards such areas as RES, logistics, transport and infrastructure. The mining core business, however, should remain the key value driver in the mid run. Worth pointing out is potential recovery of the domestic mining industry capex and the geographical diversification (North America in particular).
- **Recent developments.** Despite strategic goals assuming development of the alternative business segments, the investment in the PV division may remain the core strategic focus in the short run. Our current valuation model assumptions factor in potential disposal of the solar farm projects with a total capacity of approximately 130MW next year. Profit per 1MW can be estimated in range of PLN0.7-PLN1.1mn. From the P&L perspective, this should result in ca. PLN570mn revenues and ca. PLN100mn EBITDA on the consolidated level.
- **Phase out of the domestic mining industry.** Poland is currently in talks with the EU Commission on the pre-notification of the hard coal mining phase-out program. Based on the recent politicians' comments, the EU's consent regarding the phase-out plan may be expected soon. Such a scenario could turn favorable for Famur as it may defreeze the industry capex, which in turn could boost Famur's revenues in the short run.
- **Threats and opportunities.** In the longer run, we reckon Famur offers interesting products and enjoys valuable know-how. The market barriers seem high. The aforementioned, unfortunately, contrasts with low market/ clients' diversification and exposure to negative ESG/ CSR issues. Expansionary costs of materials, wages, energy and the new fiscal burden pose a threat to the operational margins in the context of the 2022 budget.
- **Valuation and risks.** DCF model offers PLN2.73 in value /sh. The comparative valuation points to a price of PLN4.66 /sh. Based on the weighted approach, we set a 12M TP at PLN3.21. In the effect, we reiterate our Buy recommendation. Successful business transformation creates some upside risks to the presented valuation, while demand and costs issues are among the key risks.

RECOMMENDATION	Buy
Current price (PLN)	2.61
Target price (PLN)	**3.21**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Famur: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	2,165	1,139	1,079	1,912	1,741
EBITDA	451	416	318	403	340
EBIT	269	239	150	236	176
Net profit	248	192	139	204	156
P/E (x)	10.3	6.4	13.9	9.5	12.4
EV/ EBITDA (x)	6.0	1.9	5.0	4.4	5.1
Dividend Yield	12.0%	24.9%	0.0%	3.6%	5.3%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

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Fig. 155. Famur: Quarterly results review

PLNmn	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	LTM	4Q21E	y/y	q/q
Sales	539.7	344.0	223.0	254.0	318.0	274.0	244.0	238.0	-6.3%	-2.5%	1,074.0	323.4	1.7%	35.9%
EBITDA	34.7	109.0	112.0	123.0	72.0	91.0	70.0	80.0	-35.0%	14.3%	313.0	77.4	7.4%	-3.3%
EBITDA margin	*6.4%*	*31.7%*	*50.2%*	*48.4%*	*22.6%*	*33.2%*	*28.7%*	*33.6%*	*-14.8*	*4.9*	*29.1%*	*23.9%*	*128.0*	*-969.1*
EBIT	0.7	62.0	70.0	79.0	28.0	44.0	27.0	39.0	-50.6%	44.4%	138.0	39.7	41.7%	1.7%
EBIT margin	*0.1%*	*18.0%*	*31.4%*	*31.1%*	*8.8%*	*16.1%*	*11.1%*	*16.4%*	*-14.7*	*5.3*	*12.8%*	*12.3%*	*346.3*	*-411.9*
Net profit	-86.1	52.0	31.0	72.0	35.0	39.0	21.0	38.0	-47.2%	81.0%	133.0	41.4	18.4%	9.0%
Net margin	*-16.0%*	*15.1%*	*13.9%*	*28.3%*	*11.0%*	*14.2%*	*8.6%*	*16.0%*	*-12.4*	*7.4*	*12.4%*	*12.8%*	*180.8*	*-315.2*
Net debt	220	-92	-184	-261	-420	-489	-386	-394	-133	-8	-394			
Net debt / LTM EBITDA	0.49	-0.22	-0.48	-0.69	-1.01	-1.23	-1.08	-1.26	-0.6	-0.2	-1.26			
OCF	203	280	120	104	146	91	-55	70	n.a.	n.a.	252			

Source: Company data, Santander Brokerage Poland estimates

Fig. 156. Famur: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	1,079	1,157	*-7%*	1,912	1,815	*5%*	1,741	1,675	*4%*
EBITDA	318	292	*9%*	403	348	*16%*	340	321	*6%*
EBIT	150	123	*22%*	236	182	*30%*	176	157	*12%*
Net profit	139	103	*36%*	204	135	*51%*	156	116	*34%*

Source: Santander Brokerage Poland estimates

Fig. 157. Famur: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	2.73	2.43	*12%*
Comparable valuation	4.66	4.53	*3%*
Target Price*	**3.21**	**2.96**	**9%**

*Source: Santander Brokerage Poland estimates, *DCF: 75%, CV: 25% - higher weight has been assigned to DCF as a prime valuation tool relying on the long-term outlook.*

Fig. 158. Famur: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	2,165	1,139	1,079	1,912	1,741
Gross profit	600	387	240	349	294
EBITDA	451	416	318	403	340
EBIT	269	239	150	236	176
Profit before tax	333	261	172	252	193
Net profit	248	192	139	204	156
EBITDA margin	20.8%	36.5%	29.5%	21.1%	19.6%
EBIT margin	12.4%	21.0%	13.9%	12.4%	10.1%
Net margin	11.5%	16.9%	12.9%	10.7%	9.0%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	2,039	1,718	2,063	2,186	2,183
Fixed assets	936	774	894	954	963
Total assets	2,975	2,492	2,957	3,140	3,146
Current liabilities	938	342	290	359	331
bank debt	331	42	40	38	36
Long-term liabilities	526	468	846	825	806
bank debt	421	437	415	394	375
Equity	1,557	1,710	1,849	1,984	2,038
Total liability and equity	2,975	2,492	2,957	3,140	3,146
Net debt	153	-420	-358	-174	-197
Net Debt/ EBITDA (x)	0.3	-1.0	-1.1	-0.4	-0.6

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	356	652	227	112	299
CF from investment	68	-58	-289	-226	-173
CF from financing, incl.	-120	-297	376	-92	-124
dividends	-305	-305	0	-70	-102
Net change in cash	304	297	314	-207	2

Source: Company data, Santander Brokerage Poland estimates

Grupa Azoty

Bloomberg: ATT PW, Reuters: ATT.WA

CEE Equity Research

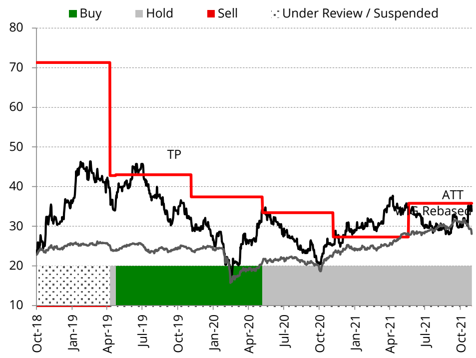
Industrials, Poland

Speculative opportunities ahead

- **Equity story.** Grupa Azoty's managed to deliver solid financial results in recent months despite demanding business environment. Looking forward, the company should continue to benefit from the stable domestic fertilizers' demand additionally supported by lowered imports due to production halt by the key competitors. Outlook for the chemicals / plastics division looks appealing as well thanks to the turmoil in global logistics chains and robust industrial production in Poland. In our opinion, the engagement in the heavy capex projects will continue to undermine the dividend payout potential in the nearest future. Above all, the indebtedness should remain inflated. Despite short run market opportunities, we still see a risk of nitrogen fertilizers oversupply in Poland caused by the extension of the production capacity by Anwil (PKN Orlen's subsidiary) in a longer perspective.
- **Recent developments.** Grupa Azoty disclosed its 2021-30 Strategy. The company has put emphasis on a balanced segments expansion by 2030 and targets 16%+ EBITDA margin (vsibly above our current valuation model assumptions). Net debt / LTM EBITDA should fall below 3.0x from 2025 onward, while dividend pay-out is expected to reach 40% following the accomplishment of the strategic capex projects. CO_2 emission should go down by 11% by 2030 at costs of PLN2.7bn, we think.
- **Threats and opportunities.** We stick to associate the most significant business risks for Grupa Azoty with (1) the planned 50% increase in nitrogen fertilizers' production capacity by Anwil (already in 2022), and (2) ramp-up of heavy capex programs. Exceptionally high gas prices put pressure on margins, translating into a necessity of final product price adjustment to the increased cost mix. What has changed recently is the lowered inflow of nitrogen and compound fertilizers from outside the EU, based on cheaper raw materials with aggressive pricing policies.
- **Valuation and risks.** DCF model valuation implies PLN34.5 value per share. The comparative valuation points to a price per share at PLN55.4. Based on the weighted approach (DCF -70%/ comparative -30%), we upgrade rating for the stock to Buy and set 12M TP at PLN39.7. Sales volumes performance, competitive pressure and trajectory of gas prices are the key risks to our valuation.

RECOMMENDATION	Buy
Current price (PLN)	33.82
Target price (PLN)	**39.70**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Grupa Azoty: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	11,307	10,525	14,018	12,928	12,438
EBITDA	1,423	1,322	1,424	1,547	1,416
EBIT	612	556	632	730	576
Net profit	385	314	332	479	370
P/E (x)	10.0	8.2	10.1	7.0	9.1
EV/ EBITDA (x)	4.3	4.2	4.2	3.8	3.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 159. Grupa Azoty: Quarterly results review

PLNmn	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	FY20	LTM	4Q21E	y/y	q/q
Revenues	2,642	3,104	2,269	2,416	2,736	3,362	3,173	3,882	60.7%	22.4%	10,525	13,153	3,601.3	31.6%	-7.2%
EBITDA	167	438	315	250	319	405	361	300	20.0%	-16.9%	1,322	1,385	358	12.3%	19.2%
EBITDA margin	*6.3%*	*14.1%*	*13.9%*	*10.4%*	*11.6%*	*12.0%*	*11.4%*	*7.7%*	*-2.6*	*-3.7*	*12.6%*	*10.5%*	*9.9%*	*-171.1*	*220.4*
EBIT	-28	248	124	62	122	213	169	107	73.5%	-36.8%	556	611	143	17.2%	33.6%
EBIT margin	*-1.1%*	*8.0%*	*5.5%*	*2.5%*	*4.5%*	*6.3%*	*5.3%*	*2.8%*	*0.2*	*-2.6*	*5.3%*	*4.6%*	*4.0%*	*-48.7*	*121.2*
Net profit	-50	151	44	31	85	88	143	12	-62.8%	-91.9%	311.6	327	89	5.0%	666.9%
Net margin	*-1.9%*	*4.9%*	*1.9%*	*1.3%*	*3.1%*	*2.6%*	*4.5%*	*0.3%*	*-1.0*	*-4.2*	*3.0%*	*2.5%*	*2.5%*	*-63.0*	*218.1*

Source: Company data, Santander Brokerage Poland estimates

Fig. 160. Grupa Azoty: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	14,018	11,875	*18%*	12,928	11,887	*9%*	12,438	11,880	*5%*
EBITDA	1,424	1,318	*8%*	1,547	1,273	*22%*	1,416	1,243	*14%*
EBIT	632	516	*23%*	730	464	*57%*	576	412	*40%*
Net profit	332	288	*15%*	479	238	*101%*	370	200	*85%*

Source: Santander Brokerage Poland estimates

Fig. 161. Grupa Azoty: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	34.5	29.4	*17%*
Comparable valuation	55.4	55.4	*0%*
Target Price*	**39.7**	**35.9**	***11%***

*Source:, Santander Brokerage Poland estimates, *DCF: 75%, CV: 25% - higher weight has been assigned to DCF as a prime valuation tool relying on the long-term outlook.*

Fig. 162. Grupa Azoty: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	11,307	10,525	14,018	12,928	12,438
Gross profit	2,473	2,174	2,371	2,403	2,240
EBITDA	1,423	1,322	1,424	1,547	1,416
EBIT	612	556	632	730	576
Profit before tax	545	491	474	605	471
Net profit	385	314	332	479	370
EBITDA margin	12.6%	12.6%	10.2%	12.0%	11.4%
EBIT margin	5.4%	5.3%	4.5%	5.6%	4.6%
Net margin	3.4%	3.0%	2.4%	3.7%	3.0%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	4,773	4,695	6,148	5,678	5,498
Fixed assets	10,705	13,512	13,732	13,886	13,972
Total assets	15,479	18,207	19,880	19,563	19,471
Current liabilities	3,496	4,214	5,535	5,109	4,901
bank debt	206	193	194	180	158
Long-term liabilities	4,288	5,704	5,714	5,473	5,088
bank debt	2,546	3,322	3,332	3,090	2,706
Equity	7,036	7,339	7,653	7,985	8,464
Total liability and equity	658	950	978	997	1,018
Net debt	1,807	2,592	2,296	2,136	1,772
Net Debt/ EBITDA* (x)	1.27	1.96	1.61	1.38	1.25

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	2,033	2,705	1,296	1,280	1,156
CF from investment	-1,186	-2,831	-981	-981	-931
CF from financing, incl.	-920	255	-9	-395	-268
dividends	0.0	0.0	0.0	0.0	0.0
Net change in cash	-73	128	306	-96	-43

*Source: Company data, Santander Brokerage Poland estimates, *excluding PDH project*

Grupa Kęty

Bloomberg: KTY PW, Reuters: KTY.WA

CEE Equity Research

Industrials, Poland

Growing abroad

- **Equity story.** Grupa Kęty continues the expansion of its asset base and production capacities. We expect the monetization of ongoing capex projects to start already in 2H22E (new press in Extruded Products Segment, EPS). Aluminum Systems Segment (ASS) could benefit from the intensified expansion in the residential segment and further geographical diversification. The recent risk-off, triggered by another wave of the pandemic, and some question marks regarding the global economy standing in the FY22E translated into reversal of the upward aluminum price trend. This, in turn, could turn supportive for the margins recovery in the ASS. Above all, the lowered aluminum prices could result in revival of the demand thanks to improved aluminum-based projects' affordability. The Flexible Packaging Segment (FPS) should in turn face margins normalization, we believe.
- **Recent developments.** The company seems enjoying supportive demand trends. We point out, however, to the demanding / shaky supply chains. At this moment the major issues may be related to exponentially rising prices of alloy additives putting potentially at risk both operational margins and production continuity (in the event of their limited availability). At this occasion, it is worth to switch to the FPS and have a look on the global polypropylene (PP) market. There is a scenario that China may become a net PP exporter from 2023rd onward, which could offset tight supply in the West, resulting in FPS's margins normalization.
- **Threats and opportunities.** The market turmoil triggered by the pandemic seems to have reshaped the global logistics chains offering new market opportunities. The diversified business structure seems positioning Grupa Kęty well to benefit from emerging market opportunities (ASS / EPS seem the key beneficiaries in the longer horizon). Following extraordinary high operational margins delivery by FPS last year, we anticipate these to narrow / normalize in the mid run. Despite some question marks related to expanding energy (electricity and gas) prices, we continue to perceive Grupa Kęty's prospects as solid.
- **Valuation and risks.** DCF model offers PLN696 in value per share. The comparative valuation points to a price per share at PLN659.3. Based on the weighted approach (DCF- 75%, comparative – 25%), we upgrade our rating for the stock to Buy and set a 12M TP at PLN686.8. The amplitude of aluminum prices' change and viability of demand are the key risks. Wages/ external services costs are worth tracking as well.

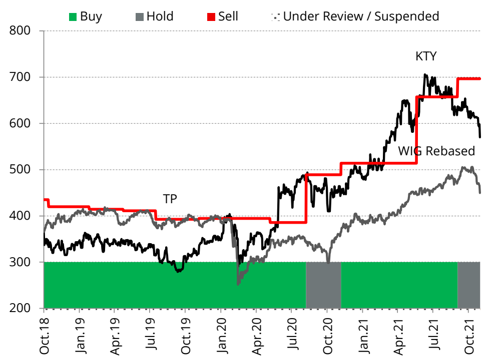
Grupa Kęty: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	3,216	3,549	4,430	4,513	4,496
EBITDA	523	672	847	802	789
EBIT	385	526	696	645	615
Net profit	295	431	556	511	484
P/E (x)	10.6	9.3	9.9	10.8	11.4
EV/ EBITDA (x)	7.3	6.8	7.4	8.1	8.3
Dividend Yield	7.3%	8.4%	7.9%	8.6%	7.4%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

RECOMMENDATION	Buy
Current price (PLN)	570
Target price (PLN)	**686.8**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

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Fig. 163. Grupa Kęty: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	LTM	FY20	4Q21E	y/y	q/q
Sales	829.1	887.8	921.5	861.0	990.1	1,154.2	1,174.2	27.4%	1.7%	4,180	3,499	1,111.3	29.1%	-5.4%
EBITDA	145.6	187.4	198.0	125.0	199.7	251.9	237.5	20.0%	-5.7%	814	656	157.4	25.9%	-33.7%
EBITDA margin	*17.6%*	*21.1%*	*21.5%*	*14.5%*	*20.2%*	*21.8%*	*20.2%*	*-125.6*	*-160.2*	*19.5%*	*18.7%*	*14.2%*	*-35.1*	*-605.8*
EBIT	108.4	151.5	161.6	88.7	162.4	213.9	199.0	23.2%	-6.9%	664	510	120.8	36.2%	-39.3%
EBIT margin	*13.1%*	*17.1%*	*17.5%*	*10.3%*	*16.4%*	*18.5%*	*17.0%*	*-58.6*	*-157.8*	*15.9%*	*14.6%*	*10.9%*	*57.3*	*-607.5*
Net profit	83.3	121.1	129.0	84.0	137.4	161.9	158.0	22.5%	-2.4%	541	417	99.1	18.0%	-37.3%
Net margin	*10.1%*	*13.6%*	*14.0%*	*9.8%*	*13.9%*	*14.0%*	*13.5%*	*-53.7*	*-56.9*	*13.0%*	*11.9%*	*8.9%*	*-83.9*	*-454.0*

Source: Company data, Santander Brokerage Poland estimates

Fig. 164. Grupa Kęty: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	4,430	4,374	*1.3%*	4,513	4400	*2.6%*	4,496	4440	*1.3%*
EBITDA	847	841	*0.6%*	802	789	*1.7%*	789	794	*-0.6%*
EBIT	696	691	*0.8%*	645	631	*2.3%*	615	632	*-2.6%*
Net profit	556	552	*0.8%*	511	499	*2.3%*	484	498	*-2.9%*

Source: Santander Brokerage Poland estimates

Fig. 165. Grupa Kęty: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	696.0	707.7	-1.7%
Comparable valuation	659.3	662.7	-0.5%
Target Price*	**686.8**	**696.5**	**-1.4%**

*Source: Santander Brokerage Poland estimates, *DCF: 75%, CV: 25% - higher weight has been assigned to DCF as a prime valuation tool relying on the long-term outlook.*

Fig. 166. Grupa Kęty: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	3,216	3,549	4,430	4,513	4,496
EBITDA	523	672	847	802	789
EBIT	385	526	696	645	615
Profit before tax	364	505	679	623	590
Net profit	295	431	556	511	484
EBITDA margin	16.3%	18.9%	19.1%	17.8%	17.5%
EBIT margin	12.0%	14.8%	15.7%	14.3%	13.7%
Net margin	9.2%	12.1%	12.6%	11.3%	10.8%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	1098	1217	1496	1554	1498
Fixed assets	1,680	1,672	1,742	1,859	1,984
Total assets	2,779	2,889	3,237	3,413	3,482
Current liabilities	740	737	1057	1201	1200
bank debt	370	273	514	627	629
Long-term liabilities	560	565	473	473	473
bank debt	437	440	364	364	364
Equity	1,479	1,587	1,707	1,738	1,808
Total liability and equity	2,779	2,889	3,237	3,413	3,482
Net debt	703	562	797	995	1052
Net Debt/ EBITDA (x)	1.3	0.8	0.9	1.2	1.3

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	520	592	412	547	634
CF from investment	-235	-128	-213	-266	-277
CF from financing, incl.	-282	-416	-271	-366	-412
dividends	-229	-337	-430	-473	-408
Net change in cash	3	48	-72	-86	-55

Source: Company data, Santander Brokerage Poland estimates

Santander

PKP Cargo

Bloomberg: PKP PW, Reuters: PKP.WA

CEE Equity Research

Industrials, Poland

Ruthless operational leverage

- **Equity story.** PKP Cargo's operational performance in FY21E may near 2019 carriage volumes / turnover in nominal terms, we calculate. Combined the relatively low pace of the domestic railway cargo market rebound with the stretched PKP Cargo's balance sheet structure, the standing of the company is far from comfortable. The entity will also face expanding energy costs (electricity bill may go up by roughly PLN100mn y/y) and wage pressure. To address these issues PKP Cargo struggles to improve its operational effectiveness by optimization of the structure of the assets hold (disposal of the rolling stock). The process unfortunately seems sluggish. The EU fiscal stimulus may bring in some relief but the timing and detailed investment plans are still unknown. Said this, and based on the past experience (FY19), we perceive the company's outlook as far from appealing. In the view of relative stagnation of market volumes in historical terms (vs. pre-Covid-19 pandemic levels) with unsupportive contract's rollover last year, we expect the pressure on margins to continue.
- **Recent developments.** PKP Cargo underperformed the domestic railway cargo market in October. We perceive the general picture as rather grim in the short run, even despite potential volumes rebound in the traditional market segments (fossil fuels). We see low odds for unit fares recovery in the nearest term. Above all, in October SB dismissed four crucial MB's members. In our opinion, such a move may put at risk the smooth flow of the decision-making process. Unfortunately, this coincides with the serious business challenges ahead. At this occasion worth pointing out is an intent letter with PKP PLK regarding disposal of a CARGOTOR subsidiary (which we perceive as a highly valuable asset).
- **Threats and opportunities.** We continue to associate the most significant business risks to the competitive pressure, revival of the wage growth tendencies and in the effect curbed financial deleveraging potential. What makes us most optimistic in the long run is the potential for operational leverage reduction, decrease of headcount resulting in operational efficiency improvement and regulatory actions centrally defining locomotive drivers' (as well as other key rail workers) worktime reducing the importance of the labour unions.
- **Valuation and risks.** We set our target price as the weighted average of DCF (75%) and comparative valuation (25%) at PLN12.3 / sh. Dynamic of transport volumes / fees is both an upsiede and downsiderisk. Ability to reduce the operational / financial leverage would determine the long run prospects of the company.

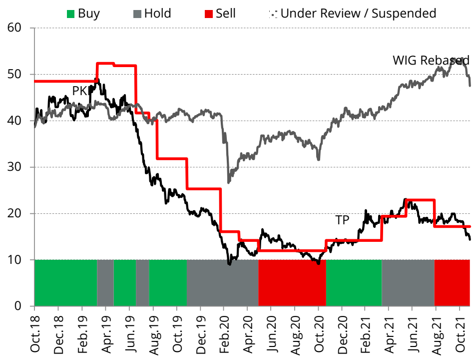
PKP Cargo: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	4,866	4,236	4,299	4,580	4,796
EBITDA	860	580	592	674	863
EBIT	143	-186	-157	-56	152
Net profit	36	-224	-157	-76	93
P/E (x)	31.3	n.a.	n.a.	n.a.	6.1
EV/ EBITDA (x)	4.9	6.1	6.3	5.6	4.3
Dividend Yield	4.5%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

RECOMMENDATION	Sell
Current price (PLN)	14.34
Target price (PLN)	**12.30**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

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Fig. 167. PKP Cargo: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	LTM	FY20	4Q21E	y/y	q/q
Sales	1,036	929	1,010	1,101	996	1,050	1,100	8.9%	4.8%	4,247	4,076	1,153.3	4.7%	4.9%
EBITDA	90	117	227	147	104	122	166	-27.1%	35.2%	539	580	200	36.4%	20.8%
EBITDA margin	*8.7%*	*12.6%*	*22.5%*	*13.3%*	*10.5%*	*11.7%*	*15.0%*	*-742.7*	*339.0*	*12.7%*	*14.2%*	*17.3%*	*402.3*	*228.6*
EBIT	-106	-76	37	-41	-71	-57	-10	-127.6%	-82.4%	-179	-186	-19	-54.0%	86.6%
EBIT margin	*-10.2%*	*-8.2%*	*3.6%*	*-3.7%*	*-7.1%*	*-5.5%*	*-0.9%*	*-454.3*	*453.9*	*-4.2%*	*-4.6%*	*-1.6%*	*208.9*	*-71.6*
Net profit	-114	-78	16	-48	-71	-59	-24	-250.6%	-60.0%	-202	-224	-3	-93.4%	-86.5%
Net margin	*-11.0%*	*-8.3%*	*1.5%*	*-4.4%*	*-7.2%*	*-5.6%*	*-2.1%*	*-368.2*	*345.4*	*-4.7%*	*-5.5%*	*-0.3%*	*408.3*	*186.1*
Car. turnover (bn tkm)	5.8	5.3	6.0	6.5	5.9	6.5	6.5	9.3%	0.2%	26	24			
Unit revenues	0.178	0.174	0.169	0.169	0.169	0.161	0.168	-0.4%	4.6%	0.166	0.172			
y/y dynamic	*1.7%*	*-1.0%*	*-5.6%*	*-6.3%*	*-5.4%*	*-7.9%*	*-0.4%*	*n.a.*	*n.a.*	*-5.1%*	*-2.9%*			
Capex	181	189	164	152	183	239	146	-10.9%	-38.8%	720	686			
Net debt	2,293	2,290	2,272	2,274	2,406	2,449	2,574	13.3%	5.1%	2574	2274			
ND / LTM EBITDA	3.3	3.7	3.9	3.9	4.0	4.1	4.8	86.2%	69.7%	4.8	3.9			
OCF	103	115	163	172	57.8	132.9	123.2	-24.5%	-7.3%	486	553			

Source: Company data, Santander Brokerage Poland estimates

Fig. 168. PKP Cargo: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	4,299	4,432	*-3%*	4,580	4,616	*-1%*	4,796	4,794	*0%*
EBITDA	592	687	*-14%*	674	747	*-10%*	863	900	*-4%*
EBIT	-157	-63	*n.a.*	-56	16	*n.a.*	152	187	*-19%*
Net profit	-157	-80	*n.a.*	-76	-17	*n.a.*	93	123	*-24%*

Source: Santander Brokerage Poland estimates

Fig. 169. PKP Cargo: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	11.9	15.2	*-22%*
Comparable valuation	13.7	23.1	*-41%*
Target Price*	**12.3**	**17.2**	**-28%**

*Source: Santander Brokerage Poland estimates, *DCF: 75%, CV: 25% - higher weight has been assigned to DCF as a prime valuation tool relying on the long-term outlook.*

Fig. 170. PKP Cargo: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	4,866	4,236	4,299	4,580	4,796
EBITDA	860	580	592	674	863
EBIT	143	-186	-157	-56	152
Profit before tax	74	-267	-222	-122	87
Net profit	36	-224	-157	-76	93
EBITDA margin	17.7%	13.7%	13.8%	14.7%	18.0%
EBIT margin	2.9%	-4.4%	-3.7%	-1.2%	3.2%
Net margin	0.7%	-5.3%	-3.6%	-1.7%	1.9%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	1,488	1,149	950	832	869
Fixed assets	6,504	6,397	6,353	6,361	6,350
Total assets	7,991	7,559	7,316	7,206	7,231
Current liabilities	1,452	1,386	1,329	1,351	1,343
bank debt	421	479	396	385	373
Long-term liabilities	3,116	3,030	3,000	2,944	2,884
bank debt	2,201	2,102	2,071	2,009	1,949
Equity	3,423	3,144	2,987	2,911	3,005
Total liability and equity	7,991	7,559	7,316	7,206	7,231
Net debt	2,072	2,274	2,377	2,454	2,388
Net Debt/ EBITDA (x)	2.4	3.9	4.0	3.6	2.8

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	835	546	602	658	764
CF from investment	-1,124	-693	-705	-735	-698
CF from financing, incl.	393	-97	-113	-74	-72
dividends	-67	0	0	0	0
Net change in cash	103	-244	-215	-151	-6

Source: Company data, Santander Brokerage Poland estimates

IT Sector

Fig. 171. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2021E	P/E (x) 2022E	P/E (x) 2023E	EV/EBITDA (x) 2021E	EV/EBITDA (x) 2022E	EV/EBITDA (x) 2023E
Comarch	Buy	272	213	28%	13.8	13.7	13.3	5.3	5.3	5.0
Asseco Poland	Buy	100	90.8	10%	15.1	14.5	14.2	5.8	5.9	6.1
Asseco SEE	Hold	51.5	47	9%	17.7	16.6	15.8	9.3	8.6	8.1
LiveChat Software	Buy	136	122.6	11%	26.5	23.0	21.0	22.1	19.1	17.4
Median					**16.4**	**15.6**	**15.0**	**7.6**	**7.3**	**7.1**

Source: Santander Brokerage Poland estimates

We maintain our Buy rating for **Asseco Poland** and increase the Target Price by 18% to PLN100. We like the well-developed backlog which we expect will contribute to a further slight increase in earnings next year, despite a high base effect. Moreover, the expected economic growth acceleration in Germany, Slovakia and Spain coupled with further healthy GDP growths in Israel and the US (according to Bloomberg's estimates) might add a boost to Asseco's business expansion, we think. We also believe in (1) intensifying cooperation with Cyfrowy Polsat, (2) further contracts with public institutions (COVID-19-related shields, etc.), (3) potential new contracts with banks on the back of the planned expansion in Germany and (4) growing interest rates in Poland potentially rising banks' IT budgets. Finally, Asseco should benefit from the weak PLN. Asseco is trading at c. 14x P/E 2022E ratio, which offers a discount to the peers' median and close peer SAP (c. 20x P/E). Moreover, Asseco offers higher DY than the peers' median of c. 2%.

We maintain our positive view on **Comarch**. We like: 1) the recent acceleration in the backlog growth rate, 2) salaries expenditure growth under control, 3) high export sales benefiting from the weak PLN, 4) exposure to the banking sector, which may benefit from the growth in interest rates and increase their IT budgets, 5) 3Q21 recovery of sales to the banking and retail segment, which may continue to drive total's sales growth over 2022E. The company is trading at 2022E P/E of c. 15x, which offers a discount to its foreign peers average. Note also that the company has underperformed its local peer Asseco Poland in the recent months, and we expect the price discount to narrow, following the expected backlog growth rate recovery.

We downgrade our recommendation for **Asseco SEE** to a Hold with a Target Price increased to PLN51.5. We expect the EPS growth rate to decelerate visibly in 2022E (vs. 2021E) to 7% from 19% y/y in 2021E, due to a high-base effect and potential risks ahead. We think that the exposure to Turkey (8% of total revenues) implies a risk of FX losses, due to the recent Turkish Lira depreciation. We also think that the escalating pandemic and likely lockdowns imply a risk of potential further restrictions on touristic traffic in the SEE countries, which might affect the ATM's and transactions processing in the Balkan countries as well as the POS segment performance. Although, Asseco SEE managed to expand profits over the 2020 lockdowns, in the light of potential risks escalation, we change our view to neutral. Note also that Asseco SEE is trading at 2021-22E P/E ratio above the past average and at a premium to Asseco Poland and Comarch.

We upgrade our rating for **Livechat** to a Buy. The FX environment (weak PLN vs. USD) remains strongly supportive for LiveChat as it generates almost full sales in USD whereas the majority of costs is in PLN. We also believe that the escalating pandemic of COVID-19 and possible lockdowns may accelerate the demand for livechat and chatbot solutions, supporting the growth in the number of clients. We also believe in the ongoing upselling to drive the ARPU. Finally, the company keeps trading at a double-digit discount to foreign peers, including the closest peer, Zendesk.

Asseco Poland

Bloomberg: ACP PW, Reuters: ACP.WA

CEE Equity Research

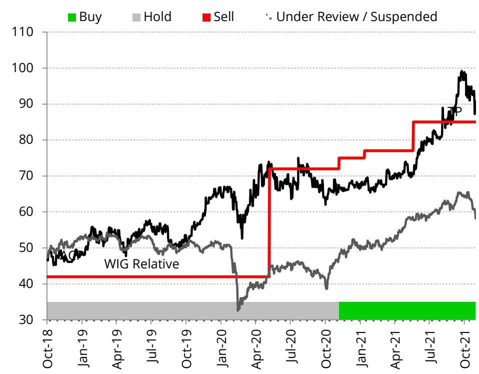
IT Sector, Poland

Well-developed backlog

RECOMMENDATION	Buy
Current price (PLN)	90.8
Target price (PLN)	**100**

- **Equity story.** We maintain our Buy rating for Asseco and increase the Target Price by 18% to PLN100. We like the well-developed backlog which we expect will contribute to a further slight increase in earnings growth next year, despite a high base effect. Moreover, the expected economic growth acceleration in Germany, Slovakia and Spain coupled with further healthy GDP growths in Israel and the US (according to Bloomberg's estimates) might add a boost to Asseco's business expansion, we think. We also continue believing in (1) intensifying cooperation with Cyfrowy Polsat, (2) further contracts with public institutions (COVID-19-related shields, etc.), (3) potential new contracts with banks on the back of the planned expansion in Germany and (4) growing interest rates in Poland potentially rising banks' IT budgets. Finally, Asseco should benefit from the weak PLN. Asseco is trading at c. 14x P/E 2022E ratio, which offers a discount to the peers' median and close peer SAP (c. 20x P/E). Moreover, Asseco offers higher DY than the peers' median of c. 2%.
- **Backlog.** The signing of new contracts boosted the backlog of Asseco. The adjusted backlog (for FX change) rose 14% y/y as at November, compared to 9% y/y backlog increase as at the beginning of 2021. The reported backlog rose 17% y/y as at November, which we find as strong, and boding well for healthy y/y sales increase in 4Q21E and 2022E.
- **Salaries.** The average salary rose 11% y/y in 9M21, we estimate, settling above the average wages growth in the Polish economy. The growth in salaries represents the key risk for Asseco, as we see it. Still, we estimate a double-digit 2022E y/y sales increase and we expect it to offset the growth in employee costs.
- **Margins under control.** A part of Asseco's contracts is adjusted for CPI, which should partially mitigate the negative cost trends, as we see it. We estimate c. 10.3% EBIT margin in 2021E and a slight margin compression in 2022E to 9.6%.
- **Earnings forecasts.** We raise our 2021E and mid-term earnings forecast in order to reflect the better-than-expected 9M21 results and the backlog growth rate. Due to the high base effect and the pressure on salaries growth, we project a low single-digit earnings increase next year.
- **Valuation and risks.** We increase our Target Price for Asseco to PLN100. Salary pressure and appreciation of PLN represent the key risks for Asseco.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Asseco Poland: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	10,667	12,190	13,836	15,220	15,524
EBITDA	1,611	1,921	2,156	2,191	2,221
EBIT	976	1,215	1,419	1,454	1,484
Net profit	323	402	493	514	525
P/E (x)	13.8	13.8	15.1	14.5	14.2
EV/ EBITDA (x)	4.7	5.1	5.8	5.9	6.1
Dividend Yield	5.7%	4.5%	3.5%	3.5%	3.5%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 172. Asseco Poland: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q
Sales	2,919.0	2,850.0	2,937.0	3,483.0	3,339.1	3,451.9	3,502.1	19%	1%
EBITDA	420.1	476.5	477.0	537.3	497.8	535.7	562.9	18%	5%
EBITDA margin	*14.3%*	*16.7%*	*16.2%*	*15.4%*	*14.9%*	*15.5%*	*16.1%*	*-0.2*	*0.6*
EBIT	250.1	303.4	299.4	362.5	323.0	349.0	373.0	25%	7%
EBIT margin	*8.5%*	*10.6%*	*10.2%*	*10.4%*	*9.7%*	*10.1%*	*10.7%*	*0.5*	*0.5*
Net profit	81.7	95.1	90.9	134.2	101.9	138.2	120.3	32%	-13%
Net margin	2.6%	3.3%	3.1%	3.9%	3.1%	4.0%	3.4%	*0.3*	*-0.6*

Source: Company data

Fig. 173. Asseco Poland: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	13,836	13,409	*3%*	15,220	14,750	*3%*	15,524	15,045	*3%*
EBITDA	2,156	2,062	*5%*	2,191	2,116	*4%*	2,221	2,144	*4%*
EBIT	1,419	1,356	*5%*	1,454	1,410	*3%*	1,484	1,438	*3%*
Net profit	493	433	*14%*	514	451	*14%*	525	461	*14%*

Source: Santander Brokerage Poland estimates

Fig. 174. Asseco Poland: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	95	80	*19%*
Comparable valuation	107	90	*19%*
Target Price	**100**	**85**	***19%***

Source: Santander Brokerage Poland estimates, Target Price reflects 50% DCF and 50% peer valuation

Fig. 175. Asseco Poland: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	10,667	12,190	13,836	15,220	15,524
EBITDA	1,611	1,921	2,156	2,191	2,221
EBIT	976	1,215	1,419	1,454	1,484
Profit before tax	888	1,079	1,315	1,371	1,400
Net profit	323	402	493	514	525
EBITDA margin	15.1%	15.8%	15.6%	14.4%	14.3%
EBIT margin	9.2%	10.0%	10.3%	9.6%	9.6%
Net margin	3.0%	3.3%	3.6%	3.4%	3.4%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	5,751	6,954	7,325	7,653	7,760
Fixed assets	8,845	9,750	9,765	9,779	9,794
Total assets	14,596	16,704	17,090	17,433	17,554
Current liabilities	3,825	4,579	4,926	5,218	5,283
bank debt	1,171	1,216	1,216	1,216	1,216
Long-term liabilities	2,196	2,497	2,497	2,497	2,497
bank debt	2,085	2,280	2,280	2,280	2,280
Equity	7,981	8,956	9,372	9,817	10,276
Total liability and equity	14,596	16,704	17,090	17,433	17,554
Net debt	908	1413	1458	1479	1449
Net Debt/ EBITDA (x)	1.9	2.3	2.3	2.5	2.7

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	1501	1960	1809	1864	1932
CF from investment	-670	-738	-752	-752	-752
CF from financing, incl.	-487	-520	-1102	-1134	-1150
dividends	-255	-250	-258	-258	-258
Net change in cash	345	702	-45	-21	30

Source: Company data, Santander Brokerage Poland estimates

Asseco SEE

Bloomberg: ASE PW, Reuters: ASE.WA

CEE Equity Research

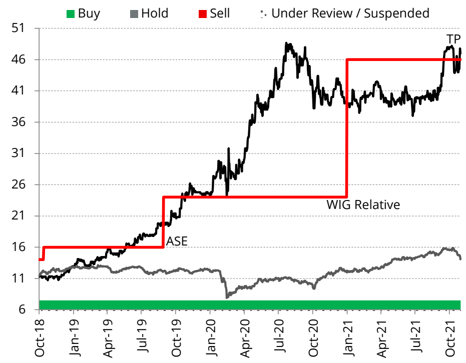
IT Sector, Poland

EPS growth rate to decelerate

RECOMMENDATION	Hold
Current price (PLN)	47.0
Target price (PLN)	**51.5**

- **Equity story.** We downgrade our recommendation to a Hold with a Target Price increased to PLN51.5. We expect the EPS growth rate to decelerate visibly in 2022E (vs. 2021E) to 7% from 19% y/y in 2021E, due to a high-base effect and potential risks ahead. We think that the exposure to Turkey (8% of total revenues) implies a risk of FX losses, due to the recent Turkish Lira depreciation. We also think that the escalating pandemic and likely lockdowns imply a risk of potential further restrictions on touristic traffic in the SEE countries, which might negatively affect the ATM's and transactions processing in the Balkan countries as well as the POS segment performance. Although, Asseco SEE managed to expand profits over the 2020 lockdowns, in the light of potential risks escalation, we change our view to neutral. Note also that Asseco SEE is trading at 2021-22E P/E ratio above the past average and at a premium to Asseco Poland and Comarch.
- **Backlog.** Backlog to be recognized in 4Q21E sales settles 4% higher y/y. Backlog referring to 2021E was 9% higher y/y as at October. Backlog for 2021E referring only to banking and dedicated solutions segments increased 6% y/y. Backlog in the 'payten' segment, in turn, grew 12% y/y.
- **9M21 results.** The company surprised positively in each quarter of the 1-3Q21 period. Asseco SEE managed to marginally improve EBITDA margin to 23.4% from 23.0% in 9M20, despite high pressure on salaries growth. Overall, EBITDA grew 16% y/y to PLN185.1mn from PLN159.5mn, and net profit by 28.3% to PLN106mn from PLN82.6mn. Asseco SEE's results were supported by the PLN depreciation (additional 3.2pp growth of net profit level) and acquisitions.
- **Earnings forecasts.** We increase our profits forecast, thanks to better-than-expected 9M21 sales and margins as well as PLN depreciation. In 2022E, we forecast sales growth rate deceleration to 7% from 12% y/y in 2021E and to 6% y/y in 2023E. We estimate a slight margin contraction, thus we envisage 4% and 3% y/y EBITDA increase, respectively.
- **Valuation and risks.** We increase our Target Price to PLN51.5, due to the forward shift of the valuation horizon, and upped financial forecasts. Depreciation of the Turkish Lira represents a risk of FX loss. We also think that potential lockdowns may negatively affect the performance of the 'payten' segment. Expansion to Egypt and improved performance in Portugal and Italy offer upside risks.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Asseco SEE: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	881	1026	1152	1237	1310
EBITDA	176	223	248	258	266
EBIT	110	146	170	180	188
Net profit	90	117	137	147	154
P/E (x)	9.9	16.6	17.7	16.6	15.8
EV/ EBITDA (x)	5.1	8.2	9.3	8.6	8.1
Dividend Yield	5.8%	2.1%	2.1%	2.5%	2.7%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 176. Asseco SEE: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q
Sales	231.0	233.4	227.5	334.7	252.8	273.0	264.3	16%	-3%
EBITDA	47.5	55.0	56.9	63.6	57.5	61.1	66.0	16%	8%
EBITDA margin	*20.6%*	*23.5%*	*25.0%*	*19.0%*	*22.7%*	*22.4%*	*25.0%*	*0.0*	*2.6*
EBIT	28.4	35.4	37.3	44.5	38.9	42.2	47.1	26%	12%
EBIT margin	*12.3%*	*15.2%*	*16.4%*	*13.3%*	*15.4%*	*15.5%*	*17.8%*	*1.4*	*2.4*
Net profit	23.5	26.6	31.6	34.8	31.7	33.4	37.7	19%	13%
Net margin	*10.2%*	*11.4%*	*13.9%*	*10.4%*	*12.5%*	*12.2%*	*14.3%*	*0.4*	*2.0*

Source: Company data

Fig. 177. Asseco SEE: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	1,152	1,085	*6%*	1,237	1,166	*6%*	1,310	1,235	*6%*
EBITDA	248	231	*7%*	258	240	*8%*	266	247	*8%*
EBIT	170	153	*11%*	180	162	*11%*	188	169	*11%*
Net profit	137	123	*12%*	147	131	*12%*	154	138	*12%*

Source: Santander Brokerage Poland estimates

Fig. 178. Asseco SEE: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	51.0	47.7	*9%*
Comparable valuation	53.0	42.5	*25%*
Target Price	**51.5**	**46.0**	***13%***

Source: Santander Brokerage Poland estimates, 80% DCF and 20% comparable valuation (we focus on DCF in order to reflect business development in the long run); we apply 2% terminal growth in our DCF model

Fig. 179. Asseco SEE: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	881.3	1,026.5	1,151.5	1,237.1	1,309.8
EBITDA	175.6	222.9	248.1	258.2	266.3
EBIT	110.2	145.6	170.1	180.2	188.3
Profit before tax	110.4	141.0	168.2	179.3	188.2
Net profit	90.0	116.5	137.4	146.6	153.9
EBITDA margin	19.9%	21.7%	21.5%	20.9%	20.3%
EBIT margin	12.5%	14.2%	14.8%	14.6%	14.4%
Net margin	10.2%	11.4%	11.9%	11.8%	11.8%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	455.2	627.9	708.4	810.2	913.3
Fixed assets	711.7	754.0	754.0	754.0	754.0
Total assets	1166.9	1381.9	1462.4	1564.2	1667.3
Current liabilities	372.8	455.7	363.8	380.3	395.0
bank debt	135.4	120.3	120.3	120.3	120.3
Long-term liabilities	3.5	9.0	6.1	6.2	6.4
bank debt	66.0	59.0	59.0	59.0	59.0
Equity	800.2	913.0	998.5	1083.2	1171.0
Total liability and equity	1166.9	1381.9	1462.4	1564.2	1667.3
Net debt	1.7	-82.9	-143.1	-216.1	-294.8
Net Debt/ EBITDA (x)	0.0	-0.4	-0.6	-0.8	-1.1

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	76	107	136	143	157
CF from investment	-18	-14	-7	-6	-6
CF from financing, incl.	-52	-72	-72	-108	-122
dividends	-52	-71	-72	-107	-122
Net change in cash	6	21	58	29	28

Source: Company data, Santander Brokerage Poland estimates

Comarch

Bloomberg: CMR PW, Reuters: CMR.WA

CEE Equity Research

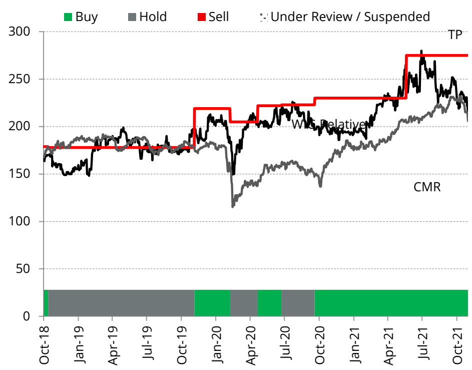
IT Sector, Poland

Recovering retail and banking

RECOMMENDATION	Buy
Current price (PLN)	213
Target price (PLN)	**272**

- **Equity story.** We maintain our positive view on Comarch. We like: 1) the recent acceleration in the backlog growth rate, 2) salaries expenditure growth under control, 3) high export sales benefiting from the weak PLN, 4) exposure to the banking sector, which may benefit from the growth of interest rates and increase their IT budgets, 5) 3Q21 recovery of sales to the banking and retail segment, which may continue to drive total sales growth over 2022E. The company is trading at 2022E P/E of c. 15x, which offers a discount to its foreign peers. Note also that the company has underperformed its local peer Asseco Poland in the recent months, and we expect the price discount to narrow, following the expected backlog growth rate recovery.
- **Backlog growth rate accelerated.** Backlog growth rate for 2022E accelerated to 5-7% y/y as at 3Q21 from a low single-digit as at 2Q21, which we view as positive. We expect the seasonal accumulation of large-size contracts supply in 4Q21E, as the past trends suggest, which could further drive the backlog growth.
- **Salaries growth under control.** Comarch keeps costs under control, as we see it. The salaries growth rate of 6.9% in 9M21 was close to the growth of 6.4% in 2020 despite the escalated pressure on salaries increase in the IT sector over the recent months. Note also that the backlog growth rate has accelerated above the salaries increase, boding well for the 2022E margins, as we see it.
- **Weak PLN supports profits.** Comarch's export represents c. 60% of sales, thus weak PLN vs. EUR and USD should support the company's sales and profits going forward, we think.
- **Sales.** Comarch is benefiting from the solid backlog in the TMT segment (30% y/y sales increase in 9M21), and SME segment (19% y/y), which offsets the y/y sales decline in public segment (-22% y/y). We expect the coming months might bring a recovery of sales from the banking sector thanks to the recent hike of interest rates that might drive banks' IT budgets, as we see it. The sales for the banking and retail segments already recovered in 3Q21 and we expect this growth to continue over 2022E, as well.
- **Valuation and risks.** Our Target Price declined to PLN272, due to the aforementioned changes in financial forecasts. The key risks include: 1) appreciation of PLN, 2) salaries growth rate acceleration, and 3) regulatory changes potentially increasing employee expenditures.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Comarch: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	1438	1486	1542	1648	1731
EBITDA	228	278	262	273	279
EBIT	143	192	175	185	190
Net profit	105	120	119	127	131
P/E (x)	14.1	13.7	13.8	13.7	13.3
EV/ EBITDA (x)	6.2	5.2	5.3	5.3	5.0
Dividend Yield	0.8%	0.7%	1.4%	1.4%	1.4%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 180. Comarch: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q
Sales	378	331	354	474	384	337	386	9%	14%
EBITDA	67	51	65	89	67	43	78	21%	80%
EBITDA margin	*17.7%*	*15.5%*	*18.2%*	*18.8%*	*17.5%*	*12.9%*	*20.2%*	*2.0*	*7.3*
EBIT	45	27	46	69	46	19	59	28%	217%
EBIT margin	*11.9%*	*8.1%*	*13.0%*	*14.5%*	*12.0%*	*5.5%*	*15.3%*	*2.2*	*9.8*
Net profit	14	20	33	52	26	29	30	-7%	6%
Net margin	*3.8%*	*6.1%*	*9.2%*	*10.9%*	*6.8%*	*8.4%*	*7.9%*	*-1.3*	*-0.6*

Source: Company data

Fig. 181. Comarch: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	1,542	1,542	*0%*	1,648	1,589	*4%*	1,731	1,630	*6%*
EBITDA	262	277	*-6%*	273	279	*-2%*	279	278	*0%*
EBIT	175	190	*-8%*	185	191	*-3%*	190	190	*0%*
Net profit	119	131	*-9%*	127	131	*-3%*	131	130	*0%*

Source: Santander Brokerage Poland estimates

Fig. 182. Comarch: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	270	274	*-1%*
Comparable valuation	278	286	*-1%*
Target Price	**272**	**275**	***-1%***

Source: Santander Brokerage Poland estimates, Target Price represents weighted average of DCF and peer valuation (80/20% in order to reflect business development in the long-run)

Fig. 183. Comarch: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	1,438	1,486	1,542	1,648	1,731
EBITDA	228	278	262	273	279
EBIT	143	192	175	185	190
Profit before tax	142	165	163	174	179
Net profit	105	120	119	127	131
EBITDA margin	15.9%	18.7%	17.0%	16.5%	16.1%
EBIT margin	10.0%	12.9%	11.3%	11.2%	11.0%
Net margin	7.3%	8.1%	7.7%	7.7%	7.6%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	1223	1342	1467	1599	1517
Fixed assets	837	839	840	841	797
Total assets	2061	2181	2307	2439	2315
Current liabilities	636	651	669	690	683
bank debt	47	47	47	47	23
Long-term liabilities	289	291	293	294	152
bank debt	203	203	203	203	94
Equity	1193	1295	1402	1511	1419
Total liability and equity	2061	2181	2307	2439	2315
Net debt	-65	-198	-256	-275	-343
Net Debt/ EBITDA (x)	-0.3	-0.7	-1.0	-1.0	-1.2

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	170	322	180	143	192
CF from investment	-35	-85	-87	-88	-89
CF from financing, incl.	-58	-27	-36	-36	-36
dividends	-12	-12	-24	-24	-24
Net change in cash	76	210	58	19	68

Source: Company data, Santander Brokerage Poland estimates

LiveChat Software

Bloomberg: LVC PW, Reuters: LVC.WA

CEE Equity Research

IT Sector, Poland

Supportive strong USD/PLN

- **Equity story.** We upgrade our rating for LiveChat to a Buy. The FX environment (weak PLN vs. USD) remains strongly supportive for LiveChat as it generates almost full sales in USD whereas the majority of costs is in PLN. We also believe that the escalating pandemic of COVID-19 and possible lockdowns may accelerate the demand for livechat and chatbot solutions, supporting the growth in the number of clients. We also believe in the ongoing upselling to drive the ARPU. Finally, the company keeps trading at a double-digit discount to foreign peers, including the closest peer, Zendesk.
- **Clients' net additions.** The escalating pandemic of COVID-19 and lockdowns in many countries helped LiveChat boost the number of clients by 1.6k and 0.9k in 2Q and 3Q20, respectively, i.e. above the pre-COVID19 quarterly net additions of c. 500-600. The eased restrictions calmed the growth to 700+ new clients both in 4Q20 and 1Q21 and to 494 in 2Q21, whereas in 3Q21, the net additions expanded to 551. We continue believing in the ongoing global digitalisation process driving the demand for LiveChat solutions. We believe that the escalating pandemic of COVID-19 at the turn of 2021/22 may accelerate the number of clients net growth. Overall, we estimate 2.2k new additions in 2021E, and 2.6k in 2022E and afterwards.
- **MRR.** LiveChat used to keep the MRR growth dynamic high in the first half of the 2021/22E fiscal year (25% in 1Q21 and 22% in 2Q22). The upselling, increase in the number of clients and the growing share of clients paying pay per agent rather than pay per login should continue to drive the recurring revenues, as we see it.
- **Salaries.** The new tax system in Poland to be implemented as of 2022E might escalate the price pressure on salaries, as we see it, especially for B2B employees. We estimate that the company might decide to lift the average salary in order to mitigate the decline of net wages of employees due to the planned new tax initiatives.
- **Dividends.** The company has announced PLN1.14 advance dividend from 2020/21E fiscal year. Overall, we estimate a 90% dividend payout ratio, implying PLN4.17 DPS in 2022E (c. 3.3% DY).
- **Valuation and risks.** Our target Price (100% DCF) goes up to PLN136, due to the changes in the financial forecast and forward shift of the valuation horizon. The risks include: 1) pressure on salaries due to new planned tax schemes as of 2022E in Poland, 2) depreciation of USD/PLN.

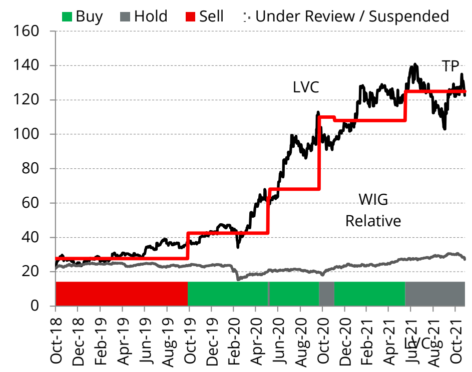
LiveChat Software: Financial summary and ratios

Year to Mar, PLNmn	2019	2020	2021E	2022E	2023E
Sales	131	179	209	251	273
EBITDA	88	116	138	158	172
EBIT	82	107	128	148	162
Net profit	76	100	119	138	151
P/E (x)	10.9	31.6	26.5	23.0	21.0
EV/EBITDA (x)	9.0	26.8	22.1	19.1	17.4
Dividend Yield	1.6%	2.3%	2.3%	3.4%	3.9%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

RECOMMENDATION	Buy
Current price (PLN)	122.6
Target price (PLN)	**136**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 184. LiveChat Software: Quarterly results review

PLNmn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q
Sales	30.2	32.3	32.5	35.9	41.6	43.1	46.2	48.1	48.9	55.7	29%	14%
EBITDA	19.5	21.7	21.3	25.4	28.0	26.3	30.4	32.2	31.0	38.5	46%	24%
EBITDA margin	*64.6%*	*67.3%*	*65.4%*	*70.8%*	*67.3%*	*61.0%*	*65.8%*	*66.9%*	*63.4%*	*69.1%*	*8.1*	*5.7*
EBIT	18.2	20.4	19.8	23.0	25.8	23.9	27.9	29.5	28.0	35.8	50%	28%
EBIT margin	*60.3%*	*63.0%*	*60.9%*	*64.1%*	*62.0%*	*55.5%*	*60.4%*	*61.3%*	*57.3%*	*64.3%*	*8.8*	*7.0*
Net profit	14.7	16.3	15.8	29.4	20.8	25.6	26.2	27.5	26.6	32.7	28%	23%
Net margin	*48.7%*	*50.6%*	*48.7%*	*81.9%*	*50.0%*	*59.4%*	*56.7%*	*57.2%*	*54.4%*	*58.7%*	*-0.7*	*4.3*

Source: Company data, Santander Brokerage Poland estimates

Fig. 185. LiveChat Software: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	209	201	*4%*	251	229	*10%*	273	255	*7%*
EBITDA	138	135	*2%*	158	154	*3%*	172	171	*0%*
EBIT	128	125	*2%*	148	144	*3%*	162	161	*0%*
Net profit	119	117	*2%*	138	134	*3%*	151	150	*0%*

Source: Santander Brokerage Poland estimates

Fig. 186. LiveChat Software: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	136	125	*9%*
Comparable valuation	140	135	*4%*
Target Price	**136**	**125**	**9%**

Source: Santander Brokerage Poland estimates, Target Price represents 100% DCF in order to fully reflect business development in the long run

Fig. 187. LiveChat Software: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	131	179	209	251	273
EBITDA	88	116	138	158	172
EBIT	82	107	128	148	162
Profit before tax	82	107	128	148	162
Net profit	76	100	119	138	151
EBITDA margin	67.5%	64.9%	66.0%	62.9%	62.9%
EBIT margin	62.6%	59.8%	61.3%	58.9%	59.2%
Net margin	58.2%	56.0%	57.1%	54.9%	55.2%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	55	86	133	165	196
Fixed assets	33	39	40	41	41
Total assets	88	124	173	206	237
Current liabilities	6	12	7	9	9
bank debt	0	0	0	0	0
Long-term liabilities	6	12	7	9	9
bank debt	0	0	0	0	0
Equity	79	107	154	183	209
Total liability and equity	88	124	173	206	237
Net debt	-36	-57	-115	-144	-172
Net Debt/ EBITDA (x)	-0.4	-0.5	-0.8	-0.9	-1.0

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	76	107	136	143	157
CF from investment	-18	-14	-7	-6	-6
CF from financing, incl.	-52	-72	-72	-108	-122
dividends	-52	-71	-72	-107	-122
Net change in cash	6	21	58	29	28

Source: Company data, Santander Brokerage Poland estimates

Metals & Mining

Fig. 188. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2021E	P/E (x) 2022E	P/E (x) 2023E	EV/EBITDA (x) 2021E	EV/EBITDA (x) 2022E	EV/EBITDA (x) 2023E
KGHM	Buy	155	133.1	17%	5.3	6.5	7.1	3.0	2.9	2.8
Bogdanka	Sell	22.2	33.15	-33%	6.0	5.0	10.9	1.9	1.7	2.0
JSW	Sell	26.0	38.02	-32%	5.0	3.0	11.8	2.2	1.3	2.3
Average					**5.4**	**4.8**	**9.9**	**2.4**	**2.0**	**2.4**

Source: Santander Brokerage Poland estimates

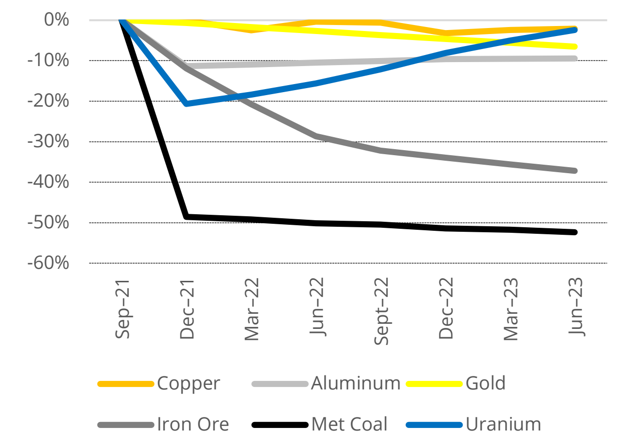
Buy at the Bottom, Sell at the Peak

KGHM – bottoming out, hypothetically? The global reliance on copper for renewables, distribution networks, electric vehicles, and housing should remain supportive to KGHM in the long term. However, copper should remain balanced till 2024/25E, and we see the risk of copper's delayed reaction to the Chinese macro weakness. The parent company's results should remain under pressure of hedging (4Q21E) and booming opex (from 2022E onward). In Chile, the odds of rising extraction tax slid a bit, we believe, but a refusal to take over 45% Sierra Gorda stake at EV/EBITDA of 4.0x should keep KGHM under pressure. While capex should remain on the rise, strong support of USDPLN exchange rate and comparable valuation twists KGHM to a 17%-upside Buy, as we assume.

Coking coal / JSW – Sell at the peak? We believe the peak at both coking coal and coke is behind us, and high benchmarks should result in total 4Q2021-1Q2022E EBITDA at some PLN2.8bn. We expect the company will turn net cash in 4Q2021E. The slowdown at the Chinese PMI remains striking, the Mongolian coking coal volumes remain on the rise, and Australia considers new 100mt in coking coal capacity. We see no joy internally either, with the company's cutting its medium term volumes due to geology to 'above 14mt', contrasting with previous guidance '15mt today, 18mt in 2030' (potential 3-4mt cut in 2030E). Finally, opex and MCC remain on the rise, and inflationary pressures may exert strong negative pressure(s) as of 1Q2022E. All five-year coking coal contracts average at ~USD160/t (our assumption), and JSW requires USD180/t terminally to escape from the external financing need.

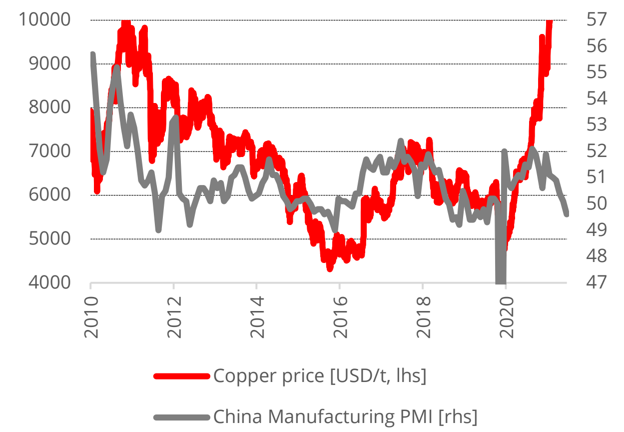
Thermal coal / Bogdanka. The EU policy sets the European demand for thermal coal plummeting, but gas shortages have revived this fuel in the short run. High demand and high prices of coal may remain in force till 2Q2022E, we believe, and LWB's CEO admits the assumption of stable high thermal coal prices would come excessively optimistic.

Fig. 189. Commodities prices forecasts, change vs Sept 2021



Source: Australian DISER

Fig. 190. Chinese PMI vs copper price



Source: Bloomberg, Datastream

JSW

Bloomberg: JSW PW, Reuters: JSW.WA

CEE Equity Research

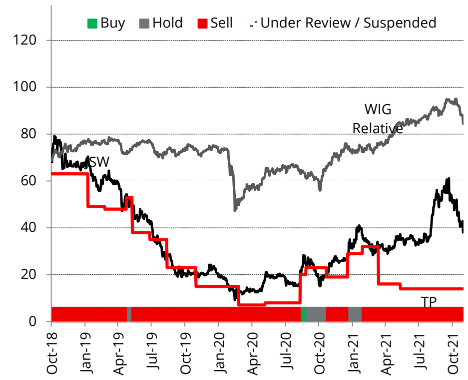
Mining, Poland

Sell (at) the Peak

RECOMMENDATION	Sell
Current price (PLN)	38.02
Target price (PLN)	**26.0**

- **Equity story**. High price of coke and coking coal and the weakening zloty all come supportive of JSW's 4Q21-1Q22E results, which we expect to total PLN2.8bn at EBITDA. However, the company's opex remains on the rise as well, and strong local inflationary pressures, high trade unions demand, and high prices of electricity and steel should all keep MCC on the steep rise. Most importantly, the management has just cut the mid-term volume outlook to 'above 14mt' from '15mt today to 18mt in 2030' previously, due to the toughening geology. We believe weakening volumes and rising opex offer negative fundamental outlook for JSW, and likely recovery of Mongolian, Russian and Australian volumes may trigger an accelerated coking coal de-rating. We believe the company may remain long-term solvent at the avg. coking coal price at USD180/t, but l-t coking coal averages point at USD160/t. Comparative valuation supports JSW in short-term, but we believe the company suffers from fundamental flaws.
- **Official multi-year volume guidance cut**. A few weeks ago the company guided for FY2021 coal volume of 13.8mt, vs. its previous expectations of 16mt, citing geology as the key rationale. Additionally, JSW guided for medium-term volume of 'above 14mt', while the previous strategy was for annual volumes of above 15mt to grow to 18mt in 2030. The company wants to increase its share of coking coal in the long term, no details presented.
- **4Q2021-4Q2022E results preview**. We expect coal volumes of 3.6mt in 4Q2021E (in line with the guidance) and FY2022E production of 14.2mt. Also, we believe the coking coal price will average USD350/t in 4Q21E, falling to USD250/t in 1Q22E and USD160/t thereafter. We also assume USDPLN at 4.0x, and JSW's reported coking coal discount sliding from 40% in 4Q21E to 20% in 1Q22E and 9% thereafter. We thus arrive at JSW's 4Q2021E EBITDA at PLN1.5bn, eroding to PLN1.3bn in 1Q2022E and below PLN0.7bn in 2Q-4Q2022E.
- **Earnings forecasts**. Adjustment for current environment offers a decent upside to our 2021-23E f'casts, implying JSW turning net cash in 2022-23E. We maintain the l-t coking coal price at USD160/t.
- **Valuation and risks**. Strong quarters support comparative valuation to PLN83, while the fundamental approach suggests the company may require multi-billion external financing in the long term (DCF-based TP at PLN2). Blended TP settles at PLN26, and 32% downside warrants our Sell recommendation. Strong mining volumes and coking coal's share at or above 90% are potential operational upsides. The continued high demand for steel may support materials' prices. Interventions of the EU or the Polish State may come in supportive to JSW. The renewed China-Australia relations, geology and dues on methane are the downside risks, we see.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

JSW: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	8,672	6,989	10,122	11,372	10,043
EBITDA	1,939	-638	2,469	3,325	2,057
EBIT	905	-1,743	1,266	2,040	692
Net profit	650	-1,537	884	1,479	379
P/E (x)	7.8	Neg.	5.0	3.0	11.8
EV/ EBITDA (x)	2.9	Neg.	2.2	1.3	2.3
Dividend Yield	5.3%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2019-20 valuation ratios based on historical average prices

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Fig. 191. JSW: Quarterly results review

PLNmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q
Sales	2,165	1,869	1,966	1,488	1,730	1,805	1,998	2,179	**2,579**	*49.1%*	*18.4%*
EBITDA	514	149	51	-627	162	-224	104	152	**659**	*305.9%*	*333.4%*
EBITDA margin	*23.8%*	*8.0%*	*2.6%*	*-42.1%*	*9.4%*	*-12.4%*	*5.2%*	*7.0%*	***25.5%***	*16.2*	*18.6*
EBIT	261	-162	-234	-889	-112	-508	-194	-151	**358**	*n.m.*	*n.m.*
EBIT margin	*12.0%*	*-8.7%*	*-11.9%*	*-59.7%*	*-6.5%*	*-28.2%*	*-9.7%*	*-6.9%*	***13.9%***	*20.3*	*20.8*
Net profit	157	-202	-187	-765	-115	-470	-188	-151	**268**	*n.m.*	*n.m.*
Net margin	*7.2%*	*-10.8%*	*-9.5%*	*-51.4%*	*-6.6%*	*-26.0%*	*-9.4%*	*-6.9%*	***10.4%***	*17.0*	*17.3*

Source: Company data

Fig. 192. JSW: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	10,122	9,408	*8%*	11,372	10,109	*12%*	10,043	9,641	*4%*
EBITDA	2,469	1,732	*43%*	3,325	1,933	*72%*	2,057	1,493	*38%*
EBIT	1,266	533	*138%*	2,040	655	*211%*	692	135	*412%*
Net profit	884	293	*202%*	1,479	357	*314%*	379	-89	*n.m.*

Source: Santander Brokerage Poland estimates

Fig. 193. JSW: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	2	2	*1%*
Comparable valuation	83	43	*93%*
Target Price	**26**	**14**	***86%***

*Source: Santander Brokerage Poland estimates, * weights 70% DCF, 30% comparable, as DCF is our primary valuation tool*

Fig. 194. JSW: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	9,809	6,989	10,122	11,372	10,043
Depreciation	766	1,105	1,204	1,285	1,365
Gross profit	2,871	-820	2,189	2,962	1,614
EBITDA	3,019	-638	2,469	3,325	2,057
EBIT	2,253	-1,743	1,266	2,040	692
Profit before tax	2,192	-1,819	1,116	1,859	487
Net profit	1,736	-1,537	884	1,479	379
EBITDA margin	30.8%	-9.1%	24.4%	29.2%	20.5%
EBIT margin	23.0%	-24.9%	12.5%	17.9%	6.9%
Net margin	17.7%	-22.0%	8.7%	13.0%	3.8%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	5,288	4,004	5,767	7,370	7,488
Fixed assets	8,475	11,027	11,632	12,270	12,959
Total assets	13,763	15,031	17,399	19,640	20,447
Current liabilities	3,626	3,580	3,910	4,072	3,900
bank debt	155	679	679	679	679
Long-term liabilities	1,692	4,134	5,239	5,839	6,439
bank debt	37	2,093	3,193	3,793	4,393
Equity	8,081	6,920	7,805	9,284	9,662
Total liability and equity	13,763	15,031	17,399	19,640	20,447
Net debt	-2,922	953	624	-427	-133
Net Debt/ EBITDA (x)	-1.0	-1.5	0.3	-0.1	-0.1

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	1,978	-19	2,132	2,975	1,759
CF from investment	-421	-2,500	-1,803	-1,923	-2,054
CF from financing, incl.	-700	1,801	1,148	600	600
dividends	0	0	0	0	0
Net change in cash	857	-719	1,477	1,651	306

Source: Company data, Santander Brokerage Poland estimates

Santander

KGHM

Bloomberg: KGH PW, Reuters: KGH.WA

CEE Equity Research

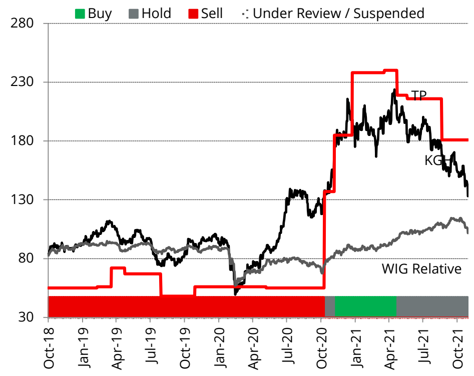
Mining, Poland

Opex & Capex, the Troublemakers

- **Equity story**. Global reliance on copper for renewables, distribution networks, electric vehicles, and housing should remain supportive to copper in the long term. However, opex and capex should be the two key words for 2022E, while we expect Polish inflationary pressures, materials' price spike and energy-related dues to substantially weaken the parent's EBITDA. At capex, we believe high renewable one is rational, but high maintenance one may come is worrying. Sierra Gorda case (KGHM did not buy 45% stake at EV/EBITDA of 4x) may be also viewed as a rationale for applying a discount to KGHM. The ongoing 4th pandemic wave and striking Chinese PMI slowdown may keep copper under pressure in short-term, and the outlook for 4Q21-1Q22E (hedging losses, opex growth) does not seem encouraging. Still, KGHM share price slid the most amongst peers, and very low ratios offer upside.
- **3Q21 review, 4Q21-2022E outlook**. In 3Q2021, Sierra Gorda's opex growth yielded a mediocre EBITDA reading, while decline of stripping costs drove a very strong KGHM Int.'s result. At the parent company, PLN0.4bn of hedging cost kept EBITDA low. We expect the latter will happen again in 4Q21E (weak parent), while the exchange rate should support the foreign business' contribution. In 2022E, opex should grow substantially in Poland, and we believe the weak zloty may represent the key support to KGHM's results. We expect renewables to drive high Polish capex outlays in 2022E.
- **Tax battlefield: Chile**. The outcome of the Chilean parliamentary elections trimmed the likelihoods of any drastic extraction tax changes being approved by the Parliament. The outcome of the Presidential race still remains a question mark, with the second round scheduled for mid-Dec 2021. We believe the risk of value-destructive tax application diminishes.
- **Earnings forecasts**. We adjust the model for the impact of the 3Q21 results and for the anticipated parent's opex growth. Still, while we keep the metal prices unchanged vs. the previous report, USDPLN upped to 4.0x from 3.77x offers a minor upside to 2022-23E forecasts.
- **Valuation and risks**. Blended valuation approach yields KGHM's TP at PLN155, and a 17% upside validates recommendation upgrade to Buy from Hold. The global pace of growth, cash availability and USDPLN rate are the key upside and downside risks for the company. An increase to extraction tax, rising opex and declining mining volumes pose a risk to the Polish operations, and the change in Sierra Gorda ownership failed to unlock upside, but the risk of the new Chilean taxation on copper seems diminishing.

RECOMMENDATION	Buy
Current price (PLN)	133.1
Target price (PLN)	**155**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

KGHM: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	22,723	23,632	29,004	31,852	32,598
EBITDA	5,227	6,623	10,033	9,763	9,140
EBIT	2,794	3,348	4,762	5,491	5,326
Net profit	1,428	1,797	5,007	4,089	3,726
P/E (x)	13.0	12.1	5.3	6.5	7.1
EV/ EBITDA (x)	4.9	4.3	3.0	2.9	2.8
Dividend Yield	0.0%	0.0%	1.1%	3.1%	2.6%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 195. KGHM: Quarterly results review

PLNmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q
Sales	5,641	5,854	5,299	5,649	5,632	7,052	6,745	7,761	**7,229**	*28.4%*	*-6.9%*
EBITDA	1,380	1,117	1,129	1,522	1,767	2,205	2,608	2,705	**2,417**	*36.8%*	*-10.6%*
EBITDA margin	*24.5%*	*19.1%*	*21.3%*	*26.9%*	*31.4%*	*31.3%*	*38.7%*	*34.9%*	***33.4%***	*2.1*	*-1.4*
EBIT	823	227	495	645	966	1,055	1,442	1,364	**1,065**	*10.2%*	*-21.9%*
EBIT margin	*14.6%*	*3.9%*	*9.3%*	*11.4%*	*17.2%*	*15.0%*	*21.4%*	*17.6%*	***14.7%***	*-2.4*	*-2.8*
Net profit	696	-245	692	9	473	562	1,365	2,358	**1,039**	*119.7%*	*-55.9%*
Net margin	*12.3%*	*-4.2%*	*13.1%*	*0.2%*	*8.4%*	*8.0%*	*20.2%*	*30.4%*	***14.4%***	*6.0*	*-16.0*

Source: Company data

Fig. 196. KGHM: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	29,004	29,154	*-1%*	31,852	29,977	*6%*	32,598	30,962	*5%*
EBITDA	10,033	9,997	*0%*	9,763	8,845	*10%*	9,140	8,981	*2%*
EBIT	4,762	4,915	*-3%*	5,491	4,977	*10%*	5,326	5,001	*7%*
Net profit	5,007	5,111	*-2%*	4,089	3,569	*15%*	3,726	3,653	*2%*

Source: Santander Brokerage Poland estimates

Fig. 197. KGHM: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	139	165	*-16%*
Comparable valuation	192	217	*-12%*
Target Price	**155**	**181**	***-14%***

*Source: Santander Brokerage Poland estimates, * weights 70% DCF, 30% comparable, as DCF is our primary valuation tool*

Fig. 198. KGHM: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	22,723	23,632	29,004	31,852	32,598
COGS	19,929	20,284	24,242	26,361	27,272
EBITDA	5,227	6,623	10,033	9,763	9,140
EBIT	2,794	3,348	4,762	5,491	5,326
Pre-tax profit	2,129	2,756	7,009	5,866	5,429
Net profit	1,428	1,797	5,007	4,089	3,726
EBITDA margin	20.1%	22.3%	24.1%	23.9%	23.2%
EBIT margin	12.3%	14.2%	16.4%	17.2%	16.3%
Net margin	6.3%	7.6%	17.3%	12.8%	11.4%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	7,740	8,733	13,691	16,504	18,806
Fixed assets	31,669	34,047	34,606	35,476	36,330
Total assets	39,409	42,780	48,297	51,980	55,135
Current liabilities	6,036	7,907	8,724	9,157	9,270
bank debt	439	1,095	1,095	1,095	1,095
Long-term liabilities	13,171	13,792	13,792	13,792	13,792
bank debt	7,708	7,934	7,934	7,934	7,934
Equity	20,110	20,992	25,699	28,952	31,996
Total liability and equity	39,409	42,780	48,297	51,980	55,135
Net debt	7,131	6,507	3,880	1,235	-965
Net Debt/ EBITDA (x)	1.6	1.2	0.6	0.2	-0.1

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	4,997	5,236	5,649	6,447	5,941
CF from investment	-4,491	-3,694	-2,716	-2,964	-3,056
CF from financing, incl.	-447	-36	-306	-839	-684
dividends	0	0	300	836	683
Net change in cash	59	1,506	2,627	2,645	2,200

Source: Company data, Santander Brokerage Poland estimates

Santander

Oil & Gas

Fig. 199. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2021E	2022E	2023E	EV/EBITDA (x) 2021E	2022E	2023E
Lotos	Buy	70	55.50	26%	4.0	6.7	7.4	3.4	3.3	3.3
MOL	Buy	3,400	2,450	39%	3.7	5.9	7.9	2.8	3.1	3.1
OMV	Buy	65	46.22	41%	6.3	6.0	7.7	3.8	3.8	4.3
PKN	Hold	85	73.64	15%	4.1	9.3	9.0	4.1	4.9	4.7
PGNiG	Buy	7.7	5.696	36%	8.7	6.4	6.8	3.6	2.8	2.6
Median					**4.1**	**6.4**	**7.7**	**3.6**	**3.3**	**3.3**

Source: Bloomberg, Santander Brokerage Poland estimates

Another solid year

While 2020 was a good year for CEE Oil & Gas companies, the headwinds emerged at the end of the year. A new wave of Covid-2019 pandemic in Europe reduced mobility. Concerns about new strains of the virus that might have the ability to evade vaccines and transmit faster undercut sentiment and put pressure on oil prices and refining margins. The rising inflation led many governments in Europe to introduce regulations negatively affecting profitability in the industry (e.g. fuel price caps in Hungary and Croatia).

Short-term headwinds are likely to affect profitability in 4Q21E and possibly in the early 2022E. We believe the overall earnings outlook appears, however, positive. In our modelling, we use Brent price assumption of USD72/bbl and USD64/bbl for 2022-23E and nat gas price at EUR37.5/MWh and EUR20/MWh. In the refining, we expect recovery in demand to drive the average margins in 2022E slightly above 2021E. In petchem, we assume margins to remain above the mid-cycle levels.

In the longer run, we expect energy transition to remain the key topic in the sector. In that context, the ability to sustain solid shareholder remuneration (high FCF yields) and transform the business model to address the challenges associated with carbon neutrality targets is of utmost importance.

Planned mega-merger in Poland (PKN, PGNiG, Lotos) is a likely driver of relative performance of the companies involved. Based on our fundamental valuations, we stick to our view that PGNiG and Lotos offer relative value over PKN. The merger execution has faced many delays so far.

All CEE Oil & Gas companies offer double-digit returns to our target price. Our top picks (rated Buy) are Lotos, MOL, OMV and PGNiG.

Fig. 200. CEE Oil & Gas: Macro assumptions

	2018	2019	2020	1Q21	2Q21	3Q21	4Q21E	2021E	2022E	2023E
Brent (lhs)	71.3	64.2	42.1	61.1	69.0	73.5	82.8	71.6	72.0	64.0
Nat gas NCG (rhs)	22.8	14.0	9.5	18.6	25.4	47.0	70.0	40.1	37.5	20.0
Refining margin (USD/bbl)										
Lotos	7.3	6.6	4.5	2.7	3.4	2.7	1.0	2.5	6.0	7.5
MOL	5.4	4.2	2.8	2.5	4.4	5.4	5.0	4.3	4.5	4.5
OMV	5.2	4.4	2.4	1.7	2.2	4.4	4.0	3.4	4.5	5.0
PKN	6.6	6.0	2.8	2.0	3.5	5.4	5.0	4.0	5.0	5.5
USDPLN FX	3.61	3.84	3.90	3.77	3.76	3.91	4.05	3.87	4.00	4.00
EURPLN FX	4.26	4.26	4.30	4.55	4.53	4.57	4.66	4.44	4.58	4.60
EURUSD FX	1.18	1.12	1.14	1.21	1.21	1.18	1.15	1.19	1.15	1.15

Source: Bloomberg, Company data, Santander Brokerage Poland

Lotos

Bloomberg: LTS PW, Reuters: LTS.WA

CEE Equity Research

Oil & Gas, Poland

Merger conundrum

RECOMMENDATION	Buy
Current price (PLN)	55.5
Target price (PLN)	**70**

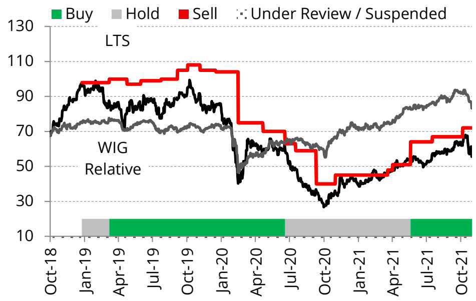
- **Equity story.** It remains to be seen whether Lotos exists as a stand-alone entity. Planned merger with PKN has been delayed many times so far. We continue to value the company on a stand-alone basis with the target price of PLN70 (down from PLN72). Sound earnings, high FCF generation (we estimate average FCF yield of 9% in 2021-23E) and the unlevered balance sheet are the pillars of our investment case. The stock is also trading at appealing multiples (2022E EV/EBITDA of 3.3x). Merger parity with PKN is a risk factor, but we believe it should be at least fair for Lotos's shareholders.
- **Recent developments.** The EU commission agreed to postpone the deadline for PKN to implement the remedies associated to the planned merger with Lotos until 14th January 2022. According to Mr. Obajtek, PKN's CEO, there are two bidders for Lotos's refining assets and 'everything is possible'. We believe the recent surge of the pandemic is likely to further delay the process. Lotos' EGM already approved the merger assets disposal but all the merger parity with PKN still needs to be approved.
- **Earnings forecasts.** Lotos downstream margin capture reached USD9/bbl in 9M21, significantly outperforming the benchmark margin of USD3/bbl. While some of the factors that drove outperformance faded in 4Q21E (base oils profitability, inland premiums), the other should remain in place (slate optimisation, nat gas consumption rationalisation). The overall earnings outlook, including upstream division (nat gas accounts for 50% of output), appears fairly positive. We forecast 2021E EBITDA at PLN3,554mn (-4% vs. previous) and 2022E at PLN3,499mn (-7% vs. previous), incorporating the recent concerns associated with possible resurgence of the pandemic. We assume Lotos' margin capture in the downstream to reach USD5.5/bbl in 2022E vs. USD7.7bbl in 2021E.
- **Valuation and risks.** We have trimmed our target price to PLN70 from PLN72 on our lower earnings forecasts. Our target price is based on DCF and target multiple valuation with 50/50 weightings. The key risks include execution of Lotos' takeover by PKN and industry macro issues (oil prices, refining margins).

Lotos: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	29,493	20,909	31,884	34,272	31,824
EBITDA Clean	2,861	1,357	3,545	3,499	3,306
EBIT	1,970	-1,397	3,583	2,361	2,123
Net profit	1,153	-1,146	2,539	1,539	1,382
P/E (x)	14.0	-8.5	4.0	6.7	7.4
EV/ EBITDA Clean (x)	6.7	8.6	3.4	3.3	3.3
Dividend Yield	3.4%	1.9%	0.0%	3.6%	3.6%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 201. Lotos: Quarterly results review

Assumptions	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21	2021E
Brent (USD/bbl)	50.2	29.7	42.9	44.3	41.8	61.1	69.0	73.5	82.8	71.6
Benchmark ref. margin (USD/bbl)	9.5	5.5	1.9	1.3	4.5	2.7	3.4	2.7	1.0	2.5
USDPLN FX rate	3.92	4.09	3.80	3.75	3.89	3.77	3.76	3.87	4.05	3.86
Upstream output (kbpd)	23.5	20.8	18.7	18.2	20.3	18.6	19.4	15.2	18.0	17.8
Downstream throughput (kbpd)	211	207	205	208	208	162	214	217	210	201
								-0.22		
P&L extracts (PLNmn)	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**2020**	**1Q21**	**2Q21**	**3Q21**	**4Q21**	**2021E**
Revenues	6,096	4,246	5,364	5,204	20,909	5,863	7,415	9,201	9,406	31,884
EBITDA	-1,084	23	453	300	-307	928	1,496	1,431	793	4,648
Clean LIFO EBITDA, of which	671	52	433	201	1,357	615	984	1,152	793	3,545
Upstream	184	46	98	141	469	168	215	255	548	1,186
Downstream ex-retail	444	-34	248	-5	652	416	688	825	230	2,159
Retail	38	49	92	65	244	29	74	83	16	200
Other	4	-9	-4	0	-9	2	8	-10	0	-1
EBIT	-1,359	-249	194	17	-1,397	664	1,242	1,177	500	3,583
Net profit	-1,312	-76	249	-8	-1,146	353	1,058	810	317	2,539

Source: Company data, Santander Brokerage Poland estimates

Fig. 202. Lotos: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
EBITDA	3,545	3,683	*-4%*	3,499	3,748	*-7%*	3,306	3,261	*1%*
EBIT	4,648	4,787	*-3%*	3,499	3,748	*-7%*	3,306	3,261	*1%*
Net profit	2,539	2,632	*-4%*	1,539	1,710	*-10%*	1,382	1,354	*2%*

Source: Santander Brokerage Poland estimates

Fig. 203. Lotos: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	68.5	66.8	*3%*
Comparable valuation	71.7	77.1	*-7%*
Target Price*	**70**	**72**	***-3%***

*Source: Santander Brokerage Poland estimates, valuation weightings - DCF: 50%, CV: 50% *NOTE: rounded to the nearest integer*

Fig. 204. Lotos: Financial statements forecast

PLNmn	2019	202E	2021E	2022E	2023E
Sales	29,493	20,909	31,884	34,272	31,824
EBITDA	2,879	-307	4,648	3,499	3,306
Clean LIFO EBITDA	2,861	1,357	3,545	3,499	3,306
Upstream	630	469	1,186	1,595	932
Downstream	2,224	905	2,359	1,904	2,374
Other/ corporate	8	-17	-1	0	0
EBIT	1,970	-1,397	3,583	2,361	2,123
Net financial costs	278	256	109	97	91
Pre-tax profit	1,692	-1,653	3,474	2,264	2,032
Tax	539	-507	935	724	650
Minorities	0	0	0	0	0
Net profit	1,153	-1,146	2,539	1,539	1,382
Brent (USD/bbl)	64.3	41.8	71.6	72.0	64.0
Refining margin (USD/bbl)	6.6	4.5	2.5	6.0	7.5
Effective margin capture (USD/bbl)	6.5	2.2	7.6	5.5	7.0
USDPLN FX rate	3.84	3.89	3.86	4.00	4.00

PLNmn	2019	2020	2021E	2022E	2023E
PPE	13,271	12,390	12,645	13,135	13,687
Other non-current assets	965	1,570	1,570	1,570	1,570
Cash	1,517	2,146	2,403	2,665	3,553
Other current assets	7,919	5,751	8,692	9,300	8,676
Total Assets	23,672	21,856	25,310	26,671	27,487
Equity	12,715	11,574	14,113	15,282	16,295
Minorities	0	0	0	0	0
Short and Long term Debt	4,416	4,074	4,074	4,074	4,074
Other liabilities	6,540	6,209	7,124	7,315	7,119
Total Equity and Liabilities	23,672	21,856	25,310	26,671	27,487
Net debt	2,900	1,928	1,671	1,408	520
Net Debt/ EBITDA (x)	1.0	1.4	0.5	0.4	0.2

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	2,130	2,870	1,578	2,260	2,993
CF from investment	-408	-1,389	-1,100	-1,400	-1,500
FCF pre dividends	1,722	1,481	478	860	1,493
Dividends paid	-555	-185	0	-370	-370

Source: Company data, Santander Brokerage Poland estimates

Santander

MOL

Bloomberg: MOL HB, Reuters: MOL.BU

CEE Equity Research

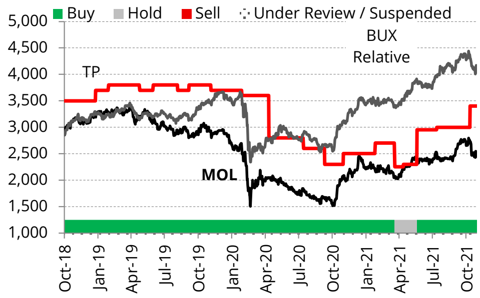
Oil & Gas, Hungary

Cash distribution should rise

RECOMMENDATION	Buy
Current price (HUF)	2,450
Target price (HUF)	**3,400**

- **Equity story.** We estimate the cap on fuel prices in Hungary and Croatia should have a limited impact on total earnings. We estimate MOL's FCF yield to average 17% in 2021-23E. The company's balance sheet is unlevered (0.9x net debt/EBITDA at 2021E), therefore we expect that a portion of FCF is likely to be distributed to shareholders – we forecast 2022E DPS at HUF130 yielding 5.3%. The attractive FCF profile is a pillar of MOL's investment case. We reiterate our Buy rating with the target price of HUF3,400 (unchanged).
- **Recent developments.** The Hungarian government introduced a cap on retail fuel price at HUF480/litre, effecting 15 November for three months. According to PM Orban, the cap could be extended if necessary. Earlier similar measures were introduced in Croatia. We estimate the negative impact of the regulation's at MOL's EBITDA at c. HUF10bn, which is not very significant. We believe the overall earnings outlook is positive, despite fuel price caps and deterioration of the industry macro at the end of 2021E. We forecast the 2021E clean EBITDA at USD3.4bn (-2% vs. previous). Our modelling for 2022-23E is based on Brent price of 72 and 64 USD/bbl, nat gas price of 37.5 and 20 EUR/MWh and refining margin of 4.5 USD/bbl. These assumptions lead us to EBITDA of USD3.0bn (-4% vs. previous) and USD2.7bn (+2%) in 2022-23E.
- **Capital allocation.** The sound macro environment allows MOL to generate significant FCF despite heavy investments in the downstream (polyol plant, delayed coker in Rijeka). The management again did not make any comments on distribution of the FCF excess. We estimate MOL's net debt-to-EBITDA at 0.8x and gearing ratio at 21% as of end 2021E. The sound balance sheet situation and solid FCF generation prospects in the medium term make us think that the company may be likely to pay a special dividend in 2022E: we estimate total DPS at HUF130, implying a yield of 5.3%.
- **Valuation and risks.** Our target price of HUF3,400 (unchanged) is based on DCF and a target multiple valuation with 50/50 weightings. Key risks include industry macro issues (oil prices, refining and petchem margins, the Brent-Urals spread), while the company-level risks are corporate governance, INA developments and capital allocation policy.

STOCK PERFORMANCE



The chart measures performance against the BUX index.

MOL: Financial summary and ratios

Year to Dec, HUFbn	2019	2020	2021E	2022E	2023E
Sales	5,297	4,067	5,741	6,046	5,374
EBITDA clean	709	630	1,026	942	854
EBIT	294	67	582	446	333
Net profit	223	-16	508	315	235
P/E (x)	9.5	-90.4	3.7	5.9	7.9
EV/ EBITDA clean (x)	4.3	4.3	2.8	3.1	3.1
Dividend Yield	4.8%	0.0%	3.9%	5.3%	4.5%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 205. MOL: Quarterly results and forecasts

Assumptions	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E
Brent (USD/bbl)	50.1	29.2	43.0	44.2	41.8	61.1	69.0	73.5	82.8	71.6
Benchmark ref. margin (USD/bbl)	6.3	2.7	0.9	1.3	2.8	2.5	4.4	5.4	5.0	4.3
Benchmark petchem margin (EUR/t)	384	431	336	386	384	668	949	663	500	695
USDHUF FX rate	307	319	303	303	308	300	294	300	313	302
EURHUF FX rate	339	352	354	361	351	361	355	354	360	357
Upstream output (consol. kbpd)	101	109	118	116	111	107	102	99	95	101
Downstream throughput (kbpd)	333	362	383	319	350	322	347	372	354	349

Clean EBITDA breakdown in USDmn	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E
E&P	185	112	212	181	689	308	336	396	473	1,514
Downstream	295	110	202	133	740	254	447	436	231	1,368
Consumer services	88	111	183	128	510	115	164	211	98	588
Gas midstream	71	45	43	42	201	48	23	30	41	142
Other	-17	-25	-30	-20	-92	-58	-79	-49	-48	-232
Total	622	353	610	464	2,048	666	893	1,025	795	3,380

Source: Company data, Santander Brokerage Poland estimates

Fig. 206. MOL: Forecasts changes

HUFbn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
EBITDA (USDmn)	3,380	3,459	*-2%*	3,010	3,135	*-4%*	2,728	2,784	*-2%*
EBITDA	1,026	1,036	*-1%*	942	954	*-1%*	854	847	*1%*
EBIT	1,057	1,074	*-2%*	942	954	*-1%*	854	847	*1%*
Net profit	508	521	*-3%*	315	330	*-4%*	235	240	*-2%*

Source: Santander Brokerage Poland estimates

Fig. 207. MOL: Valuation changes

HUF per share	New	Previous	*Change*
DCF valuation	2,701	2,704	*0%*
Comparable valuation	4,013	4,152	*-3%*
Target Price*	**3,400**	**3,400**	*0%*

*Source: Santander Brokerage Poland estimates *NOTE: rounded to the nearest hundred*

Fig. 208. MOL: Financial statements forecast

HUFbn	2019	2020	2021E	2022E	2023E
Sales	5,297	4,067	5,741	6,046	5,374
EBITDA	685	579	1,057	942	854
Clean CCS EBITDA	709	630	1,026	942	854
E&P	305	210	457	445	349
Downstream	252	229	412	329	332
Consumer services	137	156	185	190	196
Gas midstream	54	62	43	44	45
Other	-40	-28	-70	-65	-68
EBIT	294	67	582	446	333
Net financial costs	17	111	28	29	29
Pre-tax profit	276	-41	567	431	319
Tax	47	11	27	86	64
Minorities	5	-36	32	30	20
Net profit	223	-16	508	315	235
Brent (USD/bbl)	64.2	41.8	71.6	72.0	64.0
Refining margin (USD/bbl)	4.2	2.8	4.3	4.5	4.5
Petchem margin (EUR/t)	372	384	695	475	425
USDHUF FX rate	291	308	302	313	313
EBITDA in USDmn	2,435	2,048	3,380	3,010	2,728

HUFbn	2019	2020	2021E	2022E	2023E
PPE	2,686	3,218	3,310	3,472	3,414
Other non-current assets	766	993	993	993	993
Cash	326	194	438	488	777
Other current assets	1,354	1,103	1,324	1,388	1,247
Total Assets	5,132	5,507	6,065	6,341	6,431
Equity	2,151	2,216	2,651	2,862	3,010
Minorities	300	271	303	333	353
Short and Long term Debt	909	1,143	1,122	1,122	1,122
Other financial liabilities	253	229	229	229	229
Other liabilities	1,519	1,649	1,759	1,794	1,717
Total Equity and Liabilities	5,132	5,507	6,065	6,341	6,431
Net debt	836	1,178	913	863	574
Net Debt/ EBITDA (x)	1.2	1.9	0.9	0.9	0.7

HUFbn	2019	2020	2021E	2022E	2023E
CF from operations	704	572	904	813	840
CF from investment	-722	-792	-532	-624	-428
FCF pre dividends	-18	-219	372	189	412
Dividends paid	-98	0	-72	-104	-88

Source: Company data, Santander Brokerage Poland estimates

OMV

Bloomberg: OMV AV, Reuters: OMV.VI

CEE Equity Research

Oil & Gas, Austria

Double-digit FCF yield

- **Equity story.** We forecast OMV to generate FCF (pre-dividends) of EUR6bn in 2023-23E, which accounts for one-third of the company's current market cap. The sound balance sheet (2021E net gearing of c. 34%) suggests that a portion of excess cash could be used for increased dividends (we forecast DPS of EUR2.5 in 2022E, yielding 5.4%). New projects to increase sustainability are also likely (strategy update is due in early 2022). OMV's strong profitability is certainly due to favourable macro conditions (high hydrocarbon prices, high petchem margins) but sound strategic positioning in the value chain and operational execution should not be underestimated. We reiterate our Buy rating with our target price trimmed to EUR65 from EUR66 on slightly lower earnings forecasts.
- **Earnings forecasts.** Our modelling is now based on the assumption of a Brent price of USD72/bbl and USD64/bbl and a European gas price of EUR37.5/MWh and EUR20/MWh, respectively in 2022-23E. In downstream, we expect petchem margins to be above the mid-cycle level. Based on our assumptions, we forecast the 2022E profitability still to be exceptionally high (EBITDA of EUR8bn, +20% vs. previous forecast) and some normalisation in 2023E (EBITDA of EUR6.8bn, +9% vs. previous).
- **Capital allocation.** We forecast OMV's gearing at 34% at the end of 2021E and FCF generation (pre-dividends) to reach nearly EUR6bn in 2022-23E, implying an average FCF yield of c. 15% annually. The exact use of cash is unclear yet and we expect a strategy update, due in early 2022, to address this issue. We expect to see higher dividends (DPS of EUR2.5 to be paid out in 2022E), as well as a mixture of deleveraging and investments in sustainability. We would also point to the recent press reports suggesting that OMV may split into separate petchem and energy companies. OMV has not responded to these reports.
- **Valuation and risks.** We have trimmed our target price to EUR65 from EUR66 owing to slightly lower earnings forecasts. Our target price is based on DCF and peer comparison with 50%/50% weightings. Sector-specific risks include hydrocarbon prices, refining and petchem margins. Company-specific risks mainly lie with execution of the company's strategy.

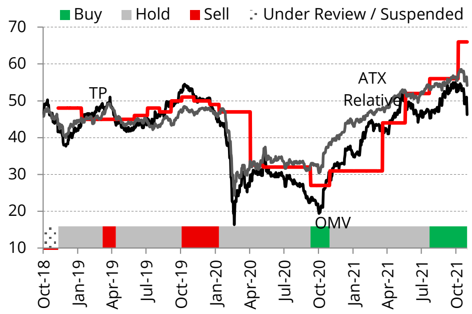
OMV: Financial summary and ratios

Year to Dec, EURmn	2019	2020	2021E	2022E	2023E
Sales	23,461	16,550	30,255	30,291	26,932
EBITDA Clean CCS	5,890	3,799	8,336	7,979	6,828
EBIT Clean CCS	3,536	1,686	5,810	5,332	4,140
Net profit	1,678	1,258	2,412	2,522	1,963
P/E (x)	9.1	8.0	6.3	6.0	7.7
EV/ EBITDA Clean CCS (x)	4.4	7.6	3.8	3.8	4.3
EV/DACF (x)	6.2	8.7	5.4	5.0	5.3
Dividend Yield	3.8%	5.6%	4.0%	5.4%	5.6%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

RECOMMENDATION	Buy
Current price (EUR)	46.22
Target price (EUR)	**65**

STOCK PERFORMANCE



The chart measures performance against the ATX index.

Analyst

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Fig. 209. OMV: Quarterly results and forecasts

Assumptions	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E
Brent (USD/bbl)	50.1	29.6	42.9	44.2	41.8	61.1	69.0	73.5	82.8	71.6
NCG gas price (EUR/MWh)	10.2	5.7	7.6	14.2	9.5	18.5	24.9	47.0	70.0	40.1
Benchmark refining margin (USD/bbl)	4.9	2.3	0.9	1.7	2.4	1.7	2.2	4.4	4.0	3.1
Benchmark petchem margin (EUR/t)*	395	408	377	380	390	481	659	562	450	538
EURUSD FX rate	1.10	1.10	1.17	1.19	1.14	1.21	1.21	1.18	1.15	1.19
Upstream output (kbpd)	472	464	442	472	463	495	490	470	473	482

P&L extracts (EURmn)	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E
EBITDA	792	607	775	2,073	4,247	1,790	1,889	1,773	2,456	7,908
Clean CCS EBITDA, of which	1,294	637	785	1,084	3,799	1,505	1,928	2,447	2,456	8,336
E&P	588	207	315	518	1,627	731	881	1,226	1,542	4,380
Downstream	634	433	454	585	2,106	805	1,063	1,219	919	4,007
Refining & Marketing	*487*	*341*	*341*	*269*	*1,434*	*217*	*287*	*467*	*394*	*1,366*
Petchems	*147*	*92*	*113*	*317*	*672*	*588*	*776*	*752*	*525*	*2,641*
Other	72	-3	16	-19	66	-31	-16	2	-5	-51
Clean CCS EBIT	699	145	317	524	1,686	870	1,299	1,790	1,851	5,810
Net profit	-159	24	-487	1,880	1,258	654	622	279	857	2,412

Source: Company data, Santander Brokerage Poland estimates

Fig. 210. OMV: Forecasts changes

EURmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
EBITDA	8,336	8,404	*-1%*	7,979	8,035	*-1%*	6,828	6,828	*0%*
EBIT	7,908	7,976	*-1%*	7,979	8,035	*-1%*	6,828	6,828	*0%*
Net profit	2,412	2,454	*-2%*	2,522	2,557	*-1%*	1,963	1,963	*0%*

Source: Santander Brokerage Poland estimates

Fig. 211. OMV: Valuation changes

EUR per share	New	Previous	*Change*
DCF valuation	60.5	59.7	*1%*
Comparable valuation	70.3	71.9	*-2%*
Target Price*	**65**	**66**	*-1%*

*Source: Santander Brokerage Poland estimates, valuation weightings: DCF: 50%, CV: 50% *NOTE: rounded to the nearest integer*

Fig. 212. OMV: Financial statements forecast

EURmn	2019	2020	2021E	2022E	2023E
Revenues	23,461	16,550	30,255	30,291	26,932
EBITDA	5,976	4,247	7,908	7,979	6,828
Clean CCS EBITDA,	5,890	3,799	8,336	7,979	6,828
E&P	3,722	1,627	4,380	4,538	3,613
Downstream	2,223	2,106	4,007	3,461	3,234
Other	-55	66	-51	-20	-20
EBIT	3,582	1,050	5,325	5,332	4,140
Clean CCS EBIT	3,536	1,686	5,810	5,332	4,140
Net financial costs	-129	-175	-215	-328	-328
Pre-tax profit	3,453	875	5,110	5,004	3,812
Tax	1,306	-603	1,942	1,902	1,334
Minorities	393	136	656	480	415
Hybrid equity owners	75	84	100	100	100
Net profit	1,678	1,258	2,412	2,522	1,963
Brent (USD/bbl)	64.2	41.8	71.6	72.0	64.0
NCG gas price (EUR/MWh)	14.0	9.5	40.1	37.5	20.0
Benchmark margin (USD/bbl)	4.4	2.4	3.4	4.5	5.0
Benchmark margin (EUR/t)	433	390	538	500	450
EURUSD FX rate	1.12	1.14	1.19	1.15	1.15

EURmn	2019	2020	2021E	2022E	2023E
PPE	16,479	19,203	19,428	19,799	20,135
Other non-current assets	12,471	16,492	14,993	14,493	14,493
Cash	2,931	2,854	4,809	6,950	8,127
Other current assets	8,494	10,722	11,701	11,468	10,461
Total Assets	40,375	49,271	50,931	52,710	53,215
Equity (ex-hybrid)	11,025	10,511	12,273	13,758	14,654
Hybrid equity	1,987	3,228	2,478	2,478	2,478
Minorities	3,851	6,159	6,815	7,295	7,710
Short and Long term Debt	6,570	10,852	9,833	9,833	9,833
Pension obligations	1,111	1,458	1,458	1,458	1,458
Decommissioning obligations	3,959	3,998	3,998	3,998	3,998
Other liabilities	11,872	13,064	14,075	13,890	13,084
Total Equity and Liabilities	40,375	49,271	50,931	52,710	53,215
Net debt	4,686	9,347	7,457	5,316	4,139
Net Debt/ EBITDA (x)	0.8	2.5	0.9	0.7	0.6

EURmn	2019	2020	2021E	2022E	2023E
CF from operations	4,056	3,137	5,782	5,796	5,367
CF from investment	-4,638	-5,948	-1,148	-2,353	-2,854
FCF pre dividends	-582	-2,811	4,634	3,443	2,514
Dividends paid	-858	-879	-650	-1,037	-1,067

Source: Company data, Santander Brokerage Poland estimates

Santander

PGNiG

Bloomberg: PGN PW, Reuters: PGN.WA

CEE Equity Research

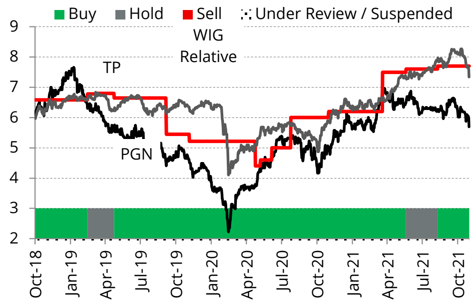
Oil & Gas, Poland

Steady ahead

RECOMMENDATION	Buy
Current price (PLN)	5.696
Target price (PLN)	**7.7**

- **Equity story.** We believe there is an internal hedge between PGNiG's upstream and gas sales divisions which limits the company's exposure to natural gas prices. This should allow PGNiG's total earnings to weather through a turbulent period of heightened nat gas volatility largely unaffected. At the same time the growing production of nat gas (effect of INEOS assets acquisition) secures earnings growth in 2022E. A strong balance sheet and sound FCF generation are the other pillars of the investment case. We consider the planned merger with PKN a risk factor, if share swap parity fails to reflect fundamental value of the company. We reiterate our Buy rating and target price of PLN7.7.
- **Recent developments.** The merger between PKNiG and PKN is likely to be completed mid-2022. Earlier, the companies need to address the issue of E&P licences in Poland owned by PGNiG. Additionally, the parliament needs to amend the securities market regulations to allow the State to increase its share in PKN to over 33% without the necessity of calling a tender offer. The share swap parity between PKN and PGNiG still needs to be set and approved by EGMs of both companies. We believe the market positioned for the parity to favour PKN. We think such an approach may neglect the fact that the parity in favour of PGNiG benefits the State, the majority shareholder of both companies.
- **Earnings forecasts.** In 3Q21 PGNiG delivered solid financial performance with EBITDA of PLN2.2bn. While the losses on the regulated gas trading should increase in 4Q21E, we expect total results to be largely unchanged due to higher earnings in upstream, additionally supported by consolidation of INEOS assets. Our model assumptions for the 2022E call for Brent of USD72/bbl and nat gas price at EU37.5/MWh and PGNiG's total hydrocarbon output at 150kbpd (+32% y/y). We forecast PGNiG's 2022E EBITDA at PLN11.9bn (+7% vs. previous forecast) and net profit at PLN5.1bn (+3% vs. previous).
- **Valuation and risks.** We set our target price at PLN7.7 (unchanged) based on DCF and target multiple valuation with 50%/50% weightings. Macro risks include hydrocarbon prices and FX. Other risks are 1) regulatory environment, 2) political interference, especially leading to poor capital allocation; 3) execution of the planned tie-up with PKN.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

PGNiG: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	42,023	39,197	67,535	77,130	44,535
Clean EBITDA	6,163	8,806	9,410	11,839	11,043
EBIT	2,448	9,585	5,871	7,926	6,913
Net profit	1,371	7,340	3,786	5,177	4,874
P/E (x)	23.6	3.5	8.7	6.4	6.8
EV/ Clean EBITDA (x)	5.8	2.6	3.6	2.8	2.6
Dividend Yield	2.0%	2.0%	3.7%	4.0%	5.5%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

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Fig. 213. PGNiG: Quarterly results and forecasts

P&L extracts (PLNmn)	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E
Brent (USD/bbl)	50.1	31.4	42.7	44.2	42.1	61.1	69.0	73.5	82.8	71.6
NCG gas price (EUR/MWh)	10.2	5.8	7.7	14.5	9.5	18.6	25.4	47.0	70.0	40.1
EBITDA	2,078	7,274	1,333	2,324	13,009	3,393	1,802	2,198	2,139	9,532
Clean EBITDA	2,852	1,443	1,337	3,174	8,806	3,377	1,702	2,205	2,139	9,410
E&P	847	327	483	954	2,611	1,338	1,276	2,665	5,236	10,515
Gas Trading and Storage	909	657	633	1,397	3,596	492	-220	-917	-3,948	-4,593
Gas Distribution	769	408	361	622	2,160	1,010	541	543	629	2,723
CHP Generation	416	117	35	369	937	463	170	-21	295	907
EBIT	1,207	6,449	588	1,341	9,585	2,437	980	1,399	1,055	5,871
Net profit	779	5,141	116	1,304	7,340	1,747	687	666	686	3,786

Source: Company data, Santander Brokerage Poland estimates

Fig. 214. PGNiG: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
EBITDA	9,532	9,776	-2%	11,839	11,134	6%	11,043	9,361	18%
Clean EBITDA	9,410	9,660	-3%	11,839	11,134	6%	11,043	9,361	18%
Net profit	3,786	4,188	-10%	5,177	5,091	2%	4,874	3,715	31%

Source: Santander Brokerage Poland estimates

Fig. 215. PGNiG: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	7.80	7.50	*4%*
Comparable valuation	7.67	7.87	*-3%*
Target Price*	**7.7**	**7.7**	*1%*

*Source: Santander Brokerage Poland estimates, valuation weightings: DCF: 50%, CV: 50% *NOTE: rounded to one decimal place*

Fig. 216. PGNiG: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Sales	42,023	39,197	67,535	77,130	44,535
EBITDA	5,504	13,009	9,532	11,839	11,043
Clean EBITDA,	6,163	8,806	9,410	11,839	11,043
E&P	3,973	2,611	10,515	13,118	6,631
Gas Trading and Storage	-465	3,596	-4,593	-4,503	1,091
Gas Distribution	1,989	2,160	2,723	2,375	2,447
CHP Generation	856	937	907	997	1,027
EBIT	2,448	9,585	5,871	7,926	6,913
Net financial costs	-181	-630	133	62	51
Pre-tax profit	2,159	9,025	5,760	7,964	6,963
Tax	788	1,685	1,974	2,787	2,089
Minorities	0	0	0	0	0
Net profit	1,371	7,340	3,786	5,177	4,874
Brent (USD/bbl, lhs)	64.2	42.1	71.6	72.0	64.0
NCG gas price (EUR/MWh, rhs)	14.0	9.5	40.1	37.5	20.0
USDPLN FX rate	3.84	3.90	4.00	4.00	4.00
EURPLN Fx rate	4.30	4.44	4.60	4.60	4.60
Upstream output (kbpd)	104	107	113	150	148

PLNmn	2019	2020	2021E	2022E	2023E
PPE	40,002	42,565	45,504	48,016	49,341
Other non-current assets	3,937	3,678	4,978	4,978	4,978
Cash	3,037	7,098	3,015	4,119	8,507
Other current assets	12,209	9,530	14,727	15,827	10,242
Total Assets	59,185	62,871	68,225	72,940	73,068
Equity	38,108	44,126	46,698	50,550	53,612
Minorities	-1	-1	-1	-1	-1
Short and Long term Debt	6,752	4,184	4,184	4,184	4,184
Decommissioning obligations	2,389	3,311	3,311	3,311	3,311
Other liabilities	11,937	11,251	14,032	14,896	11,962
Total Equity and Liabilities	59,185	62,871	68,225	72,940	73,068
Net debt	3,715	-2,914	1,169	65	-4,323
Net Debt/ EBITDA (x)	0.6	-0.3	0.1	0.0	-0.4

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	4,938	14,118	5,030	8,854	11,654
CF from investment	-6,152	-6,254	-7,900	-6,425	-5,454
FCF pre dividends	-1,214	7,864	-2,870	2,429	6,200
Dividends paid	-636	-520	-1,213	-1,325	-1,812

Source: Company data, Santander Brokerage Poland estimates

Santander

PKN Orlen

Bloomberg: PKN PW, Reuters: PKN.WA

CEE Equity Research

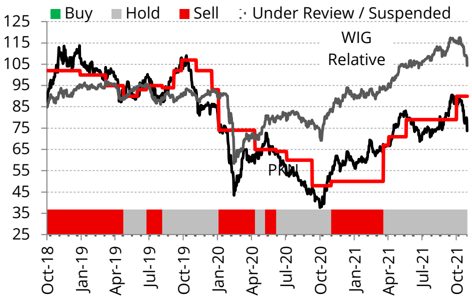
Oil & Gas, Poland

As good as it gets

RECOMMENDATION	Hold
Current price (PLN)	73.64
Target price (PLN)	**85**

- **Equity story.** We expect the full year 2021E LIFO EBITDA at PLN12.2bn (incl. carbon hedging) and believe FCF generation this year should allow for a PLN3.5/share dividend payment in 2022E. Having said this, we think FCF generation is likely to be under pressure in the medium run, owing to the rising capex. The planned acquisition of PGNiG and Lotos creates upside risks to our FCF forecasts, but the execution thereof is constantly delayed. We believe PKN needs these M&As to improve its balance sheet and FCF generation to be able to finance an ambitious renewables development pipeline (off-shore). PKN is trading at our 2022E EV/EBITDA of 4.9x, a slight premium to its historical averages. Our target price of PLN85 (lowered from PLN90 owing to a slight reduction in earnings forecasts) offers a 15% upside but we keep the Hold rating, as we believe the uncertainty regarding resurgence of the pandemic calls for some additional risk premium.
- **Recent developments.** While the Polish government has not introduced any caps on fuel prices (instead, it proposed reductions in levies on fuel for a period of five months) we expect PKN's results to deteriorate in 4Q21E. Firstly, there are anecdotal evidences that retail margins compressed (fuel price at below PLN6/l through mid-November despite rising oil prices). Secondly, mobility in some of the company's markets (i.e. Germany, Czech Rep.) is likely to decrease due to resurgence of the pandemic. The refining margin has also contracted in the recent weeks, though it remains at relatively healthy levels.
- **Earnings forecasts.** We have trimmed our 2021E EBITDA by 5% to PLN12.2bn (LIFO) and PLN10.0bn (Clean). The outlook for 2022-23E also appears to be mildly positive, as we expect a supportive macro in refining and petchems. We forecast LIFO EBITDA of PLN10.7bn and PLN 11.3bn in 2022-23E, respectively. We expect PKN to be FCF-positive this year, therefore we believe PLN3.5/share dividend is also likely in 2022E, unless the planned mergers with PGNiG and Lotos are used to change the policy.
- **Valuation and risks.** Our target price of PLN85 (lowered from PLN90) is based on a DCF and target multiples valuation with 50/50 weightings. Key risks include the industry macro backdrop (refining and petchem margins, FX) and government interference, which could lead to poor capital allocation. Execution of the planned acquisition and integration of Lotos and PGNiG are company-specific risks.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

PKN: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	111,203	86,178	129,691	129,360	121,520
EBITDA	9,172	8,348	12,185	10,673	11,326
EBIT	8,862	8,445	15,088	10,673	11,326
Net profit	4,300	2,755	7,617	3,373	3,511
P/E (x)	9.7	9.2	4.1	9.3	9.0
EV/ EBITDA (x)	5.2	5.3	4.1	4.9	4.7
Dividend Yield	3.6%	1.7%	4.8%	4.8%	2.7%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 217. PKN: Quarterly results and forecasts (PLNmn)

	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E
Benchmark ref. margin (USD/bbl)	5.7	3.4	1.1	1.0	2.8	2.0	3.5	5.4	5.0	4.0
Benchmark petchem margin (EUR/t)	852	846	828	840	839	1,044	1,473	1,318	1,150	1,246
USDPLN FX rate	3.92	4.09	3.80	3.78	3.90	3.78	3.76	3.87	4.05	3.87
Revenues	22,077	17,010	23,918	23,173	86,178	24,562	29,423	36,442	39,264	129,691
EBITDA	-969	5,453	2,240	1,721	8,445	3,524	4,084	5,153	2,327	15,088
EBITDA LIFO*, of which	1,607	2,003	1,965	2,773	8,348	2,386	3,206	4,266	2,327	12,185
Upstream	219	10	44	49	322	14	60	130	183	387
Downstream	901	1,614	1,149	1,554	5,218	2,114	2,553	3,220	1,860	9,747
Refining	*-353*	*614*	*-370*	*-128*	*-237*	*2*	*298*	*1,165*	*374*	*1,839*
Petchem	*766*	*251*	*502*	*558*	*2,077*	*872*	*1,021*	*1,013*	*786*	*3,692*
Energy	*488*	*749*	*1,017*	*1,124*	*3,378*	*1,240*	*1,234*	*1,042*	*700*	*4,216*
Retail	706	726	1,035	827	3,232	548	828	948	584	2,908
Net profit	-2,244	4,350	651	-2	2,755	1,846	2,226	2,909	636	7,617
EBITDA adjustments										
Reported EBITDA	-969	5,453	2,240	1,721	8,445	3,524	4,084	5,153	2,327	15,088
LIFO effect	-2,072	-466	267	-103	-2,374	1,142	963	890		2,995
Impairments/ write-ups	-504	3,916	8	-949	2,471	-4	-85	-3		-92
Inventory revaluation to NRV	-1,609	1,207	-66	358	-110	193	14	3		210
Insurance compensations/ Other				700	700	532	764	675		1,971
Clean EBITDA estimate	3,216	796	2,031	1,715	7,758	1,661	2,428	3,588	2,327	10,004

Source: Company data, Santander Brokerage Poland estimates

Fig. 218. PKN: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
EBITDA LIFO	12,185	12,703	*-4%*	10,673	11,299	*-6%*	11,326	11,463	*-1%*
EBIT	15,088	15,606	*-3%*	10,673	11,299	*-6%*	11,326	11,463	*-1%*
Net profit	7,617	8,031	*-5%*	3,373	3,877	*-13%*	3,511	3,553	*-1%*

Source: Santander Brokerage Poland estimates

Fig. 219. PKN: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	84.6	88.2	*-4%*
Comparable valuation	85.0	92.7	*-8%*
Target Price*	**85**	**90**	***-6%***

*Source: Santander Brokerage Poland estimates, valuation weightings: DCF: 50%, CV: 50%; *NOTE: rounded to the nearest integer*

Fig. 220. PKN: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Revenues	111,203	86,178	129,691	129,360	121,520
EBITDA	8,862	8,445	15,088	10,673	11,326
EBITDA LIFO*, of which	9,172	8,348	12,185	10,673	11,326
Upstream	295	322	387	499	368
Downstream	6,667	5,218	9,747	8,051	8,786
Retail	3,045	3,232	2,908	2,989	3,049
Energa	-835	-424	-857	-867	-877
Other/ corporate	5,365	3,908	9,804	4,862	5,089
EBIT	9	1,022	392	522	575
Net financial costs	5,352	2,856	9,398	4,341	4,514
Pre-tax profit	1,054	31	1,693	868	903
Tax	-2	70	88	100	100
Minorities	4,300	2,755	7,617	3,373	3,511
Net profit	111,203	86,178	129,691	129,360	121,520
Brent (USD/bbl)	64.0	42.0	71.6	72.0	64.0
Ref. margin (USD/bbl)	6.0	2.8	4.0	5.0	5.5
Petchem margin (EUR/t)	859	839	1,246	1,050	1,000
USDPLN/FX rate	3.84	3.90	3.87	4.00	4.00

PLNmn	2019	2020	2021E	2022E	2023E
PPE	32,363	49,387	54,303	58,292	62,555
Other non-current assets	6,914	9,825	9,825	9,825	9,825
Cash	6,159	1,240	8,689	7,998	9,040
Other current assets	25,766	23,375	31,285	31,209	29,406
Total Assets	71,202	83,827	104,101	107,324	110,825
Equity	38,596	41,596	47,716	49,591	52,247
Minorities	11	783	871	971	1,071
Short and Long term Debt	12,605	19,574	26,214	28,214	30,214
Other liabilities	19,990	21,874	28,601	28,548	27,293
Total Equity and Liabilities	71,202	83,827	103,401	107,324	110,825
Net debt	6,446	18,334	17,525	20,216	21,174
Net Debt/ EBITDA (x)	0.7	2.2	1.4	1.9	1.9

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	9,319	7,247	11,806	9,306	10,397
CF from investment	-3,994	-8,868	-9,500	-10,500	-10,500
FCF pre dividends	5,325	-1,621	2,306	-1,194	-103
Dividends paid	-1,497	-428	-1,497	-1,497	-855

Source: Company data, Santander Brokerage Poland estimates

Pharmaceuticals and Biotechnology

Fig. 221. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2021E	2022E	2023E	EV/EBITDA (x) 2021E	2022E	2023E
Celon Pharma	Buy	49	31.7	55%	NM	NM	NM	45.1	NM	NM
Gedeon Richter	Buy	10,600	8,625	23%	13.5	12.6	10.9	8.7	7.8	6.7
Mabion	Buy	99	75.2	32%	NM	27.1	10.8	NM	21.9	8.8
Selvita	Buy	90	76	18%	37.1	28.7	24.0	18.7	15.8	13.1
Median					**25.3**	**27.1**	**10.9**	**18.7**	**15.8**	**8.8**

Source: Bloomberg, Santander Brokerage Poland estimates

Outlook appears positive

We believe the outlook for Pharma and Biotech sector is positive.

Firstly, we expect continued normalisation after the Covid-2019 pandemic to positively affect sales of medicines, especially prescription medicines requiring direct doctor/patient interaction and those administrated by healthcare professionals. Normalisation should also allow for new product launches, which should benefit Gedeon Richter and Celon Pharma.

Secondly, we expect the tide of R&D spending to still be rising, which should positively affect contract research organisations (Selvita). We also highlight the high utilisation of global manufacturing capacity in respect of innovative medicines, which should support Mabion's efforts to transform its business model into a contract manufacturing and research organisation.

Thirdly, we expect numerous potential catalyst events for Polish biotech companies. Celon Pharma is likely to publish results from phase 2 studies for three projects in 2021. Importantly for Mabion, regulatory decisions on Novavax's Covid-2019 vaccine are likely to be announced shortly.

We have four Buy ratings in the sector: Gedeon Richter is a transformation story from generics to innovative medicines, underpinned by the success of Vraylar franchise in the US. Selvita offers exposure to growing spending on pharmaceuticals R&D without the risk inherent in the drug discovery process. We see Mabion and Celon Pharma as fallen angles – the investments risks are higher but so, we think, may be the potential rewards.

Celon Pharma

Bloomberg: CLN PW, Reuters: CLN.WA

CEE Equity Research

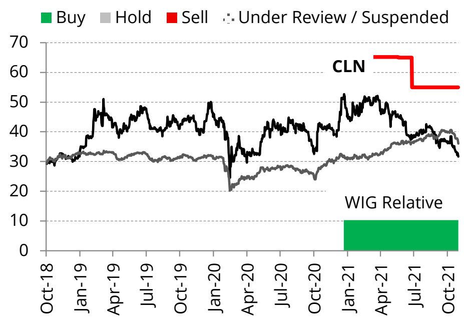
Pharma & Biotech, Poland

Not just Falkieri

RECOMMENDATION	Buy
Current price (PLN)	31.7
Target price (PLN)	**49**

- **Equity story.** Celon largely disappointed in 2020 as the long-awaited partnering of its Falkieri project failed to be delivered. While we believe Falkieri remains a valid monetisation option, Celon has four other innovative projects that have already reached clinical development. We expect the company is likely to publish the phase 2 results of three studies in 2022: CPL'280 (GPR40, metabolism diseases); CPL'116 (JAK/ROCK, autoimmune diseases) and CPL'36 (PDE10a, neuropsychiatry). A positive outcome of any one of these studies could lead to finding a partner, which we believe Celon needs to raise the credibility of its biotech capabilities. We reiterate our Buy rating with our target price reduced to PLN49 from PLN55 on the apparent lower than previously anticipated commercialisation potential of Falkieri.
- **Recent developments.** Celon's interactions with market regulators regarding phase 3 of its Falkieri project have not yet resulted in any action that could improve the project's credibility. Management remains tight lipped as to timing of any potential deal, probably due to lack of delivery so far. We treat just-started project in the area of mRNA as building competence rather than a value driver.
- **Earnings forecasts.** We forecast Celon's generic business to generate EBITDA of c. PLN70m annually in 2022-23E. The recent capital increase (c. PLN206mn) and public grants should secure funding of the company's innovative projects in the medium term. We assume R&D spending to reach nearly PLN200mn in 2022-23E as phase 2 and 3 of clinical studies usually require significant outlays.
- **Valuation and risks.** Our target price is based on a sum-of-the-parts model. We have reduced our target price to PLN49 from PLN55, owing to the lack of partner for Falkieri, suggesting we had overestimated its commercial potential. We value Falkieri at PLN12.8/share, four other projects in clinical trials at PLN22.1/share and the generic business at PLN9.9/share. Major risks that we see are 1) the failure to reach partnering deals, 2) the competitive landscape, 3) regulatory environment, and 4) competing development of new medicines.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Celon Pharma: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	121.4	160.0	192.6	215.5	236.2
EBITDA	-0.4	28.1	34.5	-15.2	-23.3
EBIT	-21.2	-3.7	-11.9	-59.3	-66.8
Net profit	-11.0	-0.9	-14.6	-56.4	-63.6
P/E (x)	NM	NM	NM	NM	NM
EV/ EBITDA (x)	NM	68.0	45.1	NM	NM
Dividend Yield	0.6%	0.2%	0.2%	0.5%	0.5%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 222. Celon Pharma: Quarterly results and forecasts

PLNmn	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E
Revenues	34.0	43.1	38.1	44.8	160.0	47.4	57.7	41.1	46.4	192.6
EBITDA	3.0	12.1	8.7	4.4	28.1	9.8	12.4	7.7	4.6	34.5
Generic medicines	10.3	24.5	12.6	8.2	55.6	15.0	25.4	20.3	13.3	74.0
Innovative medicines	-6.9	-12.4	-2.4	-5.7	-27.5	-5.2	-12.4	-12.7	-8.6	-39.5
EBIT	-2.8	4.1	0.2	-5.2	-3.7	0.4	1.5	-6.4	-7.4	-11.9
Net profit	-2.5	3.3	1.8	-3.6	-0.9	-1.7	2.0	-7.8	-7.1	-14.6

Source: Company data, Santander Brokerage Poland estimates

Fig. 223. Celon Pharma: Changes to forecasts

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	192.6	214.3	*-10%*	215.5	244.9	*-12%*	236.2	275.6	*-14%*
EBITDA	34.5	39.9	*-13%*	-15.2	-15.9	*-4%*	-23.3	-22.1	*6%*
EBIT	-11.9	1.8	*NM*	-59.3	-54.7	*NM*	-66.8	-61.0	*NM*
Net profit	-14.6	1.6	*NM*	-56.4	-52.0	*NM*	-63.6	-58.0	*NM*

Source: Santander Brokerage Poland estimates

Fig. 224. Celon Pharma: Valuation

Asset	Valuation method	Value PLNmn	Value per share (PLN)	Success rate	Target price per share (PLN)	Assumptions
Generics business	Target P/E	506	9.9		9.9	Target P/E of 15x, in line with the average ratio of European pharma stocks
Falkieri (esketamine – neuropsychiatry)	NPV	1,972	38.7	33%	12.8	Milestones of USD100mn, 20% royalty, commercial launch in 2025, peak sales of USD1.0bn, 15-year lifetime
CPL'110 (FGFR Inhibitor – oncology)	NPV	1,281	25.1	33%	8.3	Milestones of USD100mn, 15% royalty, commercial launch in 2027, peak sales of USD1.0bn, 15-year lifetime
CPL'280 (GPR40 agonist - diabetes)	NPV	1,281	25.1	33%	8.3	Milestones of USD100mn, 15% royalty, commercial launch in 2027, peak sales of USD1.0bn, 15-year lifetime
CPL'36 (PDE10a – neuropsychiatry)	NPV	424	8.3	33%	2.7	Milestones of USD50mn, 15% royalty, commercial launch in 2027, peak sales of USD0.3bn, 15-year lifetime
CPL'116 (JAK/ROCK inhibitor – inflammatory d.)	NPV	424	8.3	33%	2.7	Milestones of USD50mn, 15% royalty, commercial launch in 2027, peak sales of USD0.3bn, 15-year lifetime
Net cash (debt) end 2020E		222	4.4		4.4	
Total*		**6,109**	**120**		**49**	

*Source: Santander Brokerage Poland estimates, Bloomberg consensus * NOTE: Rounded to the nearest integer. Our price of PLN49 is 100% based on a sum-of-the-parts model. Numerous biotech companies have no recurrent earnings, which means earnings-based ratios are not meaningful.*

Fig. 225. Celon Pharma: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Revenues	121.4	160.0	192.6	215.5	236.2
Generic medicines Poland	90.1	94.1	95.0	98.0	101.2
Generic medicines exports	10.6	44.0	76.6	80.0	85.0
Grants	20.7	21.9	21.0	37.5	50.0
EBITDA	-0.4	28.1	34.5	-15.2	-23.3
Generic medicines	24.0	55.6	74.0	72.8	77.2
Innovative medicines	-24.3	-27.5	-39.5	-88.0	-100.5
EBIT	-21.2	-3.7	-11.9	-59.3	-66.8
Net profit	-11.0	-0.9	-14.6	-56.4	-63.6

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	143.5	119.2	318.0	266.9	210.8
Fixed assets	316.3	412.6	396.2	392.1	388.6
Total assets	459.8	531.9	714.2	659.1	599.5
Current liabilities	377.3	344.5	532.3	468.3	397.0
bank debt	4.6	25.5	25.5	32.6	42.6
Long-term liabilities	77.9	161.9	156.4	158.2	159.8
bank debt	459.8	531.9	714.2	659.1	599.5
Equity	-62.1	-18.5	-214.5	-148.6	-75.5
Total liability and equity	171.0	-0.7	-6.2	9.8	3.2
Net debt	143.5	119.2	318.0	266.9	210.8
Net Debt/ EBITDA (x)	316.3	412.6	396.2	392.1	388.6

PLNmn	2019	2020	2021E	2022E	2023E
Operating CF	-6.0	71.7	23.6	-18.3	-25.4
Investing CF	-60.7	-53.3	-30.0	-40.0	-40.0
Equity raised	0.0	0.0	206.0	0.0	0.0
Dividends paid	-10.8	-3.6	-3.6	-7.7	-7.7

Source: Company data, Santander Brokerage Poland estimates

Gedeon Richter

Bloomberg: RICHT HB, Reuters: GDRB.BU

CEE Equity Research

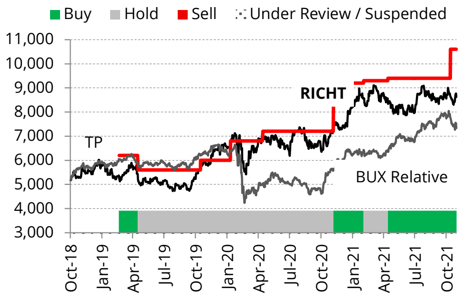
Pharmaceuticals, Hungary

Steady ahead

RECOMMENDATION	Buy
Current price (HUF)	8,625
Target price (HUF)	**10,600**

- **Equity story.** 3Q21 was another solid quarter, after which we have again increased our earnings forecasts for 2021-23E. The success of Vraylar franchise in the US is the pillar of the investment story, but we also point to the ongoing transformation from generic to innovative medicines within the company's total portfolio. Richter is trading at 2022E P/E of 12.6x which we view attractive if plotted against 12% 3-year EPS CAGR that we expect. We reiterate our Buy rating with our target price to HUF10,600.
- **Recent developments.** AbbVie, the holder of the Vraylar licence in the US, has recently published positive data from a phase 3 study of Vraylar as an adjunctive treatment for Major Depressive Disorder (MDD) LINK. Based on the study, AbbVie intends to submit a regulatory application in 1H 2022 and expects a decision on approval in early 2023. In the past, AbbVie indicated it expected Vraylar's peak sales at USD4bn within its current indications (schizophrenia and bipolar 1 disorder). Vraylar's label extension to MDD would further enhance the commercial potential of the medicine. Royalties going to Richter equal nearly 20% of Vraylar's sales. We see Vraylar as the most significant driver of Richter's earnings in the upcoming years.
- **Earnings forecasts.** The management now expects 7-8% sales growth in 2021 and EBIT margin around last year's level (20.3%). With this in mind, we forecast 2021E EBIT at HUF127bn (margin of 20.6%) and net profit at HUF120bn. We forecast net profit to increase to HUF128bn in 2022E and HUF148bn in 2023E. Our assumptions include Vraylar sales in the US of USD2.2bn in 2022E and USD2.8bn in 2023E versus nearly USD1.8bn expected in 2021E.
- **Valuation and risks.** We value Richter at HUF10,600 based on the average of DCF and peer comparisons, with 50/50 weightings. Richter is currently trading at our 2021E and 2022E P/E of 13.5x and 12.6x respectively. Lower-than-expected revenues from innovative medicines, falling margins in generics and FX rates constitute key risks..

STOCK PERFORMANCE



The chart measures performance against the BUX index.

Gedeon Richter: Financial summary and ratios

Year to Dec, HUFbn	2019	2020	2021E	2022E	2023E
Sales	507.8	566.8	615.4	654.1	692.2
EBITDA	117.3	163.2	170.9	186.9	211.1
EBIT	39.9	115.1	126.6	138.2	158.8
Net profit	47.1	104.7	119.5	127.8	147.5
Net profit adj.	81.8	112.2	119.5	127.8	147.5
P/E adj. (x)	12.2	11.2	13.5	12.6	10.9
EV/ EBITDA (x)	7.4	6.8	8.7	7.8	6.7
Dividend Yield	1.9%	0.9%	2.6%	2.6%	2.8%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

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Fig. 226. Gedeon Richter: Quarterly results and forecasts

HUFbn	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E
Revenues	141.4	137.3	137.7	150.4	566.8	140.9	155.9	157.5	161.1	615.4
EBITDA	35.2	41.2	40.0	46.8	163.2	35.6	47.5	44.0	43.8	170.9
EBIT	25.2	27.1	30.0	32.8	115.1	24.4	36.4	33.1	32.7	126.6
Net profit	29.0	31.5	22.6	21.6	104.7	26.9	28.0	38.2	26.4	119.5
Adj. Net profit	29.0	35.4	22.6	25.2	112.2	26.9	28.0	38.2	26.4	119.5

Source: Company data, Santander Brokerage Poland estimates

Fig. 227. Gedeon Richter: Valuation changes

HUF per share	New	Previous	*Change*
DCF valuation	9,355	9,355	*0%*
Comparable valuation	11,868	11,868	*0%*
Target Price*	**10,600**	**10,600**	***0%***

*Source: Santander Brokerage Poland estimates *NOTE: rounded to the nearest hundred; average of DCF and peer comparison with 50%/50% weightings.*

Fig. 228. Gedeon Richter: Financial statements forecast

HUFbn	2019	2020	2021E	2022E	2023E
Net sales	507.8	566.8	615.4	654.1	692.2
Gross profit	277.8	318.8	345.1	376.9	411.5
EBITDA	117.3	163.2	170.9	186.9	211.1
EBIT	39.9	115.1	126.6	138.2	158.8
Profit before tax	50.8	115.2	130.8	139.8	160.6
Net profit	47.1	104.7	119.5	127.8	147.5
Net profit adj.	81.8	112.2	119.5	127.8	147.5
EBITDA margin	23.1%	28.8%	27.8%	28.6%	30.5%
EBIT margin	7.9%	20.3%	20.6%	21.1%	22.9%
Net margin	9.3%	18.5%	19.4%	19.5%	21.3%

HUFbn	2019	2020	2021E	2022E	2023E
Current assets	409.6	449.5	442.8	498.0	568.7
Fixed assets	449.1	499.1	590.2	626.5	664.2
Total assets	858.7	948.6	1,033.0	1,124.5	1,232.9
Current liabilities	109.6	107.9	113.6	118.1	122.5
bank debt	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	24.2	26.7	26.7	26.7	26.7
bank debt	0.0	0.0	0.0	0.0	0.0
Equity	721.4	807.0	884.5	970.4	1,073.1
Minorities	3.5	7.0	8.2	9.4	10.6
Total liability and equity	858.7	948.6	1,033.0	1,124.5	1,232.9
Net debt	-128.6	-142.1	-112.8	-150.1	-203.1
Net Debt/ EBITDA (x)	-1.1	-0.9	-0.7	-0.8	-1.0

HUFbn	2019	2020	2021E	2022E	2023E
CF from operations	98.2	134.4	148.1	164.2	187.7
CF from investment	-59.7	-98.9	-135.4	-85.0	-90.0
CF from financing, incl.	38.5	35.5	12.7	79.2	97.8
dividends	-18.9	-13.5	-41.9	-41.9	-44.7

Source: Company data, Santander Brokerage Poland estimates

Santander

Mabion

Bloomberg: MAB PW, Reuters: MAB.WA

CEE Equity Research

Pharma & Biotech, Poland

Risk/reward again attractive

- **Equity story.** We believe Mabion's manufacturing agreement with Novavax makes the company's business self-sufficient, provided Novavax successfully registers its Covid-2019 vaccine candidate in several developed countries. We expect news flow in this respect in late 2021/ early 2022. Our target price of PLN99 offers 32% potential upside, therefore we are increasing our recommendation to Buy from Hold.
- **Recent developments.** In October, Mabion signed a manufacturing agreement with Novavax for the commercial production of API for Novavax's Covid vaccine in 2021-25. The value of the contract totals USD372mn (PLN1.5bn). Mabion expects to book c. 40% of the value of the contract in 2022-23E. According to Mabion's management, the contract with Novavax is unconditional. We believe the risk of Novavax withdrawing from the contract exists, unless Novavax's Covid-2019 vaccine is registered in developed countries. Novavax has licenced out sales of its vaccine in low- and medium-income countries to the Serum Institute of India. However, we believe registration of its Novavax vaccine in high-income countries is of the utmost importance for Mabion. In Europe, EMA has started to evaluate Novavax's application for conditional marketing authorisation and could issue its decision within weeks. Novavax has also completed submissions in the UK, Australia, Canada and New Zealand. It also expects to submit the complete regulatory package to the US FDA by the end of 2021, although we would point out that the company failed to deliver previously on that front. We also point to Politico newswire LINK which has suggested the Novavax vaccine may not consistently meet the FDA's rigorous quality standards once it is in mass production.
- **Valuation and risks.** We set our target price based on a sum-of-the-parts model at PLN99 (unchanged). Manufacturing business (PLN83/share) accounts for c. 85% of our target price. We valued Mabion on an average of replacement value (PLN169mn), the NPV of the contract with Novavax (PLN475mn) and we value it by treating the business on a par with global CDMO companies, using a 20x forward EV/EBITDA multiple (PLN3,391mn). We see the regulatory process (i.e. registration of Novavax's Covid vaccine), production process (i.e. quality) and the competitive environment as the major business risks. Potential M&A or takeover creates additional risks to the share price on both the upside and downside.

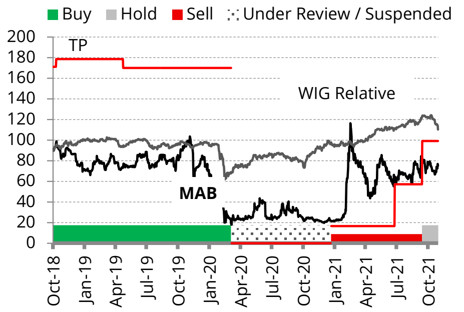
Mabion: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	0.0	0.0	14.5	232.1	333.7
EBITDA	-52.2	-44.8	-33.9	53.9	121.2
EBIT	-63.3	-54.7	-42.9	44.9	112.2
Net profit	-63.7	-55.8	-42.9	44.9	112.2
P/E (x)	NM	NM	NM	27.1	10.8
EV/ EBITDA (x)	NM	NM	NM	21.9	8.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

RECOMMENDATION	Buy
Current price (PLN)	75.2
Target price (PLN)	**99**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 229. Mabion: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	*y/y*
Sales	0.0	0.0	0.0	0.0	0.0	1.6	0.0	*NM*
EBITDA	-14.0	-9.7	-7.9	-13.2	-11.9	-2.3	-14.2	*NM*
EBIT	-16.7	-12.4	-10.2	-15.4	-14.1	-4.4	-16.3	*NM*
Net profit	-19.8	-11.0	-9.1	-15.8	-17.1	-2.5	-15.6	*NM*

Source: Company data, Santander Brokerage Poland estimates

Fig. 230. Mabion: Changes to forecasts

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	14.5	14.5	*0%*	232.1	232.1	*0%*	333.7	333.7	*0%*
EBITDA	-33.9	-33.9	*NM*	53.9	53.9	*0%*	121.2	121.2	*0%*
EBIT	-42.9	-42.9	*NM*	44.9	44.9	*0%*	112.2	112.2	*0%*
Net profit	-42.9	-42.9	*NM*	44.9	44.9	*0%*	112.2	112.2	*0%*

Source: Santander Brokerage Poland estimates

Fig. 231. Mabion: Valuation

Asset	Method	Value (PLNmn)	Value per share (PLN)	Success rate	Target price per share (PLN)	Assumptions
Manufacturing plant		1,345	83.2		83.2	Average of replacement value (PLN169mn), NPV of contract with Novavax (PLN475mn) and valuation treating the facility as an operating CDMO business (PLN3,391mn)
CD20 - US	NPV	497	30.7	25%	7.7	Commercial launch in 2026E
CD20 - Europe	NPV	285	17.7	50%	8.8	Commercial launch in 2024E
CD20 - RoW	NPV	109	6.7	25%	1.7	Commercial launch in 2028E
CD20 – cost of clinical trials 2022-23E		-72	-4.5		-4.5	
Net cash (debt) end 2021E		40	2.5		2.5	
Total*		**2,203**	**136.3**		**99**	

Source: Santander Brokerage Poland estimates NOTE: Rounded to the nearest integer. Our price of PLN99 is 100% based on a sum-of-the-parts model. Numerous biotech companies have no recurrent earnings, which means earnings-based ratios are not meaningful.*

Fig. 232. Mabion: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	0.0	0.0	14.5	232.1	333.7
EBITDA	-52.2	-44.8	-33.9	53.9	121.2
EBIT	-63.3	-54.7	-42.9	44.9	112.2
Profit before tax	-63.7	-55.8	-42.9	44.9	112.2
Net profit	-63.7	-55.8	-42.9	44.9	112.2
EBITDA margin	NM	NM	NM	23.2%	36.3%
EBIT margin	NM	NM	NM	19.3%	33.6%
Net margin	NM	NM	NM	19.3%	33.6%

PLNmn	2019	2020	2021E	2022E	2023E
PPE	71.7	65.3	71.3	117.3	123.3
Intangibles	1.4	1.1	1.1	1.1	1.1
Other non-current assets	0.1	0.2	0.2	0.2	0.2
Cash	28.0	2.4	86.2	90.0	201.2
Other current assets	12.3	9.4	10.4	10.4	10.4
Total Assets	113.5	78.3	169.1	218.9	336.1
Equity	-21.6	-77.4	13.4	58.2	170.4
Short and Long term Debt	21.9	36.7	51.7	51.7	51.7
Deferred income	44.7	48.0	53.0	58.0	63.0
Other liabilities	68.5	71.0	51.0	51.0	51.0
Total Equity and Liabilities	113.5	78.3	169.1	218.9	336.1
Net debt	-6.0	34.3	-34.5	-38.3	-149.5
Net Debt/ EBITDA (x)	0.1	-0.8	1.0	-0.7	-1.2

PLNmn	2019	2020	2021E	2022E	2023E
Operating CF, of which	-33.8	-35.2	-49.9	58.9	126.2
Investing CF	-9.2	-3.0	-15.0	-55.0	-15.0
FCF pre financing	-42.9	-38.2	-64.9	3.9	111.2
Equity raised	0.0	0.0	133.7	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0

Source: Company data, Santander Brokerage Poland estimates

Selvita

Bloomberg: SLV PW, Reuters: SLV.WA

CEE Equity Research

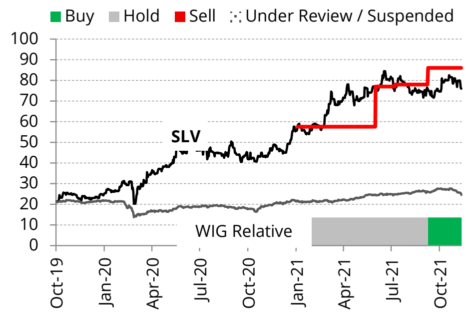
Pharm & Biotech, Poland

Strong momentum continues

RECOMMENDATION	Buy
Current price (PLN)	76
Target price (PLN)	**90**

- **Equity story.** We believe the outlook is upbeat. The growing scale of operations, the locations of research sites in proximity to clients in Europe (and not too far from clients in the US) and cost efficiency are the company's key strategic advantages, in our view. Growth in R&D spending on pharmaceuticals is a secular tailwind. Potential M&A seems likely to enhance Selvita's organic expansion in the medium run, in our opinion, but management remains tight-lipped on potential targets and timing for now. Selvita is trading at 2021E P/E of 37x and EV/EBITDA of 19x versus a nearly 50% 3-year CAGR in EPS and EBITDA. We reiterate our Buy, increasing our target price to PLN90 from PLN86 owing to our higher earnings forecasts.
- **Recent developments.** Selvita delivered strong results for 3Q21. Sales increased by 119% y/y to PLN81.5mn and we highlight that organic growth (ex-Fidelta) in the Polish part of the business reached 32%. Fidelta's organic growth rate was 34%. Total EBITDA adj. for the cost of the non-dilutive management incentive scheme increased 141% y/y to PLN22.7mn. The EBITDA contributions of the Polish and Croatian services businesses were almost equal at PLN10mn, while Ardigen reached PLN2.9mn. EBITDA margin was a record high at 27.9%. The EBITDA margin in Poland was driven by growth in regulatory services, while in Fidelta, by the in-vivo segment. Total EBIT came in at PLN5.1mn (SANe: PLN1.3mn) and included PLN11.5mn of costs associated with the non-cash and non-dilutive management incentive program. On the bottom line, Selvita posted a net loss of PLN2.3mn (SANe: loss of PLN1.2). The net profit figure was negatively affected by a PLN2.2mn loss on FX differences.
- **Earnings forecasts.** After the strong 3Q21 results, we have inched up our adj. EBITDA expectations for 2021-23E by 7%, 4% and 23%, respectively. Our forecast for 2022E assumes 20% organic growth, adj. EBITDA of PLN92mn and adj. net profit of PLN49mn.
- **Valuation and risks.** We set our target price at PLN90 (up from PLN86) based on the average of DCF and a relative value peer comparison with 50%/50% weightings. Regulatory actions, possibly affecting spending on new medicines, and the competitive environment are the major sector risks.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Selvita: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	105.2	141.9	304.1	364.9	437.9
EBITDA adj.	24.8	33.1	78.5	92.1	109.5
EBIT	14.0	19.5	23.4	33.3	68.0
Net profit adj.	13.4	18.0	37.6	48.5	58.0
P/E adj. (x)	28.1	40.2	37.1	28.7	24.0
EV/ EBITDA adj. (x)	15.7	17.5	18.7	15.8	13.1
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 233. Selvita: Quarterly results and forecasts

PLNmn	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E
Sales	30.9	36.6	37.3	37.2	141.9	70.3	70.8	81.5	81.4	304.1
EBITDA adj.	7.3	8.5	9.4	7.8	33.1	17.8	17.4	22.7	20.6	78.5
EBIT	4.5	5.5	5.8	3.8	19.5	12.1	2.9	5.1	3.2	23.4
Net profit	3.4	5.4	4.4	4.8	18.0	7.0	2.1	-2.3	-0.6	6.1
Net profit adj.	3.4	5.4	4.4	4.8	18.0	7.0	10.6	9.2	10.9	37.6

Source: Company data, Santander Brokerage Poland estimates

Fig. 234. Selvita: Changes to forecasts

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	304.1	304.1	*0%*	364.9	364.9	*0%*	437.9	437.9	*0%*
EBITDA adj.	78.5	73.4	*7%*	92.1	88.7	*4%*	109.5	106.4	*3%*
EBIT	23.4	18.2	*29%*	33.3	29.8	*12%*	68.0	64.9	*5%*
Net profit	6.1	6.9	*-11%*	17.0	17.5	*-3%*	49.4	50.9	*-3%*
Net profit adj.	37.6	38.4	*-2%*	48.5	49.1	*-1%*	58.0	59.5	*-2%*

Source: Santander Brokerage Poland estimates

Fig. 235. Selvita: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	99.4	91.1	*9%*
Comparable valuation	80.9	80.0	*1%*
Target Price*	**90**	**86**	*5%*

*Source: Santander Brokerage Poland estimates * NOTE: Rounded to the nearest integer. Our target price is based on the average of DCF and peer comparison with 50%/50% weightings*

Fig. 236. Selvita: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	105.2	141.9	304.1	364.9	437.9
Gross profit	24.8	33.1	78.5	92.1	109.5
EBITDA	14.0	19.5	23.4	33.3	68.0
EBIT	13.6	18.9	17.0	29.7	64.3
Profit before tax	13.4	18.0	6.1	17.0	49.4
Net profit	13.4	18.0	37.6	48.5	58.0
EBITDA adj. margin	23.6%	23.3%	25.8%	25.3%	25.0%
EBIT margin	13.3%	13.8%	7.7%	9.1%	15.5%
Net adj. margin	12.8%	12.7%	12.4%	13.3%	13.3%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	45.9	143.0	127.3	148.7	180.3
Fixed assets	44.9	75.8	237.4	271.3	305.8
Total assets	90.9	218.8	364.7	420.0	486.1
Short and Long term Debt	25.1	41.3	140.3	140.3	140.3
Deferred income	6.2	8.9	8.9	8.9	8.9
Other liabilities	11.9	16.0	53.8	88.6	101.3
Equity	47.7	152.7	161.8	182.3	235.6
Total liability and equity	90.9	218.8	364.7	420.0	486.1
Net debt	11.4	-51.8	75.3	63.7	43.8
Net Debt/ EBITDA (x)	0.5	-1.6	1.0	0.7	0.4

PLNmn	2019	2020	2021E	2022E	2023E
Operating CF	5.8	29.4	58.2	73.0	87.2
Investing CF	8.0	-25.1	-185.3	-61.3	-67.3
organic	8.0	-25.1	-43.4	-61.3	-67.3
inorganic	0.0	0.0	-141.9	0.0	0.0
FCF pre financing	13.8	4.2	-127.1	11.7	19.9
Equity raised	0.0	88.4	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0

Source: Company data, Santander Brokerage Poland estimates

Real Estate

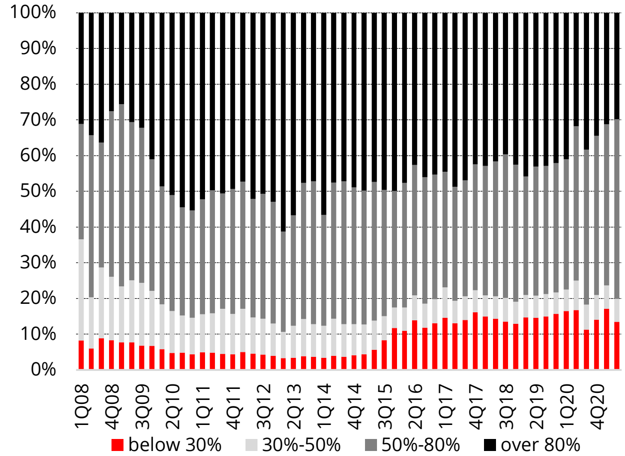
Fig. 237. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2021E	2022E	2023E	P/BV(x) 2021E	2022E	2023E
Dom Development	Buy	137	111.6	23%	8.7	8.2	9.8	2.3	2.2	2.3
Develia	Buy	3.4	2.685	27%	9.2	7.0	8.6	0.9	0.9	0.9

Source: Santander Brokerage Poland estimates

We believe in the appealing long-run story for residential developers on the back of the dwellings deficit in Poland and the undergoing process of Poles improving their living standards. In the short-to-mid run, though, the growth in interest rates represents the key sector risk, as we see it (low rates used to represent the key sales volumes driving force in the past). FRA contracts indicate market expectations on interest rate growth to 3.5%. Any growth might depress the sales volumes of residential developers, due to a potential fall in the clients' creditworthiness, we think. We estimate that a 300bp interest rate growth to 3.5% might cut clients' loan capacity by 27%. On the other hand, the share prices of residential developers have slide massively over the past months (since Aug: Dom Development -20%, Atal -15%, and Develia -21%), which suggests that the expected growth in rates has already been almost fully digested by the market.

Fig. 238. LTV at newly originated mortgage loans

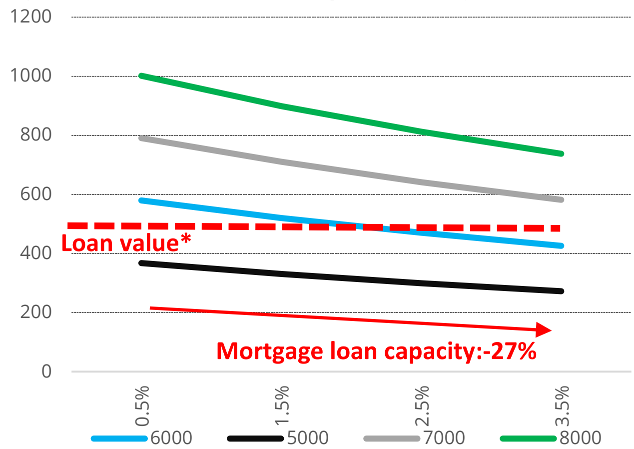


Source: AMRON/ZBP, Santander Brokerage Poland

Fig. 239. FRA

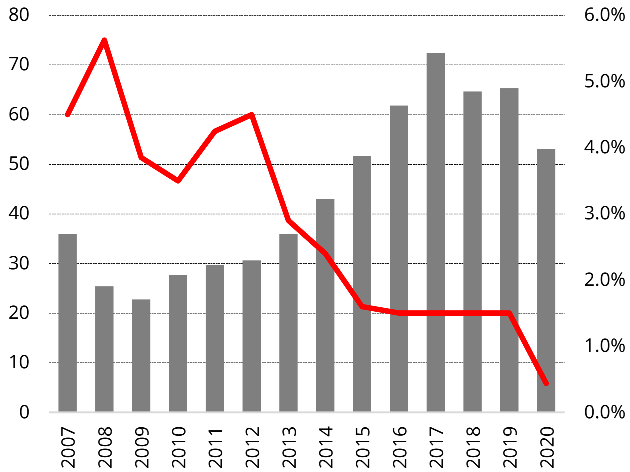
Source: Bloomberg, Santander Brokerage Poland

Fig. 240. Creditworthiness of 3 person family (PLNths)**



*Source: Santander Brokerage Poland, *11k sqm price, 80% LTV, 55 sqm space , **assuming monthly gross salary of 2 persons*

Fig. 241. Sales volumes (ths, LHS) and interest rate (RHS)



Source: JLL, NBP, Santander Brokerage Poland

Develia

Bloomberg: DVL PW, Reuters: DVL.WA

CEE Equity Research

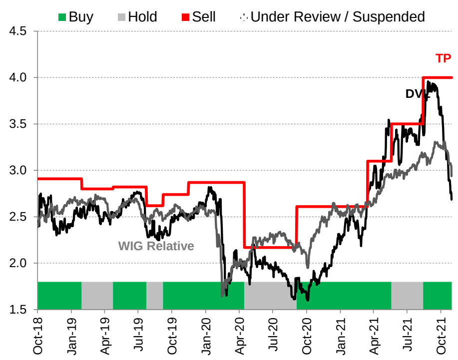
Real Estate, Poland

Strong 2022E dividend?

RECOMMENDATION	Buy
Current price (PLN)	2.685
Target price (PLN)	**3.4**

- **Equity story.** With a fundamental upside, we maintain our Buy rating for Develia. We cut our handovers estimates by c.10-15% and Target Price by 15% to PLN3.4 in order to reflect the potentially negative impact of the growth of interest rates. Still, we see high visibility of the company's 2022E result due to the pre-sale ratio at almost 80%. We also believe that the disposal of Sky Tower office property might imply up to PLN0.4 free cash flow that could be spent on dividend, lifting 2022E DPS even up to PLN0.63 (23% DY). Moreover, Develia is trading at a discount to its NAV.
- **Sky Tower/Wola Retro.** Develia has signed initial agreement for the sale of the Sky Tower office building in Wroclaw. We estimate potential cash inflow net of bank loans (PLN195mn) of approx. PLN186mn. We think that the potential cash proceeds to be spent on land purchase and/or dividend payments. Note that PLN181mn free cash represents PLN0.4 per share. The occupancy of Wola Retro has increased insignificantly over 9M21 (2pp to 76%), which delays the disposal of the property, we think. The relatively low office space supply scheduled for 2022E in Warsaw might accelerate the leasing process, however, we expect the deal conclusion not before the end of 2022E.
- **Low number of units offered for sale.** The number of units offered for sale is relatively low (c.1.5k), in the light of the company's strategy of boosting the scale of operations. The number of units as at 3Q21 settled close to 2020 and 2019 quarterly average. The company secured a land bank allowing the construction of c.8k units, but the prolonged administrative process delayed introducing dwellings for sale, we think.
- **Earnings forecasts.** We expect the company to hand over to clients 1,860 units in FY21 (550 in 4Q21). We increase our handovers volume estimate to 2,040 units in 2022E (from below 2k previously), of which almost 80% dwellings have already been pre-sold, which we find as a solid ratio. We cut our long-run sale volumes estimate to 2k+ (below the management guidance), in order to reflect the potential more challenging environment (likely further growth in interest rates).
- **Valuation and risks.** We decrease Target Price to PLN3.4, due to: 1) the upped Beta assumption to 1.1x (1.0x previously), and 2) cut in sales volumes. The risks include 1) higher-than-expected growth in interest rate, 2) further growth in land prices and construction costs, 3) stabilisation or any decline in residential prices.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Develia: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	819	517	833	903	912
EBITDA	174	-70	184	239	201
EBIT	173	-72	182	237	198
Net profit	117	-139	131	172	140
P/E (x)	9.6	Neg.	9.2	7.0	8.6
P/ BV (x)	0.75	0.91	0.87	0.83	0.83
Dividend Yield	10.7%	3.7%	6.2%	8.6%	10.7%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 242. Develia: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q
Sales	180	40	98	199	176	200	220	123%	10%
EBITDA	128	-70	27	-155	49	21	51	88%	144%
EBITDA margin	*70.9%*	*-174.3%*	*27.4%*	*-77.9%*	*27.5%*	*10.4%*	*23.0%*	*-4.4*	*12.7*
EBIT	127	-70	26	-155	48	20	50	90%	149%
EBIT margin	*70.7%*	*-175.9%*	*26.8%*	*-78.2%*	*27.1%*	*10.0%*	*22.8%*	*-4.0*	*12.7*
Net profit	65	-56	14	-162	34	21	29	106%	39%
Net margin	*36.1%*	*-140.5%*	*14.5%*	*-81.4%*	*19.3%*	*10.5%*	*13.4%*	*-1.1*	*2.8*

Source: Company data

Fig. 243. Develia: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	833	835	0%	903	806	12%	912	951	-4%
EBITDA	184	177	4%	239	213	12%	201	223	-10%
EBIT	182	175	4%	237	210	13%	198	220	-10%
Net profit	131	131	0%	172	150	14%	140	158	-11%

Source: Santander Brokerage Poland estimates

Fig. 244. Develia: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	3.85	4.8	-20%
DDM	3.12	3.7	-16%
Discounted NAV/BV	3.35	3.4	-1%
Target Price	**3.4**	**4.0**	***-15%***

Source: Santander Brokerage Poland estimates, Target Price as an average of DCF, DDM and discounted NAV

Fig. 245. Develia: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	819	517	833	903	912
Gross profit	320	184	242	293	254
EBITDA	174	-70	184	239	201
EBIT	173	-72	182	237	198
Profit before tax	151	-150	162	212	173
Net profit	117	-139	131	172	140
EBITDA margin	21.2%	-13.5%	22.2%	26.5%	22.0%
EBIT margin	21.1%	-13.9%	21.9%	26.2%	21.8%
Net margin	14.3%	-26.8%	15.8%	19.0%	15.4%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	2,009	1,758	1,690	1,768	1,779
Fixed assets	1,234	1,053	1,107	1,107	1,108
Total assets	3,243	2,811	2,797	2,875	2,887
Current liabilities	743	834	762	772	772
bank debt	129	219	219	219	219
Long-term liabilities	1,009	660	660	660	660
bank debt	899	618	618	618	618
Equity	1,492	1,318	1,375	1,444	1,455
Total liability and equity	3,243	2,811	2,797	2,875	2,887
Net debt	661	352	536	472	313
Net Debt/ EBITDA (x)	3.8	-5.0	2.9	2.0	1.6

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	-88	59	-23	194	314
CF from investment	308	326	-62	-2	-2
CF from financing, incl.	-345	-350	-99	-128	-154
dividends	-120	-45	-74	-103	-129
Net change in cash	-125	35	-184	64	159

Source: Company data, Santander Brokerage Poland estimates

Dom Development

Bloomberg: DOM PW, Reuters: DOM.WA

CEE Equity Research

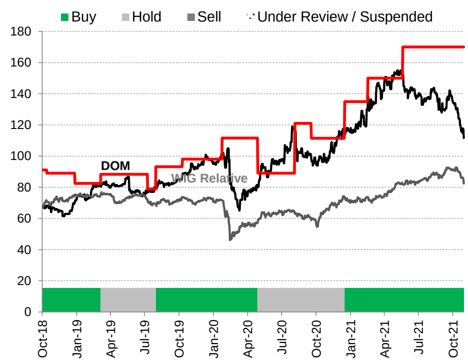
Real Estate, Poland

Low sensitiveness to rates?

RECOMMENDATION	Buy
Current price (PLN)	111.6
Target price (PLN)	**137**

- **Equity story.** We stay positive on Dom Development. Definitely, the growth in interest rates would represent a negative news flow for developers due to a potential negative impact of rates growth on the residential sales volumes, we think. Namely, we estimate that the rate increase to 3.5% (suggested by FRA contracts) might cut the client's loan capacity by c. 27% on average. On the other hand, we believe that Dom is relatively less sensitive to such risks than its peers thanks to: 1) high exposure to clients paying cash (they may continue to transfer cash into real estate in order to hedge against the escalated inflation), and 2) exposure to mid-to-high-end segments, i.e. targeting clients of probably above-average earnings and loan capacity. Overall, we cut our sales volume forecast by 10-20% and increase the Beta assumption to 1.1x in order to reflect the potential sector risks ahead. Still, our Target Price implies an upside potential, thus we maintain our Buy recommendation unaltered.
- **Favourable product mix.** We believe that Poles may continue to transfer cash from bank deposits to the real estate sector over 2022, due to the relatively high CPI and negative real interest rates. Clients paying cash used to represent 45% of Dom's sales volume in the past. Moreover, Dom is targeting well-located plots of land and mid-to-high-end segment dwellings. It tailors products to clients representing above-average loan capacity, thus lower-than-average sensitivity to the growth in interest rates, we think.
- **Earnings forecasts.** We maintain our 2021-2022E financial forecasts intact. Note that Dom has already sold the majority of dwellings scheduled for completion in 2022, thus we estimate the visibility of the 2022E earnings (and dividends until 2023E) as high. We cut our 2022E sales volume estimate, and consequently our post-2022E handovers volume by 10-20% in order to reflect the potential negative impact of the interest rates uplift. We assume stable residential prices in our forecast and a gross margin decline as of 2023E in order to reflect the margin 'normalisation' following the cyclical peak in 2021-2022E, as we see it.
- **Valuation and risks.** We decrease our Target Price to PLN137, due to: 1) upped Beta assumption to 1.1x (1.0x previously) in order to reflect sector risks, and 2) cut in sales volumes. The risks include 1) higher-than-expected growth in interest rates, 2) further growth in land prices and construction costs, 3) stabilisation or any decline in residential prices.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Dom Development: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	1,662	1,815	1,937	2,202	2,052
EBITDA	336	401	418	445	377
EBIT	321	386	403	430	362
Net profit	256	302	323	345	290
P/E (x)	7.8	7.9	8.7	8.2	9.8
P/BV (x)	1.8	2.4	2.3	2.2	2.3
Dividend Yield	11.3%	10.0%	9.0%	10.8%	11.6%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 246. Dom Development: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q
Sales	314.1	458.0	363.2	680.0	807.9	336.5	331.5	-9%	-1%
EBITDA	92.7	146.7	116.2	223.2	262.9	117.3	76.1	-35%	-35%
EBITDA margin	*29.5%*	*32.0%*	*32.0%*	*32.8%*	*32.5%*	*34.9%*	*23.0%*	*-9.0*	*-11.9*
EBIT	53.6	107.9	76.6	162.6	219.6	77.6	72.4	-6%	-7%
EBIT margin	*17.0%*	*23.6%*	*20.2%*	*23.9%*	*27.2%*	*23.0%*	*21.8%*	*1.6*	*-1.2*
Net profit	49.7	104.2	72.9	159.4	215.9	73.7	68.7	-6%	-7%
Net margin	*15.8%*	*22.7%*	*20.1%*	*23.4%*	*26.7%*	*21.9%*	*20.7%*	*0.6*	*-1.2*

Source: Company data

Fig. 247. Dom Development: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	1937	1937	*0%*	2202	2202	*0%*	2052	2280	*-10%*
EBITDA	418	418	*0%*	445	445	*0%*	377	439	*-14%*
EBIT	403	403	*0%*	430	430	*0%*	362	424	*-15%*
Net profit	323	323	*0%*	345	346	*0%*	290	341	*-15%*

Source: Santander Brokerage Poland estimates

Fig. 248. Dom Development: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	137	160	*-14%*
Comparable valuation	108	122	*-12%*
Target Price	**137**	**160**	***-14%***

*Source: Santander Brokerage Poland estimates, * 100% DCF as it fully reflects long run business development including entering new markets*

Fig. 249. Dom Development: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	1,662	1,815	1,937	2,202	2,052
Gross profit	500	579	581	621	554
EBITDA	336	401	418	445	377
EBIT	321	386	403	430	362
Profit before tax	321	379	399	426	358
Net profit	257	302	323	345	290
EBITDA margin	20.2%	22.1%	21.6%	20.2%	18.4%
EBIT margin	19.3%	21.3%	20.8%	19.5%	17.7%
Net margin	15.4%	16.6%	16.7%	15.7%	14.1%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	2892	3182	3237	2964	2907
Fixed assets	69	71	106	106	106
Total assets	2961	3252	3343	3070	3012
Current liabilities	1401	1637	1658	1347	1327
bank debt	198	201	270	270	250
Long-term liabilities	476	458	458	458	458
bank debt	372	285	285	285	285
Equity	1084	1157	1226	1264	1226
Total liability and equity	2961	3252	3343	3070	3012
Net debt	317	-99	228	285	323
Net Debt/ EBITDA (x)	0.9	-0.2	0.5	0.6	0.9

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	78	671	-6	280	319
CF from investment	-3	-10	-57	-20	-18
CF from financing, incl.	254	-333	-195	-317	-358
dividends	-227	-240	-254	-307	-328
Net change in cash	286	328	-258	-57	-58

Source: Company data, Santander Brokerage Poland estimates

Telecoms

Fig. 250. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2021E	P/E (x) 2022E	P/E (x) 2023E	EV/EBITDA (x) 2021E	EV/EBITDA (x) 2022E	EV/EBITDA (x) 2023E
Orange Pl	Sell	7.1	8.44	-16%	6.1	16.0	13.5	5.0	5.2	5.0
Cyfrowy Polsat	Sell	33.2	34.06	-3%	4.9	13.4	12.8	3.6	7.4	7.1
Magyar Telekom	Hold	466	427	9%	9.6	8.2	8.2	4.1	3.7	3.7
Median					**6.9**	**12.5**	**11.3**	**4.2**	**5.4**	**5.2**

Source: Santander Brokerage Poland estimates

The Polish Minefield, new competitor emerges in Hungary

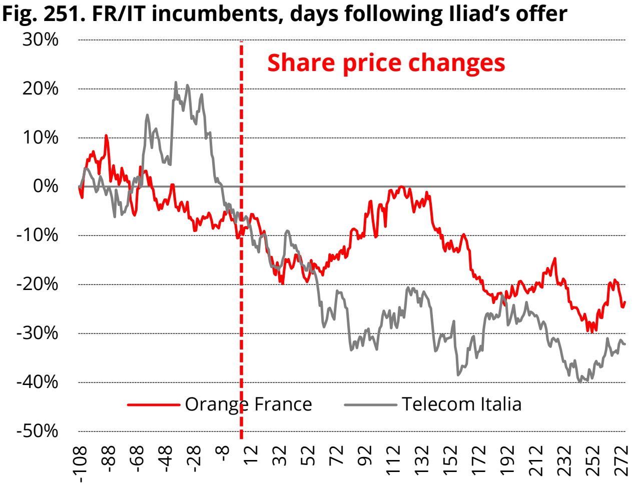
Top picks. Cyfrowy Polsat is a unique case, as its outlook depends in full on the details of the official strategy update. Should we judge telco segments of the two companies, re-birth of OPL's dividend policy sounds better than the CPS's dividend policy (and buyback) risk. Finally, while we find it highly unlikely, OPL could be a better play on infra disposals. Finally, CPS' FCF remains high and solid, while OPL's FCF remains on the rise. OPL would be hit hard by the strong convergent inroad of Iliad. MTelekom's mid-term appeal is striking (11% FCF yield, 5.9% DY, EV/EBITDA 3.7x), had it not been for the appearance of new telco rival.

Competitive outlook. We assume the Polish telecom market may undergo substantial changes in 2022, following the potential Iliad's entry into the convergent segment (OPL at risk). Viaplay (offered separately and in a partnership with Iliad) might pose a long-term risk to CPS client bases. The State still remains a question mark, and 5G-based mobile operator might come value-destructive. New rival may potentially pose high risk in the Hungary.

Infrastructure update. Cyfrowy Polsat sold its mobile infrastructure, and Orange Pl sold minor portion of its fiber network. The 'infrastructure deal' hype might be on again, following a bid for Telecom Italia, but CPS has got little to sell (Netia's FiberCo?), while we disbelieve Orange France would be willing to give up control over either the Polish fiber or mobile. MTelekom also holds a sizeable (and growing) FTTH / mobile infrastructure, but the potential disposal would be up to Deutsche Telekom (minimal chances of disposals, we believe).

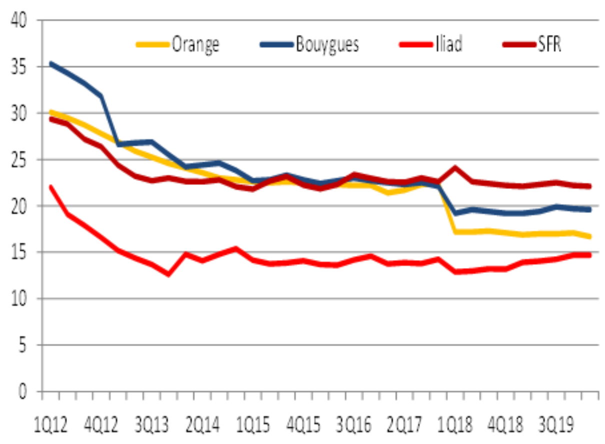
Results & Ratios. Orange Pl management remains cautious on the 4Q2021E outlook, and ARPU strength may be mitigated by a meagre client base. In Cyfrowy Polsat, NetCo carve-out should weaken the reported results. Both Polish telecoms posted very strong one-offs in 2021E (CPS at EBITDA, OPL at bottom line), hence the comparative valuation weakens in 2022E. In contrast, we expect very strong trends at ARPUs and client bases should result in official 2022 guidance upgrade at MTelekom, not to mention its expectedly stable DY at 5.9%.

Fig. 251. FR/IT incumbents, days following Iliad's offer



Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 252. Mobile ARPU development in France, Iliad impact



Source: company data

Cyfrowy Polsat

Bloomberg: CPS PW, Reuters: CPS.WA

CEE Equity Research

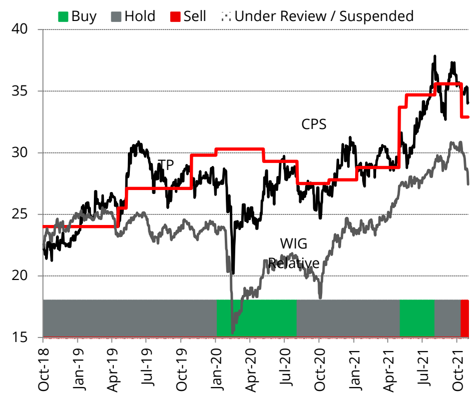
Telecoms, Poland

Big question mark on diversification

RECOMMENDATION	Sell
Current price (PLN)	34.06
Target price (PLN)	**33.2**

- **Equity story**. ARPU trends remain on the rise, 5G service proliferation is still at an early stage in Poland, and advertising content remains pricey: these are all supportive factors to Cyfrowy Polsat, while the sudden acceleration of decline in the DTH customer base (OPLs down 10% q/q) and the Play-UPC merger in 2022E represent risks to the company's client bases and results. Business diversification promises are our key concern. The company has not been explicit about where it might diversify, but we believe it might be interested in the multi-billion zloty energy segment (potentially offshore, nuclear, distribution, or hypothetically call for WSE-listed utility). It would imply a substantial change to the company's risk profile, not to mention that new capex-intensive ventures and PLN2.9bn buy-back (avg. yield 2.6% p.a.) might replace the current dividend policy. Telco/media division remains very strong, with annual FCF yield at +6%, but the business diversification foretold by the key shareholder must be watched with utmost attention.
- **Business diversification**. The key shareholder recommends that Cyfrowy Polsat diversifies its current operations into new (as yet unnamed) segment(s), with the official strategy update scheduled for the end of 2021. Based on some hints, we assume that the company will diversify into energy (nuclear, off-shore wind, distribution, or WSE-listed utility). A new segment implies new risks (regulations, external shocks), pay-outs may be delayed, not to mention the potential high capex (risk to Cyfrowy Polsat's DPS growth).
- **Tender and buyback**. Recently Cyfrowy Polsat along with Reddev announced a call for all outstanding CPS shares at PLN35/sh, which resulted in the company purchasing 11.8mn shares for PLN0.4bn in cash. Additionally, CPS announced 5-year buyback (price range PLN0.04-PLN60/sh, maximum amount 2.93bn, maximum no of shares 116mn). It remains at the management's full discretion, no guarantee of shares' amortization.
- **Earnings forecasts**. We apply no changes to forecasts presented in our research report as of November 09, 2021.
- **Valuation and risks.** We keep our valuation barely changed (TP PLN33.2 from PLN32.9), and so we do with our Sell recommendation. The 5G mobile auction is a risk, particularly given a potential state-run competitor. French-owned Iliad suggested it wanted to become an aggressive multi-channel player in Poland, and merger with UPC might expose CPS's telco FCF. In one month, the company's comparative valuation will exclude one-off that supported 2021 ratios.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Cyfrowy Polsat: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	11,676	11,963	12,547	12,734	13,098
EBITDA	4,197	4,192	7,799	3,938	4,078
EBIT	1,967	1,887	5,914	2,154	2,257
Net profit	1,119	1,151	4,440	1,624	1,705
P/E (x)	15.4	14.9	4.9	13.4	12.8
EV/ EBITDA (x)	7.2	6.8	3.6	7.4	7.1
Dividend Yield	3.4%	3.7%	3.5%	3.7%	3.9%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 253. Cyfrowy Polsat: Quarterly results review

PLNmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	*y/y*	*q/q*
Sales	2,892	3,069	2,849	2,863	3,004	3,248	2,987	3,160	**3,032**	*0.9%*	*-4.0%*
EBITDA	1,021	1,062	1,027	960	1,079	1,127	1,083	1,141	**4,595**	*325.9%*	*302.8%*
EBITDA margin	*35.3%*	*34.6%*	*36.0%*	*33.5%*	*35.9%*	*34.7%*	*36.2%*	*36.1%*	***151.6%***	*115.6*	*115.4*
EBIT	459	494	462	394	506	524	562	684	**4,131**	*716.6%*	*504.2%*
EBIT margin	*15.9%*	*16.1%*	*16.2%*	*13.8%*	*16.8%*	*16.1%*	*18.8%*	*21.6%*	***136.2%***	*119.4*	*114.6*
Net profit	237	311	182	288	345	327	390	542	**3,142**	*810.7%*	*480.0%*
Net margin	*8.2%*	*10.1%*	*6.4%*	*10.1%*	*11.5%*	*10.1%*	*13.1%*	*17.1%*	***103.6%***	*92.1*	*86.5*

Source: Company data

Fig. 254. Cyfrowy Polsat: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	12,437	12,437	*0%*	12,665	12,665	*0%*	13,049	13,049	*0%*
EBITDA	8,950	8,950	*0%*	3,735	3,735	*0%*	3,876	3,876	*0%*
EBIT	6,832	6,832	*0%*	1,704	1,704	*0%*	1,836	1,836	*0%*
Net profit	5,309	5,309	*0%*	1,289	1,289	*0%*	1,403	1,403	*0%*

Source: Santander Brokerage Poland estimates

Fig. 255. Cyfrowy Polsat: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation – core	39.0	38.7	*1%*
Impact of scenarios	-2.6	-2.6	*0%*
Total DCF valuation	36.5	36.2	*1%*
DDM valuation	29.4	29.2	*1%*
Comparable valuation	30.3	30.2	*0%*
Target Price	**33.2**	**32.9**	***1%***

*Source: Santander Brokerage Poland estimates, * weights 50% DCF, 25% DDM, 25% comparable, as DCF is our primary valuation tool*

Fig. 256. Cyfrowy Polsat: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	11,676	11,963	12,547	12,734	13,098
Cost of sales	-2,311	-2,461	-2,765	-3,107	-3,200
Operating exp.	-5,214	-5,307	-5,630	-5,689	-5,821
EBITDA	4,197	4,192	7,799	3,938	4,078
EBIT	1,967	1,887	5,914	2,154	2,257
Profit before tax	1,467	1,443	5,748	2,030	2,132
Net profit	1,114	1,137	4,437	1,624	1,705
EBITDA margin	35.9%	35.0%	62.2%	30.9%	31.1%
EBIT margin	16.8%	15.8%	47.1%	16.9%	17.2%
Net margin	9.5%	9.5%	35.4%	12.8%	13.0%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	4,985	5,277	10,005	8,919	8,886
Fixed assets	27,605	27,838	24,304	26,232	26,668
Total assets	32,590	33,115	34,308	35,151	35,554
Current liabilities	5,868	5,274	3,983	4,008	4,053
bank debt	2,341	2,188	1,294	1,294	1,294
Long-term liabilities	12,257	13,414	13,117	13,117	12,617
bank debt	10,610	11,988	12,000	12,000	11,500
Equity	13,811	14,433	17,208	18,026	18,884
Total liability and equity	32,590	33,115	34,308	35,151	35,554
Net debt	12,198	12,810	7,528	8,716	8,380
Net Debt/ EBITDA (x)	2.9	3.1	1.0	2.2	2.1

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	3,434	3,415	4,589	3,110	3,208
CF from investment	-3,456	-2,492	-3,574	-3,412	-1,957
CF from financing, incl.	679	990	897	-887	-1,416
dividends	-595	-224	-1,184	-806	-847
Net change in cash	656	1,913	1,912	-1,189	-164

Source: Company data, Santander Brokerage Poland estimates

Santander

Magyar Telekom

Bloomberg: MTELEKOM HB, Reuters: MYTAY.PK

CEE Equity Research

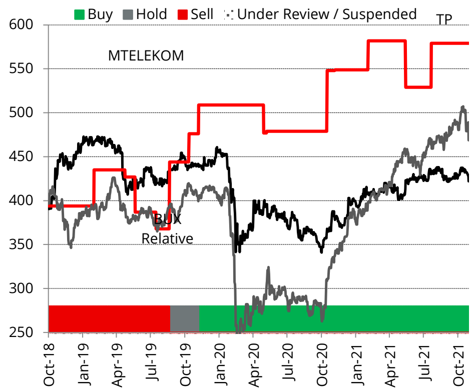
Telecoms, Hungary

Operational excellence, but new rival emerged

RECOMMENDATION	Hold
Current price (HUF)	427
Target price (HUF)	**466**

- **Equity story**. Magyar Telekom (MTelekom) used to benefit from an oligopolistic environment and limited competitive challenges. Opex remains under control and 5G spectrums have been secured for the next decade. Decent 9M2021 KPIs suggest that 1) MTelekom will beat its 2021 official guidance and 2) upgrade to conservative official 2022E growth assumptions seems rational. We expect MTelekom to deliver a dozen pp annual FCF yield until 2026E, allowing for both ~ 6% total shareholder remuneration and ongoing deleveraging. Also, MTelekom still controls mobile towers and the FTTH network, offering hypothetical valuation upside. However, merged telco ops of 4iG and DIGI may pose serious threat to MTelekom. DIGI has got strong position at fixed segment (22-28%), but entry of new player into mobile segment would keep MTelekom FCF under pressure. The appearance of new competitor used to weigh on other telecoms share prices in France, Italy and in Poland, and we expect MTelekom to remain under pressure until we have more clarity on 4iG strategy.
- **Operational excellence...** The pandemic has accelerated demand for fixed-line connections, data greed continues, and MTelekom all-kind customer bases (from mobile to fixed line fiber and pay-TV) either accelerate or maintain high growth pace. The same applies to ARPUs, up in the range of low- to high-single digit growth y/y. With opex under control, y/y EBITDA growth accelerated to 10% in 3Q2021.
- **...to drive 2022E guidance upgrade?** The company's 9M2021 EBITDA goal will be likely topped. More importantly, MTelekom guides for '+1% EBITDA growth' for the years 2022-24E, and we expect customer base / ARPU trends should result in 2022 official guidance upped to some 'around 3% y/y growth', we believe.
- **State casts a shadow.** In the late 2020, the Hungarian government applied an 'internet for free' scheme for several months (at telecoms' expense) as response to pupils' and students' pandemic challenges. Also, recent acquisition of DIGI ops (22-28% share in the Hungarian fixed broadband / TV segments) by 4iG highlight the risk of potentially aggressive new telco player, a substantial risk to incumbents.
- **Earnings forecasts.** We observe very strong trends in customer bases and ARPUs, driving 2021-23E forecasts' upgrades. As 4iG acquired DIGI ops, we cautiously trim l-t outlook for mobile ARPU (flat as of 2022E) and customer bases (sliding in l-t), trimming our forecasts as of 2024E.
- **Valuation and risks.** Trimmed long-term mobile segment outlook results in substantial cuts to DCF and DDM valuations, mitigated by comparative valuation growth, with our blended TP down 19% to HUF466, and 9% upside results in recommendation cut to Hold from Buy. State and local regulator represent key threats to MTelekom, with economy stalling (after Covid-19) or foreign investors exiting Hungary represent concerns. The entry of a new player or increased local competition could pose a risk.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Magyar Telekom: Financial summary and ratios

Year to Dec, HUFmn	2019	2020	2021E	2022E	2023E
Sales	666,653	673,048	694,079	707,012	709,123
EBITDA	220,562	225,882	237,578	248,517	246,165
EBIT	83,180	84,824	91,996	100,953	98,601
Net profit	41,157	42,364	46,225	52,423	51,938
P/E (x)	11.2	9.5	9.6	8.2	8.2
EV/ EBITDA (x)	3.9	4.0	4.1	3.7	3.7
Dividend Yield	5.6%	6.1%	5.9%	5.9%	5.9%

Source: Company data, Santander Brokerage estimates NOTE: 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 257. Magyar Telekom: Quarterly results review

HUFmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q
Sales	164,632	182,318	159,333	157,187	167,653	188,875	162,592	166,141	178,088	6.2%	7.2%
EBITDA	59,626	57,633	46,401	56,127	60,737	62,617	50,194	59,273	66,373	9.3%	12.0%
EBITDA margin	*36.2%*	*31.6%*	*29.1%*	*35.7%*	*36.2%*	*33.2%*	*30.9%*	*35.7%*	*37.3%*	*1.0*	*1.6*
EBIT	25,843	19,977	12,723	20,785	25,385	25,931	15,066	22,595	29,482	16.1%	30.5%
EBIT margin	*15.7%*	*11.0%*	*8.0%*	*13.2%*	*15.1%*	*13.7%*	*9.3%*	*13.6%*	*16.6%*	*1.4*	*3.0*
Net profit	13,044	12,985	-812	10,543	18,604	15,965	9,766	14,515	17,873	-3.9%	23.1%
Net margin	*7.9%*	*7.1%*	*-0.5%*	*6.7%*	*11.1%*	*8.5%*	*6.0%*	*8.7%*	*10.0%*	*-1.1*	*1.3*

Source: Company data

Fig. 258. Magyar Telekom: Forecasts changes

HUFmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	694,079	688,261	*0.8%*	707,012	694,725	*1.8%*	709,123	704,327	*0.7%*
EBITDAaL	213,578	208,163	*2.6%*	224,517	213,256	*5.3%*	222,165	218,301	*1.8%*
EBIT	91,996	87,001	*5.7%*	100,953	90,544	*11.5%*	98,601	95,589	*3.2%*
Net profit	46,225	50,454	*-8.4%*	52,423	50,522	*3.8%*	51,938	55,315	*-6.1%*

Source: Santander Brokerage Poland

Fig. 259. Magyar Telekom: Valuation changes *

HUF per share	New	Previous	*Change*
DCF valuation	365	587	*-38%*
DDM valuation	386	444	*-13%*
Comparable valuation	748	697	*7%*
Target Price	**466**	**578**	***-19%***

*Source: Santander Brokerage Poland estimates, * weights 50% DCF, 25% DDM, 25% comparable, as DCF is our primary valuation tool*

Fig. 260. Magyar Telekom: Financial statements forecast

HUFbn	2019	2020	2021E	2022E	2023E
Net sales	666.7	673.0	694.1	707.0	709.1
Cost of sales	-267.6	-269.9	-276.0	-275.3	-278.6
Operating exp.	-154.0	-148.3	-150.1	-151.7	-153.4
EBITDA	220.6	225.9	237.6	248.5	246.2
EBIT	83.2	84.8	92.0	101.0	98.6
Profit before tax	59.1	60.9	65.1	73.5	73.0
Net profit	41.2	42.4	46.2	52.4	51.9
EBITDA margin	33.1%	33.6%	34.2%	35.2%	34.7%
EBIT margin	12.5%	12.6%	13.3%	14.3%	13.9%
Net margin	6.2%	6.3%	6.7%	7.4%	7.3%

HUFbn	2019	2020	2021E	2022E	2023E
Current assets	236.6	258.3	240.0	269.2	297.4
Fixed assets	992.3	1,091.6	1,147.9	1,151.1	1,154.7
Total assets	1,228.9	1,349.9	1,387.9	1,420.4	1,452.1
Current liabilities	301.6	316.8	300.1	320.4	320.3
bank debt	106.5	131.3	136.3	155.0	155.0
Long-term liabilities	295.1	375.3	409.5	373.9	373.9
bank debt	265.3	343.3	375.6	340.0	340.0
Equity	597.0	618.7	638.6	681.4	708.2
Total liability and equity	1,228.9	1,349.9	1,387.9	1,420.4	1,452.1
Net debt	392.9	498.5	532.2	493.7	470.3
Net Debt/ EBITDA (x)	1.8	2.2	2.2	2.0	1.9

HUFbn	2019	2020	2021E	2022E	2023E
CF from operations	134.1	76.5	109.0	199.1	199.6
CF from investment	-84.9	-148.1	-112.5	-142.8	-143.1
CF from financing, incl.	-43.6	68.8	3.2	-34.7	-33.1
dividends	-29.7	-26.1	-16.1	-25.1	-25.1
Net change in cash	6.9	1.1	4.6	26.6	28.4

Source: Company data, Santander Brokerage Poland estimates

Orange Pl

Bloomberg: OPL PW, Reuters: OPL.WA

CEE Equity Research

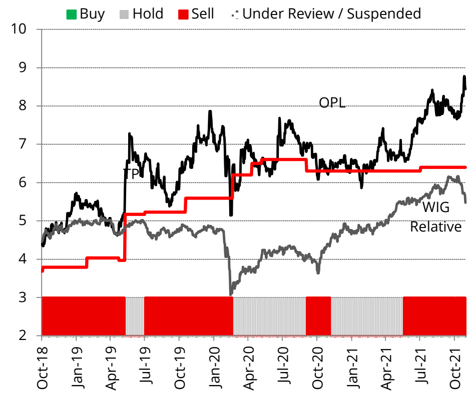
Telecoms, Poland

2022 question marks: Iliad and Infrastructure

- **Equity story.** The environment has remained supportive to telecoms' ARPUs, and the reinstatement of the annual dividend payments (minimum DPS PLN0.25 scheduled for 2022E) should reinforce the equity story. On the downside, Orange Pl's customer bases come in relatively weak, especially in yet-unrivalled convergent segment (375k clients below low-end of the official guidance for 2020, growing by dozen thous. afterwards). Should Iliad (merged Play and UPC) make strong inroad into the Polish convergent segment, OPL's KPIs and results could be under pressure. FiberCo was OPL's response to 2020-21 infrastructure deals hype, and the recent equity fund's offer for Telecom Italia revitalizes this story. However, we assume Orange France will be unwilling to sell either FTTH or mobile network of OPL, and non-sellable assets offer no value upside.
- **Iliad or state, potential market disruptors?** Iliad used to disrupt telecommunication markets in France and Italy, keeping local incumbents under strong pressure. Following the merger with UPC and Play CEO's confirmation of Iliad's ambition to enter the convergent market in Poland, we assume Iliad will adversely affect OPL's convergent / fixed-line customer bases and ARPUs. The hypothetical 5G-based State-run operator might also represent a drawback.
- **How much value in infrastructure?** Infrastructure deals remain a key sector theme, heated up with the equity fund willing to buy Telecom Italia at EV/EBITDA of 6.0x (acc. to Bloomberg). OPL holds scalable fiber and mobile network assets, but, in our view, value can only be created if there is willingness to make a deal, which has not been Orange France's policy. We assume OPL assets will remain not-for-sale, thus having no impact on our valuation.
- **Earnings forecasts.** We adjust our forecasts for strong ARPU and weak client base trends, implying minor EBITDA upsides. 2021E net profit is adjusted for FiberCo deal and 4Q2021E severance payments.
- **Valuation and risks**. Minor adjustments to DCF/DDM valuation and decent expansion of comparable results in our blended TP at PLN7.1, up 11%, and 16% downside warrants a Sell recommendation. Iliad's inactivity, OPL assets' disposal and low 5G prices in the auction represent the key upside risks to our recommendation. A strong positive strategic outlook (EBITDA / FCF / DPS) would also pose an upside risk, just as the 2022E dividend substantially above PLN0.25 a share.

RECOMMENDATION	Sell
Current price (PLN)	8.44
Target price (PLN)	**7.1**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Orange Pl: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	11,407	11,508	11,835	11,750	11,662
EBITDAaL	2,735	2,797	2,963	3,053	3,131
EBIT	414	404	2,288	1,089	1,259
Net profit	89	46	1,767	672	799
P/E (x)	86.3	192.3	6.1	16.0	13.5
EV/ EBITDA (x)	5.1	5.2	5.0	5.2	5.0
Dividend Yield	0.0%	0.0%	0.0%	3.0%	4.6%

Source: Company data, Santander Brokerage estimates NOTE: 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 261. Orange Pl: Quarterly results review

PLNmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	*y/y*	*q/q*
Sales	2,870	2,999	2,804	2,828	2,793	3,083	2,918	2,954	**2,885**	*3.3%*	*-2.3%*
EBITDA	739	682	673	728	742	654	709	756	**791**	*6.6%*	*4.6%*
EBITDA margin	*25.7%*	*22.7%*	*24.0%*	*25.7%*	*26.6%*	*21.2%*	*24.3%*	*25.6%*	***27.4%***	*0.9*	*1.8*
EBIT	378	-176	88	109	150	57	116	224	**1,856**	*12x*	*728.6%*
EBIT margin	*13.2%*	*-5.9%*	*3.1%*	*3.9%*	*5.4%*	*1.8%*	*4.0%*	*7.6%*	***64.3%***	*59.0*	*56.7*
Net profit	222	-187	-38	52	53	-21	39	116	**1,586**	*30x*	*14x*
Net margin	*7.7%*	*-6.2%*	*-1.4%*	*1.8%*	*1.9%*	*-0.7%*	*1.3%*	*3.9%*	***55.0%***	*53.1*	*51.0*

Source: Company data

Fig. 262. Orange Pl: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	11,835	11,891	*0%*	11,750	12,217	*-4%*	11,662	12,463	*-6%*
EBITDAaL	2,963	2,913	*2%*	3,053	3,019	*1%*	3,131	3,105	*1%*
EBIT	2,288	513	*346%*	1,089	848	*28%*	1,259	1,026	*23%*
Net profit	1,767	228	*674%*	672	516	*30%*	799	661	*21%*

Source: Santander Brokerage Poland estimates

Fig. 263. Orange Pl: Valuation changes*

PLN per share	New	Previous	*Change*
DCF valuation	6.5	6.3	*4%*
DDM valuation	6.1	6.3	*-3%*
Comparable valuation	9.2	6.7	*38%*
Target Price	**7.1**	**6.4**	***11%***

*Source: Santander Brokerage Poland estimates, * weights 50% DCF, 25% DDM, 25% comparable, as DCF is our primary valuation tool*

Fig. 264. Orange Pl: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	11,407	11,508	11,835	11,750	11,662
Cost of sales	-4,341	-4,371	-4,373	-4,192	-4,020
Operating exp.	-3,841	-3,693	-3,897	-3,913	-3,919
EBITDAaL	2,735	2,797	2,963	3,053	3,131
EBIT	414	404	2,288	1,089	1,259
Net profit	89	46	1,767	672	799
EBITDA margin	24.0%	24.3%	25.0%	26.0%	26.8%
EBIT margin	3.6%	3.5%	19.3%	9.3%	10.8%
Net margin	0.8%	0.4%	14.9%	5.7%	6.9%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	3,493	3,363	4,498	4,537	4,979
Fixed assets	20,847	20,937	21,487	22,919	23,135
Total assets	24,340	24,300	25,984	27,455	28,114
Current liabilities	4,092	7,637	4,567	4,779	4,986
bank debt	420	4,091	543	543	543
Long-term liabilities	9,682	6,064	8,920	9,691	9,691
bank debt	8,072	4,624	7,229	8,000	8,000
Equity	10,564	10,597	12,495	12,984	13,435
Total liability and equity	24,340	24,300	25,984	27,455	28,114
Net debt	6,109	5,655	4,173	5,158	4,885
Net Debt/ EBITDA (x)	2.2	2.0	1.4	1.7	1.6

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	2,706	2,299	2,290	2,819	2,906
CF from investment	-3,874	-2,568	-297	-3,476	-2,141
CF from financing, incl.	961	223	-1,601	443	-492
dividends	0	0	0	-328	-492
Net change in cash	-207	-46	393	-214	274

Source: Company data, Santander Brokerage Poland estimates

Utilities

Fig. 265. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2021E	P/E (x) 2022E	P/E (x) 2023E	EV/EBITDA (x) 2021E	EV/EBITDA (x) 2022E	EV/EBITDA (x) 2023E
PGE	Buy	13.90	7.99	73%	4.1	7.9	6.9	4.3	7.0	5.5
Tauron	Buy	6.10	2.72	126%	7.0	6.3	3.2	5.0	7.3	5.8
Enea	Buy	16.40	8.92	84%	2.6	2.8	5.4	3.6	3.3	5.2
Polenergia	Hold	81.60	79.30	3%	10.2	27.2	26.9	12.8	15.3	15.5
ZE PAK	Buy	25.10	15.30	64%	Neg.	Neg.	Neg.	17.1	19.7	12.8
CEZ	Buy	819	715	14%	18.4	12.9	13.0	9.9	8.6	8.9
Average					**8.5**	**11.4**	**11.1**	**8.8**	**10.2**	**9.0**

Source: Santander Brokerage Poland estimates

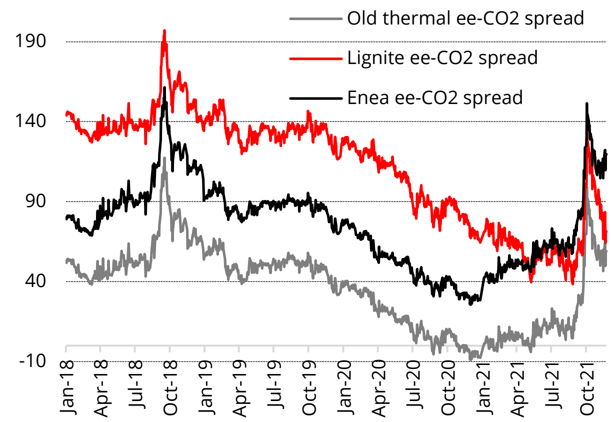
CEZ's best-case environment; In Polish Carve-Out We Trust

Top picks. We expect a cold winter in Europe and tight gas supplies till early 2022, which should come supportive of CEZ's electricity hedging pricing and implied future results. CEZ share price and gas are directly correlated, hence we expect CEZ to remain strong. In Poland, carve-out hints would support all State utilities. Looking for specific triggers, discussion on off-shore prices and yields (early 2022E?) should support PGE and Polenergia, while the coal mining carve-out (early to mid-2022E?) should come supportive to Tauron. Enea remains the least expensive one and its CDSs settle at long-unseen highs, though its valuation is highly exposed to LWB's Market Cap (we assume it may slide along with gas in 2Q2022E).

Transformation remains our key scenario. Coal assets' carve-out (turning Polish utilities into regulated / renewable ones) stood for the key theme for the Polish utilities in 2021, and we believe it will remain so in 2022E. The Polish draft of carve-out was presented months ago, and the Minister suggests mining may be carved out sooner than later. Still, the disagreement between Poland and the EU may stall the process for months, not to mention that the EU may require Poland to be more radical in its closures' schedule. We still cautiously assume the Polish utilities' net debt will remain unaffected by the carve-out process.

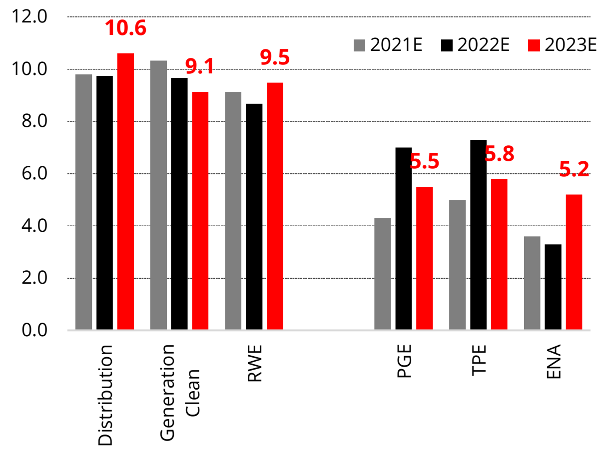
Regulations. The regulatory outlook in Poland has substantially improved in the last few years. Distribution WACC is materially above expectations, and the regulator suggests the 2022 WACC will be supported by 1pp. in the sales segment, anti-inflationary measures pose a short-term risk, but we expect sales 2022E EBITDA should not be affected substantially. In renewables, the regulated price for off-shore should be announced in 2022, and while the 10H restriction still remains in force, auctions for renewables should come in supportive to PVs. In the meantime, high CO2 price and high Polish electricity price may give rise to PPA-based renewable installations.

Fig. 266. Polish CDS, by coal technology



Source: TGE, Bloomberg, Santander Brokerage Poland estimates

Fig. 267. 2021-23E EV/EBITDAs: Europe vs Poland [x]



Source: Bloomberg, Santander Brokerage Poland estimates

Santander

CEZ

Bloomberg: CEZ CP, Reuters: CPS.CP

CEE Equity Research

Utilities, Czechia

Best-case scenario for Europe's energy backup

- **Equity story**. CEZ enjoys 4.3GW in nuclear capacity, the company has got no plans to shut it down, and it's ~30TWh annual (low-cost) electricity production makes the day for CEZ. The company has got material plans for renewables' development in several years, and the company's Vision 2030 guidance eyes carbon neutrality by 2030 from 0.28x CO2 pollution factor today. For decades, the regulated distribution segment has been very predictable (and generously rewarded), and high transformation capex (necessary for existing lignite refurbishment and new nuclear) should keep CEZ's net debt/EBITDA ratio below 3.0x. High gas prices have turned today's environment into the best-case scenario for CEZ, which we expect to benefit substantially from high-price hedging. Vision 2030 guides for the 2025 EBITDA in the CZK65-70bn range, but we believe exceptional hedging may result in sharp EBITDA growth already in 2022E, especially as the company suggests that higher CO2 could yield dozen billion CZK of EBITDA upside.
- **Vision 2030**. CEZ presented its guidance till 2030, eyeing 1) transformation to low-emission sources and 2) carbon neutrality. CEZ expects its EBITDA growing from CZK57bn in 2020 to CZK65-70bn in 2025 and CZK80-85bn in 2030, implying ~40% growth. The strategy requires scalable capex, totalling CZK500-550bn until 2030, yet net debt/EBITDA should remain below 3.0x.
- **Hedging offers upside**. CEZ skilfully takes advantage of the current power crunch, for another quarter in row hedging much more electricity than CO2 certificates (in % of total needs). The expanding hedged spread will support CEZ results, and we expect it will grow further in 4Q2021E, while the under-hedged CO2 positions may be covered potentially at lower prices in mid-2022E. At the current prices, we believe CEZ's 2022/23E electricity hedging prices may expand respectively to EUR66/MWh and EUR68/MWh.
- **Earnings forecasts**. Very strong electricity price growth triggers double-digit upsides to our 2022-23E EBITDA forecasts. Following a decent bottom line growth, our DY expands to 7.0% in 2023E.
- **Valuation and risks**. All-valuation growth yields CEZ's blended TP at CZK819, and a 14% upside validates recommendation increase to a Buy from a Hold. CO2, thermal coal and gas prices drive the electricity price, and CEZ's EBITDAs and FCF are highly exposed to these. Any sudden gas price decline would pose a downside risk to our call, just as the Czech regulator. Outlays on nuclear will start weighing on FCFs in several years, and the details of the agreement with the State are still unknown.

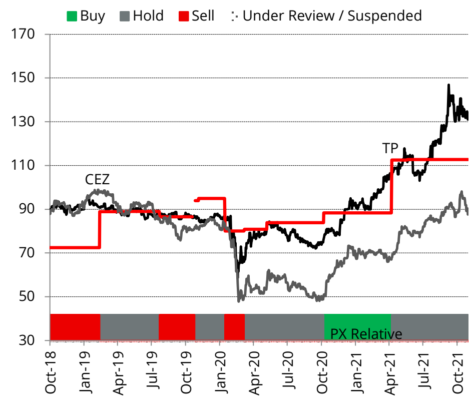
CEZ: Financial summary and ratios

Year to Dec, CZKmn	2019	2020	2021E	2022E	2023E
Sales	206,192	242,196	240,977	324,886	352,797
EBITDA	60,316	64,517	61,579	71,995	71,881
EBIT	26,429	12,585	36,363	46,869	47,146
Net profit	14,373	5,468	20,898	29,819	29,679
P/E (x)	19.8	45.9	18.4	12.9	13.0
EV/ EBITDA (x)	8.7	7.1	9.9	8.6	8.9
Dividend Yield	4.5%	7.3%	7.3%	5.4%	7.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2019-20 valuation ratios based on historical average prices

RECOMMENDATION	Buy
Current price (CZK)	715
Target price (CZK)	**819**

STOCK PERFORMANCE



The chart measures performance against the PX index.

Analyst

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Fig. 268. CEZ: Quarterly results review

CZKmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q
Sales	48,027	58,173	57,046	49,254	49,297	58,140	59,075	49,175	47,705	*-3.2%*	*-3.0%*
EBITDA	9,861	15,500	25,881	12,819	12,206	13,894	19,967	11,633	15,921	*30.4%*	*36.9%*
EBITDA margin	*20.5%*	*26.6%*	*45.4%*	*26.0%*	*24.8%*	*23.9%*	*33.8%*	*23.7%*	*33.4%*	*8.6*	*9.7*
EBIT	2,246	1,600	18,807	3,193	1,162	-10,577	11,235	-5,091	7,660	*559.2%*	*n.m.*
EBIT margin	*4.7%*	*2.8%*	*33.0%*	*6.5%*	*2.4%*	*-18.2%*	*19.0%*	*-10.4%*	*16.1%*	*13.7*	*26.4*
Net profit	167	900	14,162	2,238	-1,115	-9,817	8,386	-6,810	5,127	*n.m.*	*n.m.*
Net margin	*0.3%*	*1.5%*	*24.8%*	*4.5%*	*-2.3%*	*-16.9%*	*14.2%*	*-13.8%*	*10.7%*	*13.0*	*24.6*

Source: Company data

Fig. 269. CEZ: Forecasts changes

CZKmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	240,977	240,977	*0.0%*	324,886	268,039	*21.2%*	352,797	272,889	*29.3%*
EBITDA	61,579	57,870	*6.4%*	71,995	60,529	*18.9%*	71,881	62,548	*14.9%*
EBIT	36,363	32,654	*11.4%*	46,869	35,402	*32.4%*	47,146	37,813	*24.7%*
Net profit	20,898	20,336	*2.8%*	29,819	22,078	*35.1%*	29,679	23,715	*25.1%*

Source: Santander Brokerage Poland estimates

Fig. 270. CEZ: Valuation changes *

CZK per share	New	Previous	*Change*
DCF valuation	839	658	*28%*
DDM valuation	819	615	*33%*
Comparable valuation	756	607	*24%*
Target Price	**819**	**639**	***28%***

*Source: Santander Brokerage Poland estimates, * weights 60% DCF, 20% DDM, 20% comparable, as DCF is our primary valuation tool*

Fig. 271. CEZ: Financial statements forecast

CZKbn	2019	2020	2021E	2022E	2023E
Net sales	206.2	242.2	241.0	324.9	352.8
COGS	145.9	177.7	179.4	252.9	280.9
EBITDA	60.3	64.5	61.6	72.0	71.9
EBIT	26.4	12.6	36.4	46.9	47.1
Pre-tax profit	18.4	7.9	26.9	38.4	38.2
Net profit	14.4	5.5	20.9	29.8	29.7
EBITDA margin	29.3%	26.6%	25.6%	22.2%	20.4%
EBIT margin	12.8%	5.2%	15.1%	14.4%	13.4%
Net margin	7.0%	2.3%	8.7%	9.2%	8.4%

CZKbn	2019	2020	2021E	2022E	2023E
Current assets	202.6	230.5	216.4	239.5	237.8
Fixed assets	501.9	471.9	483.6	504.0	526.3
Total assets	704.6	702.5	700.0	743.5	764.0
Current liabilities	186.8	207.6	207.3	232.6	241.1
bank debt	29.3	29.7	29.7	29.7	29.7
Long-term liabilities	262.4	256.3	261.1	270.2	279.4
bank debt	142.6	122.1	125.0	132.0	139.0
Equity	255.4	238.6	231.6	240.6	243.6
Total liability and equity	704.6	702.5	700.0	743.5	764.0
Net debt	162.1	105.4	122.1	128.1	144.1
Net Debt/ EBITDA (x)	2.7	1.6	2.0	1.8	2.0

CZKbn	2019	2020	2021E	2022E	2023E
CF from operations	36.0	78.6	48.0	60.4	57.7
CF from investment	-43.1	0.4	-36.9	-45.5	-47.0
CF from financing, incl.	12.6	-42.3	-25.0	-13.8	-19.7
dividends	-12.9	-18.3	-28.0	-20.9	-26.8
Net change in cash	5.6	36.7	-13.8	1.1	-9.1

Source: Company data, Santander Brokerage Poland estimates

Enea

Bloomberg: ENA PW, Reuters: ENA.WA

CEE Equity Research

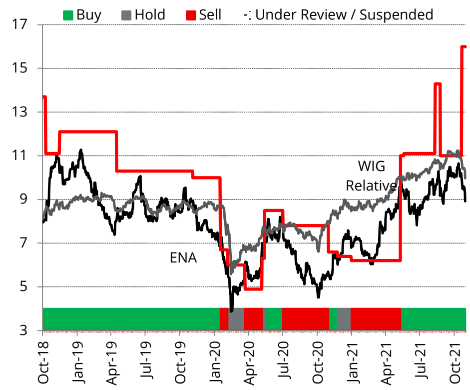
Utilities, Poland

Transformation to unlock upsides

- **Equity story**. The carve-out of coal assets from the Polish state-run utilities, the key driver of their transformation, may be stalled due to Poland-EU disagreements; yet, we still expect carve-outs to happen, potentially at the turn of 2022/23E. However, the European power crunch has resulted in a strong support for coal volumes and electricity prices, which are supportive for the results and cash flows of coal-fired generation units. Along with the anticipated provision write-ups (driven by interest rate increases), these should result in very strong 4Q2021E results for the Polish utilities. Meanwhile, the share prices and valuation ratios of European peers have risen in the recent months, supporting Polish utilities' attractiveness. Polaniec green unit will be lost at carve-out, but strong Bogdanka's results (and its current Market Cap) remain supportive for Enea, which also remains the cheapest utility in Poland.
- **Strong close to 2021E?** High Polish and European spot electricity prices support coal-based results of ENA and LWB. In the meantime, all distribution / sales / renewable segments come in strong. We expect an interest rate increase to trigger substantial provision write-ups in 4Q2021E, at some PLN350mn for Enea.
- **Rerating of European peers**. Several months ago, 2022-23E EV/EBITDA ratios of Germany's RWE (which is transforming away from coal, and is probably the best proxy for the Polish state utilities) were close to ~6x. However, the current environment has resulted in its 2021E EV/EBITDA ratio expanding by ~50% to above 8x. Additionally, an increase in P/E and EV/EBITDA ratios can be observed generally throughout the distribution segment.
- **Earnings forecasts**. We apply no changes to the forecasts presented in our research report as of at November 17, 2021.
- **Valuation and risks**. All valuation scenarios assume coal generation carve-out. Blended approach yields Enea's TP at PLN16.4, and 84% upside validates a Buy recommendation. The delay in the carve-out process is the company's key risk, and the regulatory changes to distribution / sales tariffs, and the future of Bogdanka subsidiary represent concerns.

RECOMMENDATION	Buy
Current price (PLN)	8.915
Target price (PLN)	**16.4**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Enea: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	16,401	18,177	17,079	21,592	24,066
EBITDA	3,410	3,302	3,770	3,660	2,053
EBIT	1,104	-1,706	1,930	1,954	1,187
Net profit	541	-2,234	1,517	1,383	723
P/E (x)	7.3	Neg.	2.6	2.8	5.4
EV/ EBITDA (x)	3.9	3.9	3.6	3.3	5.2
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Santander

Fig. 272. Enea: Quarterly results review

PLNmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	*y/y*	*q/q*
Sales	4,580	3,627	4,592	4,357	4,512	4,731	5,041	4,778	**5,467**	*21.2%*	*14.4%*
EBITDA	890	849	1,016	806	813	667	923	730	**1,121**	*37.8%*	*53.6%*
EBITDA margin	*19.4%*	*23.4%*	*22.1%*	*18.5%*	*18.0%*	*14.1%*	*18.3%*	*15.3%*	***20.5%***	*2.5*	*5.2*
EBIT	503	428	635	-106	394	-2,630	548	355	**727**	*84.2%*	*104.7%*
EBIT margin	*11.0%*	*11.8%*	*13.8%*	*-2.4%*	*8.7%*	*-55.6%*	*10.9%*	*7.4%*	***13.3%***	*4.5*	*5.9*
Net profit	386	-351	459	-541	38	-2,191	406	314	**570**	*15.2x*	*81.5%*
Net margin	*8.4%*	*-9.7%*	*10.0%*	*-12.4%*	*0.8%*	*-46.3%*	*8.1%*	*6.6%*	***10.4%***	*9.6*	*3.9*

Source: Company data

Fig. 273. Enea: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	17,079	17,079	*0%*	21,592	21,592	*0%*	24,066	24,066	*0%*
EBITDA	3,770	3,770	*0%*	3,660	3,660	*0%*	2,053	2,053	*0%*
EBIT	1,930	1,930	*0%*	1,954	1,954	*0%*	1,187	1,187	*0%*
Net profit	1,517	1,517	*0%*	1,383	1,383	*0%*	723	723	*0%*

Source: Santander Brokerage Poland estimates

Fig. 274. Enea: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	12.2	12.2	*-0.2%*
DDM valuation	6.5	6.4	*0.6%*
Comparable valuation	38.8	37.3	*4.0%*
Target Price	**16.4**	**16.1**	***1.8%***

*Source: Santander Brokerage Poland estimates, * weights 60% DCF, 20% DDM, 20% comparable, as DCF is our primary valuation tool*

Fig. 275. Enea: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	16,401	18,177	17,079	21,592	24,066
COGS	12,991	14,875	13,308	17,932	22,013
EBITDA	3,410	3,302	3,770	3,660	2,053
EBIT	1,104	-1,706	1,930	1,954	1,187
Pre-tax profit	876	-1,999	1,712	1,680	892
Net profit	541	-2,234	1,517	1,383	723
EBITDA margin	20.8%	18.2%	22.1%	17.0%	8.5%
EBIT margin	6.7%	-9.4%	11.3%	9.0%	4.9%
Net margin	3.3%	-12.3%	8.9%	6.4%	3.0%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	7,735	8,122	9,530	11,221	6,157
Fixed assets	23,900	21,768	21,908	22,227	14,762
Total assets	31,635	29,890	31,438	33,448	20,919
Current liabilities	5,330	6,786	7,225	7,540	4,588
bank debt	1,550	1,224	1,224	1,224	1,224
Long-term liabilities	10,110	10,010	9,602	9,914	8,893
bank debt	7,800	6,608	6,608	6,608	6,608
Equity	16,195	13,094	14,611	15,995	7,438
Total liability and equity	31,635	29,890	31,438	33,448	20,919
Net debt	6,231	5,890	5,718	4,275	6,117
Net Debt/ EBITDA (x)	1.8	1.8	1.5	1.2	3.0

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	1,169	2,296	1,625	3,305	2,943
CF from investment	-2,912	-1,088	-1,453	-1,862	-1,805
CF from financing, incl.	1,625	-2,385	0	0	-2,979
dividends	0	0	0	0	0
Net change in cash	-118	-1,177	172	1,443	-1,841

Source: Company data, Santander Brokerage Poland estimates

PGE

Bloomberg: PGE PW, Reuters: PGE.WA

CEE Equity Research

Utilities, Poland

Transformation to unlock upsides

- **Equity story**. The carve-out of coal assets from the Polish state-run utilities, the key driver of their transformation, may be stalled due to Poland-EU disagreements; yet, we still expect carve-outs to happen, potentially at the turn of 2022/23E. However, the European power crunch has resulted in a strong support for coal volumes and electricity price, which are supportive to for the results and cash flows of coal-fired generation units. Along with the anticipated provision write-ups (driven by interest rate increases), these should result in very strong 4Q2021E results for the Polish utilities. Meanwhile, the share prices and valuation ratios of European peers have risen over the recent months, supporting Polish utilities' attractiveness. More info on off-shore should come in early 2022E, and this investment will distinguish PGE from two other Polish utilities. PGE has turned inexpensive on ratios vs RWE, the European key transformation story. It takes only one decision to turn PGE clean (mining and generation both go to NABE), and in the meantime potential prolonged high gas price could turn PGE's lignite volumes into a high-yielding asset in 1H2022E.
- **Strong close to 2021E?** High Polish and European spot electricity prices support coal-based lignite-fired volumes and results of PGE. In the meantime, all distribution / sales / renewable segments come in strong. We expect an interest rate increase to trigger substantial provision write-ups in 4Q2021E, at some PLN0.7bn for PGE.
- **Rerating of European peers**. Several months ago, 2022-23E EV/EBITDA ratios of Germany's RWE (which is transforming away from coal, and probably the best proxy for the Polish state utilities) were close to ~6x. However, the current environment has resulted in its 2021E EV/EBITDA ratio expanding by ~50% to above 8x. Additionally, an increase in P/E and EV/EBITDA ratios can be observed generally throughout the distribution segment.
- **Earnings forecasts**. We apply no changes to the forecasts presented in our research report as of November 17, 2021.
- **Valuation and risks**. All valuation scenarios assume coal generation carve-out. Blended approach yields PGE's TP at PLN13.9, up 1%, and 73% upside validates a Buy recommendation. The delay in the carve-out process is the company's key risk, and the regulatory changes to distribution / sales tariffs, and the administrative pay-out in off-shore project represent concerns.

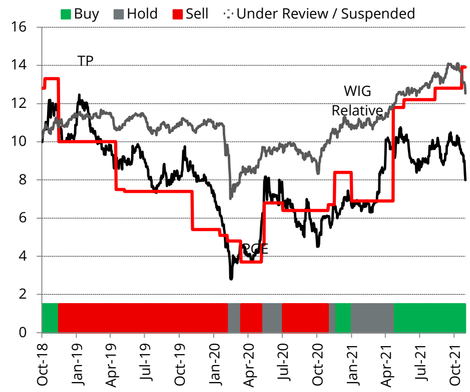
PGE: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	37,627	43,416	37,627	51,794	60,934
EBITDA	7,141	5,966	9,095	6,424	5,960
EBIT	-4,202	1,408	4,680	2,953	3,389
Net profit	-3,961	110	3,668	1,882	2,161
P/E (x)	Neg.	99.4	4.1	7.9	6.9
EV/ EBITDA (x)	6.0	6.5	4.3	7.0	5.5
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

RECOMMENDATION	Buy
Current price (PLN)	7.99
Target price (PLN)	**13.9**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 276. PGE: Quarterly results review

PLNmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	*y/y*	*q/q*
Sales	9,696	9,695	12,591	10,185	10,320	10,979	11,900	11,710	**10,942**	*6.0%*	*-6.6%*
EBITDA	1,677	1,069	1,770	1,035	1,546	1,615	2,206	3,023	**2,110**	*36.5%*	*-30.2%*
EBITDA margin	*17.3%*	*11.0%*	*14.1%*	*10.2%*	*15.0%*	*14.7%*	*18.5%*	*25.8%*	***19.3%***	*4.3*	*-6.5*
EBIT	621	-7,242	773	-502	469	538	1,164	1,981	**972**	*107.2%*	*-50.9%*
EBIT margin	*6.4%*	*-74.7%*	*6.1%*	*-4.9%*	*4.5%*	*4.9%*	*9.8%*	*16.9%*	***8.9%***	*4.3*	*-8.0*
Net profit	471	-6,134	432	-1,120	273	525	808	1,425	**561**	*105.5%*	*-60.6%*
Net margin	*4.9%*	*-63.3%*	*3.4%*	*-11.0%*	*2.6%*	*4.8%*	*6.8%*	*12.2%*	***5.1%***	*2.5*	*-7.0*

Source: Company data

Fig. 277. PGE: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	37,627	37,627	*0.0%*	51,794	51,794	*0.0%*	60,934	60,934	*0.0%*
EBITDA	9,095	9,095	*0.0%*	6,424	6,424	*0.0%*	5,960	5,960	*0.0%*
EBIT	4,680	4,680	*0.0%*	2,953	2,953	*0.0%*	3,389	3,389	*0.0%*
Net profit	3,668	3,668	*0.0%*	1,882	1,882	*0.0%*	2,161	2,161	*0.0%*

Source: Santander Brokerage Poland estimates

Fig. 278. PGE: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	16.1	16.0	0.6%
DDM valuation	4.7	4.7	0.0%
Comparable valuation	16.2	15.6	4.2%
Target Price	**13.9**	**13.7**	**1.4%**

*Source: Santander Brokerage Poland estimates, * weights 60% DCF, 20% DDM, 20% comparable, as DCF is our primary valuation tool*

Fig. 279. PGE: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	37,627	43,416	37,627	51,794	60,934
COGS	30,486	37,450	28,532	45,370	54,974
EBITDA	7,141	5,966	9,095	6,424	5,960
EBIT	-4,202	1,408	4,680	2,953	3,389
Pre-tax profit	-4,673	861	4,579	2,324	2,668
Net profit	-3,961	110	3,668	1,882	2,161
EBITDA margin	19.0%	13.7%	24.2%	12.4%	9.8%
EBIT margin	-11.2%	3.2%	12.4%	5.7%	5.6%
Net margin	-10.5%	0.3%	9.7%	3.6%	3.5%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	12,595	15,096	10,502	16,499	11,566
Fixed assets	65,055	66,498	68,657	73,577	44,397
Total assets	77,650	81,594	79,158	90,076	55,963
Current liabilities	11,826	15,018	12,033	13,042	9,719
bank debt	1,449	1,384	1,384	1,384	1,384
Long-term liabilities	22,687	23,075	19,996	28,022	24,979
bank debt	10,859	10,025	9,000	17,000	22,000
Equity	43,137	43,501	47,129	49,012	22,269
Total liability and equity	77,650	81,594	79,158	90,076	55,963
Net debt	10,995	8,253	9,181	14,754	15,018
Net Debt/ EBITDA (x)	1.5	1.4	1.0	2.3	2.5

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	6,810	7,026	5,857	2,982	8,205
CF from investment	-8,016	-4,419	-6,745	-8,555	-8,468
CF from financing, incl.	1,238	-764	-1,065	8,000	5,000
dividends	0	0	0	0	0
Net change in cash	32	1,843	-1,953	2,427	4,736

Source: Company data, Santander Brokerage Poland estimates

Polenergia

Bloomberg: PEP PW, Reuters: PEP.WA

CEE Equity Research

Independent Utilities, Poland

Mighty Polish renewable player

- **Equity story**. Polenergia's pool of assets remains very attractive, from 245MW in running on-shore wind, through hundreds MW in new on-shore and photovoltaic capacities (under construction, ready-to-build and pipelined) to 1.5GW in ready-to-build off-shore. Also, rallying CO2 certificate prices (globally), green certificate prices at long-time highs (locally) and the EU's de-carbonization direction (Fit-for-55) all remain supportive to the European renewable capacity-holders. The company has recently attracted large equity fund (BIF IV Europe), eyeing to increase its stake to a majority following pending SPOs. The most recent greenflation and parts' availability may pose risks to capacity expansion, and the Polish government may try to fight inflation via cuts to over subsidized Polish renewable projects. Still, green (renewables) and blue (hydrogen) are the future colours of the European energy, and Polenergia seems ideally positioned to grasp its benefits.
- **Risk to green certificate payouts?** We believe green certificate-based projects are oversubsidized in Poland. We saw regulatory cuts to such projects in Czechia, and cut to the green certificate price would ease the Polish total electricity bill. We assume obligation may be trimmed going forward, which would come in negative to Polenergia's certificate-boosted EBITDAs and FCFs.
- **2022/23E: halving bottom line, No. of shares up 47%?** EBITDA should remain on the rise till 2023E, but lack of one-offs should more than halve PEP's bottom line in 2022/23E vs 2021E, we assume. Also, Bloomberg presents PEP's 2023E EV/EBITDA at 9.2x, which fails to include official guidance for up to 21.4mn new share issues, potentially diluting the number of shares by 47%. Overall, we expect PEP's P/E to settle at +26x in 2022-23E, and the company's SPO-adjusted EV/EBITDA at +15x.
- **Earnings forecasts**. We apply no changes to the forecasts presented in our research report as at November 09, 2021.
- **Valuation and risks**. We keep our DCF valuation unchanged, and changes in the comparative valuation yield our TP at PLN81.6. The company's share price slid 16% since our Sell recommendation, and current minor upside validates the upgrade to a Hold. Cuts to the Polish green obligation poses a risk to the green certificate price, administrative decision on off-shore pay-out may not be favourable, new SPOs may dilute ratios, and greenflation may trim new projects' returns.

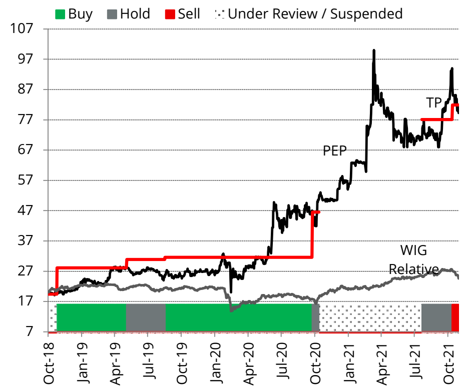
Polenergia: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	2,606	1,811	2,498	2,745	2,963
EBITDA	279	257	366	394	503
EBIT	178	161	255	275	377
Net profit	109	111	352	163	197
P/E (x)	10.6	15.6	10.2	27.2	26.9
EV/ EBITDA (x)	5.7	9.2	12.8	15.3	15.5
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2019-20 valuation ratios based on historical average prices

RECOMMENDATION	Hold
Current price (PLN)	79.3
Target price (PLN)	**81.6**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

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Fig. 280. Polenergia: Quarterly results review

PLNmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	*y/y*	*q/q*
Sales	643	658	459	363	508	482	637	575	**720**	*41.9%*	*25.2%*
EBITDA	73	61	94	54	53	56	76	112	**95**	*79.1%*	*-14.7%*
EBITDA margin	*11.3%*	*9.3%*	*20.5%*	*14.8%*	*10.5%*	*11.6%*	*11.9%*	*19.4%*	***13.2%***	*2.7*	*-6.2*
EBIT	47	36	69	29	30	38	53	89	**59**	*97.6%*	*-33.7%*
EBIT margin	*7.3%*	*5.4%*	*14.9%*	*7.9%*	*5.9%*	*7.9%*	*8.3%*	*15.4%*	***8.1%***	*2.3*	*-7.3*
Net profit	29	17	50	15	16	30	34	246	**54**	*233.5%*	*-78.1%*
Net margin	*4.5%*	*2.6%*	*10.9%*	*4.0%*	*3.2%*	*6.2%*	*5.4%*	*42.7%*	***7.5%***	*4.3*	*-35.2*

Source: Company data

Fig. 281. Polenergia: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	2,498	2,498	*0%*	2,745	2,745	*0%*	2,963	2,963	*0%*
EBITDA	366	366	*0%*	394	394	*0%*	503	503	*0%*
EBIT	255	255	*0%*	275	275	*0%*	377	377	*0%*
Net profit	352	352	*0%*	163	163	*0%*	197	197	*0%*

Source: Santander Brokerage Poland estimates

Fig. 282. Polenergia: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	80.3	80.3	*0%*
DDM valuation	73.8	68.0	*9%*
Comparable valuation	95.2	103.0	*-8%*
Target Price	**81.6**	**81.9**	***0%***

*Source: Santander Brokerage Poland estimates, * weights 70% DCF, 15% comparable, 15% Orsted-based, as DCF is our primary valuation tool*

Fig. 283. Polenergia: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	2,606	1,811	2,498	2,745	2,963
COGS	2,327	1,554	2,132	2,351	2,460
EBITDA	279	257	366	394	503
EBIT	178	161	255	275	377
Pre-tax profit	137	126	435	202	244
Net profit	109	111	352	163	197
EBITDA margin	10.7%	14.2%	14.6%	14.4%	17.0%
EBIT margin	6.8%	8.9%	10.2%	10.0%	12.7%
Net margin	4.2%	6.1%	14.1%	6.0%	6.7%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	599	788	1,366	1,595	3,662
Fixed assets	1,881	2,230	3,039	4,148	5,784
Total assets	2,480	3,018	4,405	5,743	9,446
Current liabilities	245	411	1,047	1,050	1,053
bank debt	50	71	123	123	123
Long-term liabilities	939	1,189	1,587	2,255	5,255
bank debt	732	934	1,332	2,000	5,000
Equity	1,294	1,417	1,770	2,437	3,138
Total liability and equity	2,480	3,018	4,405	5,743	9,446
Net debt	437	631	1,087	1,564	2,523
Net Debt/ EBITDA (x)	1.6	2.5	3.0	4.0	5.0

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	296	222	464	248	300
CF from investment	-140	-429	-919	-1,228	-1,762
CF from financing, incl.	-122	236	450	1,171	3,504
dividends	0	0	0	0	0
Net change in cash	34	29	-6	191	2,041

Source: Company data, Santander Brokerage Poland estimates

Tauron

Bloomberg: TPE PW, Reuters: TPE.WA

CEE Equity Research

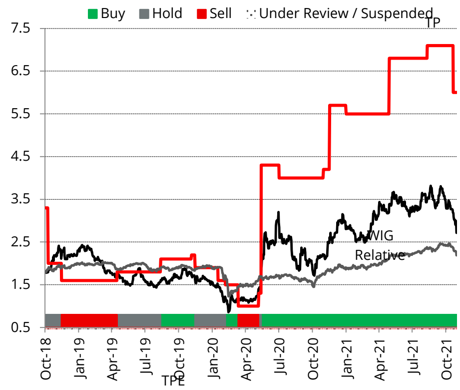
Utilities, Poland

Transformation to unlock upsides

RECOMMENDATION	Buy
Current price (PLN)	2.717
Target price (PLN)	**6.1**

- **Equity story**. The carve-out of coal assets from the Polish state-run utilities, the key driver of their transformation, may be stalled due to Poland-EU disagreements; yet, we still expect carve-outs to happen, potentially at the turn of 2022/23E. However, the European power crunch has resulted in a strong support for coal volumes and electricity prices, which are supportive for the results and cash flows of coal-fired generation units. Along with the anticipated provision write-ups (driven by interest rate increases), these should result in very strong 4Q2021E results for the Polish utilities, we expect. Meanwhile, the share prices and valuation ratios of European peers have risen in the recent months, supporting Polish utilities' attractiveness. Carve-out of generation should come supportive, but we expect carve-out of the mining segment to boost Tauron's FCF by some PLN0.5bn p.a., unlocking company's upside (the highest among local peers). Ex-coal, Tauron is mostly distribution, which is priced at 9-10x EV/EBITDA ratio in Europe presently, implying a substantial post-transformation ratio re-rating. Deconsolidation of mining as of 1Q2022E may support the 2022E results and the company's perception.
- **Strong close to 2021E?** High Polish and European spot electricity prices support coal-based lignite-fired volumes and the results of PGE. In the meantime, all distribution/ sales/ renewable segments come in strong. We expect an interest rate increase to trigger substantial provision write-ups in 4Q2021E, at some PLN0.35bn for Tauron.
- **Rerating of European peers**. Several months ago, 2022-23E EV/EBITDA ratios of Germany's RWE (which is transforming away from coal, and probably the best proxy for the Polish state utilities) were close to ~6x. However, the current environment has resulted in its 2021E EV/EBITDA ratio expanding by ~50% to above 8x. Additionally, an increase in P/E and EV/EBITDA ratios can be observed generally throughout the distribution segment.
- **Earnings forecasts.** Tauron hinted its FY2021 mining volumes should come in 0.5mt higher y/y, which supports our 2021-22E EBITDA, net profit and FCF forecasts.
- **Valuation and risks.** All valuation scenarios assume coal generation carve-out. Blended approach yields Tauron's TP at PLN6.1, and 126% upside validates a Buy recommendation. The delay in the carve-out process is the company's key risk, and the regulatory changes to distribution / sales tariffs, and news flow concerning Jaworzno unit represent concerns.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Tauron: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	19,558	20,367	20,550	26,248	29,802
EBITDA	3,600	4,418	4,792	3,451	3,928
EBIT	296	-1,536	1,517	1,385	2,450
Net profit	-12	-2,488	678	753	1,472
P/E (x)	-264.6	-1.3	7.0	6.3	3.2
EV/ EBITDA (x)	5.7	4.9	5.0	7.3	5.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2019-20 valuation ratios based on historical average prices

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Fig. 284. Tauron: Quarterly results review

PLNmn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	*y/y*	*q/q*
Sales	4,862	5,470	5,468	4,719	4,989	5,627	6,445	5,422	5,990	*20.1%*	*10.5%*
EBITDA	808	549	957	1,450	1,006	809	1,735	1,183	787	*-21.8%*	*-33.5%*
EBITDA margin	*16.6%*	*10.0%*	*17.5%*	*30.7%*	*20.2%*	*14.4%*	*26.9%*	*21.8%*	*13.1%*	*-7.0*	*-8.7*
EBIT	330	71	474	-112	539	-2,618	1,212	-482	279	*-48.2%*	*n.m.*
EBIT margin	*6.8%*	*1.3%*	*8.7%*	*-2.4%*	*10.8%*	*-46.5%*	*18.8%*	*-8.9%*	*4.7%*	*-6.1*	*13.5*
Net profit	188	-23	161	-479	377	-2,548	851	-469	102	*-72.9%*	*n.m.*
Net margin	*3.9%*	*-0.4%*	*2.9%*	*-10.2%*	*7.6%*	*-45.3%*	*13.2%*	*-8.6%*	*1.7%*	*-5.9*	*10.4*

Source: Company data

Fig. 285. Tauron: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	20,550	20,550	*0.0%*	26,248	26,248	*0.0%*	29,802	29,802	*0.0%*
EBITDA	4,792	4,725	*1.4%*	3,451	3,386	*1.9%*	3,928	3,928	*0.0%*
EBIT	1,517	1,451	*4.6%*	1,385	1,321	*4.9%*	2,450	2,450	*0.0%*
Net profit	678	638	*6.3%*	753	699	*7.6%*	1,472	1,471	*0.1%*

Source: Santander Brokerage Poland estimates

Fig. 286. Tauron: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	6.5	6.4	*1.5%*
DDM valuation	2.1	2.0	*2.2%*
Comparable valuation	9.0	8.6	*4.8%*
Target Price	**6.1**	**6.0**	***2.5%***

*Source: Santander Brokerage Poland estimates, * weights 60% DCF, 20% DDM, 20% comparable, as DCF is our primary valuation tool*

Fig. 287. Tauron: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Net sales	19,380	19,558	20,367	20,550	26,248
COGS	16,005	15,958	15,949	15,759	22,797
EBITDA	3,375	3,600	4,418	4,792	3,451
EBIT	791	296	-1,536	1,517	1,385
Pre-tax profit	505	-44	-2,177	1,134	929
Net profit	-107	-12	-2,488	678	753
EBITDA margin	17.4%	18.4%	21.7%	23.3%	13.1%
EBIT margin	4.1%	1.5%	-7.5%	7.4%	5.3%
Net margin	-0.6%	-0.1%	-12.2%	3.3%	2.9%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	6,865	7,675	7,279	7,594	7,213
Fixed assets	35,052	31,736	34,572	35,853	25,821
Total assets	41,918	39,411	41,851	43,447	33,034
Current liabilities	7,862	7,311	7,170	7,740	6,036
bank debt	2,482	1,479	1,479	1,479	1,479
Long-term liabilities	14,963	15,687	17,588	17,861	18,363
bank debt	11,830	13,108	15,000	15,000	16,000
Equity	19,093	16,412	17,093	17,846	8,541
Total liability and equity	41,918	39,411	41,851	43,447	33,034
Net debt	13,074	13,677	14,445	15,433	15,567
Net Debt/ EBITDA (x)	3.6	3.1	3.0	4.5	4.0

PLNmn	2019	2020	2021E	2022E	2023E
CF from operations	17	3,874	3,932	2,206	2,217
CF from investment	-4,396	-4,277	-4,702	-3,194	-2,351
CF from financing, incl.	4,793	74	1,894	0	1,000
dividends	0	0	0	0	0
Net change in cash	414	-328	1,125	-988	866

Source: Company data, Santander Brokerage Poland estimates

Others

Wizz Air Holdings Plc

Bloomberg: WIZZ LN, Reuters: WIZZ.L

CEE Equity Research

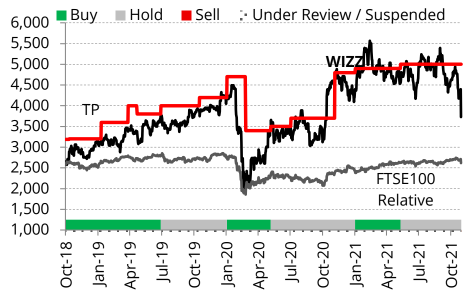
Airlines, UK/ Hungary

Recovery proves costly

RECOMMENDATION	Hold
Current price (GBp)	3,729
Target price (GBp)	**4,500**

- **Equity story.** Wizz's investment case remains unchanged: the company is growing its market share in Europe and expanding into new geographies. It has also taken advantage of the distressed situation of other carriers. What we believe is extremely competitive low-cost profile gives Wizz a long-term strategic edge. Having said this, the scale of investment needed to stimulate demand this autumn/winter has surprised us on the negative. The resurgence of the pandemic across Europe and yet unknown threats associated to Omicron variant of the virus, are the other challenges. The short-term headwinds make us cautious on Wizz's stock and despite double digit upside to our target price of GBp4,500, we reiterate our Hold rating. We believe heightened volatility calls for additional risk premium.
- **Recent developments.** Wizz expects an operating loss of c. EUR200mn in 3Q FY22E, significantly below what we had initially anticipated. The company's strategy now calls for demand stimulation (low air fares) in upcoming months. This, as well as higher fuel costs (Wizz no longer hedges fuel) are likely to drive earnings down. The company expects 3Q FY22E capacity to match the pre-Covid level – this is in line with our expectations but we had anticipated these levels to be achieved without such significant investments in air fares. Recent resurgence of new covid cases across Europe constitutes additional downside risk.
- **Earnings forecasts.** Wizz has invested in new bases and routes, we believe taking advantage of the distressed situation of many air carriers (Italy) or continuing expansion in new markets (Ukraine, Russia, Abu Dhabi). The company's extremely competitive low cost profile gives it a significant strategic advantage. Having said this, the scale of investment necessary to stimulate demand surprised us negatively, which makes us less upbeat on Wizz's pricing power in FY2023E. In our base case scenario, we assume Wizz's ASK in FY2023E c. 30% above FY2020 and net profit of EUR390mn (-8% vs. previous).
- **Valuation and risks.** We set our target price at GBp4,500 (decreased from GBp5,000). We attach a 100% weight to our mid-cycle valuation methodology as we believe that in a dramatically changing business environment consensus estimates for the peer group are unreliable. Major risks are: continuation of the Covid-19 pandemic, oil prices, FX rates and the regulatory environment.

STOCK PERFORMANCE



The chart measures performance against the FTSE 100 index.

Wizz Air: Financial summary and ratios

Year to March, EURmn	2020	2021	2022E	2023E	2024E
Sales	2,761	739	1,787	3,506	4,467
EBITDA	720	-183	91	954	1,252
EBIT	338	-528	-341	506	682
Net profit	281	-572	-421	390	522
P/E (x)	18.7	-9.5	NM	14.3	10.7
EV/ EBITDA (x)	8.3	-39.0	85.2	8.1	5.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 288. Wizz Air: Quarterly results and forecasts

Year to March, EURmn	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2Q22	3Q22E	4Q22E	2022E
Revenues	91	380	150	118	739	199	681	443	463	1,787
EBITDA	-42	-39	-43	-59	-183	-18	182	-56	-17	91
Net profit	-108	-135	-115	-215	-572	-114	-2	-190	NA	-421

Source: Company data, Santander Brokerage Poland estimates

Fig. 289. Wizz Air: Forecasts changes

EURmn	2022E			2023E			2024E		
Year to March	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	1,787	1,820	*-2%*	3,506	3,785	*-7%*	4,467	4,702	*-5%*
EBITDA	91	98	*-7%*	954	1,030	*-7%*	1,252	1,319	*-5%*
Net profit	-421	-423	*0%*	390	423	*-8%*	522	552	*-5%*

Source: Santander Brokerage Poland estimates

Fig. 290. Wizz Air: Valuation changes

GBp per share	New	Previous	*Change*
Mid-cycle sector valuation	4,488	4,967	*-10%*
Comparable valuation	3,912	4,282	*-9%*
Target Price*	**4,500**	**5,000**	*-10%*

Source: Santander Brokerage Poland estimates NOTE: rounded to the nearest hundred, We attach a 100% weight to a mid-cycle valuation methodology as we believe that in a dramatically changing business environment consensus estimates are unreliable.*

Fig. 291. Wizz Air Assumptions

Year to March	2020	2021	2022E	2023E	2024E
No of aircrafts (eop)	121	137	150	178	202
No of seats per aircraft (eop)	201	205	213	221	225
Fleet utilisation (estimate)	99%	33%	70%	88%	95%
ASK (Available Seat Kilometre, mn km)	69,973	25,552	59,778	89,559	114,091
YoY (%)	*16.1%*	*-63.5%*	*134.0%*	*49.8%*	*27.4%*
Load factor (%)	93.6%	64.0%	75.9%	90.0%	90.0%
No of passengers (mn)	40.0	10.2	28.6	50.8	64.7
YoY (%)	*15.8%*	*-74.6%*	*180.3%*	*77.9%*	*27.4%*
Unit revenue (Revenue per ASK, EURc)	3.95	2.89	2.99	3.92	3.92
YoY (%)	*2.7%*	*-26.8%*	*3.3%*	*31.0%*	*0.0%*
Revenue per passenger (EUR)	69.0	72.5	62.6	69.0	69.0
YoY (%)	*2.8%*	*5.1%*	*-13.7%*	*10.3%*	*0.0%*
Unit cost (Cost per ASK, EURc)*	3.44	5.22	3.69	3.44	3.41
YoY (%)	*1.2%*	*51.8%*	*-29.2%*	*-6.8%*	*-1.0%*
Unit cost ex-fuel (per ASK, EURc)*	2.28	3.86	2.59	2.34	2.33
YoY (%)	*-0.5%*	*69.4%*	*-33.0%*	*-9.5%*	*-0.7%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 292. Wizz Air: Financial statements forecast (year to March)

EURmn	2020	2021	2022E	2023E	2024E
Revenues	2,761	739	1,787	3,506	4,467
EBITDA	720	-183	91	954	1,252
EBIT	338	-528	-341	506	682
Net financial costs	44	95	54	82	102
Pre-tax profit	294	-567	-448	424	580
Net profit	281	-572	-421	390	522
EBITDR margin	26.1%	-24.7%	5.1%	27.2%	28.0%
Net profit margin	10.2%	-77.4%	-23.6%	11.1%	11.7%

EURmn	2020	2021	2022E	2023E	2024E
PPE	2,553	2,878	2,885	3,386	3,626
Restricted cash	186	169	169	169	169
Inventories	71	54	62	87	110
Receivables	170	114	110	216	275
Cash	1,311	1,448	1,305	1,996	2,967
Equity	1,235	908	486	877	1,399
Financial liabilities	2,039	3,137	3,448	4,118	4,693
Payables	470	466	412	581	733
Deferred income	185	112	155	262	322
Net debt	729	1,690	2,143	2,122	1,726
Net debt/EEBITDA (x)	1.0	-9.2	23.6	2.2	1.4

EURmn	2020	2021	2022E	2023E	2024E
CF from operations	751.6	-224.6	-4.1	983.2	1,221.9
CF from investment	-1,110.1	-146.5	-449.4	-962.3	-825.5
FCF	-358.5	-371.1	-453.5	21.0	396.4

Source: Company data, Santander Brokerage Poland estimates

Santander

Wirtualna Polska Holding

Bloomberg: WPL PW, Reuters: WPL.WA

CEE Equity Research

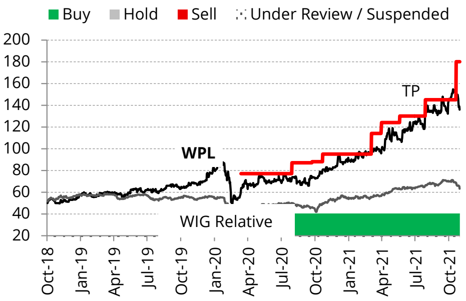
Media/ Technology, Poland

Exceeding expectations

RECOMMENDATION	Buy
Current price (PLN)	136
Target price (PLN)	**180**

- **Equity story.** WPL is operating in markets with secular growth. Digital ads are increasing their share in the total ad pie. E-commerce is growing at the expense of bricks & mortar. The pandemic accelerated digitalisation of consumer behaviour from which WPL benefits. WPL is trading at our 2022E EV/EBITDA of 11.5x and P/E of 21x which we view attractive if plotted against the double-digit earnings growth we expect. We reiterate our Buy rating with our target price of PLN180.
- **Recent developments.** In 3Q21 WPL again surpassed our and market expectations on both strong growth in digital media and stronger than expected profitability of travel e-commerce. Wakacje.pl posted almost flat revenues vs. 3Q19 while the rising share of pure online sales positively affected margins. We do not believe recent resurgence of the pandemic in Europe represents a threat to WPL's earnings. Firstly, reduced mobility accelerates digitalisation, which WPL benefits. Secondly, we expect current wave of the pandemic to wane before next holiday season.
- **Earnings forecasts.** The management expects growth rates in the digital media business line to decelerate to high single digit or low double digits in the near future. In fact, guidance for 4Q2021E surprised us on the positive, given the very demanding base of 4Q2021. We forecast 2021E adj. EBITDA at PLN308mn. In 2022-23E, we assume the digital ad business to grow at 10% per year and a 50bp EBITDA margin erosion each year due to inflationary pressures. In e-commerce, we expect a recovery in the travel business (revenues for wakacje.pl to be back at the 2019 level with higher profitability than in 2019). It remains to be seen if recent changes in managerial positions in WPL's fashion e-commerce segment will lead to a turnaround – we are sceptical given the highly competitive nature of the segment. We forecast EBITDA of PLN346mn in 2022E and PLN378mn in 2023E.
- **Valuation and risks.** Our target price of PLN180 is the average of DCF and peer comparisons, with 50%/50% weightings. WPL is now trading at 2022E EV/EBITDA of 11.5x, at c. 30% discount to its peer group. The risks to our investment view include the competitive environment, both in digital and e-commerce businesses, and capital allocation (i.e. potentially expensive M&A).

STOCK PERFORMANCE



The chart measures performance against the WIG index.

WPL: Financial summary and ratios

Year to Dec, PLNmn	2019	2020	2021E	2022E	2023E
Sales	708.7	632.3	863.2	964.5	1,098.5
EBITDA Adj.	218.9	216.9	307.7	346.1	387.9
EBIT	129.9	121.7	230.6	255.5	286.8
Net profit	69.0	78.5	170.0	187.1	213.1
P/E (x)	25.7	26.9	23.3	21.2	18.6
EV/ EBITDA Adj. (x)	9.6	10.8	13.4	11.5	9.8
Dividend Yield	1.6%	0.0%	1.1%	0.7%	0.7%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices

Analyst

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Fig. 293. WPL: Quarterly results and forecasts

PLNmn, year to Dec.	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E
Revenues	**149.8**	**111.0**	**153.0**	**218.5**	**632.3**	**178.9**	**218.2**	**225.1**	**240.9**	**863.2**
y/y, of which	*-4.6%*	*-37.8%*	-16.6%	15.2%	-10.8%	19.4%	96.5%	47.1%	10.3%	36.5%
Digital media revenues*	72	80	84	123	358	97	111	103	135	447
E-commerce revenues*	67	28	59	81	210	73	93	109	91	365
*E-commerce as % of total**	*45.0%*	*25.5%*	38.7%	37.1%	33.3%	40.7%	42.7%	48.3%	37.6%	42.3%
EBITDA	**39.3**	**32.8**	**56.3**	**74.1**	**202.6**	**56.8**	**75.8**	**84.7**	**96.1**	**313.5**
adj. EBITDA	**41.2**	**38.8**	**57.2**	**79.8**	**216.9**	**60.8**	**77.1**	**73.7**	**96.1**	**307.7**
Digital media*	34.5	38.0	46.4	73.2	192.1	53.1	61.6	54.0	81.3	249.9
E-commerce*	6.6	0.8	10.8	3.9	22.1	7.7	14.9	20.7	11.5	54.8
Adj. EBITDA margin	*28.2%*	*35.9%*	38.4%	37.5%	35.2%	34.5%	36.5%	33.9%	40.8%	36.6%
EBIT	18.4	12.6	36.0	54.8	121.7	37.4	55.9	63.3	74.0	230.6
Pre-tax	9.9	10.8	32.1	38.7	91.4	35.1	53.5	64.2	0.0	221.1
Net profit	6.9	7.1	25.1	39.4	78.5	26.5	41.1	53.4	0.0	170.0

*Source: Company data, Santander Brokerage Poland estimates *SAN estimate*

Fig. 294. WPL: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	149.4	149.4	*0%*
Comparable valuation	210.7	210.7	*0%*
Target Price	**180**	**180**	***0%***

*Source: Santander Brokerage Poland estimates *NOTE: rounded to the nearest integer, average of DCF and peer comparison with 50%/50% weightings.*

Fig. 295. WPL: Financial statements forecast

PLNmn	2019	2020	2021E	2022E	2023E
Revenues	709	632	863	964	1,098
Digital media	319	358	447	492	541
E-commerce	346	210	365	420	502
EBITDA Adj.	219	217	308	346	388
Digital media	152	192	250	273	297
E-commerce	71	22	55	69	85
EBITDA reported	209	203	313	346	388
EBIT	130	122	231	255	287
Net profit	69	79	170	187	213
Adj. EBITDA margin	30.9%	34.3%	35.7%	35.9%	35.3%
EBIT margin	18.3%	19.2%	26.7%	26.5%	26.1%
Net margin	9.7%	12.4%	19.7%	19.4%	19.4%

PLNmn	2019	2020	2021E	2022E	2023E
Current assets	236	356	491	670	877
Fixed assets	909	887	941	953	971
Total assets	1,145	1,244	1,432	1,622	1,848
Current liabilities	206	211	268	292	325
bank debt	50	49	49	49	49
Long-term liabilities	426	435	435	435	435
bank debt	358	379	379	379	379
Equity	513	598	729	895	1,088
Total liability and equity	1,145	1,244	1,432	1,622	1,848
Net debt	334	240	168	15	-156
Net Debt/ EBITDA (x)	1.5	1.1	0.5	0.0	-0.4

PLNmn	2019	2020	2021E	2022E	2023E
Operating CF	189	211	255	283	320
Investing CF	-109	-66	-122	-87	-104
FCF pre dividends	80	145	133	196	216
Dividends paid	-29	0	-45	-29	-29

Source: Company data, Santander Brokerage Poland estimates

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The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.
The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.
The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.
SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.
Liquidation value method – liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

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