

CEE Equity Research

FMCG Retail, Poland

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Improvement in fundamentals

Outperform maintained, TP up to PLN20.0

We reiterate our Outperform recommendation with TP PLN20.0 (vs. prior PLN15.9) before 2Q22 results publication. We think that 2Q22E results should show continuation of fundamental improvement of Eurocash's business with adj. EBITDA growth at 41% y/y. At the same time, low valuation with 2022E EV/EBITDA (ex. IFRS16) of 5.6x (vs. long-term avg. of 11.6x or 4Y avg. of 7.7x) implies high risk aversion applied to the stock, which might be reversed to some extent after the results publication, we believe. At the same time, we increase our forecast of adj. EBITDA (ex. IFRS16) by 5%/20% in 2022/23E, respectively.

2Q22E results preview. We expect Eurocash to publish another visible improvement in its financials as measured by adj. EBITDA growth. Adj. EBITDA decline trend reversed in 4Q21, when it grew +19% y/y, up to +28% y/y in 1Q22 and we expect its continued growth in 2Q22E (by 41% y/y or). Improvement is likely to be driven by CPI being a bigger booster to sales in the wholesale/retail divisions than inflation representing a drag to opex as the case is in defensive industries; however we should not forget about in-house improvements, positive impact of re-opening on smaller formats and supportive calendar effect.

Motivational scheme agreed in June points to 2025E EBIT target at PLN600mn and avg. 2H24 share price at minimum PLN30. Management would be entitled to acquire 6.9mn shares. Our EBIT forecast is nowhere at this level and points at EBIT of PLN398mn in 2026E.

Strategy update. Eurocash is likely to present strategy update by the end of September. Investors would like to get some news on strategic options review and future of the retail segment or Frisco. We do not expect any breaking news in this matter, namely news on potential sales of the retail to an investor or acquiring strategic partner for Frisco given the current capital market landscape. We would rather expect update of continued development of the wholesale as the backbone of the Group, news on potential rollout of retail stores and some rationalization of business projects to address losses in the New Projects segment.

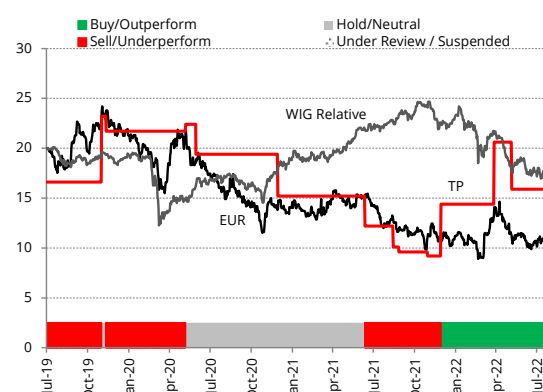
Valuation. We are increasing our TP by 26% to PLN20.0 vs. prior PLN15.9 due to 25% increase of DCF derived valuation to PLN18.5 (higher financial forecast) and 26% increase of SOTP valuation to PLN21.5 (higher NTM EBITDA forecast and change of the valuation base from trailing to forward earnings). The main short-term risks in our view are: (1) inflationary pressure on opex, and (2) unfavourable anti-trust regulatory rulings. The main long-term risk is the faster than expected pace of adverse changes in the retail market structure.

Eurocash: Financial summary (year to December)

PLNmn	2019	2020	2021	2022E	2023E	2024E
Sales	24,852	25,399	26,281	29,971	31,640	32,579
Adj. EBITDA (ex. IFRS16)	415	386	304	421	472	482
EBIT	245	233	98	303	341	349
Adj. net profit	100	76	-84	53	158	168
P/E (x)	30.4	25.9	n.a.	31.6	10.7	10.0
EV/EBITDA (x)	8.6	7.0	7.6	5.6	4.8	4.6
FCF Yield	4.4%	2.2%	5.9%	8.8%	5.0%	2.8%
Dividend Yield	4.6%	0.0%	3.3%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates, adjusted other operating profit/loss, NOTE: historical valuation ratios based on historical average price

Recommendation	Outperform
Price (PLN, 12 August 2022)	12.13
Target price (PLN, Dec'23)	20.0
Market cap. (PLNmn)	1,586
Free float (%)	56.0
Number of shares (mn)	139.0
Average daily turnover 3M (mn)	7.0
USDPLN	4.53



The chart measures performance against the WIG index.

Main shareholders	% of votes
Mr L. Amaral	44.0
Free float	56.0

Source: stooq.pl

Company description

Eurocash is a FMCG wholesale/retail stores operator.

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Financial forecast

Fig. 1. Eurocash: Financial forecast summary

PLNmn	2019	2020	2021	2022E	2023E	2024E
Sales	24,852	25,399	26,281	29,971	31,640	32,579
chng.	9%	2%	3%	14%	6%	3%
Wholesale	18,710	18,893	19,252	21,701	23,042	23,647
chng.	6%	1%	2%	13%	6%	3%
Retail	5,905	6,091	6,382	7,458	7,649	7,842
chng.	19%	3%	5%	17%	3%	3%
New projects	105	300	533	692	829	968
chng.	105%	187%	77%	30%	20%	17%
sales of services	132	127	114	120	120	122
chng.	-13%	-4%	-10%	5%	0%	1%
EBITDA	794	804	708	914	965	976
Wholesale	620	629	668	718	759	778
Retail	311	315	205	397	420	426
New projects	-40	-33	-44	-69	-70	-70
Other	-97	-107	-121	-132	-144	-157
margins						
Wholesale	3.3%	3.3%	3.5%	3.3%	3.3%	3.3%
Retail	5.3%	5.2%	3.2%	5.3%	5.5%	5.4%
New projects	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
growth						
EBITDA	89.7%	1.2%	-11.9%	29.1%	5.6%	1.1%
Wholesale	53.0%	1.4%	6.3%	7.4%	5.7%	2.4%
Retail	193.6%	1.4%	-35.1%	94.1%	5.8%	1.3%
New projects	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data, Santander Brokerage Poland estimates

Fig. 2. Eurocash: 2Q22E results preview

PLNmn	2Q21	3Q21	4Q21	1Q22	2Q22E	y/y
Sales	6,551	7,030	6,889	6,528	7,499	14.5%
EBITDA	87	236	270	151	231	167.1%
EBITDA margin	1.3%	3.4%	3.9%	2.3%	3.1%	1.8
Adj. EBITDA	158	225	206	130	223	41.0%
Adj. EBITDA margin	2.4%	3.2%	3.0%	2.0%	3.0%	0.6
EBIT	-58	94	95	2	81	n.a.
EBIT margin	-0.9%	1.3%	1.4%	0.0%	1.1%	2.0
Net profit	-97	27	27	-52	24	n.a.
Net margin	-1.5%	0.4%	0.4%	-0.8%	0.3%	1.8
Adj. net profit	-40	19	-25	-68	17	n.a.
Adj. net margin	-0.6%	0.3%	-0.4%	-1.0%	0.2%	0.8

Source: Company data, Santander Brokerage Poland estimates

Fig. 3. Eurocash: Forecast changes

PLNmn	2022E			2023E			2024E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	29,971	28,171	6%	31,640	29,013	9%	32,579	29,870	9%
Adj. EBITDA (ex. IFRS16)	421	403	5%	472	394	20%	482	407	18%
Adj. net profit	53	-47	n.a.	158	-35	n.a.	168	-22	n.a.

Source: Santander Brokerage Poland estimates

Valuation

Fig. 4. Eurocash: Valuation summary

PLN/shr	New	Previous	Change
DCF valuation	18.5	14.8	25%
SOTP valuation	21.5	17.1	26%
Target Price	20.0	15.9	26%

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

Fig. 5. Eurocash: WACC calculation

	FY22-24E FCF	FY25-31E FCF + TV
Risk-free rate	6.0%	4.0%
Unlevered beta	1.0	1.0
Levered beta	1.6	1.6
Equity risk premium	6.8%	6.8%
Cost of equity	16.8%	14.8%
Risk-free rate	6.0%	4.0%
Debt risk premium	1.0%	1.0%
Tax rate	19.0%	19.0%
After tax cost of debt	5.7%	4.1%
%D	42%	42%
%E	58%	58%
WACC	12.1%	10.3%

Source: Santander Brokerage Poland estimates

Fig. 6. Eurocash: DCF analysis

PLNmnn	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	TV
Sales	29,971	31,640	32,579	33,675	34,819	36,014	37,263	38,570	39,940	41,338	
EBITDA (ex. IFRS16)	472	523	533	574	617	660	706	753	802	830	
EBIT	303	341	349	373	398	424	452	482	513	531	
Cash taxes on EBIT	58	65	66	71	76	81	86	91	97	101	
NOPAT	245	276	283	302	322	344	366	390	415	430	
Depreciation	169	182	184	201	219	236	254	271	289	299	
Change in operating WC	109	66	33	43	45	47	48	50	53	55	
Capital expenditure	-267	-313	-323	-367	-385	-398	-412	-427	-442	-457	
FCF	257	210	177	179	200	228	256	285	315	327	327
WACC	12.1%			10.3%							10.3%
PV FCF 2022-2031E	1,708										
Terminal growth	0.0%										
Terminal Value (TV)	3,176										
PV TV	1,194										
Total EV	2,902										
Net debt	826										
Equity value	2,076										
Equity Value (Dec-23)	2,579										
Number of shares (mn)	139										
YE target price (PLN)	18.5										
DPS	0.0										
YE TP (ex-div, PLN)	18.5										
Revenue growth	14.0%	5.6%	3.0%	3.4%	3.4%	3.4%	3.5%	3.5%	3.6%	3.5%	
EBITDA growth	55.3%	10.8%	2.0%	7.6%	7.4%	7.1%	6.9%	6.7%	6.5%	3.5%	
NOPAT growth	277.4%	12.7%	2.4%	6.7%	6.7%	6.6%	6.6%	6.5%	6.5%	3.5%	
FCF growth	3774.7%	-18.1%	-15.7%	0.8%	12.0%	13.7%	12.4%	11.4%	10.6%	3.5%	
EBITDA margin	1.6%	1.7%	1.6%	1.7%	1.8%	1.8%	1.9%	2.0%	2.0%	2.0%	
NOPAT margin	0.8%	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	
Capex/Revenues	-0.9%	-1.0%	-1.0%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%	
Change in WC/Revenues	0.4%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	

Source: Company data, Santander Brokerage Poland estimates

Multiple valuation

Fig. 7. Eurocash: Peers' valuation table

Name	Price	mkt.cap. (USD)	P/E			EV/EBITDA*		
			2022E	2023E	2024E	2022E	2023E	2024E
METRO	8.4	3,120	n.a.	23.1	20.5	4.3	4.5	4.3
TESCO	2.7	24,261	12.6	11.6	10.5	5.9	5.6	5.4
average			12.6	17.3	15.5	5.1	5.1	4.8

Source: Bloomberg consensus estimates, Santander Brokerage Poland, * ex. IFRS16

Fig. 8. Eurocash: Peers' valuation table

Regional Cash Flows - Variation table									
			mkt.cap.		P/E		EV/EBITDA*		
Name	CCY	Price	(USD)	2022E	2023E	2024E	2022E	2023E	2024E
CEEMEA									
DINO POLSKA SA	PLN	354.6	7,671	34.4	25.9	20.3	21.9	16.9	13.6
JERONIMO MARTINS	EUR	22.5	14,626	24.3	22.0	19.4	9.2	8.6	7.8
ABDULLAH AL OTHA	SAR	127.8	3,062	25.2	26.3	22.3	16.2	15.0	14.1
BIM	TRY	110.9	3,753	11.6	8.0	6.6	6.7	4.8	3.7
MIGROS	TRY	67.7	683	13.8	7.2	6.6	2.8	2.1	1.8
SOK MARKETLER TI	TRY	16.7	568	9.1	5.6	4.3	2.9	2.1	1.6
SHOPRITE HLDGS	ZAr	24100	8,792	22.1	19.8	18.2	10.2	10.1	9.5
Median				22.1	19.8	18.2	9.2	8.6	7.8
Average				20.1	16.4	14.0	10.0	8.5	7.4
Developed Europe									
CARREFOUR SA	EUR	17.1	13,121	10.5	9.3	8.3	6.4	6.0	5.6
CASINO GUICHARD	EUR	13.5	1,506	15.5	9.0	6.7	6.7	6.2	6.0
SAINSBURY PLC	GBp	2.2	6,310	10.5	10.1	9.5	5.3	5.2	5.1
TESCO PLC	GBp	2.7	24,261	12.6	11.6	10.5	6.9	6.6	6.4
COLRUYT SA	EUR	27.8	3,838	12.9	12.2	12.1	6.0	5.8	5.5
KONINKLIJKE AHOL	EUR	27.9	30,155	12.2	11.6	10.9	6.7	6.5	6.4
Median				12.4	10.8	10.0	6.6	6.1	5.8
Average				12.4	10.7	9.7	6.4	6.1	5.8

Source: Bloomberg consensus estimates, Santander Brokerage Poland, * ex. IFRS16

Fig. 9. Eurocash: SOTP valuation summary

segment	Target multiple	PLNm	EV (PLNm)	Description
Wholesale				
EBITDA ex. IFRS16 (NTM)	EV/EBITDA @ 5.5x	555	3,055	Target multiple is 10% higher to avg. NTM ex. IFRS16 avg. EV/EBITDA multiple for Metro & Tesco (5.1x) due to higher 2021-24E EBITDA CAGR (7.3% vs. 3.5%). Note that NTM ex. IFRS16 EBITDA includes: (1) ex. IFRS16 adj. EBITDA of the wholesale segment of PLN496mn, (2) assumed EBITDA of the franchising network (Delikatesy Centrum), which is reported in the retail division in Eurocash's financial statements, yet valued as wholesale in our analysis; we assume 5% margin on sales of PLN2,662mn, which results in EBITDA of PLN133mn, and (3) PLN138mn loss attributable to HQ expenses and reported in Other segment.
Retail (own stores)				
sales (NTM)	EV/sales @ 0.2x	4,325	865	We left the target multiple at 0.2x unchanged. Our target multiple implies NTM EV/EBITDA at 5.0x. Retail includes Eurocash's own retail grocery stores and Inmedio excluding franchising.
Frisco				
2022E sales	EV/sales @ 1.2x	368	425	The target multiple set at 1.2x; still high double-digit discount (45%) compared to U.K. peer Ocado (2022E EV/sales of 2.1x).

Other projects

sales (NTM)	EV/sales at 0.7x	323	226
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Other retail projects include businesses like: Duzy Ben, Kontigo and 'ABC on wheels'. We value them assigning 0.7x EV/sales target multiple to NTM sales of PLN323mn, which yields EV of PLN226mn. Multiple is higher than our retail segment valuation due to the start-up nature of projects. Our valuation is lower than 'Duzy Ben' annual revenues (PLN245mn; the project with the best prospects, in our view).

EV	4,515
net debt	826
Equity Value	3,745
# shares	139
per share	26.9
conglomerate discount	20%
per share	21.5

Source: Santander Brokerage Poland estimates

Financial statements

Fig. 10. Eurocash: Income statement forecasts

PLNmn	2019	2020	2021	2022E	2023E	2024E
Sales	24,852	25,399	26,281	29,971	31,640	32,579
COGS	21,609	22,056	22,872	26,020	27,454	28,267
Gross profit	3,243	3,343	3,409	3,951	4,185	4,312
SG&A	3,029	3,171	3,329	3,699	3,895	4,013
Depreciation	550	554	611	611	624	626
Profit on sales	214	172	80	252	290	299
other operating profit, net	30	62	17	51	51	51
EBITDA	794	787	708	914	965	976
Adj. EBITDA	809	725	691	863	914	925
Adj. EBITDA (ex. IFRS16)	415	386	304	421	472	482
EBIT	245	233	98	303	341	349
Net financial costs (income)	131	143	98	168	161	157
PBT	113	91	-1	134	180	193
Income tax	34	40	98	26	34	37
Minority interest	9	6	14	14	14	14
Net profit	70	45	-114	95	132	142
Adj. Net profit (ex. IFRS16)	100	76	-84	53	158	168
adj. EPS (ex. IFRS16)	0.72	0.54	-0.60	0.38	1.14	1.21
Gross profit margin	13.0%	13.2%	13.0%	13.2%	13.2%	13.2%
EBITDA margin	3.2%	3.1%	2.7%	3.1%	3.1%	3.0%
Adj. EBITDA margin	3.3%	2.9%	2.6%	2.9%	2.9%	2.8%
Adj. EBITDA (ex. IFRS16) margin	1.0%	0.9%	0.4%	1.0%	1.1%	1.1%
Pre-tax margin	0.5%	0.4%	0.0%	0.4%	0.6%	0.6%
Net margin	0.3%	0.2%	-0.4%	0.3%	0.4%	0.4%
adj. Net margin (ex. IFRS16)	0.4%	0.3%	-0.3%	0.2%	0.5%	0.5%
Sales growth	9%	2%	3%	14%	6%	3%
Gross profit growth	13%	3%	2%	16%	6%	3%
EBITDA growth	90%	-1%	-10%	29%	6%	1%
Adj. EBITDA growth	118%	-10%	-5%	25%	6%	1%
Adj. EBITDA (ex. IFRS16) growth	11%	-7%	-21%	39%	12%	2%
Pre-tax profit growth	-27%	-20%	n.a.	n.a.	34%	7%
Net profit growth	-36%	-36%	n.a.	n.a.	39%	8%
Adj. Net profit (ex. IFRS16) growth	-9%	-24%	n.a.	n.a.	196%	6%
adj. EPS (ex. IFRS16) growth	-9%	-24%	n.a.	n.a.	196%	6%

Source: Company data, Santander Brokerage Poland estimates

Fig. 11. Eurocash: Balance sheet forecasts

PLNmn	2019	2020	2021	2022E	2023E	2024E
Current assets	2,972	2,969	3,220	3,642	3,913	4,062
cash and equivalents	150	118	135	283	368	415
accounts receivable	1,405	1,309	1,332	1,466	1,545	1,593
inventories	1,271	1,363	1,536	1,646	1,739	1,786
prepaid expenses	147	179	217	247	261	268
Fixed assets	4,913	5,097	5,268	5,365	5,497	5,635
PPE	766	721	696	803	897	995
long-term investments	33	15	19	19	19	19
intangibles	324	350	343	333	372	413
goodwill	1,850	2,045	2,130	2,130	2,130	2,130
long-term receivables	14	16	15	15	15	15
lease asset	1,801	1,795	1,942	1,942	1,942	1,942
Long-term deferred charges	125	155	123	123	123	123
Total assets	7,885	8,066	8,487	9,007	9,409	9,697
Current liabilities	4,959	4,513	4,694	5,047	5,285	5,413
bank debt	670	259	240	240	240	240
lease liability	298	356	401	401	401	401
accounts payable	3,844	3,732	3,872	4,225	4,463	4,591
other current liabilities	148	167	181	181	181	181
Deferred income	402	431	513	586	618	637
Long-term liabilities	1,558	2,134	2,491	2,491	2,491	2,491
bank debt	0	595	706	706	706	706
lease liability	1,527	1,524	1,701	1,701	1,701	1,701
other long-term liabilities	31	15	84	84	84	84
Provisions	2	3	3	3	3	3
Equity	897	916	699	794	926	1,067
share capital	139	139	139	139	139	139
capital reserves	688	733	674	560	655	786
revaluation reserve	0	0	0	0	0	0
other reserve capital	0	0	0	0	0	0
net income	70	45	-114	95	132	142
Minority Interest	66	68	87	87	87	87
Negative goodwill	0	0	0	0	0	0
Total liabilities and equity	7,885	8,066	8,487	9,007	9,409	9,697
ROCE (ex. IFRS16)	17.6%	15.2%	6.1%	20.2%	22.8%	22.3%
Net debt (ex. IFRS16)	523	736	826	678	594	547
Net debt/EBITDA (ex. IFRS16)	1.3	1.9	2.7	1.6	1.3	1.1

Source: Company data, Santander Brokerage Poland estimates

Fig. 12. Eurocash: Cash flow statement forecasts

PLNmn	2019	2020	2021	2022E	2023E	2024E
Cash flow from operations	683	557	638	857	840	812
Net profit	70	45	-114	95	132	142
Provisions	30	55	59	0	0	0
D&A - IAS17	218	214	224	169	182	184
D&A - IFRS16	332	340	387	442	442	442
Changes in WC, o/w	-14	-93	-106	109	66	33
inventories	32	-87	-119	-110	-93	-47
receivables	-40	82	-70	-134	-79	-48
payables	-6	-88	82	353	238	128
Other, net	380	335	576	42	19	11
Cash flow from investment	-300	-301	-227	-267	-313	-323
Additions to PPE and intangibles	-219	-174	-163	-267	-313	-323
Change in long-term investments	-74	-128	-69	0	0	0
Other, net	-7	2	5	0	0	0
Cash flow from financing	-433	-285	-408	-442	-442	-442
Change in long-term borrowing	8	558	120	0	0	0
Change in short-term borrowing	94	-411	-19	0	0	0
Change in equity and profit distribution	0	0	0	0	0	0
Dividends paid	-143	-3	-76	0	0	0
Other, net	-392	-429	-434	-442	-442	-442
Net change in cash and equivalents	-50	-29	3	148	85	47
FCF	133	43	88	148	85	47

Source: Company data, Santander Brokerage Poland estimates

Santander Brokerage Poland

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In preparing this report Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.

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 $P/BV = (\text{two year forward ROE less sustainable growth rate}) / (\text{Cost of equity less sustainable growth rate})$ 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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