CEE Equity Strategy

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CEE Equity Research

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There's no stopping me

Our strategy reports (monthly or weekly) tend to focus on two economic variables that, we believe, are key to the direction of equity markets: yields and health of consumer. In our last strategy report issued in December 2022, we expected yields to go down/stabilize, which was the first milestone to be achieved for equity markets to recover. Excluding any geopolitical events, we still see some downside in yields with CPIs expected to go down.

Recently our focus turned more towards the health of consumer. We even used the term "don't stop me now" to describe the environment of strong employment and healthy growth of salaries not only in Poland, but in other markets as well. Our expectations of real salaries turning green could become a reality earlier than expected.

If employment data remains strong, we should use another phrase (also from "Don't stop me now" song): "there's no stopping me" to describe the growth potential of consumer-oriented stocks. We tend to believe wholesale and retail companies might benefit from the "disinflation theme" and improve gross margins in 2H23 and in 2024. Having in mind cost cutting initiatives undertaken by many companies during the inflationary period, operating leverage might work significantly positive.

We note PMI Services are diverging positively vs PMI Manufacturing, which bodes better for growth and consumer- oriented companies, we assume. We discuss other trends that might influence yields like demographic, geopolitical or technological trends.

Summing up, we reiterate our opinion from the yearly strategy report that 2023 should be strong for equities. Yields stabilized while the macro environment, especially from consumer perspective, is even stronger than expected. But we also maintain our view that yields might increase again in the longer-term as salaries growth is strong also across the globe, while geopolitical tensions didn't disappear. We are now in disinflationary phase of the cycle, but inflation risks were not contained by central banks.

As such, we prefer to concentrate our model portfolio on big-caps and liquid mid-caps. We overweight consumer sector and banks. We are positive as to consumer oriented sectors like gaming or developers, however operating leverage might not work in these companies to the same extent as in retail. We would underweight defensives (utilities, telecoms) and cyclicals (mining, industrials).

Top Picks. Our top-picks are concentrated in retail sector and include majority of stocks from the sector (APR, CAR, DNP, EAT, EUR, INPST, LPP, PCO, WIZZ). We are also positive with respect to banks (MBK, MIL, PEO), as well as about consumer related companies from TMT or developer segments (1AT, CDR, HUG, R22, WPL).

Top Sells. Expecting a bull market, the obvious choice for underperformers are defensive companies like telecoms (CPS, OPL) or utilities (PGE). We also don't expect pharma to outperform broader market. Also industrial PMIs point to subdued performance of industrials (JSW, KGH).

Risks. The main risk for our strategy view lies in the geopolitical situation, we think. Strong increase of inflation readings was the result of breakdown in logistics chains due to health crisis and military conflicts. We are in disinflationary phase of the cycle due to the tightening of monetary policies by central banks, but the geopolitical situation is far from being stable and could again cause some bottlenecks and price increases in the future. Demographic situation all around the world is also causing an upward pressure on salaries growth, which could in turn lead to another wave of inflationary pressures.

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TOP BUYS

APR, CAR, DNP, EAT, EUR, INPST, LPP, PCO, WIZZ
MBK, MIL, PEO
1AT, CDR, HUG, R22, WPL

TOP SELLS

CPS, OPL
PGE
JSW, KGH

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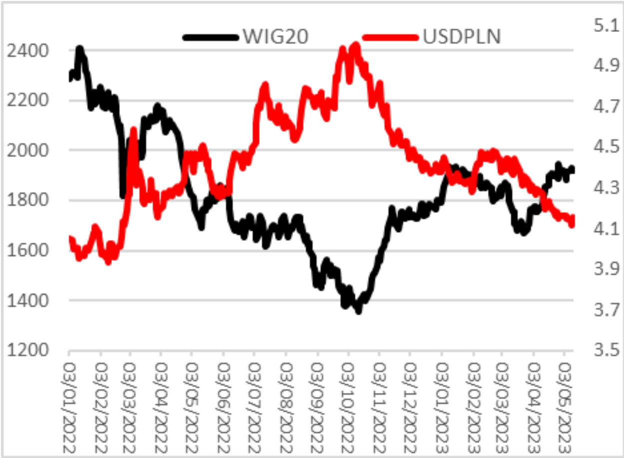
Key investment strategy themes

#1 Stabilizing yields allow equities to thrive

Our current strategy thinking and top pick proposals are based on key pillars from the previous strategy reports. We would like to build our market strategy products as an evolutionary process following changes in business cycles rather than any revolutionary themes. As such, we would start the report from where we left the last yearly strategy.

We tend to think the investment theme of 2022 was "the rising yields" (due to a strong rise in CPI readings). As a result of rising yields, the valuation of all asset classes suffered last year, equities included. The key assumption behind our positive view on equities for 2023 was that yields should decrease/stabilize due to stabilizing CPI readings in Poland and globally, as well. We also expected the reversal of US dollar strength, which should also help curbing inflation readings in EM generally.

Fig. 1. WIG20 vs USDPLN.



Source: Bloomberg

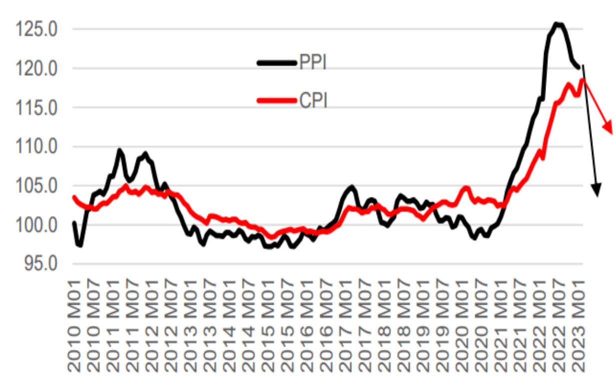
Fig. 2. WIG20 vs PL10Y yield.

Source: Bloomberg

CPI readings started to fall in Poland in 2Q23 indeed. US dollar weakening should only help contain inflation in 2H23. Santander Bank macro forecasts assume CPI to decline to single digit number in 4Q23. Two members of the Monetary Policy Council (MPC) in Poland announced recently that inflation could fall faster than previously expected by NBP (National Bank of Poland).

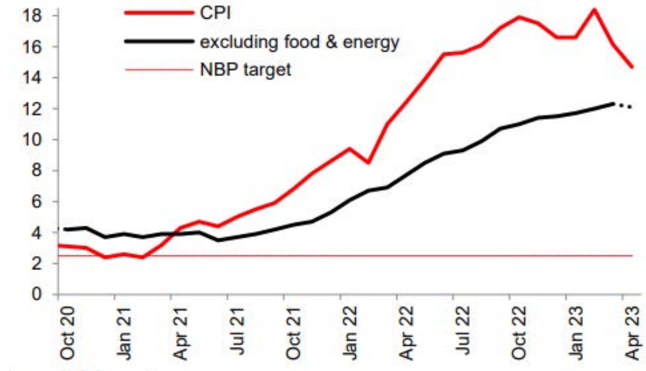
We notice PPI in Poland peaked in 4Q22 and should fall visibly below CPI soon, as is the case in the US already. PPI falling below CPI is generally a sign of disinflationary trends in the economy. We tend to believe such period could be beneficial for certain sectors and companies listed on the WSE.

Fig. 3. PPI vs CPI in Poland.



Source: Bloomberg

Fig. 4. CPI started falling in Poland.

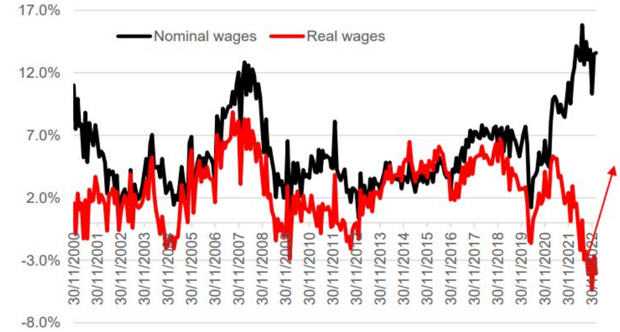


Source: Santander Bank Poland

#2 Stable employment, strong salaries growth = strong consumer

According to our macroeconomic team, the situation on the labour market is stable. Demand for labour is weaker, but this does not translate into higher unemployment, but rather to the deceleration of wage growth. Santander Bank expects around 12% growth in salaries this year, while the government's financial plans presented to the European Commission assume another double digit growth in 2024.

Fig. 5. Nominal and real wages growth in Poland.



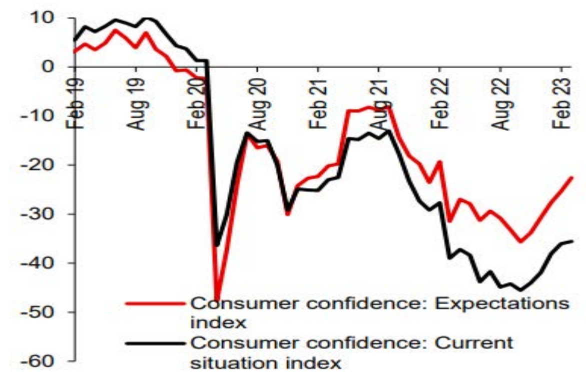
Source: Santander Brokerage Poland

Fig. 6. Retail sales in Poland.

Source: Santander Bank Poland

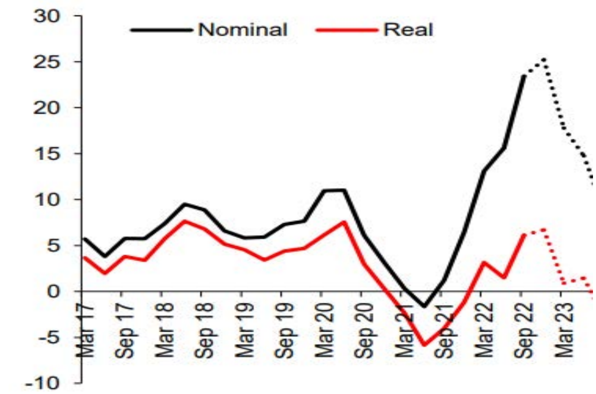
Having in mind falling CPI readings, we tend to believe real wages would turn green in 4Q23. Recent comments from members of the MPC suggest a faster pace of CPI decrease, which means that real wages could also turn green earlier. Puls Biznesu daily reported that according to monthly (not yearly) changes in CPI and wages, real wages are positive already in May.

Fig. 7. Consumer confidence index in Poland.



Source: Santander Bank Poland

Fig. 8. Disposable income in Poland.



Source: Santander Brokerage Poland

Such environment keeps consumer confidence in Poland upbeat and the rating is rising. Ending military conflicts would surely help improve consumer confidence even more. General retail sales data are in the red, but we point to high base connected to Ukraine - Russia military conflict that started last year. Poles started to buy food and fuel in significant volumes just in case.

We tend to believe the best measure of the strength of the Polish consumer are retail sales data in clothing category that are almost 10% up in constant prices. Clothing category is described as discretionary spending and tends to decline during recessions or economic slowdown. Currently this category of retail sales is the strongest in Poland.

It seems that strong employment and visible salaries increase are a global phenomenon. Despite fears that higher interest rates might cause global economic slowdown or recession, it doesn't seem to be the case in DM or other EM.

#3 Disinflation theme = investment theme of 2023?

The investment theme of 2022 was the increase in yields driving stocks down. We tend to believe the theme of 2023 would be "how disinflation works for gross margins" of listed companies? **We think disinflation gives retailers and wholesalers an unique opportunity to improve margins**. This should work in the scenario of strong consumer in low unemployment environment, which is the case now in Poland.

Inflationary environment is tough for consumers and retailers as both could suffer and have to cut costs or spending as prices are rising significantly. Disinflationary period starts from commodity prices going down. PKN Orlen starts decreasing prices on petrol stations as consumers eagerly observe changing oil prices and even potentially USDPLN exchange rate. With the passage of time PPI should come down below CPI. Inflationary environment keeps changing into disinflationary one.

But if consumers start accepting higher prices, some companies in the system have a unique chance to increase margins when purchase prices are falling. **Wholesalers and retailers do.** Disinflation should be beneficial for importers. Clothing or shoe retailers started their purchases of autumn/winter collection in 4Q22, pricing goods at USDPLN around 4.5 – 4.7. With exchange rate falling 15% over the period, gross margin in these companies might surprise positively in 2H23. The same might work for restaurants, which increased prices heavily in Poland to offset rising energy prices, for example. Would they adjust prices when electricity bills start falling? We doubt. But they could surprise with gross margins next year.

Fig. 9. Companies with exposure to "disinflation theme" in Poland.

Ticker	Impact	Description
LPP, PCO	▲▲	Potentially high impact of weakening USD on improving gross margin in autumn - winter collection. Full impact should be in seen in FY24 SS collection assuming current USDPLN rate stable till orders peak this autumn. 15%decline in USDPLN FX could improve gross margin by 5p.p.
CCC	▲▲	Lower impact than in LPP (but only slightly) as 10% of sold shoes comes from Polish production facilities.
DNP, EUR, JMT	▲▲	Potenttially high impact of decreasing PPI vs CPI.
CAR, APR	▲	Potential impact from weaker USD.
IT hardware	▲	Potential impact from weaker USD. But some companies might have hardware prices agreed with producers (uncertain impact).
EAT	▲▲	Potentially high impact from falling electricity prices. Ofset to some extent by rising salaries in SG&A line.
NEU	▲	Tailwinds to gross margin in wholesale segment's EBITDA (60% of business) from falling fuel prices and slower growth of wages y/y in 2H23
RBW	▲▲	Massive positive impact for operating margin from stronger PLN against USD and lower jet fuel y/y and c20% higher y/y avg. selling price
PKN	▲	Retail fuel margins usually improve once oil prices decline and USD weakens. Retail (food and non-food) segment might benefit as other retailers.
WIZZ	▲	Fuel costs accounted for over 40% of opex last year, but positive impact on margins is delayed by hedging
Industrials	▲	Slight positive impact in PKP, APT or AMC. Eventually positive impact in VGO, FRO. Generally positive impact from gross margin in industrials could be ofset by lower volumes in industrial companies.

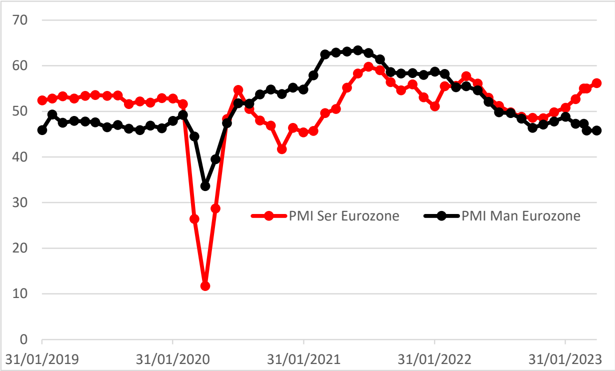
Source: Santander Research Brokerage

#4 Services > Manufacturing. China PPI could cause deflation?

As we mentioned above, strong consumer environment with stable employment and visible increase in salaries is not only a local phenomenon in Poland. PMI Services in the Eurozone and in the US are significantly stronger than PMI Manufacturing. It implies a strong consumer environment and a weaker industrial environment across the globe. As a result growth- and consumer-oriented companies should be overweighed versus industrial exposed names in equity portfolios.

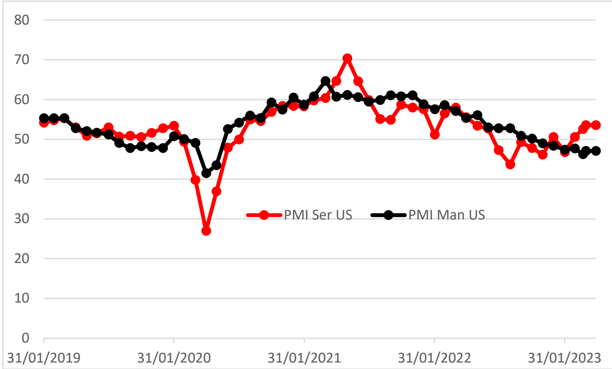
Such divergence between two PMI indexes could result from delayed Covid trends. During the health crisis, people spent time at home buying goods and now they are spending more on services once Covid is no longer a big threat.

Fig. 10. PMI Services vs PMI Manufacturing in Eurozone.



Source: Santander Brokerage Poland

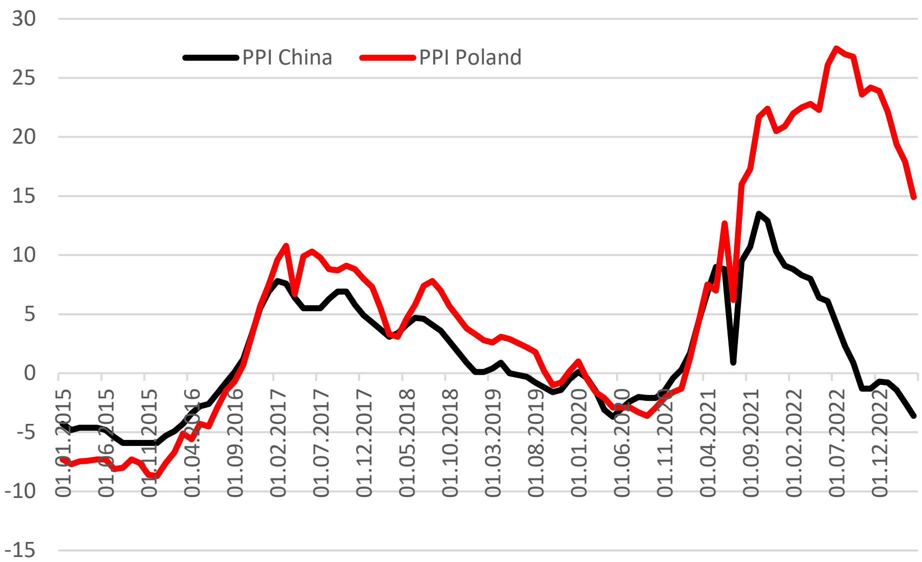
Fig. 11. PMI Services vs PMI Manufacturing in US.



Source: Santander Brokerage Poland

Weaker demand for goods and additionally the deglobalization trend are especially negative for China, the biggest industrial and exporting "factory of the world". PPI in China is visibly negative versus still high PPI prices in Poland. China's export value is two time bigger than that of the US or Germany, which should start a deflationary wave on goods markets. The most important question is whether industrial deflation would be deep enough to influence deflation in service prices and in salaries, as well. That would mean a significant downside in yields and upside in equities.

Fig. 12. Negative China PPI could cause deflation risks?



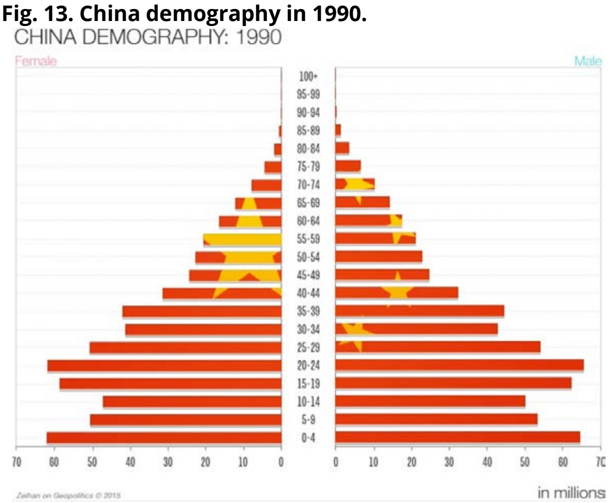
Source: Bloomberg

#5 Demography: Services > Manufacturing and higher yields

Demographic trends across the globe could have important consequences for long-term investing. And they are twofold: higher salaries and upward pressure on inflation and yields, but also higher demand for services rather than goods.

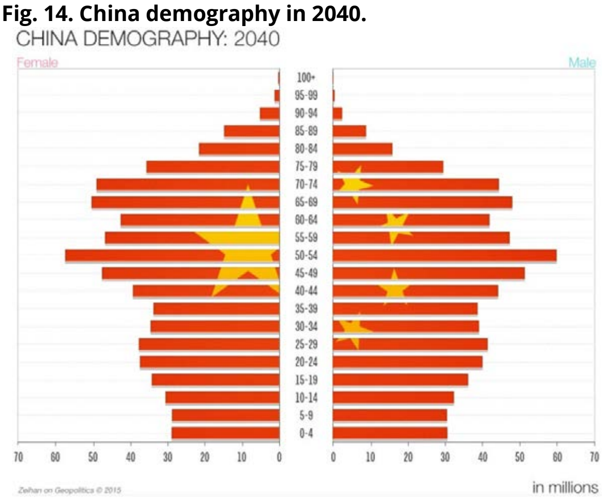
Extremely strong labour market data in many countries means rising salaries trend might not be over soon. And rising salaries could mean inflation risks are more structural in nature, rather than cyclical. Negative demographic trends are a global concern. Country population skewed to younger people means that such a country has potentially lots of workers for the future, potential benefit of cheaper labour and strong export. China is probably the best example how a country with positive demographic trends could develop over time. The US is the only major economy with expected positive demographic trends (but mainly thanks to migration).

Fig. 13. China demography in 1990.



Source: Zeihan on Geopolitics

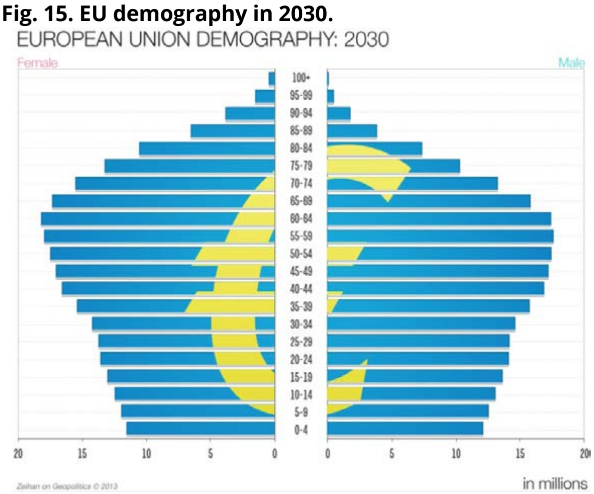
Fig. 14. China demography in 2040.



Source: Zeihan on Geopolitics

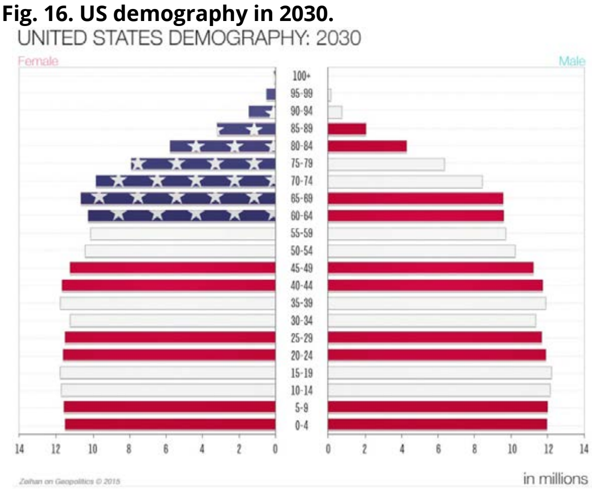
But demographic benefits of Chinese population seem to be over with the number of working age population turning negative recently according to reports in Chinese media. Younger working population tends to spend a lot more on goods than older people. Older people consume more services, like tourism or restaurants.

Fig. 15. EU demography in 2030.



Source: Zeihan on Geopolitics

Fig. 16. US demography in 2030.

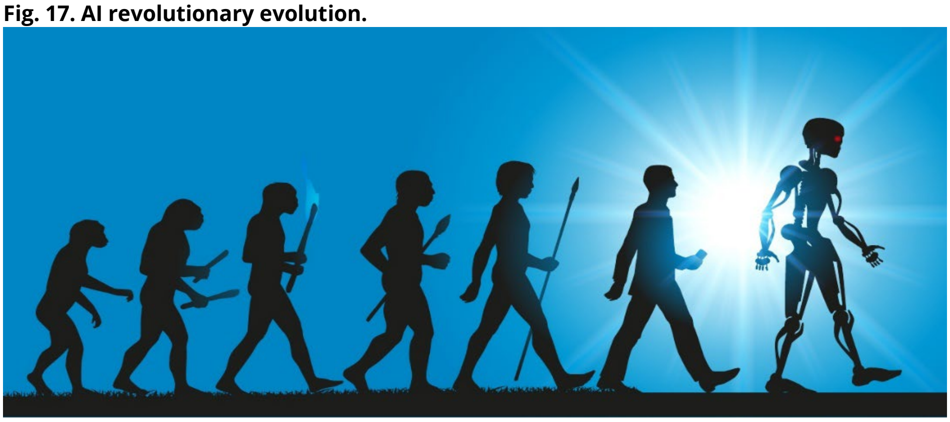


Source: Zeihan on Geopolitics

#6 AI – disinflationary revolution. Data as MVP.

We tend to believe that the world enters the stage in history where many new innovative technologies are "overlapping" each other, which enables AI evolution to accelerate. The new cycle is centred around data and powered by AI technologies (like ChatGPT). It's important to underline: AI technologies would not be effective without technologies that collect sufficient volumes of the data. Data is the "most valuable player" (MVP) for AI to accelerate.

Fig. 17. AI revolutionary evolution.



Source: liwaiwai.com

In this note we try to elaborate how AI technologies are especially important currently due to their disinflationary characteristics. We mention also a few other technologies that help to decrease price over time and present potential use cases for them in Polish listed companies. We believe long-term companies that could derive value from data are the biggest beneficiaries of AI.

We would also like to mention that AI technologies might influence companies in several different ways: create new revenue lines, derive more value from current business, drive costs down (all positive), but also displace some business models (often certain companies disappear due to technology innovations) or force prices in some sectors to go down visibly (all negative). As such, we think some businesses even in Poland might face creative destructive forces of AI technologies. We tend to believe the market focus was on potential short-term beneficiaries of AI acceleration, but the picture in a longer-term might be more complicated even for Polish companies.

AI – increasingly deflationary

Artificial intelligence (AI) is defined as the system that combines **computer science** and neuroscience to compute and **analyse data** so that the system can act in a way similar to human brain. As such, for AI to take off in terms of real use cases implementation, the system needs large amounts of data - the key ingredient in the process. Current computing cycle could be special in terms of AI implementation as the Internet of Things (incl. edge computing) collects more and more data from a bigger and bigger number of end points.

It seems to us that the period of exponential growth in technology enabling innovation is coming to the end (Nvidia's CEO stated that Moore's law is dead, for example), but the growth in volumes of data is only starting, on the other hand. We tend to believe that **data is the MVP** ("most valuable player") for AI to take off in terms of use cases implementation. **The biggest value to be derived from AI implementation by companies is not on technology side, but from training AI models to work on data to drive higher revenues and increase value.**

We generally think that technology is currently becoming a commodity with the tendency to cost cheaper and cheaper. Technology could cause new business models to emerge, but also older business models to disappear. The bigger value of a given market in terms of technology, the higher chance that bigger competitors could enter the market and cause disruption. MSFT is the best example of a company entering more and more segments and gaining market share by offering free, in theory, software like the case with MS Teams. Zoom Communication was supposed to be rising in terms of valuation due to a huge TAM. But MSFT quickly changed the picture of the "free" MS Teams service (but rising prices of Office or Windows). We thus think that deriving value from data offers a higher chance for sustainable uplift in valuation of a given company rather than implementing a new technology to drive revenues only.

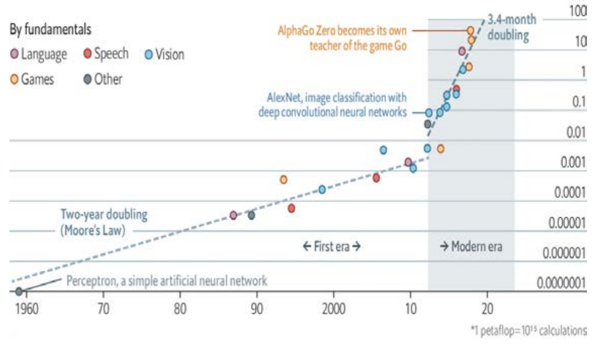
One of the most important characteristics of AI implementations (especially in the current macro environment) is that they are increasingly disinflationary / deflationary. Jeremy Rifkin, an author of "Zero marginal cost society", a book on technological progress, claims that the end point and biggest victory of capitalism, a system that enabled technological progress, would be its failure and transformation into communism - as technology is forcing lower and lower prices, with prices in some areas going down even to zero (zero marginal costs). When companies are forced to lower prices more and more, profits are vanishing. Capitalism is built for profits: with no profits, capitalism turns into communism. It's hard to imagine such a scenario now, but generally technological advancements are disinflationary.

Persistent inflation in areas such as labour or supply chains makes technological progress / innovation more and more valuable as automation might reduce costs and increase productivity. Structural growth in minimum salaries across the globe in recent years should push corporates to invest in automation and technologies enabling productivity growth.

As Moore's law states, increasingly cheap and increasingly powerful microprocessors allow for faster and faster trainings for AI models. Apart from AI, it's worth to mention two other disinflationary technologies in the form of clean energy, energy storage or robotics and automation in industrial sector that can help transform businesses or improve productivity.

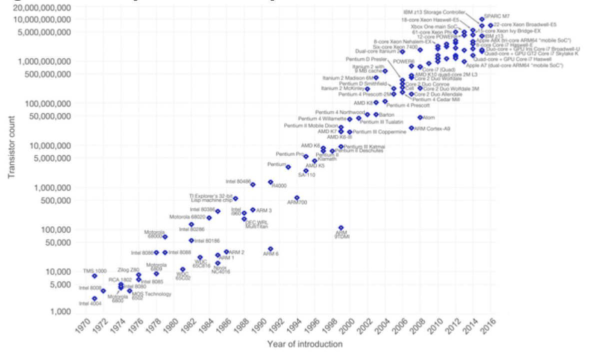
Global energy transition to clean sources seems to be inflationary at the beginning, but learning rate for clean sources is way faster than for fossil fuel sources. With rising installed capacities of solar or wind energy, costs per MW are decreasing visibly, which bodes well for future decrease in costs.

Fig. 18. AI training speed.



Source: OpenAI

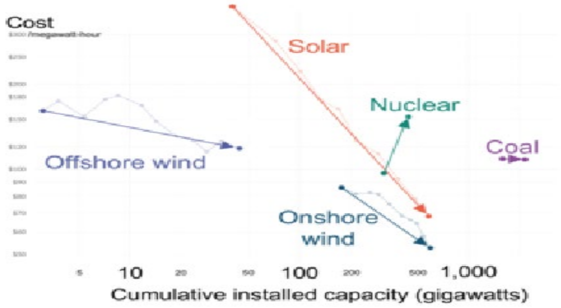
Fig. 19. Microprocessor improvements over time.



Source: Wikipedia

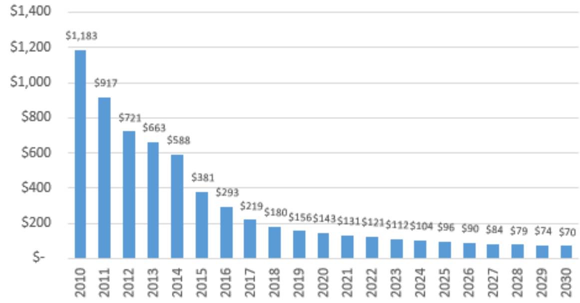
Costs of batteries for energy storage technology have been falling for years as well. Energy storage could improve efficiency of energy systems by decreasing inefficiencies (seen in Polish system for example, where many power plants are forced to work under reserve requirements) and make renewables an even more attractive energy source.

Fig. 20. Learning rate of energy types.



Source: Wikipedia

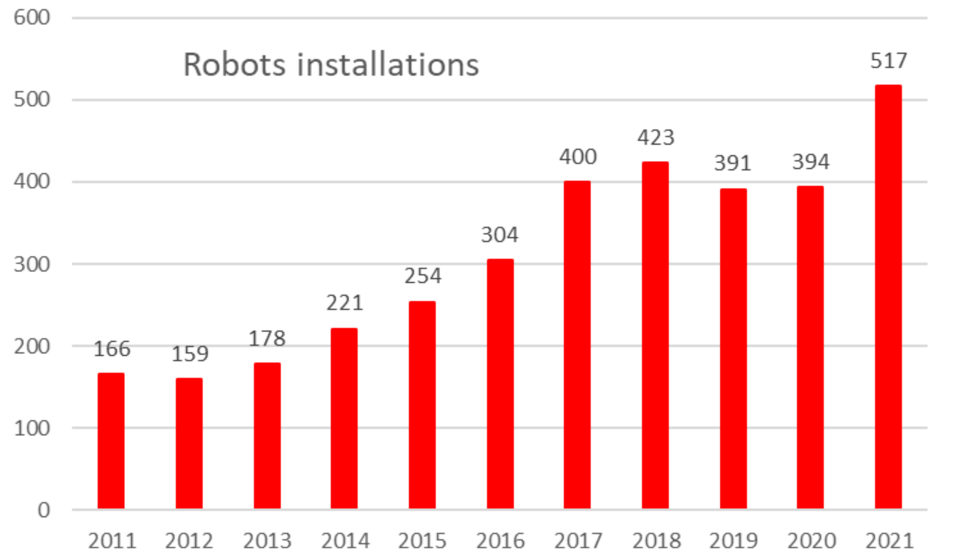
Fig. 21. Costs of batteries over time.



Source: Bloomberg

Robotics and automation trends are not new in industrial sectors. But recent salary increases might potentially increase demand for robots significantly. MIT report estimated that a single robot added in the manufacturing industry in the US replaced more than 3 workers. Automation should not only be disinflationary in terms of costs, but also contribute positively in terms of productivity.

Fig. 22. Industrial robots installations.



Source: IFR

AI - revolutionary evolution

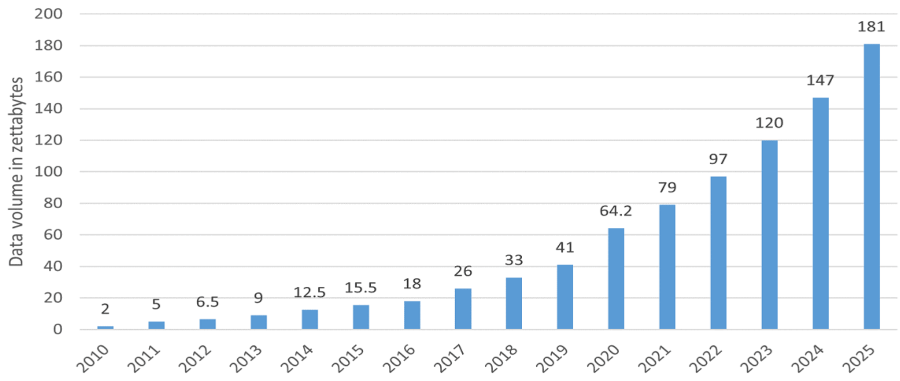
For AI to take off in terms of use cases implementation, two things were needed: 1) improvements on technology side and volumes of data growth (driven by Moore's Law: the doubling of transistors on circuit boards every two years) and 2) the costs need to go down for new players to challenge incumbent players to gain market share (driven by Wright's Law on learning rate: increase in units installed of certain technology, cause linear decrease in costs over time).

It seems every several years a new computing cycle emerges that increases the number of users of intelligent devices ten-fold and volumes of data generated by these devices to an even higher extent. It now feels like pre-history, but smartphones were non-existent just 20 years ago. Only 150 years ago the world was functioning without any industrial machines. Now the world is moving towards the "connected world" idea with more and more companies moving workloads to the cloud.

We tend to believe that the world enters the stage in history where many new innovative technologies are "overlapping" each other, which enables AI evolution to accelerate. The new cycle is centred around data and powered by AI technologies (like ChatGPT). It's important to underline: AI technologies (unlocking value from growing amounts of data) would not be effective without IoT (Internet of Things) or Edge Computing technologies that collect the data.

As computing shifted from centralized model (mainframes, later PCs located at company headquarters) to distributed (mobile) and cloud-first model today (workloads moved to the cloud computers owned by external provider), the number of devices being able to create data exploded. According to IDC, the volume of data created annually was about 1.2 zettabytes in 2010. It increased to almost 100 zettabytes in 2022 and is expected by IDC to grow by 20% in the next three years.

Fig. 23. Global volume of data created annually.



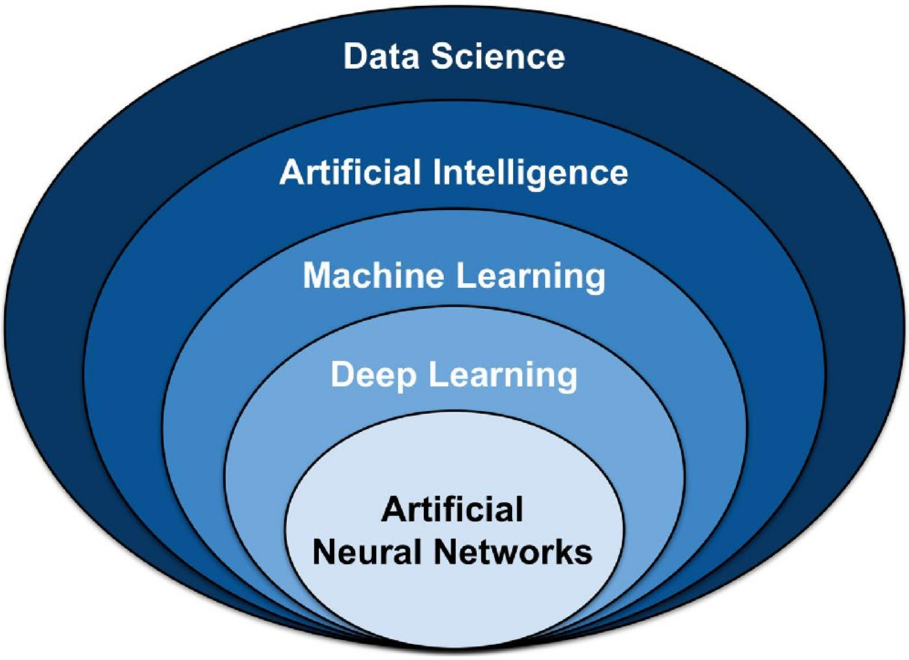
Source: IDC

The increasingly cheap and increasingly powerful compute combined with increasingly larger data volumes allowed for faster and faster training for AI models. According to MLC Common organization, the training time for an image-based AI model decreased from around 6 minutes 5 years ago to shorter than 1 minute recently. The evolutionary process of AI implementation is accelerating thanks to that.

AI and AI models – what is it?

It's important to understand the basic concepts of AI types, as AI is often used interchangeably with machine learning or deep learning. Artificial intelligence (AI) is generally a subfield of computer science associated with creating machines that can simulate human intelligence or create machines capable of intelligent behaviour.

Fig. 24. AI vs ML or DL.

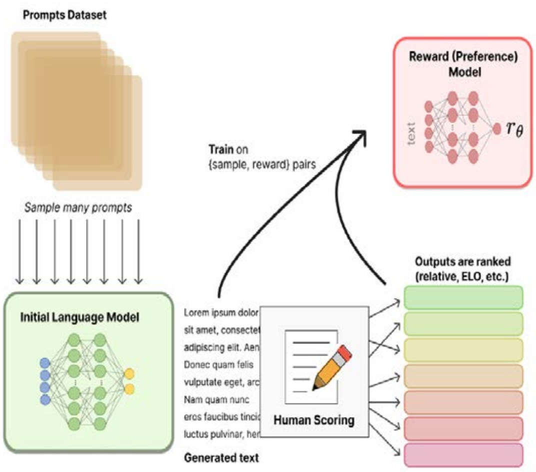


Source: viso.ai

Machine learning is a subset of AI associated with providing machines with the ability to learn from experience without the need to be programmed explicitly. Deep learning is a subset of ML and AI and involves algorithms that can learn to recognize patterns in data, while ML is more general and involves algorithms that can learn any kind of tasks.

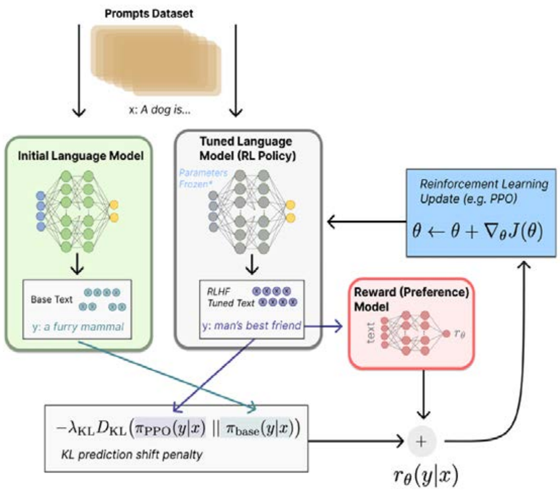
AI model is a program or algorithm that utilizes a certain data set to recognize patterns and this allows it to make a conclusion or a prediction (provided that a sufficiently big amount of data is available). As such, AI models are particularly useful for solving complex problems, as the models tend to solve them with higher accuracy and efficiency comparing to simple methods.

Fig. 25. ChatGPT – data collection and training.



Source: Hugging Face

Fig. 26. ChatGPT – inference.



Source: Hugging Face

There are generally three steps in AI models building: data collection, models training (input data into AI model, supervised or unsupervised or reinforced learning) and inference (deploying the mode and sending feedback to improve the model). Importantly, human feedback still plays a significant role in training the model as feedback on results is still crucial. It's worth mentioning that transformer models (built first by Google in 2017) matter more and more, as transformers enable the model to better understand the context of data (scan across broader bases of text or scan ahead and back for input text sequence or scan different parts of the text to better understand context).

AI use cases in Poland

In the table below we present potential use cases for AI in Polish listed companies, we identify. We expect the list to grow over time as AI technologies are only starting to accelerate, while companies should be eager to use new technology to prevent rising costs in the inflationary environment.

We would like to mention that AI technologies might have both a positive and a negative influence on certain businesses. We mentioned MSFT as a potential disruptor in many segments of the software market. It's generally the case that when a business segment becomes attractive, new bigger competitors emerge to fight for market share. We hope negative scenarios will not materialize, but …

It might be the case with LVC and we tend to believe market analysts discussed ChatGPT potential negative competition before pricing-in revenue upside from LVC's announced potential new revenue lines. LVC operates on a highly competitive market (visible in monthly churn rate). LVC's niche might not have been attractive for a bigger competitor yet due to potentially high costs of building solutions. But with AI solutions accelerating, the costs are going significantly down, which increases the chance for bigger global players to enter the market. It's worth mentioning that the average costs of ChatGPT usage per one chat is at single digit cents level now.

Another case we think about is potentially XTB. There are more and more solutions like Trader AI that could potentially be some kind of competitors for XTB with potentially significantly improved offers for clients in terms of spreads and liquidity. As we mentioned earlier, improving technology is driving costs down or removing potential inefficiencies. We don't cover XTB, but we think that technology disruptions might influence the company's business model.

Thinking about potential negative influence of AI evolution on Polish companies might be seen in a different light when realizing that investors were even considering the role of Google on advertising market with MSFT announcing new AI based solutions and some analysts asking questions about ChatGPT replacing search engine google.com to some extent. Advertising business constitutes a major chunk of valuation of Alphabet and its often the case that some business models are displaced by new behemoths during periods of technological changes / advancements (like now). Impossible is nothing in such periods.

Fig. 27. AI / disruptive technologies – use cases in Polish companies

FINANCIALS	HEALTHCARE	ECOMMERCE & MEDIA	GAMING &TMT	INDUSTRIALS & UTILITIES	RETAIL & CONSUMER	GENERAL USECASES	DEVELOPERS & CONSTRUCTION
AI MODELS FOR COST OF RISK OPTIMIZATION (Banks)	**NEW DRUGS DEVELOPMENT** (Rvyu, Selvita)	**CONTENT CREATION** (WPL)	**COMMUNICATION BOTS** (LVC)	**MERIT ORDER OPTIMIZATION** (Utilities)	**DEMAND / INVENTORY PREDICTION** (CCC, LPP, EUR)	**INTELLIGENT AUTOMATION** (back office)	**3D PRINTING OF FLATS / HOUSES** (real estate, construction)
IMPROVED CREDIT SCORING (Banks)	**GENOMIC DATA ANALYSIS** (Neuca)	**PERSONALIZED TRAVEL ITINERARIES** (WPL)	**CODING TOOLS FOR DEVELOPERS** (IT)	**ENERGY USAGE ANALYTICS** (Utilities, Industrials)		**SMART SECURITY SYSTEMS / CYBERSECURITY**	
IMPROVED TRADE PRICING AND EXECUTION (XTB)	**PERSONALIZED MEDICINE / DIAGNOSTICS** (Neuca, PZU)	**ENHANCED AD TARGETING** (WPL)	**GAMING CONTENT CREATION** (Gaming)	**LOGISTICS FLEET OPTIMIZATION** (Industrials)		**AUTONOMOUS DRIVING**	
AI PORTFOLIO MANAGEMENT (Mutual funds)		**ENHANCED RECOMMENDATION SEARCH / ENGINE** (ALE)	**NETWORK OPTIMIZATION** (Telecoms)	**PREDICTIVE GEOLOGICAL MODELS** (Mining)		**FACIAL RECOGNITION**	
INSURANCE POLICIES SCORING (PZU)						**QUANTUM COMPUTING RESEARCH**	

Source: Santander Brokerage Poland

The three cases above could potentially showcase how usage of technology alone could affect businesses negatively in the long-term. That's why we think that companies that could leverage unique data sets with new technologies are a much safer play to create value in the longer-term. Neuca, Rvyu or Selvita from healthcare sector could be potential beneficiaries of AI revolution taking place. AI tools could evidently speed up drug discovery process and make the process less time-consuming vs the traditional model driving potential revenues up and costs down (Rvyu). Ryvu has been using AI models in drug discovery process. Selvita's associate – Ardigen – offers services based on its AI platforms to third party biotech companies. Also patient business and clinical trials business in Neuca could leverage genomic data analysis to speed up drug discovery process and significantly lower the amount of costs to be spent on it (increase margins).

Banks are also holding a treasure of data that could potentially be used to improve bank's business profitability. One of potential use cases are improved models for corporate risk scoring. We tend to believe the models currently used could be based on Altman model, while new models based on cash flow analysis could be much more effective in preventing the rise in corporate costs of risk. The same is true for retail clients, where bank account history could potentially be used for better "cash flow" analysis. Banks case depends on local law or local authorities allowing for certain solutions or not, we need to mention.

Digital media/ advertising is another sector with significant potential for AI applications. The industry behemoths have utilised AI models and plan to increase spending in the area. Google said: 'with AI-powered solutions, we're helping brands deliver efficient reach and ROI and address pain points like frequency and measurement.' META said: 'with our AI investments (...) we continue to improve ads ranking and enable increased automation for advertisers to make it easier for them to run campaigns and use our systems to optimize their performance.' We believe AI investments of tech players are likely to improve overall efficiency of digital advertising, possibly further increasing its share in the total advertising pie. Our local digital advertising player (WPL) has been using AI to improve efficiency of its advertising products, but unarguably Wirtualna Polska lacks the scale of global players to accommodate multi-million spending on AI technology. Grupa Pracuj is another advertising player (though within very narrow area of job classifieds) which uses AI to improve product efficiency. The company, being a market leader, has also access to the largest dataset on which it capitalises.

WPL could also use AI solutions to drive down costs of content in media business (Meta and Google developed text-to-video models). But even more important could be leveraging technology to improve profitability of ecommerce business like improved online travel search efficiency. Driving down costs of content thanks to AI tools is also true for gaming companies (FTP companies more likely than PTP companies).

Ecommerce and retail companies could use AI for enhanced search / recommendations and also for better and more predictable inventory management to improve working capital needs and increase potential FCFs. Potential rise in revenues from higher value of transactions is possible if search is more effective.

New technology solutions could drive down costs in software companies. GitHub Copilot (using OpenAI Codex) is now able to suggest software code in real time, which should make developers work faster and more efficient. LVC is potentially the biggest short-term beneficiary in case it successfully launches new products to drive revenue lines with improved pricing (LVC's case is well understood, we think, so we focus on other areas). LivePerson announced yesterday its successful implementation of AI capabilities to the Conversational Cloud platform.

There are many other potential use cases of new AI tools to drive efficiencies within the economy in Poland. Telecoms could use AI solutions to improve network optimization. Power generation grid in Poland is one of the least efficient we know and is primed for significant costs savings should renewables, energy storage and AI optimization tools be used to drive lower energy prices for retail and corporate clients. Logistic chain optimization in industrial companies thanks to AI tools is a similar case.

In the table above we present a list of general business use cases, as well. We also add one interesting case for real estate / developers segment as we found out that the first home - 100% 3D printed - in the USA was sold out in auction recently. Even such sectors could be influenced by technological advancement and innovations in the near future.

#7 Geopolitics – bipolar world increasing inflationary risks

Christine Lagarde, president of ECB, gave a speech on central banks in fragmenting world that best summarizes current geopolitical challenges and their influence on inflation, yields and central banks' policies. Ms. Lagarde essentially stated that globalization made work easier for central banks, as China entrance to WTO increased massively global labour supply and industrial output. This led to long period with low inflation as any demand shock was easily answered by higher supply.

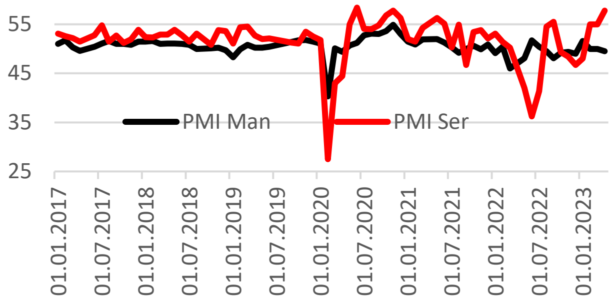
Currently deglobalization forces started with USA – China rivalry and followed by military conflicts are expected to reverse previous trends. Due to unstable logistics chains, supply sources are not anymore elastic to sudden change in demand. Any disruptions in the sensitive parts of value chain could cause a visible increase in prices and increase inflation risks. Yields would follow upwards and equity markets would immediately react negatively.

Apart from the unstable geopolitical situation, also the healthy growth in salaries across the globe is a longer-term source of inflationary pressures. We tend to believe we are in disinflationary phase of the economic cycles, but central banks failed to crush inflation risks once for all, we think. We expect inflation risks and rising yields might resurface again in the future.

Fig. 28. US10Y yields development.

Source: Santander Brokerage Poland

Fig. 29. PMI Services vs PMI Manufacturing in China.



Source: Bloomberg

Apart from the geopolitical divisions rising, we can also observe growing difference in economic growth projections for DM and EM (which is also a general geopolitical division). GDP growth in the US and the Eurozone is expected to be below 0.5% in 4Q23, mainly due to monetary tightening and weakening credit impulse in the economy. On the other hand, Asia (driven by China and India) is expected to deliver 4.5% GDP growth in the same quarter.

What's important, Chinese growth is skewed more and more towards consumption (to lesser extent driven by fixed investments), expected to increase around 8% in 2023. Slowly, but continuously, China is making progress towards transforming to medium- and high-income society status.

As such, China is another country where consumer-exposed sectors seem to be stronger than industrial ones. On the other hand, improving macro in China towards high-income country status will definitely increase geopolitical risks as the US seems to see China as the biggest mid-term opponent on macro and military fronts.

#8 PMI Manufacturing – what's next?

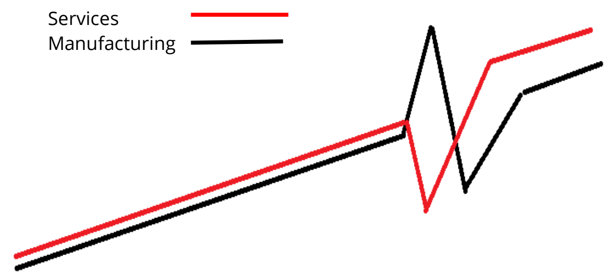
We tend to believe that diverging opinions on whether global recession is coming or not depends on economists' view on industrial/manufacturing segment. On one hand prolonged slowdown in industrial companies could finally end up with headcount restructuring and rise in unemployment rate. This, in turn, will lead to weaker consumption and weaker PMI Services quite quickly. Should unemployment rise, companies from service segments would need to decrease prices to offset weaker demand and "disinflation theme" will not occur, as we expect.

Our own discussions with companies involved in logistics business imply visible weakness in orders for several months already. The same is true for manufacturing firms with exposure for real estate in Poland. Further weakness might force owners to cut not only back office costs, but also start employment restructuring.

On the other hand, we tend to believe that industrial slowdown could simply be a return to trend or slightly below the trend after strong demand during Covid recession. Health crisis forced consumers to stay at home. They didn't have a chance to spend money on services as they were simply unable to go to restaurants. Instead they spent heavily on goods, which caused above-trend-demand and strong increase in prices due to broken logistics chains. With the passage of time, demand normalized and prices started to decline as orders decreased.

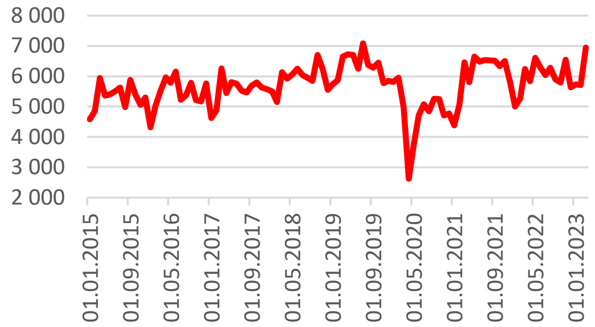
We think demand should recover over time. Improving volumes of consumer credit (which one spends on goods rather than restaurants) in recent months in Poland suggest industrial segment should see a rebound soon. Also the potential end of military conflict between Ukraine and Russia might improve sentiment among manufacturing companies as Ukraine rebuilding will definitely increase demand for goods in Poland.

Fig. 30. PMI Services vs PMI Manufacturing: changes in trend due to Covid crisis.



Source: Santander Brokerage Poland

Fig. 31. Consumer credit – volume.



Source: NBP

On the other hand, services' demand fell significantly during Covid and is now booming, probably even above normal trend. Stable employment, higher nominal salaries and changing demographic trends might even cause "service trend line" to move higher than normally would be without Covid influences. This is a positive scenario for services and manufacturing segments, but current data imply beginning of new economic cycle in Poland, a not significant slowdown or recession.

#9 Sectors and top picks

We are positive on equities market in Poland and present detailed targets in valuation section below. Assuming bull market, we overweight high-beta sectors and underweight defensive sectors.

We overweight heavily consumer related companies due to their exposure to “disinflation theme” and additionally, we overweight growth names due to expected decline in yields (positive valuation trigger for the whole market, but growth companies are most sensitive to yields). We are positive on banks, on valuation grounds.

On the other hand, we underweight all defensive sectors (telecoms, utilities, pharma) and industrials (mining, PKN).

Fig. 32. Preferred sectors and top picks / top sells.

Sector		Top picks / Top sells
Consumer	▲	APR, CAR, DNP, EAT, EUR, INPST, LPP, NEU, PCO, WIZZ
Banks	▲	MBK, MIL, PEO
Technology	▲	CDR, HUG, R22, WPL
Real estate / construction	▲	1AT, DVL, UNI
Industrials	—	Long FMF / short PKP
Mining	▼	JSW, KGH
Telecoms	▼	CPS, OPL
Utilities	▼	PGE
Pharma	▼	MAB, SLV
Oil & gas	▼	PKN

Source: Santander Brokerage Poland

Valuation section

#1 Valuation upside both in WIG20 and mWIG40

Based on our target prices (or average consensus TP from Bloomberg for uncovered companies), we see 6% upside on WIG20 till the end of the year (around 12% in 12 months' time). mWIG40 implied target shows 25.5% upside for the next 6 months (above 30% for one year).

Fig. 33. WIG20 valuation target.

Company	Price	Index %	TP
PKN ORLEN	64.09	14.12	61.00
PKO BP	33.74	12.05	35.00
PZU	40.96	9.70	36.00
DINO	422.00	8.43	537.00
PEKAO	102.60	7.54	120.00
ALLEGRO	37.90	6.62	36.00
KGHM	111.00	6.31	76.00
LPP	13,260.00	5.77	18,096.00
SANTANDER	351.80	4.88	356.10
CD PROJEKT	121.00	3.52	207.00
KRUK	390.80	2.86	387.80
PEPCO	41.80	2.77	54.80
PGE	7.40	2.65	7.70
KETY	577.00	2.32	622.90
ASSECO POL	91.85	2.14	96.00
ORANGE	7.50	2.02	8.00
MBANK	370.00	2.02	431.00
CYFROWY POL	17.56	1.78	17.80
ALIOR	44.23	1.64	47.00
JSW	40.88	0.90	32.00
WIG20	**2,004.06**		**2,127.50**

*Source: Santander Brokerage Poland, Bloomberg *for companies not covered by Santander TP based on average Bloomberg TP*

Fig. 34. mWIG40 valuation target.

Company	Price	Index %	TP
ING BSK	178.00	9.27	190.00
INTERCARS	533.00	7.84	936.00
BUDIMEX	334.00	7.30	360.00
MILLENNIUM	4.88	4.73	6.20
BENEFIT	1,435.00	4.51	1,632.00
HANDLOWY	79.90	4.18	65.00
TAURON	2.37	3.96	5.10
LIVECHAT	145.20	3.48	139.00
WIRTUALNA	120.60	3.47	150.00
CCC	48.60	2.94	40.50
ENEA	7.27	2.94	12.30
DEVELIA	3.94	2.82	4.30
XTB	40.66	2.52	50.80
PEP	90.20	2.44	92.00
DOM DEV	143.00	2.29	153.00
11 BIT	641.00	2.27	660.00
AMREST	22.80	2.23	30.20
EUROCASH	17.61	2.20	35.90
GRUPA AZOTY	27.82	2.09	33.10
AUTOPARTNER	18.84	2.07	27.20
CIECH	47.00	1.94	53.10
NEUCA	732.00	1.83	990.00
SELVITA	77.60	1.79	73.00
HUUUGE	26.00	1.77	36.00
GRUPA PRACUJ	58.10	1.68	61.00
GPW	37.78	1.65	35.50
ASBIS	29.20	1.64	48.30
BNP	53.00	1.58	64.00
GRENEVIA	3.39	1.54	4.23
STS	19.80	1.49	21.10
KERNEL	15.40	1.28	27.50
COMARCH	142.00	1.20	178.00
MOBRUK	278.00	1.02	358.00
PKP	19.68	0.95	18.00
BOGDANKA	41.80	0.81	75.20
ZE PAK	22.40	0.62	16.60
TEN SQUARE	79.00	0.61	77.00
BIOMED	5.87	0.42	5.87
BUMECH	34.40	0.36	34.40
MABION	18.26	0.30	14.00
WIG40	**4,760.99**		**5,980.30**

*Source: Santander Brokerage Poland, Bloomberg, *for companies not covered by Santander TP based on average Bloomberg TP*

Santander

#2 ROIC – the reason why Poland might be investors darling

Polish companies are steadily improving ROIC, also thanks to heavy capex in the past, with inflation driving revenues higher, which improves EBIT, while amortization is based on historical expenditures (pre-inflation capex).

Fig. 35. ROIC for selected Polish companies.

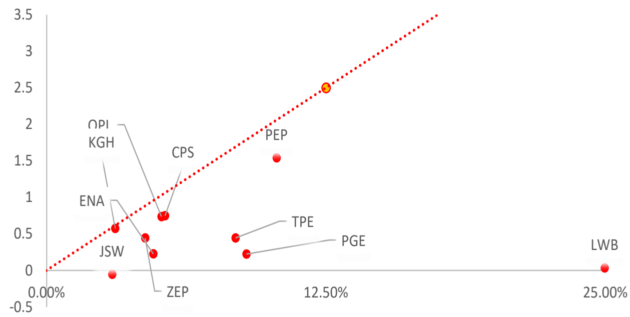
	2017	2018	2019	2020	2021	2022	2023E	2024E
OPL	1.62%	1.86%	1.87%	9.07%	4.64%	5.14%	5.14%	5.68%
CPS	4.31%	5.75%	5.59%	18.09%	5.52%	4.73%	5.30%	6.15%
KGH	5.76%	6.45%	8.14%	13.11%	7.75%	3.61%	3.07%	3.49%
LWB	1.49%	8.60%	1.96%	8.04%	4.00%	34.63%	24.97%	18.49%
JSW	20.80%	7.19%	-12.21%	8.71%	57.07%	24.37%	2.94%	-4.07%
PGE	2.66%	-4.96%	0.91%	6.20%	4.60%	3.65%	8.94%	9.95%
TPE	1.44%	0.79%	-4.63%	1.59%	1.99%	6.65%	8.45%	7.89%
ENA	3.62%	3.07%	-5.37%	6.32%	1.19%	6.58%	4.77%	5.66%
ZEP	-5.94%	-17.83%	-10.13%	-12.48%	11.77%	7.95%	-5.05%	0.78%
PKN	21.01%	15.14%	10.15%	20.61%	52.85%	22.65%	19.30%	13.66%
WPL	10.38%	10.84%	12.08%	18.44%	11.75%	15.15%	17.25%	19.83%
SLV	28.34%	20.88%	18.39%	15.87%	14.96%	9.26%	14.15%	15.20%
LPP	25.07%	10.13%	1.63%	21.35%	14.68%	26.36%	30.59%	35.26%
CCC	27.96%	8.28%	-34.80%	-1.27%	-6.56%	-0.26%	11.47%	20.58%
ALE	0.01%	5.68%	6.94%	8.86%	5.33%	7.61%	11.36%	13.30%
PCO	7.70%	18.12%	4.95%	9.53%	8.83%	13.25%	14.76%	16.63%
NEU	12.56%	11.99%	14.39%	12.24%	14.06%	14.40%	17.20%	19.13%
DNP	20.35%	19.81%	20.24%	19.65%	22.11%	26.32%	31.65%	32.64%
EUR	9.50%	5.37%	4.60%	-0.35%	6.99%	9.30%	10.75%	12.46%
APR	13.44%	10.80%	17.95%	17.88%	16.62%	18.20%	18.37%	17.77%
CAR	8.79%	7.73%	10.47%	15.74%	14.20%	16.54%	16.43%	15.86%
EAT	4.46%	3.58%	-7.05%	4.34%	2.60%	5.71%	6.94%	9.06%
CIE	1.67%	1.48%	1.79%	6.07%	16.68%	6.05%	6.46%	6.68%
ATT	0.68%	5.53%	3.82%	9.10%	7.78%	-6.38%	3.16%	9.33%
PKP	4.09%	1.64%	-2.28%	-2.63%	4.66%	3.23%	3.90%	3.47%
FTE	4.42%	4.04%	8.98%	11.46%	9.40%	2.96%	5.60%	7.09%
MBR	14.40%	26.36%	58.18%	89.80%	56.88%	34.06%	25.31%	32.55%
AML	11.00%	8.88%	8.20%	17.15%	23.43%	17.17%	17.02%	17.27%
KTY	12.53%	13.35%	18.98%	21.08%	23.04%	16.00%	17.96%	18.73%
STP	6.67%	4.25%	4.63%	6.97%	7.17%	6.65%	6.21%	5.64%
AMC	11.76%	10.62%	14.19%	7.60%	0.42%	4.19%	6.14%	7.28%
11B	71.71%	40.20%	51.94%	27.11%	15.33%	1.65%	36.49%	42.05%
CDR	25.62%	21.85%	61.51%	22.41%	27.02%	34.92%	10.79%	5.07%
HUG	196.15%	62.89%	499.36%	84.47%	75.68%	89.66%	110.24%	110.24%
CRJ	52.39%	19.67%	239.37%	196.40%	236.61%	104.56%	178.21%	129.16%
CMR	5.52%	9.32%	12.64%	10.09%	6.78%	4.10%	5.04%	6.36%
ACP	4.16%	4.19%	5.20%	5.20%	5.24%	6.27%	6.72%	6.86%
LVC	192.30%	149.39%	152.67%	148.86%	195.38%	214.93%	236.13%	238.83%
R22	5.42%	6.88%	12.25%	8.01%	5.96%	9.12%	10.31%	11.35%

Source: Santander Brokerage Poland estimates

#3 ROIC vs EV/IC valuation

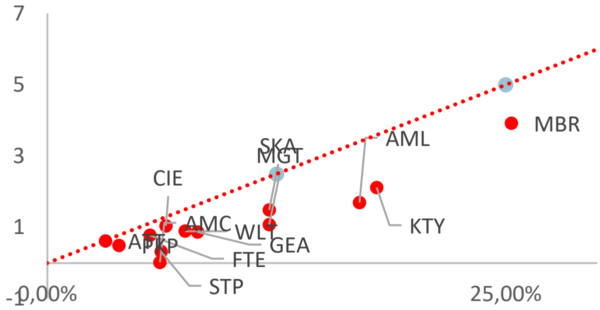
Polish companies are traded at cheaper valuation on ROIC vs EV/IC metric vs Western markets. Below we present valuations of all companies from major sectors. Almost all banks, multiple consumer names and HUG seems to be especially cheap on that valuation metric.

Fig. 36. ROIC vs EV/IC – defensive sectors.



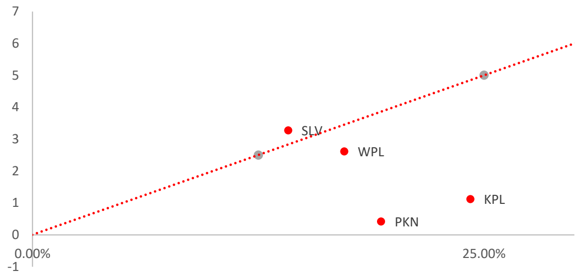
Source: Santander Brokerage Poland

Fig. 37. ROIC vs EV/IC – industrials.



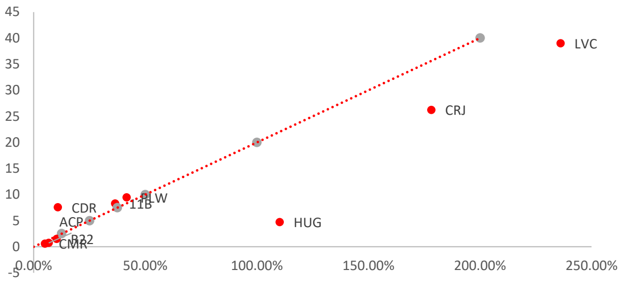
Source: Santander Brokerage Poland

Fig. 38. ROIC vs EV/IC – TMT + PKN.



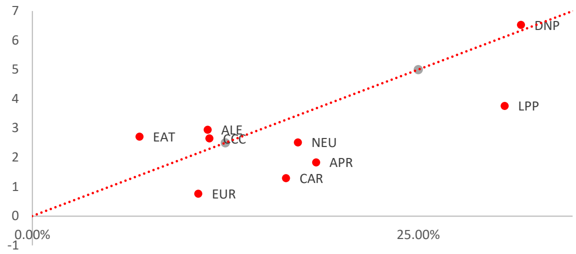
Source: Santander Brokerage Poland

Fig. 39. ROIC vs EV/IC – TMT.



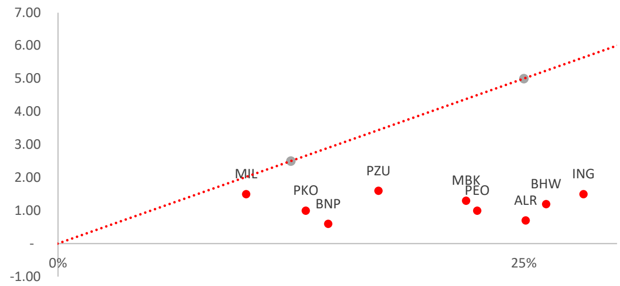
Source: Santander Brokerage Poland

Fig. 40. ROIC vs EV/IC – consumer.



Source: Santander Brokerage Poland

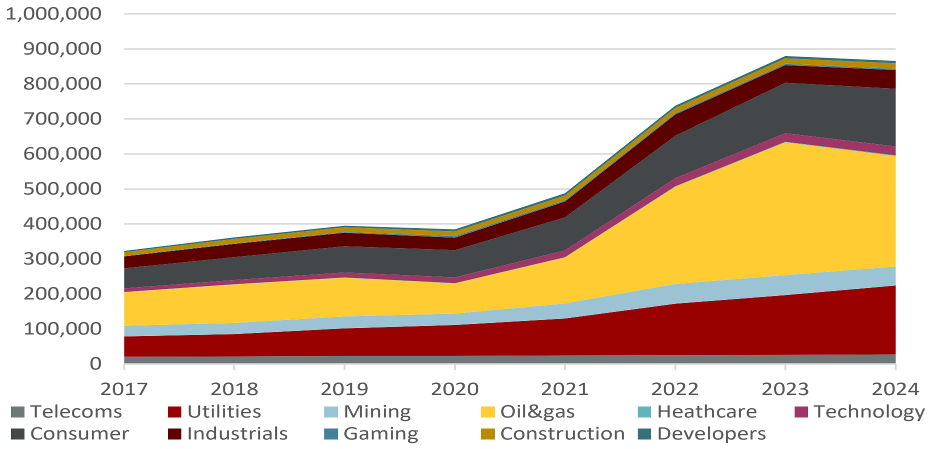
Fig. 41. ROIC vs EV/IC – banks.



Source: Santander Brokerage Poland

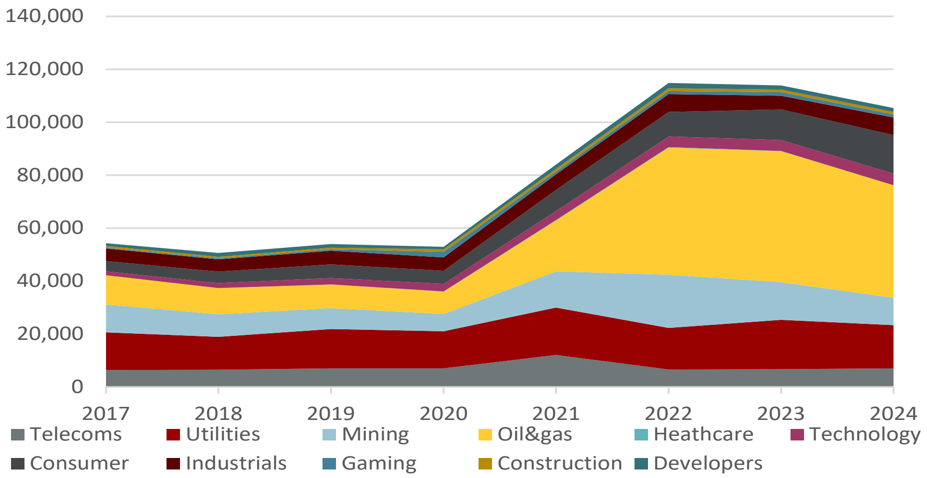
#4 Revenues, EBITDA driven by inflation, net debt down

Fig. 42. Strong rise in revenues driven by inflation.



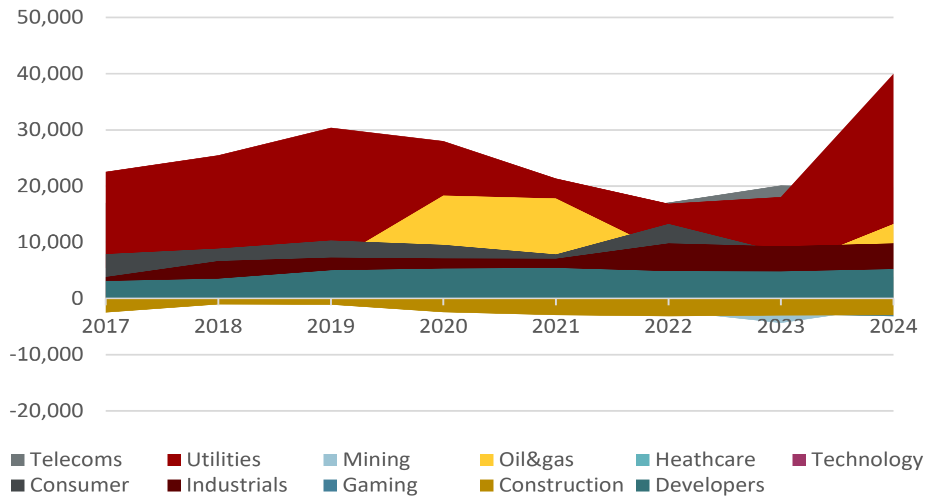
Source: Santander Brokerage Poland

Fig. 43. Strong rise in EBITDA due to the same factor.



Source: Santander Brokerage Poland

Fig. 44. Net debt down visibly.



Source: Santander Brokerage Poland

#4 FCF yields – important valuation metric

Fig. 45. FCF yields in our coverage.

	2021	2022	2023E	2024E	2025E
OPL	16.50%	7.90%	2.90%	9.00%	5.90%
CPS	10.00%	0.40%	-41.50%	-7.90%	-3.90%
KGH	4.10%	-2.80%	1.50%	-2.80%	-0.70%
LWB	36.50%	0.20%	87.20%	48.90%	32.70%
JSW	-2.20%	133.50%	17.30%	-52.00%	-44.70%
PGE	30.00%	15.00%	-15.00%	-79.00%	-19.00%
TPE	17.00%	-21.00%	8.00%	-52.00%	-35.00%
ENA	75.00%	-47.00%	30.00%	-141.00%	-72.00%
ZEP	-45.00%	-17.00%	-0.80%	-70.40%	-73.50%
PKN	9.20%	73.50%	11.20%	-5.60%	-11.00%
WPL	3.50%	-10.70%	5.20%	6.60%	8.10%
SLV	-7.50%	-2.30%	0.70%	1.60%	0.70%
LPP	2.50%	-5.90%	13.70%	6.00%	7.80%
CCC	-11.70%	-7.70%	-0.20%	8.40%	3.70%
ALE	2.20%	3.50%	4.40%	4.30%	5.20%
PCO	4.90%	-2.40%	0.40%	2.60%	5.90%
NEU	6.50%	8.20%	5.40%	7.00%	8.80%
DNP	0.00%	-0.50%	2.10%	4.00%	3.80%
EUR	3.50%	13.90%	10.40%	12.70%	16.90%
APR	-6.10%	0.70%	-0.30%	2.70%	-3.30%
CAR	-1.60%	-5.00%	-1.40%	1.90%	3.70%
EAT	8.80%	6.80%	-8.00%	-2.40%	5.70%
CIE	13.80%	-0.70%	7.50%	10.70%	12.40%
ATT	121.80%	96.50%	-47.10%	-3.70%	30.60%
PKP	-41.40%	43.40%	-5.90%	-9.70%	6.00%
MBR	14.20%	8.30%	0.70%	0.40%	11.60%
KTY	11.60%	2.10%	6.60%	7.40%	7.00%
11B	0.80%	-0.80%	-2.80%	4.70%	6.10%
CDR	0.90%	1.30%	3.00%	0.90%	-0.80%
HUG	3.50%	7.75%	17.79%	12.57%	13.03%
TEN	-3.60%	13.60%	5.30%	5.10%	3.20%
R22	-2.40%	-27.90%	5.90%	8.20%	9.80%
BDX	21.60%	21.00%	7.60%	6.80%	7.10%
ERB	-59.00%	-43.00%	4.00%	13.00%	11.00%
TOR	41.00%	47.00%	-43.00%	12.00%	-10.00%
UNI	3.70%	-24.50%	-6.60%	14.90%	23.70%

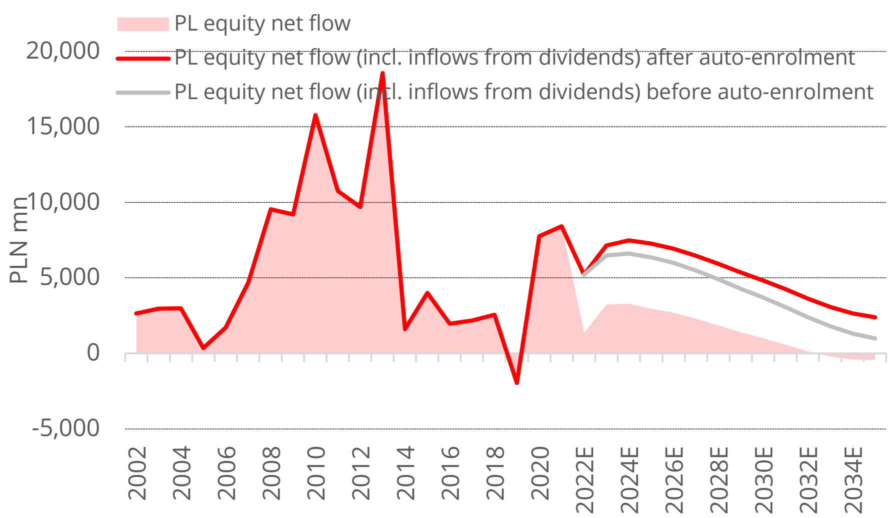
Source: Santander Brokerage Poland estimates

Pension Scheme – funds flows

Already at the beginning of 2023 ca. 2.5mn employees, implying ca. 34.6% participation rate, regularly contributed to the PPK Polish Pension Scheme (employee capital plans). The general picture changed in April, however, following the auto-enrolment to the system - a process envisaged by the legislator to happen every four years. As a result of this, according to the Polish Development Fund (PFR) the number of the PPK participants exceeded 3.3mn people EOP April, implying additional 718k participants. The participation rate increased by ca. 8.4p.p. to 43.7% (including companies where at least 1 person participates in PPK), settling still visibly below the target level: 50-75%. Taking the opportunity, it is worth highlighting that 70% out of 313k participants have withdrawn funds from PPK in the recent months, but they still stay in the program, decreasing the odds for a meaningful AuM withdrawal from the system in the mid-term, we reckon.

PFR estimates that following the auto-enrolment, monthly inflows to PPK funds should amount to ca. PLN700mn vs. PLN500mn previously. This corresponds with our in-house calculations indicating on average ca. PLN160mn additional monthly inflows to the PPK in 2024E, of which ca. PLN65mn should be dedicated to the domestic equites, we calculate.

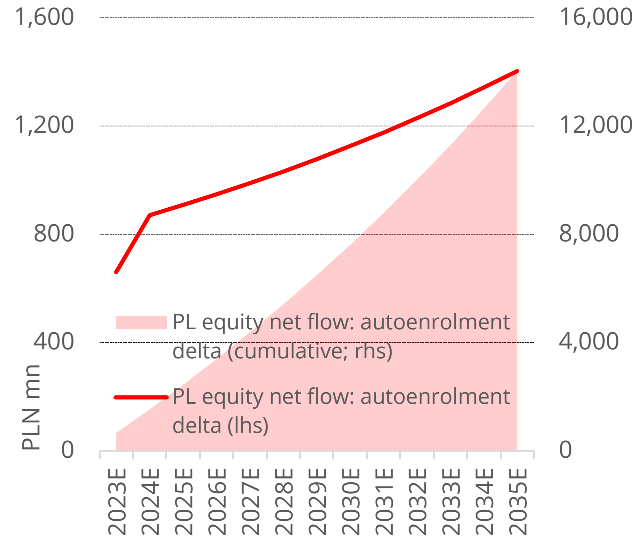
Fig. 46. Estimated flows to Polish equities from domestic pension schemes*/**



*Source: Santander Brokerage Poland estimates, KNF, government, ZUS, *the presented yearly figures include net flows to Polish equity attributable to OFE, PPK, PPE, IKE, IKZE, assuming unchanged asset allocation in all the schemes from 2022E onwards, ** historical data are Santander Brokerage Poland estimates including changes to the equity allocation and foreign stocks flows regarding the OFE sector*

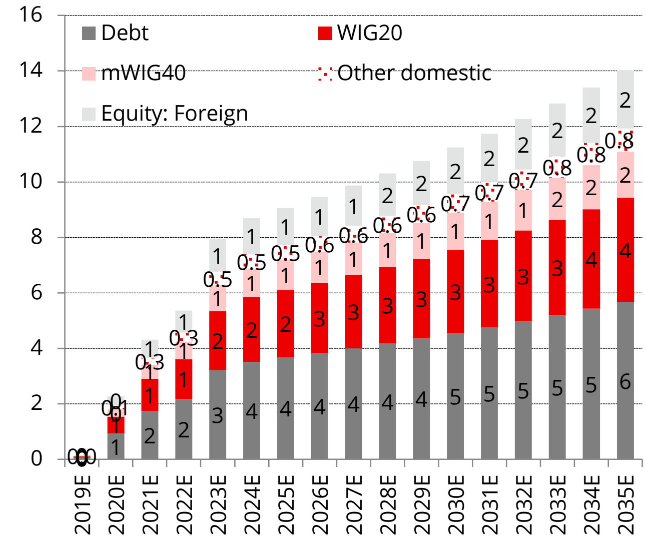
Said this, we have updated our expectations regarding the flows from the Polish long-term pension schemes (OFE, PPK, PPE, IKE, IKZE) to Polish equities. The key conclusion is that higher participation rate in the PPK scheme should turn beneficial to the domestic equity market, particularly in the segment of the mid-/small-caps. Taking into account the still relatively low participation rate (particularly in the public sector estimated at ca. 25%), we believe there is still space for further growth of PPK-related inflows to the domestic equities in the coming years, which should mitigate the anticipated increase of the Pension Funds outflows in the long-term (horizon exceeding 2030E).

Fig. 47. PPK auto-enrolment: net flows implications



Source: Santander Brokerage Poland

Fig. 48. Est. inflows to PPK split by asset class (PLN bn)



Source: Santander Brokerage Poland

Santander CEE Large/ Mid Caps Universe

Fig. 49. Recommendation summary and ratios

Company	Mkt Cap (local mn)	Rec.	Price (local)	Dec'23 TP (local)	Upside/ downside	P/E (x) 2023E	P/E (x) 2024E	P/E (x) 2025E	EV/EBITDA (x) / P/BV (x) 2023E	EV/EBITDA (x) / P/BV (x) 2024E	EV/EBITDA (x) / P/BV (x) 2025E	FCF Yield 2023E	FCF Yield 2024E	FCF Yield 2025E	Dividend Yield 2023E	Dividend Yield 2024E	Dividend Yield 2025E
Financials						**4.4**	**5.2**	**5.9**	**0.97**	**0.85**	**0.82**				**2.7%**	**4.5%**	**4.6%**
ALIOR BANK SA	5,774	Neutral	44.2	47.0	6%	3.4	4.9	5.9	0.72	0.61	0.56				0.0%	0.0%	0.0%
HANDLOWY	10,440	Underperform	79.9	65.0	-19%	4.4	9.2	10.5	1.08	1.12	1.11				12.0%	17.0%	8.1%
BNP PARIBAS BANK	7,827	Outperform	53.0	64.0	21%	3.0	4.6	4.3	0.58	0.53	0.48				0.0%	0.0%	0.0%
INGBSK	23,158	Neutral	178.0	190.0	7%	6.7	6.6	6.8	1.51	1.30	1.20				2.2%	4.5%	4.6%
KOMERCNI BANKA	125,623	Neutral	661.0	700.0	6%	7.9	7.1	6.2	1.00	0.95	0.90				9.1%	8.2%	8.8%
MBANK SA	15,700	Outperform	370.0	431.0	16%	3.5	4.6	5.3	1.03	0.85	0.77				0.0%	0.0%	0.0%
MILLENNIUM	5,922	Outperform	4.9	6.2	27%	2.3	3.1	3.3	0.90	0.77	0.60				0.0%	0.0%	0.0%
OTP BANK PLC	3,122,000	Neutral	11,150.0	11,800.0	6%	4.8	4.3	5.6	0.80	0.72	0.66				2.7%	3.4%	3.9%
PEKAO	26,929	Outperform	102.6	120.0	17%	4.7	6.0	6.9	0.95	0.85	0.82				3.6%	10.7%	8.3%
PKOBP	42,175	Neutral	33.7	35.0	4%	4.3	5.2	5.8	0.97	0.88	0.82				3.9%	6.3%	6.8%
PZU	35,370	Underperform	41.0	36.0	-12%	8.7	8.6	8.5	1.55	1.45	1.35				5.9%	6.9%	7.0%
Construction						**17.2**	**15.9**	**12.1**	**6.9**	**5.9**	**4.7**	**-1.3%**	**12.3%**	**9.3%**	**2.1%**	**4.4%**	**4.9%**
BUDIMEX	9,140	Neutral	334.0	360.0	8%	15.8	15.9	16.7	7.3	6.9	6.8	7.6%	6.8%	7.1%	5.3%	6.3%	6.3%
ERBUD	504	Neutral	41.7	44.0	5%	18.6	18	13.7	6.9	6.5	6.0	4.1%	12.5%	11.5%	2.0%	2.7%	5.5%
UNIBEP	364	Outperform	10.4	12.4	19%	23.1	13.2	6.5	6.8	5.3	3.3	-6.6%	14.9%	23.7%	2.2%	2.4%	4.3%
TORPOL	354	Outperform	14.42	20.3	32%	8.2	15.8	10.5	1.5	1.5	1.9	-43%	12%	-10%	0.0%	6.1%	3.2%
Consumer Goods						**18.0**	**15.3**	**11.1**	**9.5**	**7.4**	**5.7**	**1.1%**	**4.0%**	**5.2%**	**0.0%**	**0.0%**	**0.6%**
ALLEGRO.EU SA	40,020	Underperform	37.9	36.0	-5%	38.3	24.9	20.9	18.0	13.2	11.2	4.4%	4.3%	5.2%	0.0%	0.0%	0.0%
AUTO PARTNER SA	2,461	Outperform	18.8	27.2	44%	9.5	8.1	6.6	7.7	6.4	5.5	-0.3%	2.7%	-3.3%	0.8%	0.5%	0.6%
INTERCARS	7,566	Outperform	533	936	75%	7.7	6.5	5.9	6.0	5.2	4.6	-1.4%	1.9%	3.7%	0.4%	0.5%	0.6%
INPOST	4,643	Outperform	9.3	12.3	32%	22.7	15.6	11.3	9.7	7.5	5.7	1.1%	2.9%	5.1%	0.0%	0.0%	0.0%
CCC SA	2,667	Underperform	48.6	40.5	-17%	n.a.	21.8	8.9	9.5	5.2	3.7	-0.2%	8.4%	3.7%	0.0%	0.0%	0.0%
DINO POLSKA SA	41,422	Outperform	422	537	27%	26.3	19.2	16.0	17.6	13.2	11.1	2.1%	4.0%	3.8%	0.0%	0.0%	3.1%
AMREST HOLDINGS	5,006	Outperform	22.8	30.2	32%	15.8	10.2	6.4	7.2	5.5	4.0	-8.0%	-2.4%	5.7%	0.0%	0.0%	0.0%
EUROCASH	2,451	Outperform	17.6	35.9	104%	11.6	8.2	6.0	5.2	3.9	3.0	10.4%	12.7%	16.9%	2.0%	2.0%	1.9%
LPP	24,513	Outperform	13,260	18,096	37%	17.0	13.5	11.1	9.2	7.5	6.1	13.7%	6.0%	7.8%	3.2%	4.5%	4.9%
NEUCA	3,282	Outperform	732	990	36%	21.7	15.6	12.3	9.5	7.6	6.3	5.4%	7.0%	8.8%	1.8%	2.0%	2.2%
PEPCO GROUP NV	24,012	Outperform	41.8	54.8	31%	19.0	15.3	12.5	9.5	7.4	5.8	0.4%	2.6%	5.9%	0.0%	0.0%	0.0%
Energy/ Materials						**4.6**	**5.6**	**5.3**	**3.1**	**4.5**	**4.5**	**11.2%**	**-5.6%**	**-11.0%**	**0.8%**	**0.1%**	**0.1%**
CEZ AS	543,908	Underperform	1,011.0	740.0	-27%	15.1	15.2	16.5	7.6	6.7	7.2	14.3%	5.6%	4.2%	11.6%	5.3%	5.3%
ENEA	4,490	Outperform	7.3	12.3	69%	2.0	5.6	4.4	3.2	6.0	5.9	30.0%	-141.0%	-72.0%	0.0%	0.0%	0.0%
JSW	4,800	Underperform	40.88	32.0	-22%	1.2	-6.4	-5.2	-0.1	0.8	7.3	17.3%	-52.0%	-44.7%	0.0%	0.0%	0.0%
KGHM	22,200	Underperform	111.0	76.0	-32%	33.6	35.7	21.5	6.8	6.6	5.8	1.5%	-2.8%	-0.7%	0.8%	0.1%	0.1%
BOGDANKA	1,422	Outperform	41.8	75.2	80%	1.0	1.2	1.5	0.1	0.0	-0.1	87.2%	48.9%	32.7%	6.2%	30.7%	25.0%
MOL	2,276,375	Neutral	2,778.0	2,900.0	4%	8.6	9.0	7.1	2.5	2.8	2.8	4.4%	9.1%	19.0%	12.6%	5.4%	5.9%
OMV AG	14,263	Outperform	43.6	59.0	35%	6.2	6.7	7.3	2.9	3.2	3.6	21.4%	17.8%	17.5%	11.6%	11.5%	11.5%
PGE SA	16,612	Neutral	7.4	7.7	4%	6.6	4.8	3.9	5.0	4.5	4.1	-15.0%	-79.0%	-19.0%	0.0%	0.0%	0.0%
PKN ORLEN	74,405	Underperform	64.1	61.0	-5%	3.0	4.1	5.3	1.6	2.1	2.7	11.2%	-5.6%	-11.0%	8.6%	6.5%	6.7%
TAURONPE	4,154	Outperform	2.4	5.1	115%	2.4	2.3	2.1	5.3	4.5	4.5	8.0%	-52.0%	-35.0%	0.0%	0.0%	0.0%

Company	Mkt Cap (local mn)	Rec.	Price (local)	Dec'23 TP (local)	Upside/ downside	P/E (x)			EV/EBITDA (x) / P/BV (x)			FCF Yield			Dividend Yield		
						2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
ZE PAK SA	1,138	Underperform	22.4	16.6	-26%	n.a.	15.7	5.5	n.a.	12.5	9.4	-0.8%	-70.4%	-73.5%	0.0%	0.0%	0.0%
Gaming						**15.8**	**11.0**	**15.4**	**10.3**	**6.8**	**7.9**	**4.2%**	**4.9%**	**4.7%**	**0.0%**	**0.0%**	**0.0%**
11 BIT STUDIOS S	1,549	Outperform	641.0	660.0	3%	437.3	10.0	12.9	277.6	8.0	8.8	-2.8%	4.7%	6.1%	0.0%	0.0%	0.0%
CD PROJEKT SA	12,193	Outperform	121.0	207.0	71%	22.8	56.6	85.2	15.8	38.8	57.0	3.0%	0.9%	-0.8%	0.0%	0.0%	0.0%
HUUUGE INC	2,199	Outperform	26.0	36.0	38%	6.5	7.3	7.3	2.3	1.9	2.2	17.8%	12.6%	13.0%	0.0%	0.0%	0.0%
TEN SQUARE GAMES	579	Underperform	79.0	77.0	-3%	8.7	12.0	17.8	4.7	5.6	7.0	5.3%	5.1%	3.2%	0.0%	0.0%	0.0%
Industrials						**11.8**	**11.0**	**7.7**	**6.7**	**4.9**	**3.8**	**2.8%**	**3.2%**	**11.3%**	**0.0%**	**3.4%**	**3.5%**
CIECH	2,477	Outperform	47.0	53.1	13%	8.0	7.2	6.8	4.0	3.7	3.4	7.5%	10.7%	12.4%	0.0%	2.5%	2.8%
GRENEVIA	1,945	Outperform	3.4	4.23	25%	10.0	11.6	11.5	4.8	4.6	4.2	5.8%	21.9%	16.4%	0.0%	5.0%	4.3%
GRUPA AZOTY SA	2,760	Outperform	27.8	33.1	19%	NA	504.8	3.0	14.5	5.1	3.3	-47.1%	-3.7%	30.6%	0.0%	0.0%	0.0%
KETY	5,568	Neutral	577.0	622.9	8%	12.4	10.4	9.8	8.6	7.3	6.8	6.6%	7.4%	7.0%	10.4%	6.9%	8.1%
MO-BRUK	977	Outperform	278.0	358.0	29%	11.8	11.5	8.5	8.8	8.8	6.2	-0.1%	-1.1%	10.2%	5.6%	4.2%	6.1%
PKP CARGO SA	881	Underperform	19.7	18.0	-8%	14.8	8.7	5.2	3.2	3.1	3.0	-5.9%	-9.7%	6.0%	0.0%	0.0%	0.0%
IT Sector						**13.6**	**12.6**	**11.8**	**7.5**	**6.6**	**5.9**	**7.7%**	**8.4%**	**8.8%**	**3.8%**	**3.8%**	**3.8%**
ASSECOPOL	7,624	Neutral	91.9	96.0	5%	15.0	14.3	13.9	4.6	4.4	4.2	2.8%	1.9%	4.2%	3.8%	3.8%	3.8%
ASSECO BUSINESS SOLUTIONS	1,336	Neutral	40.0	42.0	5%	13.1	12.3	11.7	8.8	8.3	7.9	7.8%	8.4%	8.8%	5.6%	6.7%	7.1%
ASSECO SOUTH EASTERN EUROPE	2,615	Neutral	50.4	55.0	9%	13.6	12.6	11.8	7.5	6.6	5.9	8.4%	9.2%	9.8%	2.9%	3.3%	3.5%
COMARCH	1,155	Outperform	142.0	178.0	25%	12.2	10.4	9.1	3.7	3.1	2.5	7.7%	9.0%	10.4%	2.1%	2.8%	2.8%
LIVECHAT SOFTWAR	3,739	Underperform	145.2	139.0	-4%	15.3	19.0	17.0	12.5	15.9	14.2	5.2%	5.8%	6.0%	5.4%	6.5%	6.9%
Pharmaceuticals						**12.1**	**11.1**	**11.1**	**8.2**	**7.8**	**7.3**	**0.7%**	**1.6%**	**3.4%**	**0.0%**	**0.0%**	**0.0%**
MABION	295	Underperform	18.3	14.0	-23%	12.1	11.1	11.1	8.2	7.8	7.3	-12.0%	-5.5%	3.4%	0.0%	0.0%	0.0%
RICHTER GEDEON	1,528,274	Outperform	8,200.0	10,000.0	22%	8.5	8.0	7.2	5.6	5.0	4.4	5.2%	6.9%	6.0%	4.8%	4.3%	4.4%
SELVITA	1,424	Underperform	77.6	73.0	-6%	33.4	19.9	16.0	16.1	11.6	9.6	0.7%	1.6%	0.7%	0.0%	0.0%	0.0%
Real Estate						**9.3**	**11.4**	**10.0**	**1.2**	**1.2**	**1.1**	**6.0%**	**10.9%**	**10.6%**	**7.7%**	**7.9%**	**6.4%**
ATAL	1,935	Outperform	50.0	60.0	20%	6.5	9.1	8.6	1.4	1.4	1.3	6.0%	8.0%	12.0%	10.0%	10.8%	7.7%
DOMDEV	3,675	Neutral	143.0	153.0	7%	10.1	9.5	9.8	2.5	2.3	2.2	8.1%	10.9%	10.6%	7.7%	7.9%	8.4%
DEVELIA SA	1,763	Outperform	3.94	4.30	9%	9.3	11.8	10.0	1.2	1.2	1.1	13.3%	15.3%	10.5%	10.2%	8.3%	6.4%
GTC	3,353	Underperform	5.84	5.70	-2%	10.9	11.4	14.0	0.6	0.6	0.6	2.3%	-1.3%	2.8%	0.0%	0.0%	0.0%
PHN	594	Neutral	11.60	12.20	5%	-91.0	23.6	48.9	0.3	0.3	0.2	-1.0%	36.1%	15.0%	3.1%	3.1%	3.1%
Telecoms						**10.5**	**11.6**	**10.9**	**4.4**	**4.2**	**4.0**	**2.9%**	**9.0%**	**5.9%**	**2.9%**	**9.0%**	**5.9%**
CYFRPLSAT	11,230	Underperform	17.6	17.8	1%	28.7	26.2	13.8	5.8	5.2	4.7	-41.5%	-7.9%	-3.9%	0.0%	0.0%	0.0%
ORANGE POLSKA SA	9,848	Neutral	7.5	8.0	7%	5.7	4.7	4.5	3.6	3.2	3.2	11.0%	11.1%	13.5%	10.2%	11.6%	14.1%
MAGYAR TELEKOM	431,489	Underperform	429.0	371.0	-14%	10.5	11.6	10.9	4.4	4.2	4.0	2.9%	9.0%	5.9%	2.9%	9.0%	5.9%
Other						**20.7**	**15.8**	**12.6**	**8.9**	**7.6**	**6.3**	**5.2%**	**6.6%**	**8.1%**	**2.1%**	**2.1%**	**2.1%**
GRUPA PRACUJ SA	3,966	Neutral	58.1	61.0	5%	21.1	17.8	15.5	14.4	12.4	10.9	4.3%	5.6%	6.4%	2.2%	2.4%	4.2%
WIRTUALNA POLSKA	3,533	Outperform	120.6	150.0	24%	20.7	15.8	12.6	8.9	7.6	6.3	5.2%	6.6%	8.1%	2.1%	2.1%	2.1%
WIZZ AIR HOLDING	3,013	Outperform	2,917.0	3,500.0	20%	10.8	8.1	6.9	6.9	5.3	4.1	12.6%	17.1%	19.3%	0.0%	0.0%	0.0%
TOTAL					**8%**	**10.1**	**10.4**	**8.8**	**5.0**	**4.8**	**4.1**	**4.4%**	**5.8%**	**6.0%**	**1.9%**	**2.4%**	**3.0%**

Source: Company data, Santander Brokerage Poland estimates

Santander

Changes in recommendations and TPs

Fig. 50. Changes to valuations & recommendations for companies in WIG20

Company	Mkt Cap (PLNmn)	Recommendation				Dec'23 Target Price			
		current	previous	change	Prev. Rec.	current	previous	chng. %	upside %
ALIOR BANK SA	5,774	Neutral	Neutral	–	27/04/2023	47	46	2%	6%
ALLEGRO.EU SA	40,020	Underperform	Outperform	▼	02/12/2022	36	31.3	15%	-5%
ASSECOPOL	7,624	Neutral	Outperform	▼	02/12/2022	96	89	8%	5%
CD PROJEKT SA	12,193	Outperform	Outperform	–	12/04/2023	207	214	-3%	71%
CYFRPLSAT	11,230	Underperform	Underperform	–	17/05/2023	17.8	17.8	0%	1%
DINO POLSKA SA	41,422	Outperform	Outperform	–	25/12/2023	537	482	11%	27%
JSW	4,800	Underperform	Underperform	–	25/05/2023	32	32	0%	-22%
KETY	5,568	Neutral	Outperform	▼	09/02/2023	623	628	-1%	8%
KGHM	22,200	Underperform	Underperform	–	19/05/2023	76	76	0%	-32%
LPP	24,513	Outperform	Outperform	–	02/12/2022	18,096	15,288	18%	37%
MBANK SA	15,700	Outperform	Outperform	–	02/12/2022	431	428	1%	16%
ORANGE POLSKA SA	9,848	Neutral	Neutral	–	10/05/2023	8.0	8.0	0%	7%
PEKAO	26,929	Outperform	Outperform	–	10/05/2023	120	113	6%	17%
PEPCO GROUP NV	24,012	Outperform	Outperform	–	23/03/2023	54.8	55.4	-1%	31%
PGE SA	16,612	Neutral	Neutral	–	23/05/2023	7.7	7.7	0%	4%
PKN ORLEN	74,405	Underperform	Underperform	–	26/05/2023	61.0	61.0	0%	-5%
PKOBP	42,175	Neutral	Neutral	–	31/03/2023	35.0	35.0	0%	4%
PZU	35,370	Underperform	Neutral	▼	31/03/2023	36.0	36.0	0%	-12%

Source: Santander Brokerage Poland estimates

Fig. 51. Changes to valuations & recommendations for companies in mWIG40

Company	Mkt Cap (PLNmn)	Recommendation				Dec'23 Target Price			
		current	previous	change	Prev. Rec.	current	previous	chng. %	upside %
11 BIT STUDIOS S	1,549	Outperform	Outperform	–	30/01/2023	660	660	0%	3%
AMREST HOLDINGS	5,006	Outperform	Neutral	▲	02/12/2022	30.2	22.7	33%	32%
ASSECO BS	1,336	Neutral	Neutral	–	13/01/2023	42.0	38.0	11%	5%
ASSECO SEE	2,615	Neutral	Outperform	▼	02/12/2022	55.0	50.0	10%	9%
ATAL	1,935	Outperform	Outperform	–	25/04/2023	60.0	60.0	0%	20%
AUTO PARTNER SA	2,461	Outperform	Outperform	–	26/04/2023	27.2	27.8	-2%	44%
BNP PARIBAS BANK	7,827	Outperform	Outperform		12/05/2023	64.0	64.0	0%	21%
BOGDANKA	1,422	Outperform	Outperform	–	22/05/2023	75.2	75.2	0%	80%
BUDIMEX	9,140	Neutral	Outperform	▼	20/03/2023	360.0	350.0	3%	8%
CCC SA	2,667	Underperform	Restricted	–	17/04/2023	40.5	-	-	-17%
CIECH	2,477	Outperform	Outperform	–	13/02/2023	53.1	54.2	-2%	13%
COMARCH	1,155	Outperform	Outperform	–	02/12/2022	178.0	207.0	-14%	25%
DEVELIA SA	1,763	Outperform	Outperform	–	06/04/2023	4.3	3.65	18%	9%
DOMDEV	3,675	Neutral	Outperform	▼	30/03/2023	153.0	140.0	9%	7%
ENEA	4,490	Outperform	Outperform	–	23/05/2023	12.3	12.3	0%	69%
ERBUD	504	Neutral	Neutral	–	04/11/2022	44.0	30.0	47%	5%
EUROCASH	2,451	Outperform	Outperform	–	02/12/2022	35.9	21.8	65%	104%
GRENEVIA	1,945	Outperform	Neutral	▲	02/12/2022	4.2	3.9	9%	25%
GRUPA AZOTY SA	2,760	Outperform	Neutral	▲	02/12/2022	33.14	43.1	-23%	19%
GRUPA PRACUJ SA	3,966	Neutral	Neutral	–	05/04/2023	61.0	61.0	0%	5%
GTC	3,353	Underperform	Under Review	–	07/03/2023	5.7	-	-	-2%
HANDLOWY	10,440	Underperform	Underperform	–	16/05/2023	65.0	65.0	0%	-19%
HUUUGE INC	2,199	Outperform	Outperform	–	12/02/2023	36.0	36.0	0%	38%
INGBSK	23,158	Neutral	Neutral	–	16/05/2023	190.0	182.0	4%	7%
INTERCARS	7,566	Outperform	Outperform	–	26/04/2023	936.0	906.0	3%	75%
LIVECHAT SOFTWAR	3,739	Underperform	Neutral	▼	02/12/2022	139.00	114.00	22%	-4%
MABION	295	Underperform	Underperform	–	19/04/2023	14.0	14.0	0%	-23%
MILLENNIUM	5,922	Outperform	Outperform	–	02/12/2022	6.2	6.6	-6%	27%

Company	Mkt Cap (PLNmn)	Recommendation			Dec'23 Target Price				
		current	previous	change	Prev. Rec.	current	previous	chng. %	upside %
MO-BRUK	977	Outperform	Outperform	–	02/12/2022	358.0	338.2	6%	29%
NEUCA	3,282	Outperform	Outperform	–	23/05/2023	990.0	990.0	0%	36%
PHN	594	Neutral	Neutral	–	02/12/2022	12.2	14.6	-16%	5%
PKP CARGO SA	881	Underperform	Neutral	▼	28/04/2023	18.0	16.1	12%	-8%
SELVITA CRO SA	1,424	Underperform	Underperform	–	31/03/2023	73	73	0%	-6%
TAURONPE	4,154	Outperform	Outperform	–	23/05/2023	5.1	5.1	0%	115%
TORPOL	354	Outperform	Outperform	–	03/02/2023	20.3	22.7	-11%	32%
TEN SQUARE GAMES	579	Underperform	Underperform	–	04/04/2023	77.0	77.0	0%	-3%
UNIBEP	364	Outperform	Underperform	▲	02/12/2022	12.4	8.0	55%	19%
WIRTUALNA POLSKA	3,533	Outperform	Outperform	–	24/05/2023	150.0	150.0	0%	24%
ZE PAK SA	1,138	Underperform	Underperform	–	02/12/2022	16.6	19.2	-14%	-26%

Source: Santander Brokerage Poland estimates

Fig. 52. Changes to valuations & recommendations for CEE companies

Company	Mkt Cap (local mn)	Curr.	Recommendation			Dec'23 Target Price				
			current	previous	change	Prev. Rec.	current	previous	chng. %	upside %
CEZ AS	543,908	CZK	Underperform	Underperform	–	15/05/2023	740	740	0%	-27%
INPOST	4,643	EUR	Outperform	Outperform	–	09/05/2023	12.3	11.8	9%	32%
KOMERCNI BANKA	125,623	CZK	Neutral	Neutral	–	16/05/2023	700	700	0%	6%
MAGYAR TELEKOM	431,489	HUF	Underperform	Underperform	–	12/05/2023	371	371	0%	-14%
MOL	2,276,375	HUF	Neutral	Neutral	–	15/05/2023	2,900.0	2,900.0	0%	4%
OMV AG	14,263	EUR	Outperform	Outperform	–	12/05/2023	59	59	0%	35%
OTP BANK PLC	3,122,000	EUR	Neutral	Neutral	–	12/05/2023	11,800.0	11,300.0	6%	6%
RICHTER GEDEON	1,528,274	HUF	Outperform	Outperform	–	17/05/2023	10,000.0	10,000.0	0%	22%
WIZZ AIR HOLDING	3,013	GBP	Outperform	Outperform	–	24/04/2023	3,500.0	3,500.0	0%	20%

Source: Santander Brokerage Poland estimates

Technical Analysis

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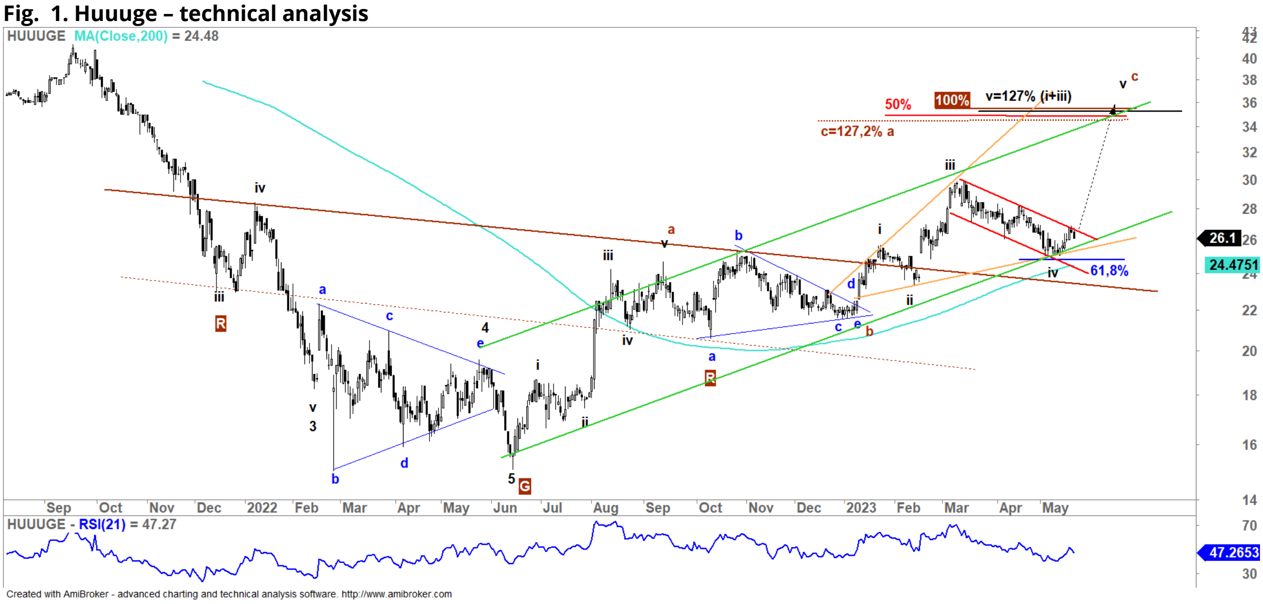
Looking for a technical confirmation of fundamental calls

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 could support fundamental ratings. Methodologically, our technical analysis is based on Elliott's wave theory, but it also includes technical oscillators (e.g. RSI) and some elements from the classical technical analysis.

HUUUGE: A bull market is still underway

Having dropped to a strong support built by: 61.8% Fibonacci retracement of wave iii, 200-day simple moving average and lower band of a declining channel, the uptrend was restored, so that bulls managed to break through the upper band of a declining channel. Thus, the price may be climbing higher in line with the extended fifth wave. The price target of an uptrend is PLN35.50, where a strong resistance zone is located.

Fig. 1. Huuuge – technical analysis



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

PEPCO: A thrust from the triangle

Bulls managed to push through the upper arm of a multi-month triangle consolidation, opening the way for further gains. The uptrend should resemble the last year rally that finished brown wave a. Taking that into consideration, the bull market may push the price higher, even to the neighbourhood of PLN55. Not only waves equality is located there, but price target of a thrust from the triangle too.

Fig. 2. Pepco – technical analysis

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

MBANK: A bull flag pattern

After a few-month consolidation that formed a bull flag pattern or a rectangle pattern, bulls managed to hold the support zone, built from a broken upper boundary of a horizontal trend. In that way, bulls got an advantage and prepared the base for the next rally. An uptrend may be continued till PLN440, where 61.8% Fibonacci retracement of wave 1 and waves equality in a zigzag pattern are located.

Fig. 3. mBank – technical analysis

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

CYFROWY POLSAT: The beginning of the end?

Having finished a strong price drop, which took place mainly in 2022, Cyfrowy Polsat started consolidation, which seems to be just a pause in a long term bear market. A multi-month triangle formation is nearing to the apex of the triangle, which is typically a sign of an imminent breakthrough (a thrust). It is more likely that the lower arm of the triangle will be broken, which will initiate the next strong price decline. The minimal price target of brown wave c is located below an all-time low.

Fig. 4. Cyfrowy Polsat – technical analysis

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

PKN ORLEN: Is this the end of the triangle?

The price reached a strong resistance zone, built by: a downtrend line (which is also an upper arm of the triangle) and 78.6% Fibonacci retracement of blue wave D. It is high time for bears to reverse the uptrend and start brown wave c. The price decline will be confirmed, after breaking: the lower arm of the triangle and termination point of blue wave D. However, if bulls manage to push through the upper arm of the triangle, the consolidation will elongate and the price will be able to reach PLN75, where 61.8% Fibonacci retracement of blue wave B (a pink scenario) are located.

Fig. 5. PKN Orlen – technical analysis

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

COPPER (futures): Half way down?

In the last mid-year strategy, I highlighted an interesting historical analogy: *(...) from late '70 each new historical peak ends with a negative divergence on RSI, after which price plummets on average 62%. If this analogy repeats, the downtrend will bring the price back to USD2, where strong support zone is located.* Having finished first part of a decline (wave a), bulls started to develop a correction, which reached precisely 61.8% Fibonacci retracement of wave a. It turned out that it was a peak of wave b, after which a bear market was restored. Currently, wave c is underway which should be heading much lower, ideally to a strong support zone formed around USD2.00.

Fig. 6. Copper (futures) – technical analysis

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

KGHM: Copper should (still!) drag KGHM much lower

The technical analysis of KGHM is a pure reflection of a technical analysis of copper (which you can find above), which, of course, is not surprising. After the COVID crash, bulls unfolded a hyperbolic uptrend, which finalised the extended 5th wave. In a perfect technical analysis world, the whole post-pandemic rally should be retraced, enabling the price to reach a termination point of wave 4. First part of the bear market built wave a in a three-wave zigzag pattern: a-b-c. Having reached 50% Fibonacci retracement of wave b, the downtrend was restored. The bear market may be continued till the strong support zone, which is stretched between PLN46 and PLN61. Thus, KGHM could be (as well as copper) just half way down.

Fig. 7. KGHM – technical analysis

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

Consumer goods

Fig. 53. Recommendation and valuation summary

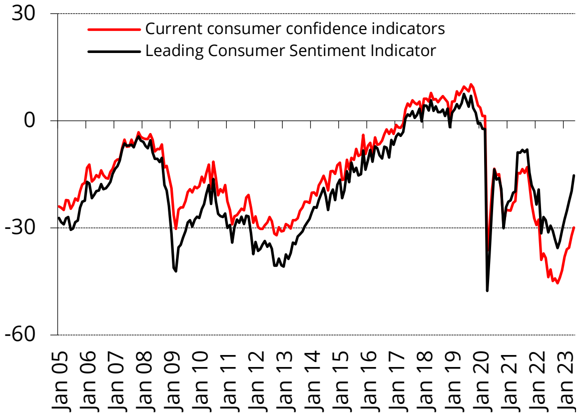
Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2023E	2024E	2025E	EV/EBITDA (x) 2023E	2024E	2025E	FCF yield 2023E	2024E	2025E
Allegro	Underperform	36.0	37.9	-5%	38.3	24.9	20.9	18.0	13.2	11.2	4.4%	4.3%	5.2%
Amrest	Outperform	30.2	22.8	32%	15.8	10.2	6.4	7.2	5.5	4.0	-8.0%	-2.4%	5.7%
Auto P.	Outperform	27.2	18.8	44%	9.5	8.1	6.6	7.7	6.4	5.5	-0.3%	2.7%	-3.3%
CCC	Underperform	40.5	48.6	-17%	n.a.	21.8	8.9	9.5	5.2	3.7	-0.2%	8.4%	3.7%
Dino	Outperform	537	422	27%	26.3	19.2	16.0	17.6	13.2	11.1	2.1%	4.0%	3.8%
Eurocash	Outperform	35.9	17.6	104%	11.6	8.2	6.0	5.2	3.9	3.0	10.4%	12.7%	16.9%
Inpost	Outperform	12.3	9.3	32%	22.7	15.6	11.3	9.7	7.5	5.7	1.1%	2.9%	5.1%
Inter Cars	Outperform	936	533	75%	7.7	6.5	5.9	6.0	5.2	4.6	-1.4%	1.9%	3.7%
LPP	Outperform	18,096	13,260	37%	17.0	13.5	11.1	9.2	7.5	6.1	13.7%	6.0%	7.8%
Neuca	Outperform	990.0	732.0	36%	21.7	15.6	12.3	9.5	7.6	6.3	5.4%	7.0%	8.8%
Pepco	Outperform	54.8	41.8	31%	19.0	15.3	12.5	9.5	7.4	5.8	0.4%	2.6%	5.9%
Median					**19.0**	**14.4**	**10.7**	**9.9**	**7.5**	**6.1**	**2.5%**	**4.6%**	**5.8%**

Source: Company data, Santander Brokerage Poland estimates

Regaining strength

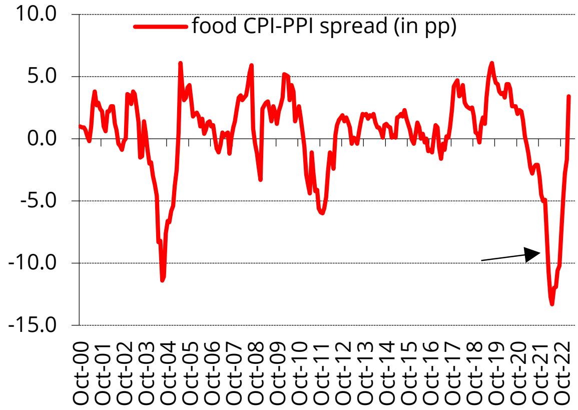
We rate the Consumer goods sector as Outperform. We think that consumer wage bill growth should bottom out in 1H23. We cannot forget about the new promised social spending (like 800+). We see meaningful upsides for all names, excluding CCC and Allegro.

Fig. 54. Improving consumer sentiment ...



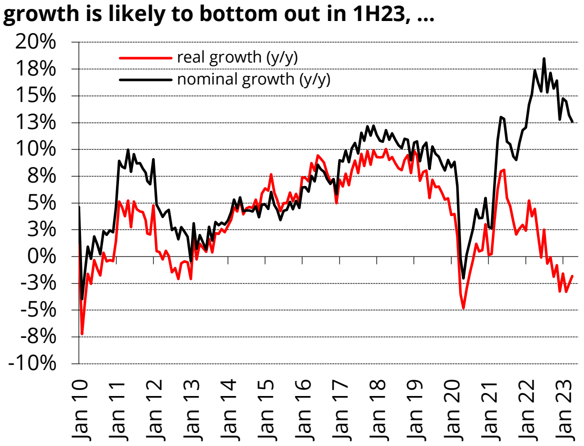
Source: Santander Brokerage Poland

Fig. 55. ... and disinflation trends ...



Source: Santander Brokerage Poland

Fig. 56. ... are raising hopes that consumer wage bill growth is likely to bottom out in 1H23, ...



Source: Santander Brokerage Poland

Fig. 57. ... which bodes well for retail sales growth in the reminder of 2023

	4Q22	1Q23E	2Q23E	3Q23E	4Q23E
wages	12.3%	12.7%	12.1%	11.5%	12.5%
employ.	2.6%	0.5%	0.0%	-0.1%	-0.2%
CPI	17.3%	17.0%	13.5%	12.0%	10.1%
CWB*	**-1.8%**	**-3.2%**	**-1.2%**	**-0.5%**	**2.0%**
Retail sales	**0.3%**	**-5.3%**	**-8.5%**	**-4.3%**	**1.9%**

*Source: Santander Brokerage Poland, * Corporate wage bill*

Santander

Allegro

Bloomberg: ALE PW, Reuters: ALEP.WA

CEE Equity Research

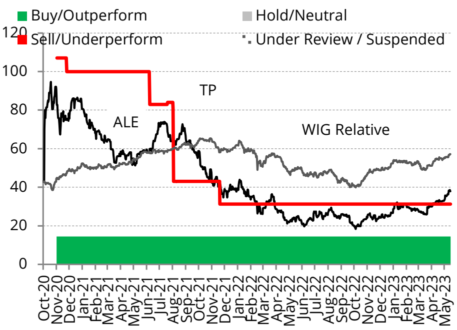
Consumer, Poland

A lot priced in

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	37.9
Target price (Dec'2023, PLN)	**36.0**

- **Equity story.** We are downgrading our recommendation to Underperform from Outperform with TP of PLN36.0; TP upped 15% (from PLN31.3) purely on valuation matters. Allegro is currently valued at 0.74x EV/GMV, which is 4% higher than target multiple implied by growth for its peers (AMZN, MELI, ZAL & ETSY). We are of the opinion that Allegro is (1) capable to further increase its market share based on still improving customer proposition and weaker competition, (2) well exposed to the expected improvement of customer conditions, (3) capable to increase margin based on a more cost-conscious approach to Polish business and improving performance of the Czech unit. All of these factors point at 2022-25E CAGR of GMV/adj. EBITDA at 14%/18% and balance sheet deleverage. However, we see this story already priced in with only FCF yield being the brightest side to look at (ALE's yield at 4.3% vs. peers' 2.5%).
- **Recent developments.** In **1Q23**, Allegro reported 10% beat on adj. EBITDA vs. mkt. cons. and SANe due to better operating costs. Group's GMV/revenues came in line with SANe and market estimates. Net profit were higher than SANe and market estimates due to lower than expected net financial costs (PLN95mn vs. SANe PLN119mn) and foreign exchange gain at PLN22mn (vs. SANe nil). In the forecast for **2Q23E**, we expect: (1) GMV growth at 11.1% y/y to PLN14,325mn, (2) revenues growth at 11.1% y/y to PLN2,456mn, (3) adj. EBITDA growth at 9.7% y/y to PLN531mn (GMV margin flat at 3.7%) and (4) net profit at PLN192mn (+15.6% y/y on adj. basis by last year's PLN81.4mn one-off financial cost).
- **Earnings forecasts.** We are decreasing 2025E GMV forecast by 9.0% due to a lower than previously assumed growth of GMV in Czechia. We are also decreasing 2023/25E EBITDA forecast by 6%/3%/12% due to the correction of assumed margins.
- **Valuation and risks.** We set TP at PLN36.0, up by 15% on the back of 28% higher DCF (PLN37.7; mainly lower cost of capital and 10% higher multiple valuation (PLN35.2; higher NTM GMV forecast rolled to the next period; target EV/GMV still at 0.72x). Risks to our valuation are: a sudden slowdown in the structural growth of the online segment in total retail, an increase in competitive pressure and a share overhang from the current owners.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Allegro: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
GMV	42,602	52,496	59,182	70,813	78,133
Sales	5,353	9,005	10,624	12,289	13,359
Adj. EBITDA	2,068	2,153	2,427	3,189	3,580
Adj. net profit	1,273	800	1,045	1,608	1,916
EV/GMV (x)	1.15	0.73	0.74	0.59	0.51
P/E (x)	35.8	40.9	38.3	24.9	20.9
EV/EBITDA (x)	23.7	17.8	18.0	13.2	11.2
FCF Yield	2.2%	3.5%	4.4%	4.3%	5.2%
Dividend Yield	0.0%	4.6%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 58. Allegro: 1Q23 results review and first look at 2Q23E

PLNmn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	y/y
GMV	10,824	12,898	12,907	15,867	13,139	14,371	11.4%
Sales	1,393	2,210	2,319	3,083	2,321	2,452	10.9%
adj. EBITDA	463	484	537	668	531	572	18.1%
margin	33.2%	21.9%	23.2%	21.7%	22.9%	23.3%	1.4
GMV margin	4.3%	3.8%	4.2%	4.2%	4.0%	4.0%	0.2
EBITDA	433	449	491	628	505	572	27.4%
margin	31.1%	20.3%	21.2%	20.4%	21.8%	23.3%	3.0
adj. net profit	251	166	195	273	240	233	40.6%
margin	18.0%	7.5%	8.4%	8.9%	10.3%	9.5%	2.0
net profit	167	-63	114	196	159	180	n.a.
margin	12.0%	-2.9%	4.9%	6.3%	6.8%	7.3%	10.2

Source: Company data, Santander Brokerage Poland estimates

Fig. 59. Allegro: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	59,182	59,800	*-1.0%*	70,813	72,035	*-1.7%*	78,133	85,869	*-9.0%*
EBITDA	10,624	10,063	*5.6%*	12,289	11,761	*4.5%*	13,359	13,731	*-2.7%*
EBIT	2,427	2,581	*-6.0%*	3,189	3,278	*-2.7%*	3,580	4,088	*-12.4%*
Net profit	1,045	1,090	*-4.1%*	1,608	1,579	*1.8%*	1,916	2,165	*-11.5%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 60. Allegro: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	37.7	29.3	*28.8%*
Mulitple valuation	35.2	32.1	*9.5%*
Target Price*	**36.0**	**31.3**	***14.9%***

*Source: Company data, Santander Brokerage Poland estimates, *weighted TP where DCF-30%, Multiple – 70%, to ensure more focus on mid-term perspectives and market valuation multiples, which we see fair for the company*

Fig. 61. Allegro: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
GMV	42,602	52,496	59,182	70,813	78,133
Net sales	5,353	9,005	10,624	12,289	13,359
Adj. EBITDA	2,068	2,153	2,427	3,189	3,580
EBIT	1,473	1,129	1,357	2,056	2,360
Profit before tax	1,358	671	1,026	1,810	2,211
Net profit (reported)	1,090	394	804	1,394	1,702
Adj. net profit	1,273	800	1,045	1,608	1,916
Adj. EBITDA/GMV margin	4.9%	4.1%	4.1%	4.5%	4.6%
Adj. EBITDA margin	38.6%	23.9%	22.8%	25.9%	26.8%
EBIT margin	27.5%	12.5%	12.8%	16.7%	17.7%
Adj. net margin	23.8%	8.9%	9.8%	13.1%	14.3%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	3,261	3,179	3,925	4,550	4,875
Fixed assets	13,609	16,054	15,909	15,727	15,456
Total assets	16,870	19,233	19,834	20,277	20,331
Current liabilities	1,228	2,313	3,625	4,173	4,526
bank debt	16	2	0	0	0
Long-term liabilities	6,188	7,939	6,424	4,924	2,924
bank debt	5,363	6,452	4,937	3,437	1,437
Equity	9,454	8,981	9,785	11,179	12,881
Total liability and equity	16,870	19,233	19,834	20,277	20,331
Net debt	3,387	5,551	3,796	2,078	14
Net Debt/ EBITDA (x)	1.6	2.6	1.6	0.7	0.0

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	1,407	1,855	2,655	2,668	3,014
CF from investment	-430	-3,076	-900	-950	-950
CF from financing, incl.	-205	142	-1,516	-1,500	-2,000
dividends	0	1,500	0	0	0
Net change in cash	772	-1,080	239	218	64
FCF	1,000	1,132	1,755	1,718	2,064

Source: Company data, Santander Brokerage Poland estimates

Amrest

Bloomberg: EAT PW, Reuters: AMMR.WA

CEE Equity Research

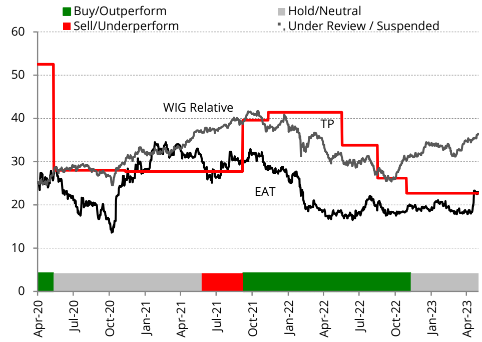
Consumer, Poland

Disinflation should help

- **Equity story.** We are upgrading our recommendation to Outperform from Neutral with TP of PLN30.2; up 33% from PLN22.7. We are of the opinion that (1) the gradual revival of consumer strength should fuel demand and keep sales growth at mid-teens, (2) the improved balance sheet leaves room for the rollout step-up, (3) disinflation should start helping to improve margins soon and (4) a much higher online share in Amrest's total sales creates margin opportunity (take-away is the most profitable channel) and further enhances sales growth (better knowledge of customer) and, last but not least, (5) Amrest's share price performance since October'22 has massively underperformed WIG index (by 11pp).
- **Recent developments.** **1Q23** adj. EBITDA came in 16% above market consensus and in line with our SANe. Sales came in at EUR621.2mn (+22.5% y/y; LFL at 17%) and were driven by the increasing commercial activity with a growing number of transactions and, to a lesser extent, by moderate price increases. EBITDA came in at EUR79.8mn (+6.0% y/y; margin at 12.8%; -2pp y/y). Net profit (EUR1.7mn) came in above market consensus (net loss at EUR3.1mn) and SANe (net loss at EUR0.2mn). For 2Q23, Amrest pointed at solid current trading in 2Q23 (c.8%-10% LFL and c13% of total sales growth). **In 2Q23E,** we expect a sales decline by 8% (reported) and +7% y/y (on restated basis excluding Russia) to EUR558mn, adj. EBITDA at EUR90mn (71bps margin decline on reported basis to 16.1%) and net profit at EUR16.5mn (-4.5% y/y).
- **Earnings forecasts.** We are decreasing 2023E EBITDA forecast due to exclusion of the Russian unit from consolidation. On the other hand, we are increasing our 2024/25E EBITDA forecast by 3%/18% due to the expected margins increase (cost disinflation and improved operating efficiency).
- **Valuation and risks.** We set TP at PLN30.2, up by 33% on the back of 47% higher DCF (PLN36.7; +47% on lower cost of capital after the sale of the Russian business, higher assumptions on margins) and 34% higher multiple valuation (PLN27.4; higher target EV/EBITDA multiple at 7.5x due to faster avg. EBITDA growth of 22% than the peer Alsea at 15%). The main risks are (1) stronger than assumed demand slowdown, (2) inflationary pressure on opex, (3) faster moves by competitors in the M&A field

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	22.8
Target price (Dec'2023, PLN, EURPLN 4.53)	**30.2**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Amrest: Financial summary and ratios

Year to Dec, EURmn	2021	2022	2023E	2024E	2025E
Sales	1,917	2,422	2,468	2,756	3,174
EBITDA	359	384	375	451	566
EBITDA (ex. IFRS16)	217	221	225	297	400
Net profit	33	1	70	108	173
P/E (x)	40.4	703.0	15.8	10.2	6.4
EV/EBITDA (ex. IFRS16)	8.3	6.1	7.2	5.5	4.0
FCF Yield	8.8%	6.8%	-8.0%	-2.4%	5.7%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 62. Amrest: 1Q23 results review and first look at 2Q23E

EURmn	2Q22	3Q22	4Q22	1Q23	2Q23E	y/y
Sales	605.7	658.2	651.1	621.2	558.4	-7.8%
EBITDA	100.8	114.0	94.3	79.8	89.8	-10.9%
margin	16.6%	17.3%	14.5%	12.8%	16.1%	-0.6
Adj. EBITDA	101.7	115.0	97.2	80.7	89.8	-11.7%
Adj. margin	16.8%	17.5%	14.9%	13.0%	16.1%	-0.7
Net profit	17.3	34.1	2.6	1.7	16.5	-4.5%
net margin	2.9%	5.2%	0.4%	0.3%	3.0%	0.1
Adj. net profit	17.3	34.1	2.6	1.7	16.5	-4.5%
net margin	2.9%	5.2%	0.4%	0.3%	3.0%	0.1

Source: Company data, Santander Brokerage Poland estimates

Fig. 63. Amrest: Forecasts changes

EURmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	2,468	2,687	*-8%*	2,756	2,946	*-6%*	3,174	3,266	*-3%*
EBITDA (ex. IFRS16)	225	254	*-11%*	297	288	*3%*	400	339	*18%*
Net profit	70	60	*18%*	108	73	*48%*	173	95	*83%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 64. Amrest: Valuation changes

EUR per share	New	Previous	*Change*
DCF valuation	36.7	25.0	*47%*
Multiple valuation	27.4	20.4	*34%*
Target Price	**30.2**	**22.7**	***33%***

*Source: Company data, Santander Brokerage Poland estimates, * weighted TP where DCF-30%, Multiple – 70% (vs. prev. 50%DCF/50%multiple), to ensure more focus on mid-term perspectives and market valuation multiples, which we see fair for the company*

Fig. 65. Amrest: Financial statements forecast

EURmn	2021	2022	2023E	2024E	2025E
Net sales	1,917	2,422	2,468	2,756	3,174
EBITDA	359	384	375	451	566
EBITDA (ex. IFRS16)	217	221	225	297	400
EBIT	103	75	142	193	279
Profit before tax	58	27	96	147	233
Net profit	33	1	70	108	173
EBITDA margin	11.3%	9.1%	9.1%	10.8%	12.6%
EBIT margin	5.4%	3.1%	5.8%	7.0%	8.8%
Net margin	1.7%	0.1%	2.8%	3.9%	5.4%

EURmn	2021	2022	2023E	2024E	2025E
Current assets	316	373	287	276	360
Fixed assets	1,859	1,908	2,080	2,257	2,425
Total assets	2,175	2,280	2,367	2,533	2,786
Current liabilities	579	626	633	674	734
bank debt	123	102	102	102	102
Long-term liabilities	1,288	1,323	1,324	1,331	1,342
bank debt	542	552	552	552	552
Equity	308	331	411	528	710
Total liabilities and equity	2,175	2,280	2,367	2,533	2,786
Net debt (ex. IFRS16)	466	424	512	538	476
Net debt/EBITDA (ex. IFRS16)	2.1	1.9	2.3	1.8	1.2

EURmn	2021	2022	2023E	2024E	2025E
CF from operations	357	363	305	396	505
CF from investment	-97	-138	-243	-269	-276
CF from financing, incl.	-266	-194	-150	-153	-166
dividends	0	0	0	0	0
Net change in cash	-6	31	-88	-26	63
FCF	117	62	-88	-26	63

Source: Company data, Santander Brokerage Poland estimates

Santander

Auto Partner

Bloomberg: APR PW, Reuters: APRR.WA

CEE Equity Research

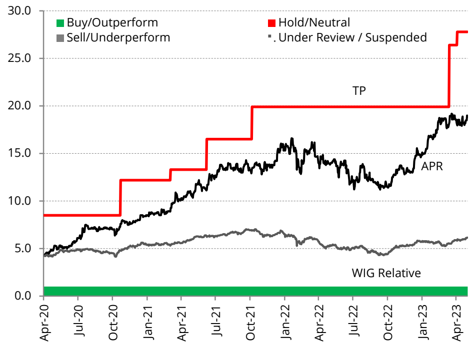
Consumer, Poland

Strong growth momentum

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	18.8
Target price (Dec'2023, PLN)	**27.2**

- **Equity story.** We are keeping our Outperform recommendation for Auto Partner unchanged after the publication of 1Q23 results. Auto Partner reported lower than expected net profit in 1Q23 due to lower than expected gross profit. We think that the reason was temporary and 1Q23 should be the worst quarter in 2023. We expect an improvement to margins since 2Q23E going forward. We positively see an improvement in net debt, which resulted from an improvement in working capital and free cash flow generation. Our long term story presented in the last report remains intact and we believe that Auto Partner alongside Inter Cars are likely to win c61.0% in 2026E from 53.0% in 2022 in Poland. This might mean years of growth in Poland for both companies.
- **Recent developments.** Auto Partner's **1Q23** EBITDA and net profit came in below our estimates due to lower than expected gross profit margin (PLN221mn; 26.4%; -319bps y/y vs. SANe PLN234.9mn; 28.1%; -150bps y/y). Opex (PLN159mn) came in broadly in line with SANe (PLN160.8mn). Auto Partner cited FIFO effect as the main reason behind lower gross margin. At the same time, company cited the effect as temporary. Net debt (incl. IFRS16) came in at PLN332mn vs. PLN466mn at 2022. In **2Q23E**, we expect 30% y/y sales growth to PLN919mn, 34% y/y EBITDA growth (margin up by 30bps and 33% y/y net profit growth. While we expect 50bps lower gross margin (29.8%), we expect operating leverage benefit (opex/sales ratio down 85bps to make up for lower y/y gross margin).
- **Earnings forecasts.** After 1Q23 financial results publication, we are decreasing 2023/25E EBITDA and net profit forecast by 4%/4% in all lines due to margins lower than previously expected.
- **Valuation and risks.** We are decreasing TP of Auto Partner by 2% to PLN27.2 mainly on the back of lower multiple valuation (PLN27.2; -3%). Faster than assumed normalization is a main downside risk to our forecasts. Other risks are: (1) slower than anticipated market share gains or none at all and (2) slower than assumed GDP and car parts industry growth.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Auto Partner: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	2,262	2,835	3,630	4,248	5,437
EBITDA	258	306	383	449	546
EBIT	239	281	351	410	498
Net profit	186	207	260	306	377
P/E (x)	10.0	8.3	9.5	8.1	6.6
EV/ EBITDA (x)	8.4	7.0	7.7	6.4	5.5
FCF Yield	-6.1%	0.7%	-0.3%	2.7%	-3.3%
Dividend Yield	0.7%	1.1%	0.8%	0.5%	0.6%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 66. Auto Partner: 1Q23 results review and first look at 2Q23E results

PLNmn	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	y/y
Sales	587.5	639.6	706.9	751.2	737.0	836.6	919.2	30%
EBITDA	61.8	74.0	77.9	84.0	78.4	72.0	104.4	34%
margin	10.5%	11.6%	11.0%	11.2%	10.6%	8.6%	11.4%	0.3
Adj. EBITDA	68.4	72.8	78.6	80.9	85.0	72.0	104.4	33%
margin	11.6%	11.4%	11.1%	10.8%	11.5%	8.6%	11.4%	0.2
EBIT	55.0	66.6	69.9	75.6	69.2	62.0	94.6	35%
margin	9.4%	10.4%	9.9%	10.1%	9.4%	7.4%	10.3%	0.4
Net profit	41.6	50.3	52.4	53.7	50.8	43.0	70.5	35%
margin	7.1%	7.9%	7.4%	7.2%	6.9%	5.1%	7.7%	0.3
Adj. Net profit	47.0	49.4	53.0	52.8	56.1	43.0	70.5	33%
margin	8.0%	7.7%	7.5%	7.0%	7.6%	5.1%	7.7%	0.2

Source: Company data, Santander Brokerage Poland estimates

Fig. 67. Auto Partner: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	3,630	3,630	*0%*	4,248	4,248	*0%*	5,437	5,437	*0%*
Adj. EBITDA (ex. IFRS16)	383	397	*-4%*	449	465	*-4%*	546	567	*-4%*
EBIT	351	365	*-4%*	410	426	*-4%*	498	519	*-4%*
Adj. net profit	260	272	*-4%*	306	320	*-4%*	377	395	*-4%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 68. Auto Partner: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	27.5	27.2	*1%*
Multiple valuation	27.1	28.0	*-3%*
Target Price*	**27.2**	**27.8**	***-2%***

*Source: Company data, Santander Brokerage Poland estimates, *DCF – 30%, Multiple – 70%, more weight assigned to multiple valuation model to focus more on mid-term perspectives and market valuation multiples, which we see fair for the company*

Fig. 69. Auto Partner: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	2,262	2,835	3,630	4,248	5,437
EBITDA	265	314	391	457	554
Adj. EBITDA (ex. IFRS16)	258	306	383	449	546
EBIT	239	281	351	410	498
Profit before tax	231	256	322	379	467
Net profit	186	207	260	306	377
EBITDA margin	11.7%	11.1%	10.8%	10.8%	10.2%
EBIT margin	10.6%	9.9%	9.7%	9.6%	9.2%
Net margin	8.2%	7.3%	7.2%	7.2%	6.9%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	1,008	1,286	1,601	1,916	2,324
Fixed assets	195	285	211	218	229
Total assets	1,203	1,570	1,812	2,134	2,553
Current liabilities	367	458	418	447	502
bank debt	169	211	211	211	211
Long-term liabilities	180	269	311	311	311
bank debt	94	139	180	180	180
Equity	655	843	1,083	1,376	1,740
Total liability and equity	1,203	1,570	1,812	2,134	2,553
Net debt	246	314	343	290	387
Net Debt/ EBITDA (x)	1.0	1.0	0.9	0.6	0.7

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	-96	50	-51	113	-23
CF from investment	-18	-38	42	-47	-60
CF from financing, incl.	110	6	21	-13	-14
dividends	-13	-20	-20	-13	-14
Net change in cash	-4	18	13	53	-97
FCF	-115	12	-8	66	-83

Source: Company data, Santander Brokerage Poland estimates

CCC

Bloomberg: CCC PW, Reuters: CCCP.WA

CEE Equity Research

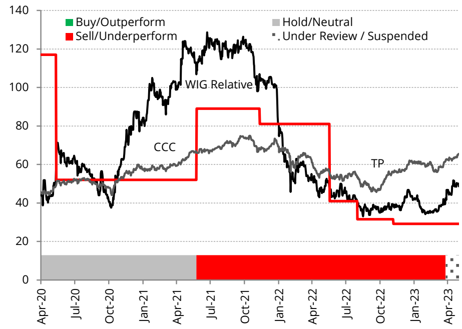
Consumer, Poland

High risk of falling short of expectations

- **Equity story.** We reiterate our Underperform recommendation (issued before restriction) with TP PLN40.5 (up by 38% from PLN29.2 after the latest share issue). We think that taking into account the still bearish comments from Zalando on the nearest future, there is a risk of falling short of promises given during the recent cash call in April. We remain concerned that business conditions would stay challenging for the Group over a longer period before they finally improve. Visibility remains low.
- **Recent developments.** CCC has already completed a 14mn new share issue worth c.PLN500mn. It also secured an early agreement on warehouse lease back worth c.PLN400mn. CCC also promised NWC improvement (lower inventories and higher reverse factoring utilization). All in all, we see net debt at PLN988mn assuming a successful completion of the lease back.
- **2023E guidance.** During the issue of new equity, the Group provided to the market guidance which pointed at sales of PLN10.2-11.0bn (+16% y/y), approx. PLN1,166mn (+121% y/y, based on mid-point of EBITDA margin and sales guidance). We are below with our 2023E PLN746mn EBITDA forecast, while in line with company's sales guidance.
- **Valuation and risks.** We base our TP fully at multiple valuation (on ex. IFRS16 basis), which points at PLN40.5. We value Modivo Group at PLN1.5bn (10.0x NTM EBITDA of PLN148mn vs. EBITDA of PLN94mn in 2022). We value HP at PLN1.2bn (11.0x NTM EBITDA of PLN109mn) and CCC at PLN1.9bn (7.0x NTM EBITDA of PLN264mn vs. PLN210mn in 2022). We use net debt at PLN988mn (excluding equity like PLN593mn bond financing) and minorities share at PLN445mn. We apply a 10% discount rate and new share number of 69mn. The main risks include: (1) dilemma between PLN600mn bond conversion into equity in 2024, forced Modivo's IPO in unfavourable surroundings or new agreement with investor Softbank, (2) continued pressure on online segment, (3) prolonged consumption slowdown and (4) adverse impact of lower marketing spending on sales growth.

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	48.6
Target price (Dec'2023, PLN)	**40.5**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

CCC: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	7,541	9,123	10,438	11,840	13,560
EBITDA (ex. IFRS16)	167	362	522	892	1,226
EBIT	2	-51	21	303	525
Net profit	-225	-418	-193	153	377
P/E (x)	n.a.	n.a.	n.a.	21.8	8.9
EV/EBITDA (x)	41.8	13.2	9.5	5.2	3.7
FCF Yield	-11.7%	-7.7%	-0.2%	8.4%	3.7%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 70. CCC: Quarterly results review

PLNmn	4Q FY21	1Q FY22	2Q FY22	3Q FY22	4Q FY22	y/y
Sales	1,995	1,882	2,377	2,422	2,442	22.4%
EBITDA	99	92	179	173	90	-9.6%
EBITDA margin	5.0%	4.9%	7.5%	7.1%	3.7%	-1.3
EBIT	-48	-57	31	24	-56	n.a.
EBIT margin	-2.4%	-3.0%	1.3%	1.0%	-2.3%	0.1
net profit	-149	-209	-44	-65	-112	n.a.
net margin	-7.5%	-11.1%	-1.9%	-2.7%	-4.6%	2.9

Source: Company data, Santander Brokerage Poland estimates

Fig. 71. CCC: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	10,438	10,168	2.7%	11,840	11,906	*-0.6%*	13,560	14,116	*-3.9%*
EBITDA	522	505	3.2%	892	874	*2.1%*	1,226	1,264	*-3.0%*
EBIT	21	21	1.0%	303	294	*3.0%*	525	558	*-6.0%*
Net profit	-193	-237	-18.8%	153	105	*46.2%*	377	319	*18.2%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 72. CCC: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	78.3	45.3	73%
Multiple valuation	40.5	29.2	38%
Target Price (Dec'2023)	**40.5**	**29.2**	**38%**

*Source: Company data, Santander Brokerage Poland estimates, *100% multiple valuation; we treat DCF's outcome as an upside as we see high execution risk of CCC's strategy, DCF valuation presented only for illustrative purposes*

Fig. 73. CCC: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	7,541	9,123	10,438	11,840	13,560
Gross profit	3,575	4,265	4,802	5,520	6,294
EBITDA	580	533	746	1,117	1,450
EBITDA (ex. IFRS16)	167	362	522	892	1,226
- Traditional (ex. IFRS16)	-97	269	373	673	953
- Online (ex. IFRS16)	264	94	148	220	272
EBIT	2	-51	21	303	525
Profit before tax	-150	-399	-191	152	375
Net profit	-225	-418	-193	153	377
EBITDA margin	7.7%	5.8%	7.1%	9.4%	10.7%
EBIT margin	0.0%	-0.6%	0.2%	2.6%	3.9%
Net margin	-3.0%	-4.6%	-1.8%	1.3%	2.8%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	4,107	3,463	4,343	4,941	5,591
Fixed assets	3,394	3,601	3,500	3,418	3,461
Total assets	7,501	7,064	7,843	8,358	9,052
Current liabilities	2,939	3,740	3,812	4,174	4,490
bank debt	545	1,175	925	925	925
Long-term liabilities	3,410	2,741	2,741	2,741	2,741
bank debt	1,949	1,377	1,377	1,377	1,377
Equity	1,152	583	1,290	1,443	1,820
Total liability and equity	7,501	7,064	7,843	8,358	9,052
Net debt	1,752	2,481	1,590	1,308	1,185
Net Debt/ EBITDA (x)	10.5	6.8	3.0	1.5	1.0

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	50	541	615	1,013	1,092
CF from investment	-219	-409	-345	-454	-691
CF from financing, incl.	651	-677	372	-278	-278
dividends	0	0	0	0	0
Net change in cash	482	-546	642	282	123
FCF	-611	-176	-8	282	123

Source: Company data, Santander Brokerage Poland estimates

Santander

Dino

Bloomberg: DNP PW, Reuters: DNPP.WA

CEE Equity Research

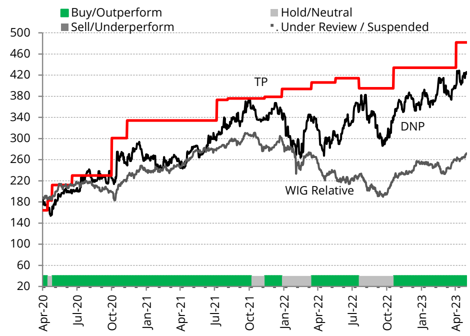
Consumer, Poland

On the wave

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	422
Target price (Dec'2023, PLN)	**537**

- **Equity story.** We are reiterating our Outperform recommendation with 11% higher Target Price of PLN537 upped from PLN482. We see low valuation as a key argument. Dino is a growth compounder, which is currently trading at 2023E P/E of 26x and EV/EBITDA of 18x, which are 30% and 25% below LT averages (37x and 23x, respectively). Comparing Dino's valuation to EPS growth (3Y CAGR at 32%), its PEG amounts to 0.82x (vs. avg. 0.95x). FCF yield on growth adjusted capex amounts to 4.2% vs. 3Y avg. at 2.6%. We do not see multiples as elevated but attractive. 2024E multiples look even more appealing due to Dino's high growth (2024E EPS growth at 37%). We see 2024E P/E, EV, EBITDA and FCF yield (ex. growth) at 19x, 13x and 6.2%. We also see disinflation risk as limited as Dino should be able to mitigate this risk and increase gross profit margin (1) after investments in relations with suppliers in 2022 and (2) taking into account general improvement of conditions on the market (food CPI/PPI spread is positive now). The latter should also help to deliver flat EBITDA margin this year.
- **Recent developments.** Dino's **1Q23** results came in 5%/6% above market consensus on sales and EBITDA, while 4%/7% lower than SANe on EBITDA/net profit. Higher than expected sales costs (PLN848mn vs. SANe PLN819mn) and net financial costs (PLN42mn vs. SANe PLN33mn) were the main reasons behind a miss vs. our forecast. Net debt/EBITDA ratio settled at 0.7x vs. 1.1x a year ago. During a conference call, Dino maintained most of its targets for 2023, however called flat EBITDA margin target y/y as ambitious. In **2Q23E,** we expect sales growth at 35% y/y (LFL at 22% y/y, NSC at 13%) to PLN6,600mn, gross profit at PLN1,559mn (margin down by 60bps to 23.6%) and EBITDA at PLN627mn (margin up by 28bps to 9.5% on the operating leverage benefits). Net profit is expected at PLN406mn (+48% y/y) in 2Q23E.
- **Earnings forecasts.** We barely change/adjust our 2023/25E financial forecasts following the publication of 1Q23 results.
- **Valuation and risks.** We are increasing our TP to PLN537 on the back of higher multiple valuation at PLN526 (+13%; 70% weight). DCF valuation is up by 8% (PLN564, 30% weight). The key downside risks to our TP include: further slowdown in new stores rollout, same-store sales growth and increased competition from discounters.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Dino: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	13,362	19,802	26,215	31,918	37,932
EBITDA	1,271	1,838	2,410	3,073	3,622
EBIT	1,024	1,538	2,060	2,683	3,184
Net profit	805	1,132	1,589	2,174	2,618
P/E (x)	44.2	32.5	26.3	19.2	16.0
EV/ EBITDA (x)	28.9	20.8	17.6	13.2	11.1
FCF Yield	0.0%	-0.5%	2.1%	4.0%	3.8%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	3.1%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 74. Dino: 1Q23 results review and first look at 2Q23E results

PLNmn	2Q22	3Q22	4Q22	1Q23	2Q23E
Sales	4,887	5,368	5,693	5,544	6,600
chng.	50%	54%	47%	44%	35%
EBITDA	451	536	518	458	627
chng.	45%	50%	44%	38%	39%
EBITDA margin	9.2%	10.0%	9.1%	8.3%	9.5%
EBIT	378	460	438	376	541
chng.	51%	57%	50%	43%	43%
EBIT margin	7.7%	8.6%	7.7%	6.8%	8.2%
Net profit	273	339	328	271	406
chng.	39%	48%	39%	41%	48%
net margin	5.6%	6.3%	5.8%	4.9%	6.1%

Source: Company data, Santander Brokerage Poland estimates

Fig. 75. Dino: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	26,215	26,099	*0.4%*	31,918	31,766	*0.5%*	37,932	37,752	*0.5%*
EBITDA	2,410	2,430	*-0.8%*	3,073	3,099	*-0.8%*	3,622	3,653	*-0.8%*
EBIT	2,060	2,079	*-0.9%*	2,683	2,708	*-0.9%*	3,184	3,215	*-1.0%*
Net profit	1,589	1,605	*-0.9%*	2,174	2,195	*-1.0%*	2,618	2,643	*-1.0%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 76. Dino: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	564	521	*8.4%*
Multiple valuation	526	466	*12.8%*
Target Price*	**537**	**482**	***11.4%***

*Source: Company data, Santander Brokerage Poland estimates, *weights assigned: DCF-30%, Multiple-70%; we assigned more weight to multiple valuation to focus more on mid-term perspectives and market valuation multiples, which we see fair for the company*

Fig. 77. Dino: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	13,362	19,802	26,215	31,918	37,932
Gross profit	3,324	4,763	6,241	7,718	9,172
EBITDA	1,271	1,838	2,410	3,073	3,622
EBIT	1,024	1,538	2,060	2,683	3,184
Profit before tax	978	1,402	1,955	2,658	3,200
Net profit	805	1,132	1,589	2,174	2,618
EBITDA margin	9.5%	9.3%	9.2%	9.6%	9.5%
EBIT margin	7.7%	7.8%	7.9%	8.4%	8.4%
Net margin	6.0%	5.7%	6.1%	6.8%	6.9%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	1,985	2,707	3,324	4,865	5,869
Fixed assets	5,183	6,296	7,180	8,103	9,345
Total assets	7,169	9,003	10,504	12,968	15,214
Current liabilities	3,006	3,690	3,958	4,944	5,873
bank debt	546	772	100	0	0
Long-term liabilities	1,093	1,109	753	57	61
bank debt	1,033	1,061	700	0	0
Equity	3,070	4,204	5,793	7,967	9,280
Total liability and equity	7,169	9,003	10,504	12,968	15,214
Net debt	1,159	1,449	551	-1,121	-1,419
Net Debt/ EBITDA (x)	0.9	0.8	0.2	-0.4	-0.4

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	1,326	1,253	2,131	2,986	3,282
CF from investment	-1,331	-1,435	-1,233	-1,314	-1,680
CF from financing, incl.	-57	146	-1,033	-800	-1,305
dividends	0	0	0	0	-1,305
Net change in cash	-62	-36	-135	872	298
FCF	-5	-186	898	1,672	1,602

Source: Company data, Santander Brokerage Poland estimates

Santander

Eurocash

Bloomberg: EUR PW, Reuters: EUR.WA

CEE Equity Research

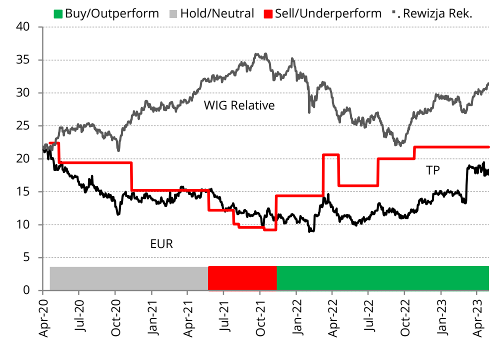
Consumer, Poland

On the way to PLN1bn EBITDA in 2025E

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	17.6
Target price (Dec'2023, PLN)	**35.9**

- **Equity story.** We are reiterating Outperform recommendation with TP of PLN35.9; up 65% from PLN21.8. 2022 was a year of a massive financial results improvement marked by EBITDA (ex. IFRS16) growth by 63% y/y to PLN570mn. We agree that macro was supportive but we should not underestimate the in-house improvement and the implementation of a new strategy. We think the latter should bring in more synergies in 2024/25E as the growth in 2023E would be challenged by high base and some additional costs of the strategy implementation. Eurocash has committed to delivering EBITDA (IAS17) at PLN1bn in 2025E. Our previous forecast was at PLN578mn and we had to increase it after such a strong 2022. Please also note that thanks to the strong FCF, Eurocash decreased net debt (ex. IFRS16) by 44% and is trading at FCF yield at 10.4%.
- **Recent developments.** **1Q23** results were marked by strong cash flow and further deleveraging (by PLN85mn to just 0.9x 4Q rolling EBITDA (ex. IFRS16)). 1Q23 EBITDA came in 5% better than mkt. cons. and in line with SANe. Adj. EBITDA (ex. other operating profits) came in 11% better than SANe. Net profit came in lower than mkt. cons. and SANe due to higher than expected financial costs (PLN62mn vs. SANe PLN50mn). In **2Q22E**, in its current trading statement, Eurocash guided that both EBITDA and net profit should grow more than in 1Q23. Also it guided on flattish EBITDA margin y/y on sales growing y/y closer to food CPI in 2023. Earlier, Eurocash pointed at only nominal growth of EBITDA in 2023. We expect its 2Q23E sales at PLN8,748mn (+12% y/y), EBITDA at PLN274mn (+7% y/y) and net profit at PLN50mn (+230% y/y; cPLN500mn lower net debt y/y) in 2Q23E.
- **Earnings forecasts.** We are massively increasing 2023/25E EBITDA forecast by 17%/35%/45%, respectively, on the back of synergies, which are likely to come more in 2024/25E and fuel margin accretion. We also believe continued FCF generation should lead to an even more meaningful net profit forecast increase by 56%/95%/135% in 2023/25E, respectively.
- **Valuation and risks.** We set TP at PLN35.9, up by 65% on the back of higher DCF (PLN41.7; +104%) and 44% higher multiple valuation (PLN33.4; higher target EV/EBITDA multiple for wholesale at 7.0x). The main risks are (1) a stronger than assumed inflationary pressure on opex and (2) lack of synergies pointed in the strategy.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Eurocash: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	26,281	30,858	34,436	36,680	38,955
Adj. EBITDA (ex. IFRS16)	268	542	620	738	836
EBIT	98	404	445	520	612
Adj. net profit	-84	45	219	311	424
P/E (x)	n.a.	42.1	11.6	8.2	6.0
EV/EBITDA (x)	9.6	5.2	5.2	3.9	3.0
FCF Yield	3.5%	13.9%	10.4%	12.7%	16.9%
Dividend Yield	3.3%	0.0%	2.0%	0.0%	1.9%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 78. Eurocash: 1Q23 results review and first look at 2Q23E results

PLNmn	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	y/y
Sales	6,889	6,528	7,839	8,268	8,223	7,588	8,748	11.6%
EBITDA	270	151	256	285	308	165	274	6.7%
EBITDA margin	3.9%	2.3%	3.3%	3.4%	3.7%	2.2%	3.1%	-0.1
Adj. EBITDA	210	130	253	285	305	163	270	6.8%
Adj. EBITDA margin	3.0%	2.0%	3.2%	3.4%	3.7%	2.2%	3.1%	-0.1
EBIT	95	2	104	132	166	14	120	14.6%
EBIT margin	1.4%	0.0%	1.3%	1.6%	2.0%	0.2%	1.4%	0.0
Net profit	27	-52	15	34	55	-52	50	229.5%
Net margin	0.4%	-0.8%	0.2%	0.4%	0.7%	-0.7%	0.6%	0.4
Adj. net profit	-2	-78	14	34	53	-54	47	239.5%
Adj. net margin	0.0%	-1.2%	0.2%	0.4%	0.6%	-0.7%	0.5%	0.4

Source: Company data, Santander Brokerage Poland estimates

Fig. 79. Eurocash: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	34,436	33,704	*2%*	36,680	35,164	*4%*	38,955	37,003	*5%*
Adj. EBITDA (ex. IFRS16)	620	531	*17%*	738	547	*35%*	836	578	*45%*
Adj. net profit	219	141	*56%*	311	159	*95%*	424	180	*135%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 80. Eurocash: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	41.7	20.4	*104%*
Multiple valuation	33.4	23.2	*44%*
Target Price*	**35.9**	**21.8**	***65%***

*Source: Company data, Santander Brokerage Poland estimates, * weighted TP where DCF-30%, Multiple – 70% (vs. previous DCF-50%/multiple 50%), to ensure more focus on mid-term perspectives and market valuation multiples, which we see fair for the company*

Fig. 81. Eurocash: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	26,281	30,858	34,436	36,680	38,955
Gross profit	3,409	4,233	4,693	5,006	5,316
EBITDA	708	1,000	1,061	1,179	1,277
EBITDA (ex. IFRS16)	268	542	620	738	836
EBIT	98	404	445	520	612
Profit before tax	-1	183	226	340	482
Net profit	-114	67	159	250	363
Adj. net profit	-84	45	219	311	424
EBITDA margin	2.7%	3.2%	3.1%	3.2%	3.3%
EBIT margin	0.4%	1.3%	1.3%	1.4%	1.6%
Net profit margin	-0.4%	0.2%	0.5%	0.7%	0.9%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	3,220	3,484	3,909	4,282	4,524
Fixed assets	5,268	5,186	5,237	5,261	5,294
Total assets	8,487	8,670	9,146	9,543	9,818
Current liabilities	4,694	5,280	5,535	5,643	5,864
bank debt	240	519	300	100	20
Long-term liabilities	2,491	2,056	2,056	2,056	1,756
bank debt	706	300	300	300	0
Equity	699	710	869	1,119	1,434
Total liability and equity	8,487	8,670	9,146	9,543	9,818
Net debt	1,075	921	657	331	-50
Net Debt/ EBITDA (x)	4.0	1.7	1.1	0.4	-0.1

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	638	889	931	1,008	1,129
CF from investment	-227	-190	-235	-250	-266
CF from financing, incl.	-408	-641	-651	-633	-861
dividends	-76	-11	0	0	-49
Net change in cash	3	57	46	125	2
FCF	52	262	264	325	430

Source: Company data, Santander Brokerage Poland estimates

Santander

Inpost

Bloomberg: INPST PW, Reuters: INPST.AS

CEE Equity Research

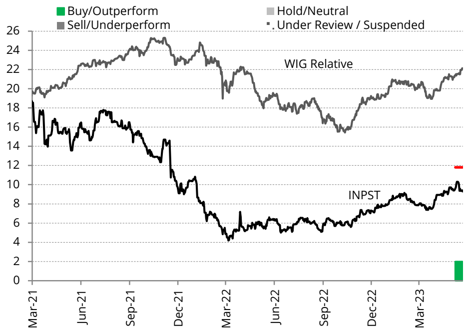
Consumer, Poland

Growth mission continues

RECOMMENDATION	Outperform
Current price (May 23, 2023, EUR)	9.3
Target price (Dec'2023, EUR)	**12.3**

- **Equity story.** We maintain Outperform for Inpost with a TP of EUR12.3 after 1Q23 as we think it offers (1) not only a still appealing growth story but also commands an undisputed leader position on the B2C market in Poland and (2) a significant growth opportunity in the UK and France. We expect Inpost Group 2022-25E sales/adj. EBITDA CAGR at 24%/28% driven mainly by the UK (3Y CAGR at 77% and break-even in 2024E) and France (3Y CAGR at 23%/29%). We think that Inpost should (1) continue to gain additional market share in Poland thanks to its superior competitive advantages, (2) benefit from investments into own logistics, unlocking sales growth and margin B2C market potential. Last but not least, we view Inpost's 2023E EV/EBITDA at 9.7x as attractive comparing to fair growth-adjusted multiple at 12.5x, based on logistics peers' valuation/growth matrix.
- **Recent developments.** In **1Q23,** EBITDA came in 5% better than market cons. and 12% ahead of SANe due to massive beat in Poland (EBITDA at PLN532mn vs. SANe 440mn). UK's adj. EBITDA loss came in PLN46mn vs. SANe PLN20mn. Loss is lower q/q and loss per parcel is much lower y/y (PLN4.5 loss in 1Q23 vs. PLN11.7 a year ago). In France, adj. EBITDA (PLN72mn) came pretty much in line with SANe (PLN76mn). Net profit came in lower than mkt. cons. and SANe due to higher than expected interest rates. Thanks to positive FCF in 1Q23 (high FCF conversion in Poland at 56.4% of adj. EBITDA), net debt/adj. EBITDA slid to 3.0x vs. 3.2x at the end of 4Q22). In **2Q23E,** InPost sees the overall market slowdown and expects a slightly lower growth pace vs 1Q23; however, still double-digit growth in all segments. InPost also noted that 2Q/3Q22 comp base is high. For 2023E, InPost reiterated its outlook. We expect sales to come in at PLN2,154mn (+27% y/y), adj. EBITDA at PLN664mn (+30% y/y) and net profit at PLN289mn (+33% y/y) in 2Q23E.
- **Earnings forecasts.** We left our 2023/25E financial forecast unchanged after the 1Q23 results publication.
- **Valuation and risks.** We increase TP by 4% to EUR12.3 on 9% higher DCF valuation (EUR13.7; 30% share). Main risks are: end of the e-commerce growth story, (2) risk of rising competition on the APMs market, (3) high concentration of clients in Poland and (4) risk of slower changes in customer preferences in Western markets, especially in the UK.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Inpost: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	4,602	7,079	8,995	11,217	13,370
Adj. EBITDA	1,627	1,961	2,600	3,298	4,119
Net profit	492	456	923	1,340	1,862
P/E (x)	60.4	35.6	22.7	15.6	11.3
EV/EBITDA (x)	20.9	10.6	9.7	7.5	5.7
FCF Yield	-0.6%	-1.9%	1.1%	2.9%	5.1%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 82. Inpost: Quarterly results review

PLNmn	1Q22	2Q22	3Q22	4Q22	1Q23	y/y
Revenue	1,542	1,697	1,690	2,150	1,996	29%
Adj. EBITDA	409	511	456	586	557	36%
margin	27%	30%	27%	27%	28%	139
Reported EBITDA	403	506	445	560	546	35%
margin	26.2%	29.8%	26.3%	26.0%	27.3%	118
EBIT	197	269	190	287	268	36%
margin	12.8%	15.8%	11.2%	13.4%	13.4%	65
Net profit	69	217	142	28	116	67%
margin	4.5%	12.8%	8.4%	1.3%	5.8%	131

Source: Company data, Santander Brokerage Poland estimates

Fig. 83. Inpost: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	8,995	9,018	*-0.3%*	11,217	11,274	*-0.5%*	13,370	13,426	*-0.4%*
Adj. EBITDA	2,600	2,595	*0.2%*	3,298	3,302	*-0.1%*	4,119	4,117	*0.0%*
net profit	923	915	*0.9%*	1,340	1,335	*0.3%*	1,862	1,853	*0.5%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 84. Inpost: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	13.7	12.6	*9%*
Multiple valuation	11.7	11.5	*2%*
Target Price*	**12.3**	**11.8**	***4%***

*Source: Company data, Santander Brokerage Poland estimates, *weights assigned: DCF-30%, Multiple-70%; we assigned more weight to multiple valuation to focus more on mid-term perspectives and market valuation multiples, which we see fair for the company*

Fig. 85. Inpost: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	4,602	7,079	8,995	11,217	13,370
Gross profit	2,163	2,602	3,403	4,253	5,174
EBITDA	1,627	1,961	2,600	3,298	4,119
EBIT	826	942	1,448	1,968	2,621
Profit before tax	713	669	1,154	1,675	2,328
Net profit	492	456	923	1,340	1,862
EBITDA margin	35.4%	27.7%	28.9%	29.4%	30.8%
EBIT margin	18.0%	13.3%	16.1%	17.5%	19.6%
Net margin	10.7%	6.4%	10.3%	11.9%	13.9%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	1,462	1,767	2,343	3,339	4,786
Fixed assets	5,871	6,988	7,655	8,359	9,127
Total assets	7,333	8,755	9,997	11,699	13,913
Current liabilities	1,606	2,170	2,455	2,784	3,102
bank debt	194	339	339	339	339
Long-term liabilities	5,698	6,117	6,150	6,183	6,216
bank debt	4,546	4,717	4,717	4,717	4,717
Equity	29	469	1,392	2,732	4,595
Total liability and equity	7,333	8,755	9,997	11,699	13,913
Net debt	4,247	4,620	4,385	3,784	2,721
Net Debt/ EBITDA (x)	3.3	3.3	2.2	1.4	0.8

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	1,100	1,346	2,004	2,586	3,279
CF from investment	-3,196	-1,116	-1,195	-1,358	-1,536
CF from financing, incl.	2,445	-288	-575	-627	-680
dividends	0	-12	0	0	0
Net change in cash	349	-57	235	601	1,064
FCF	-170	-313	235	601	1,064

Source: Company data, Santander Brokerage Poland estimates

Inter Cars

Bloomberg: CAR PW, Reuters: IRCR.WA

CEE Equity Research

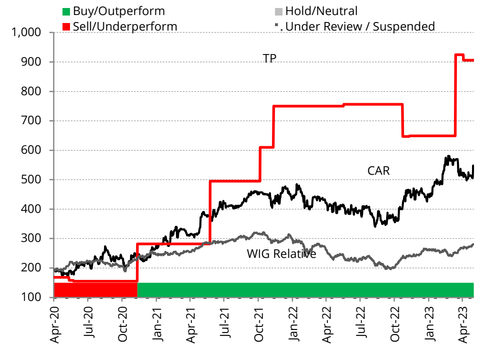
Consumer, Poland

Still growing in Poland

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	533
Target price (Dec'2023, PLN)	**936**

- **Equity story.** We are keeping our Outperform recommendation for Inter Cars unchanged after the publication of 1Q23 results. CAR presented EBITDA and net profit, which came in above our expectations due to higher than expected sales and gross profit in 1Q23. We think that the reason behind weak 4Q22 results (hit to gross margin from FIFO effect) was temporary and 1Q23 has already shown some improvement. We expect an improvement since 2Q23E going forward. Our long term story presented in last report remains intact and we believe that Inter Cars alongside Auto Partner are likely to win ca. 61.0% in 2026E from 53.0% in 2022 in Poland. This might mean years of growth in Poland for both companies.
- **Recent developments.** Inter Cars reported better than expected **1Q23** results with 1%/14%/31% beat on sales/EBITDA/net profit vs. market expectations and 3%/13%/32% as compared to SANe. Besides sales, gross profit were also better than SANe (PLN1,260mn vs. PLN1,223mn). Opex came in PLN16mn higher than SANe. Profit on sales came in 9% higher than SANe. Note that other operating income came in at PLN19mn vs. SANe PLN4mn. CARs had FCF at - PLN49mn vs. - PLN160mn a year ago. Net debt stood at PLN1,655mn (1.2x EBITDA). All in all, we had a nice beat but we have seen another quarter of gross margin decline (-103 y/y), however lower than in 4Q22 (-195bps y/y). We think it was the last quarter of margin decline. In **2Q23E**, we expect 25% y/y sales growth to PLN4,676mn, 30% y/y EBITDA growth (margin up by 34bps and 19% y/y net profit growth due to higher net financial costs. While we expect flat y/y gross margin at 30.9%, we expect operating leverage benefit opex/sales ratio down 20bps resulting in EBITDA margin increase.
- **Earnings forecasts.** We are keeping our 2023/25E financial forecast largely unchanged.
- **Valuation and risks.** We are increasing TP of Inter Cars by 3% to PLN936 mainly on the back of higher DCF (PLN847; +10%) due to lower costs of capital. Faster than assumed normalization is a main downside risk to our forecasts. Other risks are: (1) slower than anticipated market share gains or none at all and (2) slower than assumed GDP and car parts industry growth.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Inter Cars: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	12,242	15,285	19,148	22,188	25,167
EBITDA	983	1,141	1,532	1,756	1,918
EBIT	909	1,042	1,416	1,622	1,765
Net profit	700	808	980	1,160	1,278
P/E (x)	9.5	8.1	7.7	6.5	5.9
EV/ EBITDA (x)	7.7	7.1	6.0	5.2	4.6
FCF Yield	-1.6%	-5.0%	-1.4%	1.9%	3.7%
Dividend Yield	0.3%	0.3%	0.4%	0.5%	0.6%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 86. Inter Cars: Quarterly results review

PLNmn	2Q22	3Q22	4Q22	1Q23	2Q23E
Sales	3,751	3,936	4,354	4,189	4,676
EBITDA	319.2	359.5	322.4	338.1	413.8
chng.	34%	26%	-2%	72%	30%
margin	8.5%	9.1%	7.4%	8.1%	8.9%
Adj. EBITDA	319.2	359.5	322.4	338.1	413.8
chng.	34%	26%	-2%	25%	30%
margin	8.5%	9.1%	7.4%	8.1%	8.9%
EBIT	283.9	320.9	277.0	293.6	364.7
chng.	38%	26%	-6%	83%	28%
margin	7.6%	8.2%	6.4%	7.0%	7.8%
Net profit	209.1	218.4	202.4	201.9	242.9
chng.	29%	12%	-10%	74%	16%
margin	5.6%	5.5%	4.6%	4.8%	5.2%
Adj. net profit	210.3	222.5	197.2	200.8	242.9
chng.	32%	12%	-12%	13%	15%
margin	5.6%	5.7%	4.5%	4.8%	5.2%

Source: Company data, Santander Brokerage Poland estimates

Fig. 87. Inter Cars: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	19,148	19,019	*1%*	22,188	22,188	*0%*	25,167	25,167	*0%*
EBITDA	1,532	1,506	*2%*	1,756	1,736	*1%*	1,918	1,895	*1%*
EBIT	1,416	1,389	*2%*	1,622	1,599	*1%*	1,765	1,740	*1%*
Net profit	980	971	*1%*	1,160	1,154	*0%*	1,278	1,269	*1%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 88. Inter Cars: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	847	766	*10%*
Multiple valuation	975	965	*1%*
Target Price	**936**	**906**	***3%***

*Source: Company data, Santander Brokerage Poland estimates, *DCF – 30%, Multiple – 70%, more weight assigned to multiple valuation model to focus more on mid-term perspectives and market valuation multiples, which we see fair for the company*

Fig. 89. Inter Cars: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	12,242	15,285	19,148	22,188	25,167
Gross profit	3,751	4,655	5,790	6,665	7,485
EBITDA	1,039	1,197	1,588	1,812	1,974
EBIT	983	1,141	1,532	1,756	1,918
Profit before tax	909	1,042	1,416	1,622	1,765
Net profit	877	926	1,206	1,428	1,573
EBITDA margin	700	746	980	1,160	1,278
EBIT margin	700	808	980	1,160	1,278
Net margin	8.0%	7.5%	8.0%	7.9%	7.6%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	5,099	6,555	7,763	9,023	10,388
Fixed assets	1,183	1,450	1,563	1,714	1,867
Total assets	6,283	8,006	9,326	10,738	12,254
Current liabilities	2,117	2,793	3,163	3,454	3,740
bank debt	643	1,159	1,159	1,159	1,159
Long-term liabilities	1,076	1,397	1,397	1,397	1,397
bank debt	581	729	729	729	729
Equity	3,090	3,816	4,766	5,886	7,118
Total liability and equity	6,283	8,006	9,326	10,738	12,254
Net debt	983	1,530	1,667	1,561	1,327
Net Debt/ EBITDA (x)	1.0	1.3	1.1	0.9	0.7

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	34	-98	177	488	641
CF from investment	-82	-166	-229	-286	-305
CF from financing, incl.	55	381	-86	-95	-102
dividends	-20	-20	-30	-39	-46
Net change in cash	7	117	-137	106	234
FCF	-105	-327	-107	146	280

Source: Company data, Santander Brokerage Poland estimates

LPP

Bloomberg: LPP PW, Reuters: LPPP.WA

CEE Equity Research

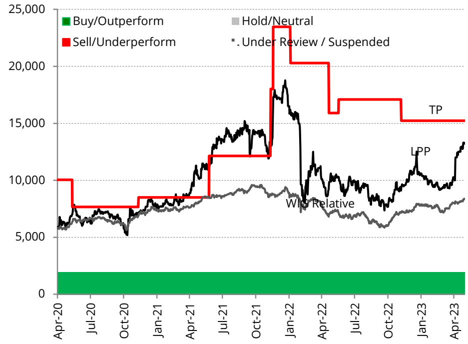
Consumer, Poland

2023E FCF yield at 14.2%

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	13,260
Target price (Dec'2023, PLN)	**18,096**

- **Equity story.** We are reiterating Outperform recommendation with TP of PLN18,096; up 18% from PLN15,288. LPP has recently presented strong 4Q22 results, a solid outlook on 1Q23E and a perspective for NWC reversal. In 2022, after the exit from Russia, LPP excessive inventories, which resulted in prolonged inventories days and, consequently, a lower use of reverse factoring (lower liabilities). NWC increased to PLN1.4bn from negative PLN1.2bn in 2021. We expect normalization of inventory days, increase of reverse factoring usage and PLN1bn receivable payback in 2023E. In this light, we expect Oper. CF (ex. IFRS16) at PLN4,385mn, which with capex at PLN1bn, should produce FCF at PLN3,340mn. Net cash is expected at cPLN2bn this year.
- **Recent developments.** We expect LPP to report **1Q23E** sales at PLN3,544mn (+17% y/y). In B&M retail, we expect sales at PLN2,555mn (+25% y/y). In online, we expect PLN988mn (flat y/y) as an effect of lower spending on digital marketing. We expect 1Q23E gross margin at 52.3% (-100bps y/y). We expect a material improvement of EBITDA profitability due to cost control, high LFL growth and better economics of online sales. In 1Q23E, we expect adj. EBITDA at PLN630mn (+44% y/y) and its margin going up by 334bps. Net income is likely to come in at PLN188mn in 1Q23E (+94% y/y). In **2Q23E**, sales is expected at PLN4,904mn (+13% y/y). In B&M retail, we expect sales at PLN3,801mn (+22% y/y), while PLN1,102mn (-10% y/y) in online. 2Q23E gross margin is expected at 52.5% (+50bps y/y). We expect an improvement in EBITDA margin, which is expected to go up by 354bps to 18.9% (PLN927mn). Net income seems likely to come in at PLN487mn (+8% y/y).
- **Earnings forecasts.** We are increasing 2023/25E EBITDA forecast by 4%/6%/9%, respectively, on the back of higher than previously assumed positive effects of cost management. We also believe that strong FCF generation in 2023E should revert LPP into net cash leading to the net profit forecast increase by 11%/14%/21% in 2023/25E, respectively.
- **Valuation and risks.** We set TP at PLN18,096, up by 18% on the back of higher DCF (PLN22,864; +49%) and higher multiple valuation (PLN16,053; +5%). The main risks are (1) stronger than assumed inflationary pressure on opex and (2) weak demand.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

LPP: Financial summary and ratios

Year to Feb, PLNmn	2021	2022	2023E	2024E	2025E
Sales	11,339	15,927	18,307	21,862	25,098
Adj. EBITDA (ex. IFRS16)	2,036	1,876	2,430	2,936	3,491
EBIT	1,128	1,459	1,962	2,402	2,895
Adj. net profit	1,503	884	1,438	1,802	2,203
P/E (x)	21.0	22.1	17.0	13.5	11.1
EV/EBITDA (x)	14.6	10.8	9.2	7.5	6.1
FCF Yield	2.5%	-5.9%	13.7%	6.0%	7.8%
Dividend Yield	2.6%	3.3%	3.2%	4.5%	4.9%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 90. LPP: Quarterly results review

PLNmn	1Q FY22	2Q FY22	3Q FY22	4Q FY22	1Q FY23E	2Q FY23E	y/y	q/q
Sales	3,034	4,341	4,367	4,185	3,544	4,904	13%	38%
EBITDA	438	667	798	755	628	927	39%	48%
EBITDA margin	14.4%	15.4%	18.3%	18.0%	17.7%	18.9%	3.5	1.2
Adj. EBITDA	438	797	687	755	628	927	16%	48%
Adj. EBITDA margin	14.4%	18.4%	15.7%	18.0%	17.7%	18.9%	0.5	1.2
EBIT	187	395	512	435	282	582	47%	106%
EBIT margin	6.2%	9.1%	11.7%	10.4%	8.0%	11.9%	2.8	3.9
Net profit	97	538	396	185	188	487	-9%	159%
Net margin	3.2%	12.4%	9.1%	4.4%	5.3%	9.9%	-2.5	4.6
Adj. net profit	97	511	396	185	188	487	8%	159%
Adj. net margin	3.2%	11.8%	9.1%	4.4%	5.3%	9.9%	-0.5	4.6

Source: Company data, Santander Brokerage Poland estimates

Fig. 91. LPP: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	18,307	19,667	*-6.9%*	21,862	23,186	*-5.7%*	25,098	26,503	*-5.3%*
EBITDA	3,343	3,216	*3.9%*	3,924	3,702	*6.0%*	4,561	4,175	*9.3%*
EBIT	1,962	1,883	*4.2%*	2,402	2,223	*8.0%*	2,895	2,545	*13.8%*
Net profit	1,438	1,302	*10.5%*	1,802	1,578	*14.2%*	2,203	1,827	*20.5%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 92. LPP: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	22,864	15,347	*49%*
Multiple valuation	16,053	15,262	*5%*
Target Price*	**18,096**	**15,288**	***18%***

*Source: Company data, Santander Brokerage Poland estimates, *70% multiple and 30% DCF, more weight assigned to multiple valuation to better reflect mid-term perspectives and market valuation multiples, which we see fair for the company*

Fig. 93. LPP: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	11,339	15,927	18,307	21,862	25,098
Gross profit	6,491	8,131	9,613	11,589	13,431
EBITDA	2,071	2,588	3,343	3,924	4,561
Adj. EBITDA	2,679	2,608	3,343	3,924	4,561
Adj. EBITDA (ex. IFRS16)	2,036	1,876	2,430	2,936	3,491
EBIT	1,128	1,459	1,962	2,402	2,895
Profit before tax	940	1,362	1,775	2,225	2,720
Net profit	956	1,094	1,438	1,802	2,203
Adj. net profit	1,503	884	1,438	1,802	2,203
Adj. EBITDA margin (ex. IFRS16)	18.0%	11.8%	13.3%	13.4%	13.9%
EBIT margin	9.9%	9.2%	10.7%	11.0%	11.5%
Adj. net profit margin	13.3%	5.6%	7.9%	8.2%	8.8%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	7,108	5,569	6,741	7,688	8,965
Fixed assets	7,028	7,352	7,929	8,466	8,970
Total assets	14,135	12,923	14,672	16,156	17,937
Current liabilities	6,120	4,307	5,384	6,163	6,933
bank debt	539	864	500	500	500
Long-term liabilities	4,743	4,630	4,655	4,660	4,666
bank debt	439	845	845	845	845
Equity	3,272	3,986	4,633	5,332	6,339
Total liabilities	14,135	12,923	14,672	16,156	17,937
Net debt (ex. IFRS16)	-1,740	632	-1,917	-2,286	-2,995
Net debt/EBITDA (ex. IFRS16)	-0.8	0.2	-0.6	-0.6	-0.7

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	2,214	622	5,299	3,532	4,076
CF from investment	-971	-897	-1,046	-1,071	-1,101
CF from financing	-1,166	-615	-2,069	-2,092	-2,266
dividends	-834	-648	-791	-1,104	-1,196
Net change in cash	77	-890	2,185	369	709
FCF	774	-1,150	3,340	1,473	1,905

Source: Company data, Santander Brokerage Poland estimates

Santander

Neuca

Bloomberg: NEU PW, Reuters: TORF.WA

CEE Equity Research

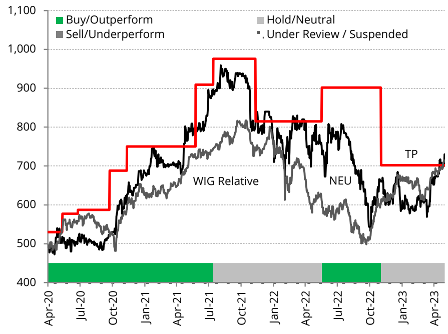
Consumer, Poland

Margin opportunity

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	732
Target price (Dec'2023, PLN)	**990**

- **Equity story.** We are reiterating Outperform with TP of PLN990. We try to better capture margin opportunity ahead of Neuca stemming from (1) expected incoming disinflation, which should help wholesale's division profitability (high exposure on energy & labour costs) and (2) higher rollout of non-wholesale business in sales mix (2022/35E CAGR at 40%). We now expect Group's EBITDA margin to expand over time to 4.3% (ex. IFRS16) in the terminal year vs. previous forecast 3.5%. We assumed PLN22mn and PLN32mn coming from recent acquisition of OncoBay to add the Group's EBITDA in 2023/24E, respectively. We have also not assumed an impact from an amendment to the law regulating distribution of refunded Rx drugs (+1pp y/y wholesaler margin or approx. PLN30-35mn).
- **Recent developments.** **1Q23** EBITDA was in line with market consensus, while adj. net profit 5% better than market estimates. 1Q23 EBITDA was 3% better than our estimates (driven by 2% beat on sales) and 15% lower on adj. net profit (driven by higher than expected interests rates and tax). Net debt increased to PLN333mn or 1.0x 4Q rolling EBITDA at 1.1x. In **2Q23E**, we expect that Neuca should still see some headwinds to margin from the high cost base. We expect improvement in this regard since 3Q23E. We expect that net profit should benefit from the lower tax effective rate (19% vs. 35% in 2Q22). All in all, we expect sales growth at 11.5% y/y to PLN2,960mn, EBITDA at PLN95.1mn (-1.5% y/y), EBIT at PLN67.7mn (-8.1% y/y) and net profit at PLN44.3mn (+8.2% y/y) in 1Q23E.
- **Earnings forecasts.** We left earnings forecast for 2023/25E unchanged.
- **Valuation and risks.** We reiterate our TP at PLN990. Apart from market and legal risks, higher than expected pressure on labour costs or problems with the delivery of the strategy in the Patient Care segment are the main risks for our TP.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Neuca: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	9,864	11,233	12,405	13,342	14,257
EBITDA	259	316	355	431	485
EBIT	198	241	266	334	378
Net profit	170	134	146	202	255
P/E (x)	21.7	21.1	21.7	15.6	12.3
EV/ EBITDA (x)	14.6	9.5	9.5	7.6	6.3
FCF Yield	6.5%	8.2%	5.4%	7.0%	8.8%
Dividend Yield	2.7%	4.4%	1.8%	2.0%	2.2%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 94. Neuca: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E
Sales	2,299	2,331	2,552	2,681	2,817	2,655	2,809	2,952	3,002	2,960
chng.	-12.8%	22.1%	10.7%	11.7%	22.5%	13.9%	10.1%	10.1%	6.6%	11.5%
EBITDA	83.3	55.6	78.7	60.1	105.6	96.6	76.7	60.4	97.7	95.1
chng.	-2.0%	-1.4%	4.6%	-0.9%	26.8%	73.8%	-2.6%	0.6%	-7.4%	-1.5%
EBITDA margin	3.6%	2.4%	3.1%	2.2%	3.7%	3.6%	2.7%	2.0%	3.3%	3.2%
EBIT	64.7	36.6	58.9	38.0	83.2	73.6	52.8	31.7	69.9	67.7
chng.	-7.8%	-9.2%	-0.1%	-12.1%	28.6%	101.2%	-10.4%	-16.5%	-15.9%	-8.1%
EBIT margin	2.8%	1.6%	2.3%	1.4%	3.0%	2.8%	1.9%	1.1%	2.3%	2.3%
Net profit	51.1	35.3	40.1	25.4	61.8	40.9	25.4	8.3	47.3	49.1
chng.	3.3%	18.3%	-10.4%	38.9%	21.0%	15.9%	-36.7%	-67.4%	-23.4%	20.0%
Net margin	2.2%	1.5%	1.6%	0.9%	2.2%	1.5%	0.9%	0.3%	1.6%	1.7%

Source: Company data, Santander Brokerage Poland estimates

Fig. 95. Neuca: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	12,405	12,405	*0.0%*	13,342	13,342	*0.0%*	14,257	14,257	*0.0%*
EBITDA (ex. IFRS16)	355	355	*0.0%*	431	431	*0.0%*	485	485	*0.0%*
EBIT	266	266	*0.0%*	334	334	*0.0%*	378	378	*0.0%*
Net profit	146	146	*0.0%*	202	202	*0.0%*	255	255	*0.0%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 96. Neuca: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	1,378	1,378	*0%*
Multiple valuation	824	824	*0%*
Target Price*	**990**	**990**	***0%***

*Source: Company data, Santander Brokerage Poland estimates, *weighting assigned: DCF - 30%/ multiple - 70% DCF, more weight assigned multiple valuation to better reflect medium term (NTM) market valuation rather than long-term orientated DCF*

Fig. 97. Neuca: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	9,864	11,233	12,405	13,342	14,257
Gross profit	1,023	1,243	1,378	1,495	1,612
EBITDA	278	339	380	456	510
EBITDA (ex. IFRS16)	259	316	355	431	485
EBIT	198	241	266	334	378
Profit before tax	202	202	214	291	364
Net profit	151	136	145	201	255
Adj. net profit	170	134	146	202	255
EBITDA margin	2.6%	2.8%	2.9%	3.2%	3.4%
EBIT margin	2.0%	2.1%	2.1%	2.5%	2.7%
Net margin	1.5%	1.2%	1.2%	1.5%	1.8%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	2,620	3,266	3,533	3,751	4,000
Fixed assets	1,497	1,574	1,720	1,789	1,796
Total assets	4,117	4,840	5,253	5,539	5,797
Current liabilities	2,772	3,491	3,818	3,969	4,044
bank debt	53	289	289	180	0
Long-term liabilities	465	418	427	435	443
bank debt	98	97	97	97	97
Equity	842	880	969	1,107	1,293
Total liability and equity	4,117	4,840	5,253	5,539	5,797
Net debt	288	305	337	250	54
Net Debt/ EBITDA (x)	1.1	1.0	1.0	0.6	0.1

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	300	336	296	354	415
CF from investment	-145	-180	-234	-167	-114
CF from financing, incl.	-113	-12	-93	-209	-285
dividends	-44	-52	-57	-63	-69
Net change in cash	42	144	-32	-22	16
FCF	239	232	171	222	276

Source: Company data, Santander Brokerage Poland estimates

Pepco

Bloomberg: PCO PW, Reuters: PCOP.WA

CEE Equity Research

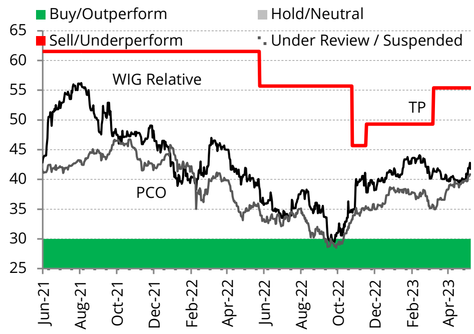
Consumer, Poland

Growth compounder

- **Equity story.** We reiterate Outperform recommendation with TP at PLN54.8 (1% down). We think that Pepco is a high quality retail asset, which bears characteristics of growth compounder that reinvests their excess FCF each year back into the prospective business at a high and sustainable rate of return (2021/22 avg. ROCE at 21%). We believe Pepco has a long runway of opportunity to reinvest this cash flow into growth in Pepco and Dealz banners. We assume 3Y CAGR for EBITDA, ex. growth FCF (2023 is a base year due to disruptions to inventories in 2022) at 24%, respectively.
- **Recent developments.** Pepco has published +19.6% y/y sales growth in **1H23**; lower than SANe +23% y/y as growth was affected by Fx changes. cFx sales growth amounted to 22.8% y/y. Company recorded LFL growth at +10.7% in Pepco and +5.7% in PD vs. SANe 10.0% and 2.5%, respectively. In an outlook note, management sees signs of changing consumer behaviour in response to high inflation in CEE. Company sees product input costs starting to ease but headwinds remain on other costs, including energy. Pepco stated it is on track to meet its new store opening targets, drive returns through our refit programme and keeping a disciplined focus on costs, with an improving margin outlook in the second half. In **2H23E**, we expect sales to grow by 31% to EUR6,133mn even though we assumed slower LFL (6.2% vs. 10.5% in 1H23) as we expect faster rollout (mainly Dealz's new plans of doubling its account in Poland in 2023). We also still expect pressure on margin although Pepco informed it expects some margin opportunities in 2H23. We expect 2H23E EBITDA at EUR482mn (margin 15.0% vs. 15.6% in 2H22). We are ahead of sales guidance (mid to high teens growth) and in line with EBITDA margin guidance pointing at pressure from active pricing strategy.
- **Earnings forecasts.** We are keeping our 2023/25E financial forecast unchanged.
- **Valuation and risks.** We inched down our TP to PLN54.8 from PLN55.4 (just 1% downward correction). PLN strengthening against EUR erased benefits from lower cost of capital in assumptions. We see (1) a risk of potential share overhang from the parent company, (2) consumption slowdown, (3) increased competition from other discounters/online, and (4) cost pressure and logistics disruption as the main risks.

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	41.8
Target price (Dec'2023, PLN)	**54.8**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Pepco: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	4,122	4,823	6,133	7,518	8,925
Adj. EBITDA	647	731	915	1,099	1,285
Adj. EBITDA (ex. IFRS16)	424	470	592	741	897
Adj. net profit	164	227	281	349	427
P/E (x)	37.1	21.8	19.0	15.3	12.5
EV/EBITDA (x)	14.6	11.2	9.5	7.4	5.8
FCF Yield	4.9%	-2.4%	0.4%	2.6%	5.9%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 98. Pepco: Quarterly results review

	1Q22	2Q22	1H22	3Q22	4Q22	2H22	1Q23	2Q23	1H23
Sales	1,352	1,020	2,372	1,209	1,243	2,452	1,654	1,184	2,838
chng. (cFX)	12.2%	24.7%	17.3%	17.1%	17.4%	15.3%	27.0%	19.7%	22.80%
chng. (actual)							24.0%	16.1%	19.6%
Pepco	729	553	1,282	703	728	1,431	1,009	710	1,719
chng. (cFx)	20.0%	42.6%	28.8%	28.5%	28.8%	24.5%	41.0%	10.7%	34.1%
LFL (cFx)	0.0%	18.5%	8.0%	7.3%	8.0%	7.7%	19.7%	10.7%	16.0%
P/D	623	467	1,090	506	515	1,021	645	474	1,119
chng. (cFx)	4.3%	8.6%	6.1%	3.8%	3.8%	4.4%	9.0%	6.7%	2.7%
LFL (cFx)	1.5%	5.9%	3.4%	2.0%	1.7%	1.8%	4.4%	5.7%	5.0%
Stores	3,665	3,696	3,696	3,795	3,961	3,961	4,066	4,127	4,127
chng. (y/y)	4.6%	13.9%	13.9%	12.8%	13.0%	13.0%	10.9%	11.7%	11.7%
Pepco	2,610	2,666	2,666	2,775	2,910	2,910	3,025	3,101	3,101
new q/q	146	56	202	109	135	244	100	134	234
P/D	1,055	1,030	1,030	1,020	1,051	1,051	1,041	1,026	1,026
new q/q	15	-25	-10	-10	31	21	5	32	37

Source: Company data, Santander Brokerage Poland estimates

Fig. 99. Pepco: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	6,133	6,133	*0.0%*	7,518	7,518	*0.0%*	8,925	8,925	*0.0%*
Adj. EBITDA (ex. IFRS16)	592	592	*0.0%*	741	741	*0.0%*	897	897	*0.0%*
Adj. net profit	281	281	*0.0%*	349	349	*0.0%*	427	427	*0.0%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 100. Pepco: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	68.6	65.8	*4%*
Multiple valuation	48.8	50.9	*-4%*
Target Price*	**54.8**	**55.4**	***-1%***

*Source: Company data, Santander Brokerage Poland estimates, *multiple/ DCF weights at 70%/30%, multiple with more weight assigned to focus more on mid-term perspectives and market valuation multiples, which we see fair for the company*

Fig. 101. Pepco: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	4,122	4,823	6,133	7,518	8,925
Gross profit	1,769	1,968	2,505	3,072	3,647
EBITDA	647	731	915	1,099	1,285
Adj. EBITDA (ex. IFRS16)	424	470	592	741	897
EBIT	253	278	444	535	630
Profit before tax	167	226	351	436	534
Net profit	164	227	281	349	427
EBITDA margin	15.7%	15.2%	14.9%	14.6%	14.4%
EBIT margin	6.1%	5.8%	7.2%	7.1%	7.1%
Net margin	4.0%	4.7%	4.6%	4.6%	4.8%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	1,232	1,543	1,852	2,297	2,922
Fixed assets	2,305	2,456	2,681	2,851	2,924
Total assets	3,537	3,999	4,532	5,148	5,846
Current liabilities	1,114	1,408	1,660	1,927	2,198
bank debt	71	105	105	105	105
Long-term liabilities	1,460	1,446	1,446	1,446	1,446
bank debt	545	554	554	554	554
Equity	963	1,145	1,426	1,775	2,202
Total liability and equity	3,537	3,999	4,532	5,148	5,846
Net debt	109	316	295	155	-157
Net Debt/ EBITDA (x)	0.3	0.7	0.5	0.2	-0.2

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	673	363	716	874	1,040
CF from investment	-154	-224	-373	-376	-339
CF from financing, incl.	-411	-303	-322	-358	-389
dividends	0	0	0	0	0
Net change in cash	108	-164	21	139	312
FCF	300	-121	21	139	312

Source: Company data, Santander Brokerage Poland estimates

Construction

Fig. 102. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2023E	2024E	2025E	EV/EBITDA (x) 2023E	2024E	2025E
Budimex	Neutral (↓)	360 (↑)	334.0	8%	15.8	15.9	16.7	7.3	6.9	6.8
Erbud	Neutral (→)	44 (↑)	41.7	5%	18.6	18.0	13.7	6.9	6.5	6.0
Torpol	Outperform (→)	20.3 (↓)	15.42	32%	8.2	15.8	10.5	1.5	1.5	1.9
Unibep	Outperform (↑)	12.4 (↑)	10.4	19%	23.1	13.2	6.5	6.8	5.3	3.3

Source: Santander Brokerage Poland estimates

Appealing 2H23E equity story:

We like the equity story for the construction sector. We expect the supply of infrastructure projects to gradually rise in 2023E-2024E, incl. contracts for road and military infrastructure construction. Also PKP PLK has recently initiated distribution of large-size railway contracts thanks to the launch of Recovery Plan (KPO) pre-financing mechanism. We also think that the **demand for general construction works may progressively recover** as we expect investors to unfreeze investments owing to (1) the bottom of the macro-cycle probably already behind us, (2) recent upturn of residential sales volumes, (3) office space deficit, and (4) likely fall in interest rates (which may drive IRRs of clients' investment projects). On top of that, we think that **construction costs should remain under control** in the short-to-mid run, thanks to recent pressure on commodity prices.

Fig. 103. Construction sector: 2023E outlook (our base case scenario and upside/downside risks)

	Short and mid-term outlook	Base case scenario	Upside risks	Downside risks
Contracts supply	↑	**We expect backlogs of general contractors to increase y/y in 2H23E-2024E thanks to high demand for infrastructure works and expected recovery of demand for general construction works**	-	-
o/w private investments	↑	Private investors may unfreeze investments due to unmaterialized risk of recession and likely fall in borrowing costs as well as recovered residential demand and office stock deficit	Limited upside risks	Interest rates to stay at high level, recession
o/w public investments	↑	We expect (1) the supply of road contracts to remain high, (2) PKP likely to initiate distribution of large-size contacts for railway tracks construction due to likely launch of pre-financing of KPO fund and (3) growing investments in public and military buildings	Unfreeze of EU funds could accelerate distribution of large size contacts especially contracts for the construction of railway tracks. Participation of Polish companies in the reconstruction of public infrastructure in Ukraine and or construction of nuclear plant and central airport	Any further delays in EU funds distribution might delay road&railway tracks investments
Construction costs	→	**Construction costs stabilisation**	-	-
o/w staff/subcontractors	→↓	Recent decelerated y/y growth rate of construction production prices suggests eased subcontractors price pressure	Any recovery in construction output might lift staff costs	Any fall in construction output might depress staff costs
o/w materials	→↓	Steel prices stabilized while the growth rate of construction materials price index has decelerated	Any growth in commodity and energy prices. Moreover inflation may drive manufacturing costs of construction materials	Any fall in commodity and energy prices
Competition	→↓	**We expect the competition to remain high**	**Any growth in contracts supply might deescalate competition**	**Cut in EU funds and recession could escalate competition**
2023E margins	→	**Stable margins outlook**	**Any fall in construction costs and/or contracts valorization**	**Any growth in construction costs**
2024E margins	↑→	**Margins likely to increase y/y in 2024E, as we expect contractors to recognize profits at contracts signed in 2H23 which was a period of price peak**		

Source: Santander Brokerage Poland estimates, ↑=growth, →= stable/neutral, ↓=decline

Santander

Budimex

Bloomberg: BDX PW, Reuters: BDX.WA

CEE Equity Research

Construction, Poland

Appealing equity story priced in

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	334
Target price (Dec'23, PLN)	**360**

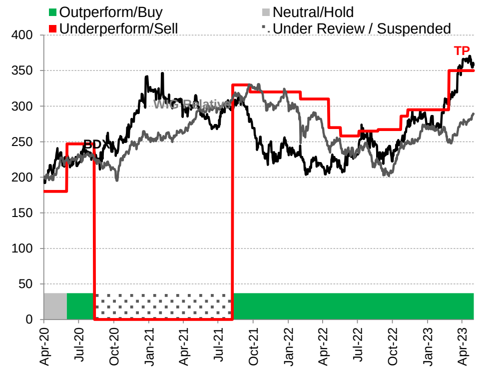
- **Equity story.** We increase Target Price to PLN360 and downgrade rating to Neutral. We continue to like the company's high 2023E-24E earnings visibility thanks to solid and good quality backlog. We also appreciate high focus on road business and military segment. We also expect positive news-flow, incl. likely backlog growth thanks to high demand for infrastructure works and costs under control. Nevertheless, the recent share price outperformance escalated P/E and EV/EBITDA multiples at above past averages and peers. On top of that, we estimate operating CF to potentially fall y/y in 2023E following extraordinary strong OCF in 2022 (supported by PLN286mn advance payments).
- **Business outlook.** We expect positive news-flow this year, incl. an increase of backlog, thanks to the expected high contracts supply (new tenders) and PLN5bn+ contracts ready to be signed (best offers submitted). Moreover, Budimex may continue to penetrate export markets following the successful steps already made in Slovakia. We also believe that the pending contracts valorization process (majority of contracts with GDDKiA have been already valorized, but PKP PLK has not initiated the process on a full scale so far) represents an upside risk to our 2023E margins/CFs. Finally, we assume 2023E y/y profits improvement in two subsidiaries: FB Serwis and Mostostal Krakow, in line with the Board's guidance.
- **High demand.** We expect GDDKiA to scale-up the road construction program in the coming years. The planned spending may gradually grow and almost double in 2025 vs. 2022. PKP PLK finally initiated contracts distribution thanks to the recently agreed cooperation between the Ministry and the Polish Development Fund (PFR), which secured the pre-financing of delayed KPO funds (the EU).
- **Financial forecast.** We upped financial forecasts in order to reflect higher than expected 1Q23 financial income (interest) and improved outlook for railway tracks construction spending .
- **Valuation and risks.** Our Target Price increased to PLN360 due to dividend adjustment and lower risk free rate. Key risks: (1) any cut in the EU funds allocated to Poland, incl. delays in the launch of the Recovery Fund, (2) lower than expected margins on foreign contracts, (3) high scale capex on green energy projects. Upside risks include: (1) any entry into new business segments such as residential development, and (2) participation in Ukraine reconstruction or Central Airport construction.

Budimex: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	7,912	8,619	8,768	9,190	9,634
EBITDA	714	709	753	797	800
EBIT	568	562	607	651	653
Net profit	451	534	551	546	521
P/E (x)	16.4	11.2	15.8	15.9	16.7
EV/ EBITDA (x)	6.9	4.3	7.3	6.9	6.8
FCF yield	21.6%	21.0%	7.6%	6.8%	7.1%
Dividend Yield	10.9%	5.3%	5.3%	6.3%	6.3%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 104. Budimex: Quarterly results review

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	y/y	q/q
Sales	**1245**	**1997**	**2293**	**2377**	**1599**	**2399**	**2370**	**2251**	**1939**	***21%***	***-14%***
o/w construction	1,180	1,849	2,089	2,164	1,436	2,198	2,175	2,012	1,724	*20%*	*-14%*
o/w service&other	64	148	203	213	163	201	195	239	216	*32%*	*-10%*
Gross profit	**97**	**279**	**213**	**245**	**132**	**264**	**256**	**221**	**175**	***32%***	***-21%***
o/w construction	77	165	182	220	107	229	217	192	138	*29%*	*-28%*
o/w service&other	20	114	32	25	25	35	38	29	37	*48%*	*27%*
EBITDA	**99.0**	**250.4**	**177.9**	**206.4**	**94.0**	**214.5**	**219.2**	**187.2**	**141.8**	***51%***	***-24%***
EBITDA margin	*8.0%*	*12.5%*	*7.8%*	*8.7%*	*5.9%*	*8.9%*	*9.2%*	*8.3%*	*7.3%*	*1.4*	*-1.0*
EBIT	**62.8**	**213.6**	**140.0**	**170.7**	**57.4**	**177.3**	**182.0**	**145.7**	**102.9**	***79%***	***-29%***
EBIT margin	*5.0%*	*10.7%*	*6.1%*	*7.2%*	*3.6%*	*7.4%*	*7.7%*	*6.5%*	*5.3%*	*1.7*	*-1.2*
Net profit	**46.4**	**162.1**	**104.5**	**153.0**	**56.4**	**144.8**	**157.4**	**175.8**	**110.5**	***96%***	***-37%***
Net margin	*3.7%*	*8.1%*	*4.6%*	*6.4%*	*3.5%*	*6.0%*	*6.6%*	*7.8%*	*5.7%*	*2.2*	*-2.1*
Gross margin	*7.8%*	*14.0%*	*9.3%*	*10.3%*	*8.3%*	*11.0%*	*10.8%*	*9.8%*	*9.0%*	*0.8*	*-0.8*
service	*19.3%*	*25.0%*	*15.9%*	*12.5%*	*15.5%*	*17.2%*	*20.3%*	*13.0%*	*17.0%*	*1.5*	*4.0*
construction	*6.5%*	*8.9%*	*8.7%*	*10.2%*	*7.5%*	*10.4%*	*10.0%*	*9.5%*	*8.0%*	*0.5*	*-1.5*
net cash	2015	2670	2719	2453	2866	1890	2130	2986	3160	*10%*	*6%*
OCF	449	84	42	191	404	-264	297	991	213	*-47%*	*-79%*
Backlog (EOP)	12701	12970	14021	12970	13170	11780	12466	13290	12610	*-4%*	*-5%*

Source: Santander Brokerage Poland estimates

Fig. 105. Budimex: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	8768	8768	*0%*	9190	9190	*0%*	9634	9634	*0%*
EBITDA	753	753	*0%*	797	797	*0%*	800	800	*0%*
EBIT	607	607	*0%*	651	651	*0%*	653	653	*0%*
Net profit	551	543	*1%*	546	527	*4%*	521	529	*-1%*

Source: Santander Brokerage Poland estimates

Fig. 106. Budimex: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	360	350	*3%*
Comparable valuation	279	293	*-5%*
Target Price*	**360**	**350**	***3%***

*Source: Santander Brokerage Poland estimates, * calculated as a 100% of DCF in order to fully reflect business development in the long run, comparable valuation presented for illustrative purposes only*

Fig. 107. Budimex: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	7912	8619	8768	9190	9634
Gross profit	834	880	937	981	984
EBITDA	714	709	753	797	800
EBIT	568	570	607	651	653
Profit before tax	545	656	697	691	660
Net profit	451	541	551	546	521
EBITDA margin	9.0%	8.2%	8.6%	8.7%	8.3%
EBIT margin	7.2%	6.6%	6.9%	7.1%	6.8%
Net margin	5.7%	6.3%	6.3%	5.9%	5.4%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	5189	5562	6041	6195	6385
Fixed assets	1680	1818	1818	1818	1818
Total assets	6869	7380	7859	8013	8203
Current liabilities	3589	3911	4202	4320	4495
bank debt	105	105	105	105	105
Long-term liabilities	1926	2177	2248	2262	2277
bank debt	157	160	160	160	160
Equity	1361	1299	1390	1386	1361
Total liability and equity	6869	7380	7859	8013	8203
Net debt	-2455	-2986	-3178	-3207	-3266
Net Debt/ EBITDA (x)	-3.4	-4.2	-4.2	-4.0	-4.1

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	765	1428	794	720	746
CF from investment	827	-170	-131	-131	-130
CF from financing, incl.	-988	-721	-470	-561	-556
dividends	-806	-599	-459	-551	-546
Net change in cash	604	537	192	28	59

Source: Company data, Santander Brokerage Poland estimates

Santander

Erbud

Bloomberg: ERB PW, Reuters: ERB.WA

CEE Equity Research

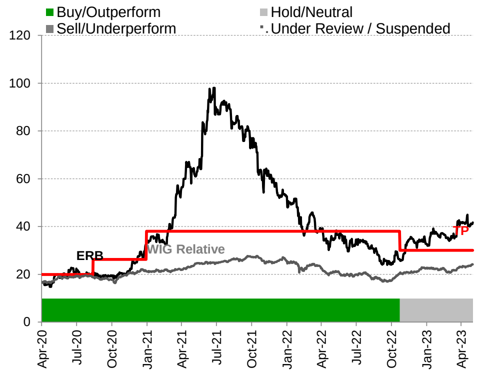
Construction, Poland

Weak backlog quality

- **Equity story.** The equity story for Erbud remains unappealing. We increase Target Price, though and maintain Neutral rating. 2022 was a trouble time for the company, incl. y/y margins slid (growth in construction costs), y/y backlog contraction (clients suspended investments) and leverage increase (net debt at c.PLN150mn in 4Q22 vs. net cash of PLN160mn as at 4Q21). The beginning of 2023 was a challenging time as well. Erbud delivered a 1Q23 net loss due to weak backlog quality and one-off costs related to modular homes manufacturing plant. We think that the business outlook might gradually improve, incl. margins upturn and profits recovery, once the modular homes manufacturing plant is completed (2H23E) and low margin contracts end (2023E). Still, Erbud trades at 13x+ P/E in terminal, which we find as unappealing. Potential PLN100nm+ compensation payment from Millennium Bank might represent potential key share price trigger.
- **Operating loss in 1Q23.** Erbud delivered disappointing 1Q23 results (c. PLN8mn operating loss) due to c. PLN8mn operating loss in modular segment (production facility being still under construction) and c. PLN5mn loss in green energy (Onde) segment. Moreover, operating CF was negative, which lifted q/q net debt. Finally, backlog slid c. 27% y/y (flat q/q).
- **2023E outlook.** We think that the company might potentially lift its profits into the black territory in 2H23E. We expect the high-margin contracts signed in 2H22 and 1Q23 to increase share in sales mix, which should drive margins growth. We expect the company to complete loss-making export contracts, which could no longer depress results. We also expect Erbud to initiate modular homes sale, which could bring first profits (rather than generate one-off costs as in the past).
- **PLN100mn+ cash inflow?** Erbud waits for PLN100mn+ compensation payment from Millennium Bank. We apply a 20% discount to the amount in our DCF model in order to reflect the time value of money (court suspended the payment at the bank's request), but we believe the payment to occur sooner or later.
- **Risks:** Key risks: 1) low margin contracts in backlog, 2) EUR/PLN depreciation, 3) cost inflation, 4) any delays in manufacturing plant completion. Key upsides: higher than expected sales and profits from modular homes manufacturing.
- **Valuation.** Our Target Price is calculated as 100% of DCF. In our DCF model we include 60% stake in PV and wind farm projects.

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	41.7
Target price (Dec'23, PLN)	**44.0**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Erbud: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	3102	3856	3340	3200	3250
EBITDA	118	54	97	98	104
EBIT	91	21	64	65	71
Net profit	9	9	27	28	37
P/E (x)	60.8	51.4	18.6	18.0	13.7
EV/ EBITDA (x)	3.1	12.1	6.9	6.5	6.0
FCF yield	-59%	-43%	4%	13%	11%
Dividend Yield	3.1%	0.7%	2.0%	2.7%	5.5%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 108. Erbud: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Sales	**440**	**645**	**522**	**621**	**537**	**754**	**881**	**930**	**764**	**1026**	**1005**	**1060**	**720**
Gross profit	**29.4**	**46.0**	**51.1**	**67.0**	**57.7**	**70.2**	**56.4**	**109.0**	**49.7**	**61.0**	**57.2**	**54.2**	**43.6**
EBITDA	**9.2**	**23.1**	**30.9**	**29.3**	**31.1**	**11.3**	**31.9**	**44.2**	**12.2**	**16.6**	**15.6**	**7.8**	**0.9**
EBITDA margin	*2.1%*	*3.6%*	*5.9%*	*4.7%*	*5.8%*	*1.5%*	*3.6%*	*4.8%*	*1.6%*	*1.6%*	*1.5%*	*0.7%*	*0.1%*
EBIT	**4.6**	**16.5**	**25.5**	**24.1**	**25.8**	**4.1**	**25.5**	**35.5**	**4.7**	**7.7**	**8.1**	**0.4**	**-7.8**
EBIT margin	*1.0%*	*2.6%*	*4.9%*	*3.9%*	*4.8%*	*0.5%*	*2.9%*	*3.8%*	*0.6%*	*0.8%*	*0.8%*	*0.0%*	*-1.1%*
Net profit	**-0.5**	**11.7**	**22.4**	**13.1**	**19.3**	**-5.4**	**-23.9**	**18.7**	**0.2**	**-1.6**	**5.5**	**4.2**	**-13.3**
Net profit margin	*-0.1%*	*1.8%*	*4.3%*	*2.1%*	*3.6%*	*-0.7%*	*-2.7%*	*2.0%*	*0.0%*	*-0.2%*	*0.5%*	*0.4%*	*-1.8%*
Gross margin	*6.7%*	*7.1%*	*9.8%*	*10.8%*	*10.8%*	*9.3%*	*6.4%*	*11.7%*	*6.5%*	*5.9%*	*5.7%*	*5.1%*	*5.7%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 109. Erbud: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	3340	2950	*13%*	3200	2970	*8%*	3250	3050	*7%*
EBITDA	97	70	*38%*	98	70	*40%*	104	78	*32%*
EBIT	64	38	*66%*	65	39	*69%*	71	47	*52%*
Net profit	27	17	*64%*	28	17	*68%*	37	25	*46%*

Source: Santander Brokerage Poland estimates

Fig. 110. Erbud: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	44	30	*46%*
Comparable valuation	31	20	*55%*
Target Price*	**44**	**30**	***46%***

*Source: Santander Brokerage Poland estimates, * calculated as a 100% of DCF in order to fully reflect business development in the long run, comparable valuation presented for illustrative purposes only*

Fig. 111. Erbud: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	3102	3856	3340	3200	3250
Gross profit	293	222	236	226	226
EBITDA	118	54	97	98	104
EBIT	91	21	64	65	71
Net profit	9	9	27	28	37
EBITDA margin	3.8%	1.4%	2.9%	3.1%	3.2%
EBIT margin	2.9%	0.5%	1.9%	2.0%	1.0%
Net margin	0.3%	0.2%	0.8%	0.9%	1.1%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	1533	1603	1522	1529	1554
Fixed assets	329	442	441	440	439
Total assets	1862	2045	1963	1969	1993
Current liabilities	910	1073	958	941	947
bank debt	59	123	123	123	123
Long-term liabilities	239	277	277	277	277
bank debt	155	189	189	189	189
Equity	685	665	692	706	715
Total liability and equity	1862	2045	1963	1969	1993
Net debt	-149	148	150	122	105
Net Debt/ EBITDA (x)	-1.26	2.74	1.55	1.24	1.01

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	-207	-196	51	94	88
CF from investment	-44	-56	-31	-31	-31
CF from financing, incl.	65	17	-32	-35	-40
dividends	-17	-3	-10	-14	-28
Net change in cash	-186	-234	-12	28	17

Source: Company data, Santander Brokerage Poland estimates

Santander

Torpol

Bloomberg: TOR PW, Reuters: TOR.WA

CEE Equity Research

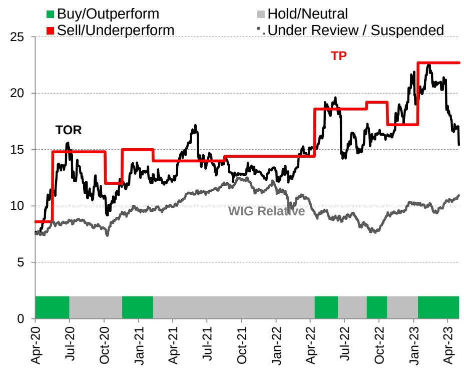
Construction, Poland

Backlog growth opportunity

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	14.42
Target price (Dec' 23PLN)	**20.3**

- **Equity story.** We maintain Outperform rating for Torpol. The decision concerning the retention of record high 2022 profits came in disappointing, as we expected the company to maintain its dividend policy. Nevertheless, we still believe in an appealing equity story for Topol. First, the launch of KPO pre-financing funds (EU Recovery fund) has just materialised, which – as we see it – opened room for signing new large-size contracts. We also cannot exclude that CPK would potentially look for a 100% ownership holding (purchase of 50%+ stake requires announcement of a call tender offer) at the end of the day.
- **Launch of pre-financing of KPO funds finally materialized.** The bridge financing of KPO fund has been finally launched. PKP PLK has recently signed two large size contracts with Torpol and Budimex thanks to the implementation of the pre-financing mechanism. We expect Torpol to potentially sign new deals in the short-to-mid run based on PKP PLK's declaration to sign a total of 10 contracts with contractors worth PLN4bn by the end of the year.
- **Backlog gradually raised.** Tiny backlog is no longer a risk factor for Torpol, we think. The recent signing of PLN500mn+ railway contract lifted Torpol's backlog to c. PLN1.6bn based on our estimates, which materially improved the visibility of 2024E-25E sales/profits, we think. We also expect Torpol to continue backlog growth over 2023-24E, as we expect PKP PLK to continue contracts distribution.
- **Financial forecasts unaltered.** We significantly increase 2023E forecasts as we upped gross margin estimate and financial income (thanks to high net cash). We forecast, though, 2023E-24E profits at a level significantly below 2022 level, due to extraordinary high 2022 earnings/margins. We also expect 2023E negative operating CF due to cash consuming contracts execution. Still, we expect CF recovery as of 2024E-25E. We estimate terminal gross margin at the level 6%, which implies net profit forecast at PLN40mn+.
- **Risks.** (1) Any delays in the supply of contracts from PKP PLK/CPK, (2) Any higher than expected NWC utilisation over 2023-24E represents the key downside risk to our CF estimates and valuation of Torpol.
- **Valuation.** We decrease our Target Price to PLN20.3 from PLN22.7 due to changes in financial forecasts and keep the Outperform rating.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Torpol: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	1,121	1,084	1,010	1,100	1,400
EBITDA	127	245	67	52	69
EBIT	105	221	42	28	45
Net profit	77	184	43	22	34
P/E (x)	4.0	1.9	8.2	15.8	10.5
EV/ EBITDA (x)	0.0	-0.2	1.5	1.5	1.9
FCF yield	41%	47%	-43%	12%	-10%
Dividend Yield	11.4%	19.2%	0.0%	6.1%	3.2%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 112. Torpol: Results Review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Sales	**220**	**271**	**282**	**349**	**208**	**254**	**270**	**353**	**212**
Gross profit	**16.5**	**26.1**	**29.5**	**73.4**	**31.0**	**62.3**	**56.1**	**109.9**	**21.5**
EBITDA	**14.3**	**23.9**	**25.9**	**63.3**	**29.1**	**56.9**	**54.5**	**104.4**	**18.8**
EBITDA margin	*6.5%*	*8.8%*	*9.2%*	*18.1%*	*14.0%*	*22.4%*	*20.2%*	*29.6%*	*8.9%*
EBIT	**8.6**	**19.0**	**20.1**	**57.5**	**23.0**	**51.0**	**48.5**	**98.1**	**12.3**
EBIT margin	*3.9%*	*7.0%*	*7.1%*	*16.5%*	*11.1%*	*20.1%*	*18.0%*	*27.8%*	*5.8%*
Net profit	**6.5**	**13.7**	**15.7**	**41.2**	**20.3**	**45.0**	**40.6**	**78.0**	**14.4**
Net profit margin	*3.0%*	*5.1%*	*5.6%*	*11.8%*	*9.7%*	*17.7%*	*15.0%*	*22.1%*	*6.8%*
Gross margin	*7.5%*	*9.6%*	*10.5%*	*21.0%*	*14.9%*	*24.5%*	*20.8%*	*31.1%*	*10.1%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 113. Torpol: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	1,010	1010	*0%*	1,100	1,400	*-21%*	1,400	1,650	*-15%*
EBITDA	67	45	*48%*	52	68	*-23%*	69	81	*-15%*
EBIT	42	23	*86%*	28	45	*-39%*	45	59	*-24%*
Net profit	43	22	*99%*	22	33	*-32%*	34	45	*-25%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 114. Torpol: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	20.3	22.7	*-11%*
Comparable valuation	24.1	39.8	*-39%*
Target Price*	**20.3**	**22.7**	***-11%***

*Source: Company data, Santander Brokerage Poland estimates, * calculated as a 100% of DCF in order to fully reflect business development in the long run, comparable valuation presented for illustrative purposes only*

Fig. 115. Torpol: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	1121	1084	1010	1100	1400
Gross profit	146	259	81	66	84
EBITDA	127	245	67	52	69
EBIT	105	221	42	28	45
Profit before tax	101	231	54	28	42
Net profit	77	184	43	22	34
EBITDA margin	11.4%	22.6%	6.6%	4.7%	4.9%
EBIT margin	9.4%	20.4%	4.2%	2.5%	3.2%
Net margin	6.9%	17.0%	4.3%	2.0%	2.4%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	702	788	793	723	769
Fixed assets	251	206	184	184	184
Total assets	952	995	978	908	953
Current liabilities	522	438	398	325	346
bank debt	37	30	30	30	30
Long-term liabilities	127	138	138	138	138
bank debt	83	67	67	67	67
Equity	294	407	452	453	476
Total liability and equity	952	995	978	908	953
Net debt	-313	-396	-254	-277	-227
Net Debt/ EBITDA (x)	-2.5	-1.6	-3.8	-5.3	-3.3

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	134	172	-131	66	-14
CF from investment	-8	-3	-22	-22	-22
CF from financing, incl.	-65	-81	11	-22	-14
dividends	-35	-69	0	-22	-11
Net change in cash	38	74	-142	23	-50

Source: Company data, Santander Brokerage Poland estimates

Santander

Unibep

Bloomberg: UNI PW, Reuters: UNI.WA

CEE Equity Research

Construction, Poland

New strategy = upside

- **Equity story.** We upgrade the rating for Unibep to Outperform from Underperform previously. The newly appointed CEO – Mr. Dariusz Blocher – has recently announced an ambitious but achievable strategy focused on cash flow/margins improvement and business scaling-up. Mr. Blocher's strong track record (as CEO of Budimex – a peer company) in executing business restructuring and establishing a cash-flow oriented business, convinced us to increase our financial forecast. We do believe 2023E would be a challenging year for Unibep, as we expect CEO to clean Unibep's balance sheet, but we strongly believe in Unibep's success in re-shaping its business model and gradual profits growth as of 2024E/25E when we expect the new strategy implementation to bear fruit. We estimate terminal net profit at PLN60mn+ implying a low single digit P/E ratio, which we perceive as appealing for investors.
- **Likely contracts budgets revision.** 2022 was exceptionally weak for Unibep. The net profit slid to just PLN7mn from PLN33mn in 2021 because of poor performance of the modular homes segment - low capacity utilisation and additional costs depressed the segment's net result deeply into the red territory. 2023E could be another year of unsatisfactory results, we think. The newly appointed CEO has announced the planned review of contracts' budgets, which we perceive as a risk of contract write-offs.
- **2024E – new strategy to bear fruit.** New CEO, Mr. Blocher, announced Unibep's business model transformation in order to improve margins, scale up the business and improve cash flow delivery – the strategy which he had successfully implemented a few years ago in Budimex (a WSE-listed peer company). We strongly believe that Unibep could become an example of a business turnaround story and potentially repeat the success story of Budimex (though on a relatively lower scale).
- **Financial forecasts.** We cut 2023E earnings and increase profits as of 2024E (strong backlog, upped margins assumed). We expect net profit forecast at PLN60mn+ in terminal from the average of PLN30mn in 2015-2021.
- **Risks:** Any delays in and/or failures to implement the new strategy represent the key downside risk to our forecasts/valuation .
- **Valuation.** Our Target Price is calculated as 100% of DCF as it fully reflects the mix of the value of the company's residential and construction segments. Our Target Price increased vs. previous report, due to changes in financial forecasts.

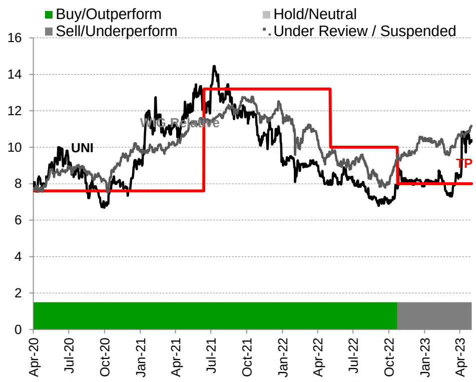
Unibep: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	1,712	2,257	2,713	2,619	2,703
EBITDA	84	89	74	88	122
EBIT	62	64	48	63	96
Net profit	33	8	16	28	56
P/E (x)	10.9	39.2	23.1	13.2	6.5
EV/ EBITDA (x)	3.6	4.4	6.8	5.3	3.3
FCF yield	3.7%	-24.5%	-6.6%	14.9%	23.7%
Dividend Yield	2.9%	6.4%	2.2%	2.4%	4.3%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	10.4
Target price (Dec'23, PLN)	**12.4**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

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Fig. 116. Unibep: Results Review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Sales	**347**	**386**	**435**	**514**	**308**	**386**	**393**	**626**	**419**	**600**	**576**	**663**	**507**
General construction	256	212	222	254	198	233	247	263	199	267	292	296	232
Infrastructure	41	103	116	119	31	104	131	115	103	184	106	99	43
Residential developer	25	41	58	118	40	17	4	224	77	113	69	74	70
Modular homes	47	50	56	58	67	67	59	69	56	38	78	42	60
Power construction									17	37	75	183	110
Other	-22	-20	-17	-34	-29	-35	-48	-46	-32	-39	-44	-32	-8
Gross profit	**25.0**	**32.0**	**39.8**	**41.9**	**20.0**	**24.3**	**22.6**	**66.7**	**34.5**	**55.2**	**36.4**	**22.1**	**33.0**
General construction	20.1	14.1	15.2	14.2	12.6	16.7	17.3	10.6	11.3	11.3	6.7	-8.5	8.1
Infrastructure	1.7	16.0	15.7	4.9	1.1	7.2	8.7	-2.8	2.4	3.6	6.0	21.1	1.8
Residential developer	4.3	5.0	9.7	38.3	7.8	1.8	-0.6	56.3	25.9	37.7	22.8	13.5	21.0
Modular homes	0.3	-3.5	1.8	-5.0	1.7	1.5	-0.8	4.9	0.1	-6.6	-6.2	-19.7	-3.0
Power construction									0.3	1.9	8.9	17.1	5.5
Other	-1.7	0.3	-2.6	-9.8	-3.2	-2.9	-1.9	-2.1	-5.5	7.4	-1.8	-1.3	-0.4
EBITDA	**11.8**	**17.7**	**29.7**	**19.2**	**10.4**	**18.6**	**21.3**	**66.7**	**23.3**	**38.9**	**23.2**	**4.0**	**20.9**
EBITDA margin	*3.4%*	*4.6%*	*6.8%*	*3.7%*	*3.4%*	*4.8%*	*5.4%*	*10.7%*	*5.6%*	*6.5%*	*4.0%*	*0.6%*	*4.1%*
EBIT	**7.5**	**13.2**	**25.1**	**14.2**	**5.1**	**13.2**	**16.0**	**27.2**	**17.3**	**32.4**	**17.0**	**-2.9**	**14.0**
EBIT margin	*2.2%*	*3.4%*	*5.8%*	*2.8%*	*1.7%*	*3.4%*	*4.1%*	*4.4%*	*4.1%*	*5.4%*	*3.0%*	*-0.4%*	*2.8%*
Net profit	**3.2**	**6.5**	**20.0**	**7.5**	**10.0**	**6.5**	**6.4**	**10.3**	**9.7**	**14.9**	**2.2**	**-19.4**	**10.5**
Net profit margin	*0.9%*	*1.7%*	*4.6%*	*1.5%*	*3.3%*	*1.7%*	*1.6%*	*1.6%*	*2.3%*	*2.5%*	*0.4%*	*-2.9%*	*2.1%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 117. Unibep: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	2713	2411	13%	2619	2170	21%	2703	2217	22%
EBITDA	74	82	-11%	88	85	4%	122	88	39%
EBIT	48	60	-21%	63	63	-1%	96	66	47%
Net profit	16	29	-45%	28	32	-12%	56	34	64%

Source: Santander Brokerage Poland estimates

Fig. 118. Unibep: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	12.4	8.0	*55%*
Comparable valuation	8.7	9.9	*-12%*
Target Price*	**12.4**	**8.0**	***55%***

*Source: Santander Brokerage Poland estimates, * calculated as a 100% of DCF in order to fully reflect business development in the long run, comparable valuation presented for illustrative purposes only*

Fig. 119. Unibep: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	1712	2257	2713	2619	2703
Gross profit	134	148	129	143	177
EBITDA	84	89	74	88	122
EBIT	62	64	48	63	96
Profit before tax	60	42	42	57	92
Net profit	34	8	16	28	56
EBITDA margin	4.9%	4.0%	2.7%	3.4%	4.5%
EBIT margin	3.6%	2.8%	1.8%	2.4%	3.6%
Net margin	2.0%	0.3%	0.6%	1.1%	2.1%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	1201	1408	1461	1469	1556
Fixed assets	334	407	407	407	407
Total assets	1535	1815	1868	1876	1963
Current liabilities	726	889	860	833	856
bank debt	71	71	71	71	71
Long-term liabilities	422	529	577	574	576
bank debt	140	171	171	171	171
Equity	377	383	417	456	516
Total liability and equity	1535	1815	1868	1876	1963
Net debt	-61	104	139	103	42
Net Debt/ EBITDA (x)	-0.73	1.16	1.89	1.17	0.34

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	-3	-4	-2	77	108
CF from investment	-11	-57	-22	-22	-21
CF from financing, incl.	22	-72	-11	-19	-25
Dividends	-10	-17	-7	-8	-14
Net change in cash	8	-134	-35	36	62

Source: Company data, Santander Brokerage Poland estimates

Gaming sector

Fig. 120. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2023E	P/E (x) 2024E	P/E (x) 2025E	EV/EBITDA (x) 2023E	EV/EBITDA (x) 2024E	EV/EBITDA (x) 2025E
11 BIT STUDIOS	Outperform	660	641	3%	437.3	10.0	12.9	277.6	8.0	8.8
CD PROJEKT	Outperform	207	121	71%	22.8	56.6	85.2	15.8	38.8	57.0
HUUUGE	Outperform	36	26.1	38%	6.5	7.3	7.3	2.3	1.9	2.2
TEN SQUARE GAMES	Underperform	77	79	-3%	8.7	12.0	17.8	4.7	5.6	7.0

Source: Company data, Santander Brokerage Poland estimates

Mobile and PTP segments – diverging trends

We tend to believe the gaming segment is under **structural changes**, both between key segments of mobile vs PTP games and within the segments as well. Starting from the mobile segment, we think the value of mobile gaming market might be declining more structurally rather than cyclically (after Covid uptick). Our thinking is based on data on average daily amount of money spent on mobile games. Huuuge data imply the average daily amount spent per paying user at USD40. That means that the average user spends USD80 in two days, more than the value of one triple A game where gamers can be active a few months and not two days.

We think higher interest rates might cause a visible reduction in mobile game spending and the decline in the segment might be more structural as a result of that. We also think some parts of the mobile market might be more sensitive to slowdown, especially casual games like simulation games (Fishing Clash in TEN), which were double digits down yoy in 1H22. On the other hand, casino games (HUG) seem to be more defensive, down just a few pp. in 1H22.

In terms of PTP segment, we think the decline in 2022 was more about a low number of big games (delay after Covid) and the market will return to the growth trend in 2023. However, the number of new games is rising steadily and competition is bigger and bigger.

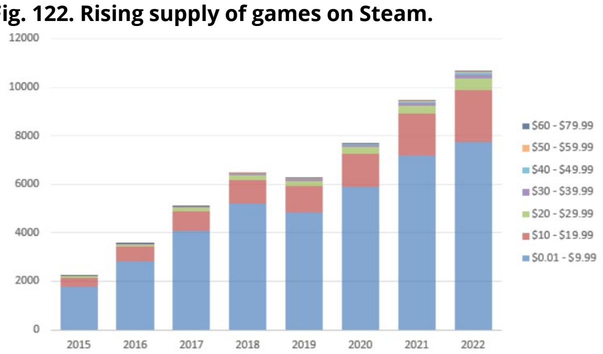
The most positive trends are seen in triple A and multiplayer segments. Actually, most of the biggest game developers (comments from Ubisoft, Electronic Arts, Take Two) are trying to transform their business models towards the two segments (GaaS, game as platforms). We tend to think that recently announced strategies of CDR and PCF are not a coincidence as both companies aim to target the most attractive segments of the gaming market.

Our top picks are still most liquid names in the sector: CDR and HUG.

Fig. 121. Mobile games by genre in 2022.

Source: Deconstructoroffun.com

Fig. 122. Rising supply of games on Steam.



Source: Santander Brokerage Poland

11Bit Studios

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

CEE Equity Research

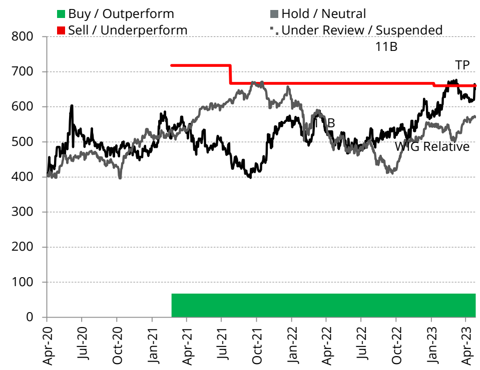
Gaming, Poland

Delays put pressure on FCF

- **What's in store for 2023?** 11B was supposed to start delivering on promises in terms of numbers of games in own development and publishing divisions. Five months of the year have passed and it seems the chance for the two games in publishing is decreasing as Invincible is now at full speed in terms of marketing, but Thaumaturge sort of disappeared after publishing gameplay several weeks ago. Self- development games are unlikely to be headed for 2023 as well. Our forecasts from last year's strategy report included only one game in publishing this year and we don't change them. But we believe we are below market consensus on our assumptions.
- **FCF generation profile.** Due to significant delays versus the previously hinted debut dates for the company's own games, 11B's revenues are under pressure. On the other hand, the company is increasing headcount in its own games department and fixed costs are rising the fastest in the sector (excluding PCF only). As a result, 11B started burning cash in 2H22 and we expect FCF burn to be visibly higher this year. Any delay in Frostpunk 2 beyond the middle of 2024 might cause some balance sheet pressure as we expect net cash of below PLN50m at the end of 2023.
- **Valuation and risks.** We don't change our forecasts for 11B as we wait for the start of the new titles' marketing campaigns . We maintain Outperform rating and our TP remains unchanged at PLN660. The risks to our investment view include mainly volumes and timing of new releases.

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	641
Target price (Dec'23, PLN)	**660**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

11B: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	70.1	74.2	71.4	272.9	243.1
EBITDA	39.0	25.9	5.6	186.3	158.1
EBIT	30.0	20.0	-0.5	166.5	126.4
Net profit	28.7	22.9	3.5	151.9	118.7
P/E (x)	39.0	55.1	437.3	10.0	12.9
EV/ EBITDA (x)	38.7	58.1	277.6	8.0	8.8
FCF Yield	0.8%	-0.8%	-2.8%	4.7%	6.1%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 123. 11B: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	660	660	*0%*
Comparable valuation	550	550	*0%*
Target Price	**660**	**660**	***0%***

*Source: Company data, Santander Brokerage Poland estimates, *valuation based on DCF only; due to different timing of games releases in covered companies comparable valuation is not adequate*

Fig. 124. 11B: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	70	74	71	273	243
EBITDA	39	26	6	186	158
D&A	9	6	6	20	32
EBIT	30	20	0	166	126
Profit before tax	32	27	4	169	132
Net profit	29	23	3	152	119
EBITDA margin	55.5%	34.9%	7.8%	68.3%	65.1%
EBIT margin	42.8%	26.9%	-0.7%	61.0%	52.0%
Net margin	40.9%	30.8%	4.9%	55.7%	48.8%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	128.8	101.7	64.0	169.3	257.1
Fixed assets	90.7	142.5	192.2	244.6	279.5
Total assets	219.5	244.2	256.2	413.9	536.6
Current liabilities	13.2	10.2	18.7	24.6	28.6
bank debt	1.3	1.3	1.3	1.3	1.3
Long-term liabilities	9.0	9.5	9.5	9.5	9.5
bank debt	7.6	7.2	7.2	7.2	7.2
Equity	197.3	224.5	228.0	379.9	498.5
Total liability and equity	219.5	244.2	256.2	413.9	536.6
Net debt	-98.6	-78.9	-36.4	-101.3	-195.1
Net Debt/ EBITDA (x)	-2.5	-3.0	-6.5	-0.5	-1.2

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	41	33	13	137	160
CF from investment	-37	-29	-56	-72	-67
CF from financing, incl.	-0.9	-0.3	0.0	0.0	0.0
dividends	0	0	0	0	0
Net change in cash	2.6	3.8	-42.4	64.9	93.8

Source: Company data, Santander Brokerage Poland estimates

CD Projekt

Bloomberg: CDR PW, Reuters: CDR.WA

CEE Equity Research

Gaming, Poland

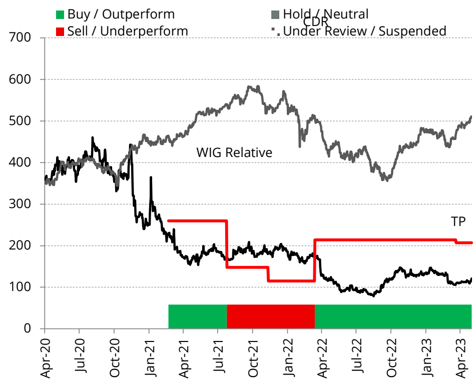
Phantom Liberty to the rescue

- **What's in store for 2023?** CDR's strategy report in 4Q22 restored some hope for revival in the company's fortunes among investors. However reports on the write-off of Sirius project and its reversal have recently created uncertainty again. As such, Phantom Liberty debut this year is CDR's last chance to regain trust of the investment community.

  As we mention in the sector section above, gaming market is in the middle of structural changes. Mobile market is slowing visibly. PTP market is tougher, but triple A and multiplayer games are thriving. CDR is the only company among big global players with pure exposure to the most promising segments of the gaming market. But the company needs to prove again the ability to deliver good quality triple A titles on which multiplayer revenues might be built.
- **FCF generation profile.** Despite market fears that rising salaries will force FCF burn in CDR, the company is still delivering positive FCF, we note. Phantom Liberty debut should help in generating PLN300m FCF this year with net cash position close to PLN1.5bn at the end of the year, we calculate. Cyberpunk's DLC strong debut might improve FCF profile not only this year, but in the mid-term as well.
- **Valuation and risks.** We don't change our forecasts for CDR as we wait for Phantom Liberty debut. We maintain Outperform rating and our TP remains unchanged at PLN207. The risks to our investment thesis include volumes of games or cash costs development.

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	121
Target price (Dec'23, PLN)	**207**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

CDR: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	888.2	952.6	1,133.3	690.0	629.2
EBITDA	319.9	481.0	671.3	269.8	185.3
EBIT	232.9	377.3	558.7	190.1	105.7
Net profit	208.9	347.1	535.0	215.3	143.0
P/E (x)	226.6	30.8	22.8	56.6	85.2
EV/ EBITDA (x)	33.8	22.7	15.8	38.8	57.0
FCF Yield	0.9%	1.3%	3.0%	0.9%	-0.8%
Dividend Yield	1.1%	0.9%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 125. CDR: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	207	207	*0%*
Comparable valuation	127	127	*0%*
Target Price	**207**	**207**	***0%***

*Source: Company data, Santander Brokerage Poland estimates, *valuation based on DCF only; due to different timing of games releases in covered companies comparable valuation is not adequate*

Fig. 126. CDR: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	888	953	1,133	690	629
EBITDA	320	481	671	270	185
D&A	87	104	113	80	80
EBIT	233	377	559	190	106
Profit before tax	219	393	594	239	159
Net profit	209	347	535	215	143
EBITDA margin	36.0%	50.5%	59.2%	39.1%	29.5%
EBIT margin	26.2%	39.6%	49.3%	27.6%	16.8%
Net margin	23.5%	36.4%	47.2%	31.2%	22.7%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	1,252.9	1,154.1	1,519.8	1,529.2	1,412.0
Fixed assets	905.8	1,120.0	1,256.6	1,457.3	1,719.2
Total assets	2,158.7	2,274.1	2,776.4	2,986.5	3,131.1
Current liabilities	228.3	204.5	171.8	166.7	168.3
bank debt	0	0	0	0	0
Long-term liabilities	36.1	36.2	36.2	36.2	36.2
bank debt	0	0	0	0	0
Equity	1,894.4	2,033.4	2,568.4	2,783.7	2,926.7
Total liability and equity	2,158.7	2,274.1	2,776.4	2,986.5	3,131.1
Net debt	-1,116.0	-1,073.6	-1,404.8	-1,509.3	-1,423.2
Net Debt/ EBITDA (x)	-3.5	-2.2	-2.1	-5.6	-7.7

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	968	406	595	400	270
CF from investment	-614	-336	-264	-295	-356
CF from financing, incl.	-505.8	-204.2	0.0	0.0	0.0
dividends	-503.7	-100.7	0.0	0.0	0
Net change in cash	-151.7	-133.8	331.1	104.6	-86.1

Source: Company data, Santander Brokerage Poland estimates

Santander

Huuuge

Bloomberg: HUG PW, Reuters: HUG.WA

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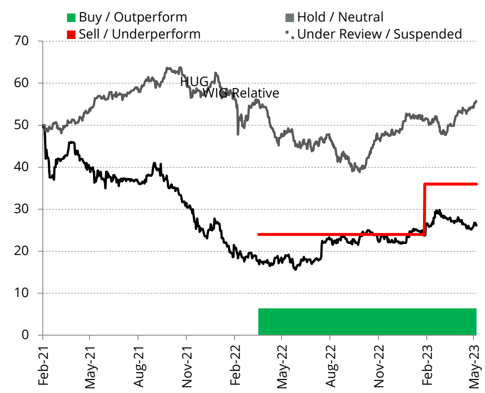
Gaming, Poland

High time to fulfil promises

RECOMMENDATION	**Outperform**
Current price (May 23, 2023, PLN)	26
Target price (Dec'23, PLN)	**36**

- **What's in store for 2023?** The most important event this year in HUG is the announced buyback which we expect in June, immediately after 1Q23 results. We still believe the company won't change its course and deliver on promises. Potentially HUG might decide to spend money on M&A, but we think it's unlikely having in mind HUG's experience and still slowing mobile market. The best decision the management could make is to concentrate on cost cutting and buying back shares as this strategy already increased the company's valuation by more than 50% over the last 12 months.
- **FCF generation profile.** HUG is generating double digit FCF yields, the highest among our coverage. Strong improvement was possible thanks to strict cost discipline in terms of UAC. Additionally HUG has recently started headcount employment . Should its revenue line not decrease visibly due to low marketing, the company could be traded at negative EV in 3-4 years from now, we calculate.
- **Valuation and risks.** We don't change our forecasts for HUG. We maintain Outperform rating and our TP remains unchanged at PLN36. The risks to our investment view include volumes of micro transactions or potential value destructive M&As.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

HUG: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	373.7	318.6	282.5	275.2	275.9
EBITDA	52.6	49.7	88.8	83.7	83.1
EBIT	44.6	38.6	76.8	71.7	71.1
Net profit	-9.7	32.0	60.7	56.6	57.0
P/E (x)	-60.2	12.3	6.5	7.3	7.3
EV/ EBITDA (x)	3.6	5.8	2.3	1.9	2.2
FCF Yield	3.5%	7.7%	17.8%	12.6%	13.0%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	5.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 127. HUG: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	36	36	*0%*
Comparable valuation	42	42	*0%*
Target Price	**36**	**36**	***0%***

*Source: Company data, Santander Brokerage Poland estimates, *valuation based on DCF only; due to different timing of games releases in covered companies comparable valuation is not adequate*

Fig. 128. HUG: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	374	319	282	275	276
EBITDA	53	50	89	84	83
D&A	8	11	12	12	12
EBIT	45	39	77	72	71
Profit before tax	-1	39	77	72	71
Net profit	-10	32	61	57	57
EBITDA margin	14.1%	15.6%	31.4%	30.4%	30.1%
EBIT margin	11.9%	12.1%	27.2%	26.0%	25.8%
Net margin	-2.6%	10.0%	21.5%	20.6%	20.7%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	232.4	248.9	333.7	398.9	378.1
Fixed assets	67.5	37.4	28.4	19.4	9.4
Total assets	299.9	286.3	362.2	418.4	387.6
Current liabilities	60.9	35.6	50.8	50.3	50.6
bank debt	0	0	0	0	0
Long-term liabilities	13.0	10.0	10.0	10.0	10.0
bank debt	0	0	0	0	0
Equity	226.1	240.7	301.4	358.0	325.0
Total liability and equity	299.9	286.3	362.2	418.4	387.6
Net debt	-204.4	-208.4	-297.6	-363.4	-342.5
Net Debt/ EBITDA (x)	-3.9	-4.2	-3.4	-4.3	-4.1

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	30	71	92	69	70
CF from investment	-16	-33	-3	-3	-2
CF from financing, incl.	96.6	-21.8	0.0	0.0	-90.0
dividends	0.0	0.0	0.0	0.0	90.0
Net change in cash	110.4	16.6	89.2	65.8	-21.8

Source: Company data, Santander Brokerage Poland estimates

Ten Square Games

Bloomberg: TEN PW, Reuters: TEN.WA

CEE Equity Research

Gaming, Poland

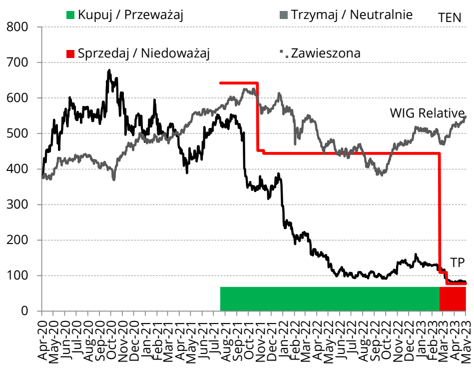
FCF squeeze

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	79
Target price (Dec'23, PLN)	**77**

- **What's in store for 2023?** TEN has recently started its headcount restructuring process, which was also connected with the decision to stop growth projects. Would TEN be able to improve FCF generation the way HUG did? We tend to believe TEN is a completely different case from HUG, as HUG started from cutting UAC spending and has only recently been decreasing headcount. TEN is not able to cut UAC in our view and needs to cut headcount. Revenue generation from Fishing Clash and Hunting Clash is crucial to improve results going forward.

  As we mentioned in our last report on TEN, M&A is potentially the best solution for TEN's shareholders, as the removal of SG&A costs from TEN's income statement would almost double the company's FCF.
- **FCF generation profile.** Unfortunately, the first four months of 2023 were rather weak in terms of main titles revenue generation. Based on our estimates, the company's revenue decrease already more than offset the potential cost cutting announced for 2023. TEN delivered PLN50m unconsolidated FCF last year and FCF might decrease visibly this year due to weak revenues.
- **Valuation and risks.** We don't change our forecasts for TEN. We maintain Underperform rating and our TP remains unchanged at PLN77.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

TEN: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	634.0	538.6	516.5	497.8	475.4
EBITDA	174.2	89.2	94.5	73.8	56.3
EBIT	166.2	72.7	76.5	54.8	35.3
Net profit	141.3	52.3	66.7	48.3	32.6
P/E (x)	19.2	11.6	8.7	12.0	17.8
EV/ EBITDA (x)	2.7	5.4	4.7	5.6	7.0
FCF Yield	-3.6%	13.6%	5.3%	5.1%	3.2%
Dividend Yield	2.7%	12.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 129. TEN: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	77	77	*0%*
Comparable valuation	132	132	*0%*
Target Price	**77**	**77**	***0%***

*Source: Company data, Santander Brokerage Poland estimates, *valuation based on DCF only; due to different timing of games releases in covered companies comparable valuation is not adequate*

Fig. 130. TEN: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	634	539	517	498	475
EBITDA	174	89	95	74	56
D&A	8	16	18	19	21
EBIT	166	73	77	55	35
Profit before tax	162	66	79	57	37
Net profit	141	52	67	48	33
EBITDA margin	27.5%	16.6%	18.3%	14.8%	11.8%
EBIT margin	26.2%	13.5%	14.8%	11.0%	7.4%
Net margin	22.3%	9.7%	12.9%	9.7%	6.8%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	221.4	206.6	240.5	269.6	288.1
Fixed assets	298.9	314.1	346.5	365.9	383.3
Total assets	520.3	520.7	587.1	635.5	671.4
Current liabilities	104.2	110.0	109.6	109.8	110.2
bank debt	0	0	0	0	0
Long-term liabilities	65.0	68.2	68.2	68.2	68.2
bank debt	0	0	0	0	0
Equity	351.1	342.5	409.2	457.5	490.0
Total liability and equity	520.3	520.7	587.1	635.5	671.4
Net debt	-139.6	-126.6	-158.8	-189.7	-210.3
Net Debt/ EBITDA (x)	-0.8	-1.4	-1.7	-2.6	-3.7

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	200	138	83	69	58
CF from investment	-222	-56	-50	-38	-38
CF from financing, incl.	-75.1	-95.2	0.0	0.0	0.0
dividends	72.7	72.3	0.0	0.0	0.0
Net change in cash	-96.7	-12.8	32.2	30.8	19.7

Source: Company data, Santander Brokerage Poland estimates

R22

Bloomberg: R22 PW, Reuters: R22.WA

CEE Equity Research

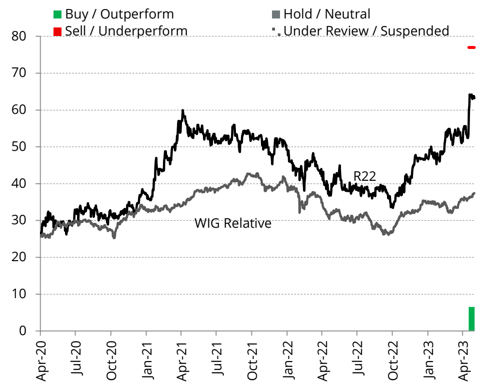
TMT, Poland

Shining star

- **Unique business model .** R22 has unique business model among growth companies listed in Poland. Majority of hosting segment and part of CPaaS is based on recurring revenue streams and operates with yearly prepayments. The value of prepayments is presented in the balance sheet under contracts with clients line and yoy change in this line shows expected growth of the business ahead. As a result R22 presents historical results and "hints" on growth of the business in future quarters, the only such company listed in Poland.
- **FCF generation profile.** R22 delivers healthy FCF every year since the debut on WSE. The company's DNA is also to grow via M&As, which causes temporary increase and net debt, but is quickly paid down thanks to stable FCF from recurring revenue lines. We tend to believe R22 should be traded at FCF ex-financial costs as net debt is temporary and is quickly paid down.
- **Valuation and risks.** We don't change our forecasts for R22. We maintain Outperform rating and our TP remains unchanged at PLN77. The risks to our investment thesis include mainly failed M&As.

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	63
Target price (Dec'23, PLN)	**77**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

R22: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	296.6	392.2	476.1	551.0	629.4
EBITDA	70.2	100.9	141.5	170.1	198.0
EBIT	48.7	74.3	112.3	137.9	162.6
Net profit	25.6	24.0	52.0	62.8	73.2
P/E (x)	26.0	24.2	17.2	14.3	12.2
EV/ EBITDA (x)	15.2	13.6	9.6	7.8	6.6
FCF Yield	-2.4%	-27.9%	5.9%	8.2%	9.8%
Dividend Yield	1.2%	1.7%	1.2%	1.4%	1.6%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 131. R22: Valuation changes

PLN per share	New	Previous	Change
DCF valuation	77	77	*0%*
Comparable valuation	82	82	*0%*
Target Price	**77**	**77**	***0%***

Source: Company data, Santander Brokerage Poland estimates

Fig. 132. R22: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	297	392	476	551	629
EBITDA	70	101	142	170	198
D&A	21	27	29	32	35
EBIT	49	74	112	138	163
Profit before tax	41	52	94	123	151
Net profit	26	24	52	63	73
EBITDA margin	23.7%	25.7%	29.7%	30.9%	31.5%
EBIT margin	16.4%	19.0%	23.6%	25.0%	25.8%
Net margin	8.6%	6.1%	10.9%	11.4%	11.6%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	167.3	91.9	145.5	213.6	294.7
Fixed assets	411.9	773.7	762.2	749.5	735.5
Total assets	579.3	865.6	907.7	963.1	1,030.2
Current liabilities	109.1	145.0	145.6	150.7	156.3
bank debt	33.0	46.9	46.9	46.9	46.9
Long-term liabilities	192.1	322.4	322.4	322.4	322.4
bank debt	170.7	299.3	299.3	299.3	299.3
Equity	182.3	218.7	236.0	249.7	259.1
Total liability and equity	579.3	865.6	907.7	963.1	1,030.2
Net debt	74.0	292.2	250.1	189.0	115.2
Net Debt/ EBITDA (x)	1.1	2.9	1.8	1.1	0.6

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	69	97	70	93	109
CF from investment	-85	-260	-18	-19	-21
CF from financing, incl.	124.6	86.4	-10.4	-12.6	-14.6
dividends	8.0	10.1	10.4	12.6	14.6
Net change in cash	108.8	-76.0	42.1	61.1	72.8

Source: Company data, Santander Brokerage Poland estimates

Home builders / Real Estate

Fig. 133. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2023E	2024E	2025E	P/BV(x) 2023E	2024E	2025E
Atal	Outperform (→)	60 (→)	50	20%	6.5	9.1	8.6	1.38	1.37	1.30
Dom Development	Neutral (↓)	153 (↑)	143	7%	10.1	9.5	9.8	2.45	2.30	2.21
Develia	Outperform (→)	4.3 (↑)	3.94	9%	9.3	11.8	10.0	1.20	1.19	1.14
PHN	Neutral (→)	12.2 (↓)	11.60	5%	-91.0	23.6	48.9	0.25	0.25	0.25
GTC	Underperform	5.70	5.84	-2%	10.9	11.4	14.0	0.63	0.60	0.57

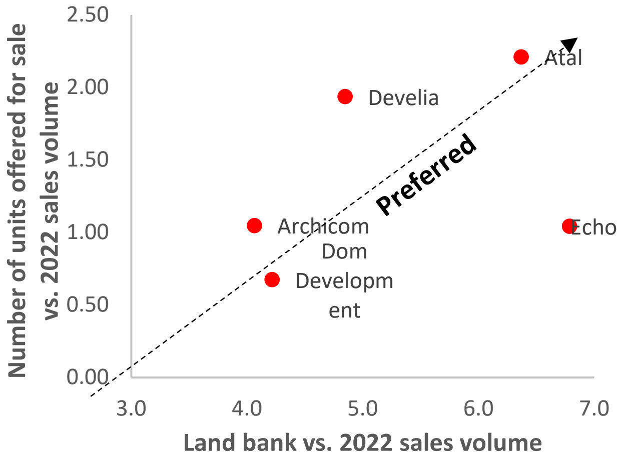
Source: Santander Brokerage Poland estimates

We expect an appealing equity story for home builders. We like the equity story for residential developers. The aggregate residential sales volumes continued a V-shape recovery in 1Q23, and c. 10% Apr's m/m volumes growth suggests the growth trajectory to continue in 2Q23E. Improved access to mortgage loan originations (as of Feb 2023 regulator liberalised the mortgage loans criteria) and purchases for lease/investment purposes as hedging against high inflation, were the key sales drivers, we think. We expect the sale volume growth rate to continue in the short-to-mid run, thanks to 1) likely implementation of '2%-mortgage loan' for first time homes buyers, 2) likely cuts in interest rates (we assume that as of 2024E), 3) likely growth in real wages and 4) recently narrowed spread between average bank deposit interest rate (which has been falling as of Jan 2023) and the residential rental yield.

Focus on developers, which secured land bank. In the light of improved business environment, investors should focus on developers which secured a high number of units offered for sale and/or land bank, in order to meet demand in the coming quarters. Atal held the highest number of units offered for sale among peers as at 4Q22 compared to 2022 sales volume (2.2x), and a relatively solid land bank (6.4x 2022 sales).

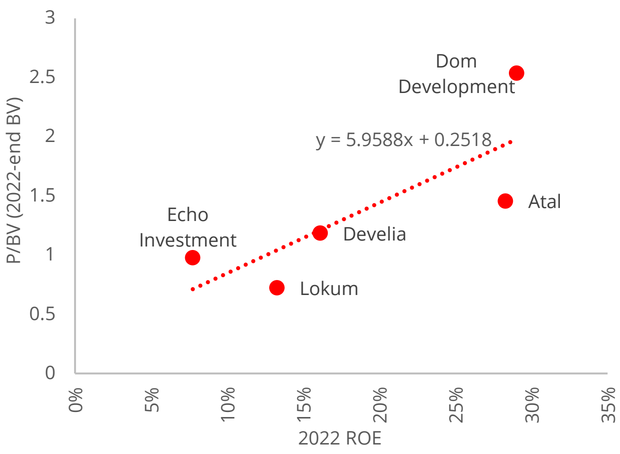
Key risks: 1) any delay in interest rate cuts, 2) any delays in the implementation of 'Pierwsze mieszkanie' scheme for first home buyers, (3) further decline in rental fees (which may depress investment demand).

Units offered for sale/land bank vs. 2022 sales volume



Source: Companies, Bloomberg

P/BV and ROE (2022)



Source: Companies, Bloomberg

Santander

Atal

Bloomberg: 1AT PW, Reuters: 1AT.WA

CEE Equity Research

Real Estate, Poland

Volumes to recover

- **Equity story.** The V-shape residential sales volume recovery in 4Q22-1Q23 triggered share prices of residential developers. Atal's sales volume only marginally improved q/q in 1Q23, but we believe in its perfect exposure to the planned implementation of the cheap-mortgage scheme for first home buyers called 'Pierwsze mieszkanie' (thanks to high geographical diversification and exposure to mid-end to low-end segment), which may drive sales growth as of 2H23E. The Polish Parliament has initiated the proceeding of the bill, which bodes well for a smooth scheme implementation, we think. We maintain our Outperform rating for Atal. We like Atal's well-developed land bank and the number of units offered for sale, which might underpin the volume growth trajectory. Atal is trading at 1.38x 2023E P/BV ratio, which looks undemanding in light of 2023-26E avg. ROE at c. 19 % and 2016-2021 average P/BV ratio at 1.6x.
- **Focus on land bank.** We think that in the current resi-cycle, investors should focus on developers who have secured a robust land bank/number of units offered for sale, both of which seem crucial to fully participate in the likely (and expected by us) new housing boom. Atal offered for sale c. 5k residential units as at 1Q23-end, which covered 2.4x times its 2022 sales volume, above 1.25x average ratio for peers. Moreover, it spent record ever cash on land purchase in 2022, which has expanded its land bank to 13.4k units, i.e. 6 times 2022 sales.
- **Financial forecasts.** We maintain financial forecasts unaltered. We forecast almost PLN300mn net profit in 2023E (marginally below the record ever 2022 profit), some y/y profit decline in 2024E (delayed accounting effect of sales volumes y/y fall in 2022) and the gradual earnings recovery as of 2025E. We assume 2.9k handovers volume in 2023E, 2.2k in 2024E and 2.5k in 2025E, and we identify an upside risk to our forecast in the scenario of strong sales volumes recovery (note that in 2021 Atal sold over 4k units).
- **Risks:** (1) any delays in the implementation of 'Pierwsze mieszkanie' scheme for first home buyers, (2) any delays in interest rate cuts (we assume in 2024E), (3) growth of construction costs and/or land prices. **Upsides:** (1) higher than expected terminal sales volume (a likely scenario in our view), (2) gross margin stabilisation at 2022 level (we assume gradual margin fall in the forecast horizon in order to reflect costs inflation).
- **Valuation.** Our Target Price remains intact at PLN60.

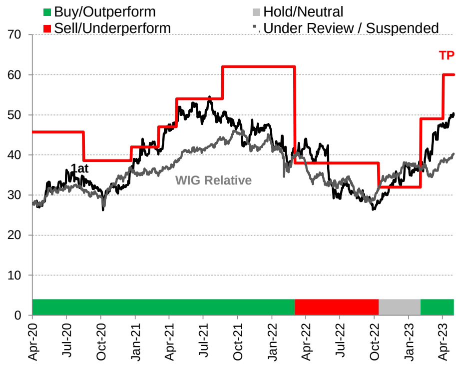
Atal: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	1,679	1,657	1,537	1,188	1,350
EBITDA	418	439	372	266	281
EBIT	416	436	370	264	279
Net profit	331	368	298	212	224
P/E (x)	5.4	3.8	6.5	9.1	8.6
P/BV (x)	1.54	1.07	1.38	1.37	1.30
FCF yield	38%	17%	6%	8%	12%
Dividend Yield	6.5%	16.7%	10.0%	10.8%	7.7%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	50
Target price (Dec'23, PLN)	**60**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

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Fig. 134. Atal: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Sales	**179.7**	**276.0**	**215.4**	**485.3**	**287.4**	**364.2**	**378.8**	**648.7**	**406.4**	**469.4**	**378.1**	**404.1**	**189.5**
Apartments handovers	473	767	543	1219	794	856	740	1316	719	1065	833	764	333
Avg. rev. per unit (PLN ths)	380	360	397	398	362	426	512	493	565	441	454	529	569
Apartments sales volume	742	533	797	824	842	1216	1161	1039	753	587	376	385	406
Gross profit on sales	**37.9**	**45.6**	**48.5**	**105.5**	**65.5**	**93.1**	**102.8**	**192.1**	**133.1**	**93.6**	**97.2**	**146.4**	**74.1**
Gross profit on sales margin	*21.1%*	*16.5%*	*22.5%*	*21.7%*	*22.8%*	*25.6%*	*27.1%*	*29.6%*	*32.7%*	*19.9%*	*25.7%*	*36.2%*	*32.0%*
EBITDA	**29.5**	**37.5**	**41.9**	**101.7**	**58.1**	**86.3**	**93.5**	**181.9**	**124.6**	**85.3**	**88.9**	**140.2**	**65.4**
EBITDA margin	*16.4%*	*19.5%*	*19.4%*	*21.0%*	*20.2%*	*23.7%*	*24.7%*	*28.0%*	*30.7%*	*18.2%*	*23.5%*	*34.7%*	*34.5%*
EBIT	**28.9**	**37.0**	**41.4**	**101.2**	**57.4**	**85.7**	**92.8**	**181.2**	**123.8**	**84.6**	**88.2**	**139.3**	**64.5**
EBIT margin	*16.1%*	*19.3%*	*19.2%*	*20.9%*	*20.0%*	*23.5%*	*24.5%*	*27.9%*	*30.5%*	*18.0%*	*23.3%*	*34.5%*	*34.0%*
Net profit	**22.4**	**28.7**	**31.3**	**85.0**	**48.5**	**67.7**	**73.5**	**141.5**	**109.0**	**76.3**	**67.1**	**115.8**	**54.1**
Net profit margin	*12.5%*	*15.6%*	*14.5%*	*17.5%*	*16.9%*	*18.6%*	*19.4%*	*21.8%*	*26.8%*	*16.3%*	*17.8%*	*28.7%*	*28.5%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 135. Atal: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	1537	1537	*0%*	1188	1188	*0%*	1350	1350	*0%*
EBITDA	372	372	*0%*	266	266	*0%*	281	281	*0%*
EBIT	370	370	*0%*	264	264	*0%*	279	279	*0%*
Net profit	298	298	*0%*	212	212	*0%*	224	224	*0%*

Source: Santander Brokerage Poland estimates

Fig. 136. Atal: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	55	55	*0%*
Equity method (WEV)	64	64	*0%*
Target Price*	**60**	**60**	***0%***

*Source: Santander Brokerage Poland estimates, *average of DCF and equity method valuation*

Fig. 137. Atal: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	1679	1658	1537	1188	1350
Gross profit	453	470	415	309	324
EBITDA	418	438	372	266	281
EBIT	416	436	370	264	279
Profit before tax	415	463	368	262	277
Net profit	330	368	298	212	224
Gross margin	27.0%	28.4%	27.0%	26.0%	24.0%
EBITDA margin	24.9%	26.4%	24.2%	22.4%	20.8%
EBIT margin	24.7%	26.3%	24.1%	22.2%	20.7%
Net margin	19.6%	22.2%	19.4%	17.8%	16.6%
Handovers volume	3700	3381	2900	2200	2500
Sales volume	4258	2091	2200	2500	2625
Avg, rev. unit	454	486	530	540	540
Gross margin	*27.0%*	*26.1%*	*27.0%*	*26.0%*	*24.0%*

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	2912	2973	2810	2758	2834
Fixed assets	203	201	201	201	201
Total assets	3115	3174	3011	2959	3035
Current liabilities	1046	1264	1061	1006	1006
bank debt	252	388	388	388	388
Long-term liabilities	903	617	617	617	617
bank debt	599	401	401	401	401
Equity	1165	1302	1342	1346	1422
Total liability and equity	3115	3174	3011	2959	3035
Net debt	126	164	324	376	300
Net Debt/ EBITDA (x)	0.3	0.4	0.9	1.4	1.1

*debt includes leasing

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	684	222	104	161	229
CF from investment	-1	16	3	1	1
CF from financing, incl.	-430	-335	-270	-214	-154
dividends	-117	-232	-258	-209	-148
Net change in cash	253	-96	-163	-52	76

Source: Company data, Santander Brokerage Poland estimates

Develia

Bloomberg: DVLPW, Reuters: DVL.WA

CEE Equity Research

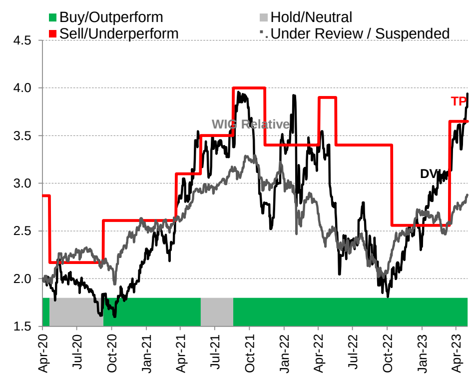
Real Estate, Poland

Relatively low P/BV ratio

- **Equity story.** We maintain Outperform rating for Develia (despite <15% upside as we see share price triggers in the ST). Despite a far-from-satisfactory market environment, Develia positively surprised us with 533 units sold in 1Q23, which was 30% up q/q and close to a record high level. We increase our sales/handovers volume and gross margin in order to reflect recovered sales volumes and the costs under control. Develia secured a relatively high number of units offered for sale and a land bank, which may help the company continue the sales volume growth trajectory in the mid-run. Develia trades at c. 20% premium to its book value, which does not look demanding in the light of home price inflation and the book value reflecting land value at cost.
- **Upped financial forecast.** We increase earnings on upped 2024E-25E handovers volume and gross margin estimate following the recently recovered residential sales volumes, homes price inflation and the costs under control. We think that the company is well-prepared for a new housing boom as it holds a high number of units offered for sale (2.6k) and a land bank (7.8k), which represent c. 1.2x and 3.7x of annualized 1Q23 sales volumes, respectively.
- **Key assumptions.** We expect Develia to hand over to clients c. 2k units in 2023E, c.1.9k in 2024E and 2.1k in 2025E. We assume 30% gross margin in 2023E and 28% in 2024E-2025E. In the light of a likely home price inflation, we see an upside risk to our post-2023E gross margin estimate. Note also that our terminal sales/handover estimate of 2.1k units settles below Board's 3.1k strategy guidance. Board proposed PLN179mn dividend payment (PLN0.4 DPS vs. PLN0.45 in 2022) which implies solid dividend yield,
- **Sale of yielding properties.** Develia has concluded the sale of Wola Retro property in 2Q23, which might deliver c. PLN310mn gross proceeds and FCF at c. PLN140mn. Next year we expect the disposal of Arkady mall (pre-sale agreement already signed) for c. PLN200mn, which could generate c. PLN150mn FCF. We think Develia might earmark the cash proceeds for dividend and/or business scaling-up (land acquisitions, etc.).
- **Valuation.** We increase Target Price to PLN4.3 owing to upped financial forecast and decreased risk free rate. Key risks: (1) delay in disposal of Arkady mall at a price being below BV, (2) lower than expected sales volumes/gross margin/sale price.

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	3.94
Target price (Dec'23, PLN)	**4.30**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Develia: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	912	1068	1047	978	1108
Revaluations	-54	-1	-5	0	0
EBIT	220	289	244	195	228
Net profit	153	232	190	150	177
P/E (x)	8.8	5.1	9.3	11.8	10.0
P/BV (x)	0.96	0.83	1.20	1.19	1.14
Dividend Yield	4.2%	17.0%	10.2%	8.3%	6.4%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 138. Develia: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Sales	**176**	**200**	**220**	**316**	**98**	**22**	**200**	**747**	**257**
Residential sales	**155**	**180**	**198**	**291**	**77**	**12**	**189**	**736**	**245**
Units' transfers	393	365	521	624	186	20	420	1390	441
Rev./ apartment	393	493	380	466	412	601	450	529	555
Sales volume	580	482	438	421	602	364	261	407	533
Rental sales	**22**	**20**	**22**	**25**	**21**	**10**	**11**	**11**	**12**
Gross profit	**52**	**63**	**48**	**118**	**29**	**10**	**44**	**278**	**90**
Residential	**41**	**53**	**38**	**105**	**20**	**5**	**38**	**271**	**83**
Rental	**12**	**10**	**10**	**12**	**9**	**5**	**6**	**7**	**7**
Revaluations	**8**	**-28**	**14**	**-47**	**18**	**4**	**21**	**-44**	**-5**
EBITDA	**49**	**21**	**51**	**102**	**32**	**-7**	**51**	**215**	**71**
EBITDA margin	*27.5%*	*10.4%*	*23.0%*	*32.4%*	*32.3%*	*-29.4%*	*0.0%*	*28.8%*	*27.5%*
EBIT	**48**	**20**	**50**	**102**	**31**	**-7**	**51**	**215**	**70**
EBIT margin	*27.1%*	*10.0%*	*22.8%*	*32.2%*	*31.8%*	*-31.6%*	*25.3%*	*28.7%*	*27.3%*
Net profit	**34**	**21**	**29**	**69**	**13**	**3**	**35**	**181**	**58**
Net profit margin	*19.3%*	*10.5%*	*13.4%*	*21.8%*	*13.4%*	*11.6%*	*20.5%*	*24.2%*	*22.7%*
Gross margin in residential	*26%*	*30%*	*19%*	*36%*	*26%*	*39%*	*20%*	*37%*	*34%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 139. Develia: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	**Previous**	***Change***	**New**	**Previous**	***Change***	**New**	**Previous**	***Change***
Sales	1047	960	*9%*	978	800	*22%*	1108	973	*14%*
EBITDA	245	203	*21%*	197	124	*59%*	230	167	*37%*
EBIT	244	201	*21%*	195	122	*60%*	228	165	*38%*
Net profit	190	151	*26%*	150	92	*63%*	177	127	*39%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 140. Develia: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	4.30	3.65	*18%*
Peer valuation	-	2.80	-
Target Price*	**4.30**	**3.65**	***18%***

*Source: Company data, Santander Brokerage Poland estimates, * Target Price calculated as a 100% of DCF in order to fully reflect business development in the long run*

Fig. 141. Develia: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	912	1068	1047	978	1108
Gross profit	281	361	319	274	310
Revaluations	-54	-1	-5	0	0
EBITDA	222	291	245	197	230
EBIT	220	289	244	195	228
Profit before tax	202	273	235	185	218
Net profit	153	232	190	150	177
EBITDA margin	24.4%	27.3%	23.4%	20.2%	20.7%
EBIT margin	24.1%	27.1%	23.3%	20.0%	20.6%
Net margin	16.8%	21.7%	18.1%	15.3%	15.9%

Handovers volume	1903	2016	1960	1880	2090
Sales volume	1921	1634	2033	2120	2120
Avg, rev. unit	479	530	534	520	530
Gross margin	30.8%	33.8%	30.5%	28.0%	28.0%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	2,723	2,700	2,312	2,316	2,380
Fixed assets	525	240	241	241	241
Total assets	3,248	2,940	2,553	2,557	2,621
Current liabilities	1,260	1,005	749	749	749
bank debt	426	256	0	0	0
Long-term liabilities	570	480	330	330	330
bank debt	516	395	245	245	245
Equity	1,400	1,434	1,474	1,478	1,542
Total liability and equity	3,248	2,940	2,553	2,557	2,621
Net debt	463	170	98	-17	-80
Net Debt/ EBITDA (x)	2.09	0.58	0.40	-0.09	-0.35

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	85	170	-39	80	188
CF from investment	-110	368	273	190	-2
CF from financing, incl.	-21	-519	-568	-156	-122
dividends	-74	-201	-179	-146	-113
Net change in cash	-46	19	-334	114	64

Source: Company data, Santander Brokerage Poland estimates

Santander

Dom Development

Bloomberg: DOM PW, Reuters: DOM.WA

CEE Equity Research

Real Estate, Poland

Residential market is back

- **Equity story.** We downgrade rating to Neutral from Outperform previously. We believe in a moderately optimistic outlook for residential sales volume. We do admit that the market environment remains far from satisfactory (rates stay high), but we think that the sales volumes have entered the trajectory of moderate growth, which might continue to help hiking the share price, as past trends suggest. We have marginally upped gross margin estimates in order to reflect the construction costs stabilisation. We expect Dom to continue to: 1) gain market share (consolidate the market), 2) capitalize on high-end segment, and 3) participate in 'Pierwsze Mieszkanie' scheme for first home buyers once implemented (2H23E). We estimate a fair P/BV ratio at c.2.5x which represents an insignificant share price upside (Dom trades at 2023 2.3x P/BV).
- **Financial forecasts marginally upped.** We marginally increased 2024E-25E avg. rev. per unit and gross margin estimate in order to reflect the recent Board guidance and the construction costs stabilisation. We estimate gross margin at 30% in 2023E, 30% in 2024E (29% previously) and 29% in 2025E (26% previously). We assume a 25% gross margin in the terminal period. We maintain the average revenue per unit (transferred to client) at PLN630k in 2023 (+8% y/y) and a 2% growth next year.
- **Low number of units for sale.** Dom sold 914 residential units in 1Q23, which was a strong result (+21% y/y). The sales volume accounted for 44% of units offered for sale (held as at 4Q22-end), which was the highest sales effectiveness ratio among peers. On the other hand, the number of units offered for sale was relatively low (2.2k units) and represented less than 1-year sales volume (in 2022), which implies a downside risk to our 2023E sales volume estimate.
- **Risks.** The key downside risks to our scenario are: 1) delays in interest rate cuts (which we expect in 2024E), 2) delays in the implementation of 'Pierwsze mieszkanie' scheme for first home buyers, 3) any growth in construction costs once the construction sector rebounds, 4) further decline in rental fees (which may depress investment demand). Upside risk: (1) higher than expected home price inflation, (2) higher than expected terminal sales volume, (3) any deals with PRS clients.
- **Valuation.** We increase Target Price to PLN153 from PLN140 previously, based on upped financial forecasts and lowered risk free rate.

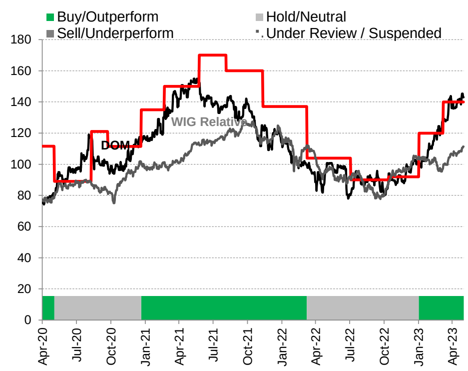
Dom Development: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	1,897	2419	2,312	2,424	2,564
EBITDA	428	517	466	495	481
EBIT	413	501	451	480	466
Net profit	327	410	361	384	373
P/E (x)	10.3	6.0	10.1	9.5	9.8
P/BV (x)	2.7	1.7	2.45	2.30	2.21
Dividend Yield	7.0%	11.0%	7.7%	7.9%	8.4%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	143
Target price (Dec'23, PLN)	**153**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 142. Dom Development: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Sales	**314.1**	**458.0**	**363.2**	**680.0**	**807.9**	**336.5**	**331.5**	**421.6**	**727.0**	**601.8**	**320.2**	**770.3**	**945.0**
Apartments handovers	549	692	692	1073	1366	556	599	811	1094	1084	420	1068	1350
Avg. rev. per unit (PLNk)	572	662	525	634	591	605	553	520	665	555	762	721	700
Apartments sales volume	815	816	995	1130	1084	1032	856	1094	758	801	703	831	914
Gross profit	**92.7**	**146.7**	**116.2**	**223.2**	**262.9**	**117.3**	**113.1**	**132.0**	**233.8**	**171.7**	**85.2**	**265.1**	**274.1**
Gross profit margin	*29.5%*	*32.0%*	*32.0%*	*32.8%*	*32.5%*	*34.9%*	*34.1%*	*31.3%*	*32.2%*	*28.5%*	*26.6%*	*34.4%*	*29.0%*
EBITDA	**53.6**	**107.9**	**76.6**	**162.6**	**219.6**	**77.6**	**72.4**	**58.5**	**178.0**	**113.0**	**31.5**	**195.5**	**214.8**
EBITDA margin	*17.0%*	*23.6%*	*20.2%*	*23.9%*	*27.2%*	*23.0%*	*21.8%*	*13.9%*	*24.5%*	*18.8%*	*9.8%*	*25.4%*	*22.7%*
EBIT	**49.7**	**104.2**	**72.9**	**159.4**	**215.9**	**73.7**	**68.7**	**54.8**	**173.9**	**108.6**	**27.5**	**191.5**	**214.1**
EBIT margin	*15.8%*	*22.7%*	*20.1%*	*23.4%*	*26.7%*	*21.9%*	*20.7%*	*13.0%*	*23.9%*	*18.1%*	*8.6%*	*24.9%*	*22.7%*
Net profit	**38.5**	**79.1**	**57.6**	**127.0**	**174.5**	**58.0**	**53.2**	**41.4**	**141.7**	**94.0**	**23.8**	**150.7**	**173.4**
Net profit margin	*12.3%*	*17.3%*	*15.9%*	*18.7%*	*21.6%*	*17.2%*	*16.0%*	*9.8%*	*19.5%*	*15.6%*	*7.4%*	*19.6%*	*18.3%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 143. Dom Development: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	2312	2312	*0%*	2424	2378	*2%*	2564	2442	*5%*
EBITDA	466	462	*1%*	495	467	*6%*	481	410	*17%*
EBIT	451	447	*1%*	480	452	*6%*	466	395	*18%*
Net profit	361	357	*1%*	384	361	*6%*	373	315	*18%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 144. Dom Development: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	153	140	*9%*
Equity method	152	141	*8%*
Target Price*	**153**	**140**	***9%***

*Source: Company data, Santander Brokerage Poland estimates, * Target Price calculated as a 50%/50% of Equity method/DCF*

Fig. 145. Dom Development: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	1,897	2,419	2,312	2,424	2,564
Gross profit	625	756	694	727	718
EBITDA	428	517	466	495	481
EBIT	413	502	451	480	466
Profit before tax	405	513	445	474	460
Net profit	325	410	361	384	373
EBITDA margin	22.6%	21.4%	20.1%	20.4%	18.7%
EBIT margin	21.8%	20.7%	19.5%	19.8%	18.2%
Net margin	17.1%	17.0%	15.6%	15.8%	14.5%
Handovers volume	3332	3666	3670	3700	3800
Sales volume	4066	3093	3280	3600	3800
Avg, rev. unit	569	582	630	655	675
Gross margin	32.9%	31.2%	30.0%	30.0%	28.0%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	3767	3934	4100	4269	4398
Fixed assets	110	176	176	176	176
Total assets	3877	4110	4276	4445	4574
Current liabilities	2068	2224	2312	2386	2450
bank debt	53	111	250	230	200
Long-term liabilities	559	473	473	473	473
bank debt	342	260	260	260	260
Equity	1249	1413	1491	1586	1652
Total liability and equity	3877	4110	4276	4445	4574
Net debt	-275	-24	-24	-119	-184
Net Debt/ EBITDA (x)	-0.6	0.0	-0.1	-0.2	-0.4

*debt incl. leasing

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	309	52	316	422	410
CF from investment	-72	-261	-20	-22	-23
CF from financing, incl.	-238	-304	-157	-324	-352
dividends	-254	-268	-283	-289	-307
Net change in cash	-1	-513	138	75	35

Source: Company data, Santander Brokerage Poland estimates

Globe Trade Centre

Bloomberg: GTC PW, Reuters: GTC.WA

CEE Equity Research

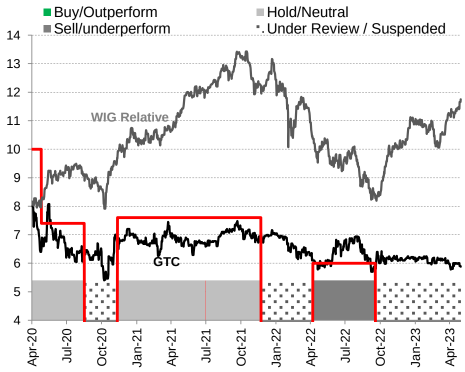
Real Estate, Poland

Challenging environment

- **Equity story.** In this report we issue Underperform rating for GTC (Restricted status previously and Underperform rating before the Restricted status). The external environment remains difficult for holders of commercial properties for lease purposes. Growth in interest rates (ECB upped rates from 0.5% in 2021 to 3.75% currently) lifted financial costs and property yields, which pared property market values. Market liquidity narrowed down due to the uncertainties regarding the macro outlook. In such environment we dislike commercial property holders/developers as GTC. GTC trades at 2023E P/BV of 0.63x, which implies premium to peers' average (0.53x). Note also our Target Price implies downside potential as well.
- **Insignificant development pipeline.** GTC plans to invest in PRS, green project and yielding properties to diversify its business – such steps show investing in construction of new properties looks unappealing in the current macro environment. GTC did well in properties disposals in 2022 which secured EUR186mn gross proceeds for new investments. We like the asset disposals at the prices close/above their book values, but we do not like the idea of investing the proceeds in new non-core businesses.
- **Tiny pipeline.** GTC commenced development of only two office properties in 2022, of 10.5k GLA and 36k GLA. Totally, four projects were under development as at 4Q22 represented just c. 2% of total assets book value.
- **Low single digit ROE.** We expect GTC to deliver low single digit ROE in 2023E and 2024E, which justifies GTC's trading at a heavy discount to its book value, we think. We expect GTC to valorise rental fees as of 1Q23E, which could lift rental income c. 9% up y/y. We also expect some revaluation gains on properties under development over the coming two years. On the other hand, we cannot rule out further write-offs on properties following significant revaluation losses in 2022 (EUR-29.4mn) and probable further fall in commercial property values.
- **Upsides:** 1) any recovery in demand for office space, 2) EUR/PLN appreciation, 3) fall in interest rates. **Key risks:** (1) any growth in borrowing costs, 2) EUR/PLN depreciation, 3) upside risk to exit yields, 4) capex on refurbishment works to keep tenants.
- **Valuation.** We value GTC by calculating its fair P/BV ratio, which we estimate by dividing the average ROE estimate in 2023E-25E and the cost of capital (8.8% applied). Our Target Price of PLN5.7 implies fundamental downside.

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	5.84
Target price (Dec'2023, PLN)	**5.7**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

GTC: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	172	167	173	174	176
Revaluations	-13	-29	20	16	0
EBIT	99	71	120	117	101
Net profit	42	23	68	65	53
P/E (x)	17.7	33.3	10.9	11.4	14.0
P/BV (x)	0.67	0.70	0.63	0.60	0.57
Dividend Yield	0.0%	4.6%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 146. GTC: Quarterly results review

EURmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
Sales	**41.0**	**37.7**	**42.9**	**38.5**	**37.2**	**41.6**	**45.6**	**47.5**	**41.8**	**42.5**	**41.8**	**40.5**
Gross profit	29.9	28.8	32.3	27.6	27.5	31.4	34.1	34.7	30.3	31.3	30.3	27.1
Revaluations	-5.8	-62.1	0.9	-75.8	-2.6	1.5	-1.0	-12.0	3.1	13.2	-4.8	-40.5
EBIT	**22.1**	**-37.0**	**30.5**	**-53.5**	**21.5**	**29.2**	**29.3**	**19.3**	**29.1**	**40.5**	**22.1**	**-20.3**
Adj EBIT	27.8	25.0	29.6	22.3	24.1	27.6	30.3	31.4	26.1	27.3	26.9	20.2
Net profit	**2.6**	**-36.1**	**17.2**	**-54.0**	**8.5**	**12.5**	**11.3**	**9.3**	**14.9**	**25.0**	**8.4**	**-24.9**

Source: Company data, Santander Brokerage Poland estimates, adjusted for revaluation gains

Fig. 147. GTC: Forecasts changes

EURmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	173	-	-	174	-	-	176	-	-
EBITDA	20	-	-	16	-	-	0	-	-
EBIT	120	-	-	117	-	-	101	-	-
Net profit	68	-	-	65	-	-	53	-	-

Source: Santander Brokerage Poland estimates

Fig. 148. GTC: Valuation changes

PLN per share	New	Previous	*Change*
Peer comparison	4.9	-	-
Equity method	5.7	-	-
Target Price*	**5.7**	**-**	**-**

*Source: Santander Brokerage Poland estimates, * Target Price calculated as a 100% of equity method valuation*

Fig. 149. GTC: Financial statements forecast

EURmn	2021	2022	2023E	2024E	2025E
Net sales	172	167	173	174	176
Revaluation	-13	-29	20	16	0
EBIT	99	71	120	117	101
Profit before tax	112	101	100	101	101
Net profit	42	23	68	65	53
EBITDA margin	58.2%	43.3%	69.9%	67.4%	58.2%
EBIT margin	57.8%	42.9%	69.5%	67.0%	57.8%
Net margin	24.2%	14.1%	39.5%	37.6%	30.3%

EURmn	2021	2022	2023E	2024E	2025E
Current assets	250	215	258	181	241
Fixed assets	2302	2455	2485	2634	2634
Total assets	2844	2670	2743	2815	2875
Current liabilities	239	100	100	100	100
bank debt	44	49	49	49	49
Long-term liabilities	1347	1292	1292	1292	1292
bank debt	1294	1231	1231	1231	1231
Equity	1116	1135	1203	1268	1322
Total liability and equity	2844	2670	2743	2815	2875
Net debt	1128	1151	1107	1185	1125
Net Debt/ assets (x)	0.49	0.47	0.45	0.45	0.43

*debt incl. leasing

EURmn	2021	2022	2023E	2024E	2025E
CF from operations	106	88	88	90	94
CF from investment	-367	-78	-10	-133	0
CF from financing, incl.	85	11	-35	-35	-35
dividends	0	-33	0	0	0
Net change in cash	-175	21	44	-77	60

Source: Company data, Santander Brokerage Poland estimates

Polski Holding Nieruchomosci

Bloomberg: PHN PW, Reuters: PHN .WA

CEE Equity Research

Real Estate, Poland

Likely net loss in 2023E

- **Equity story.** We maintain Neutral rating for Polski Holding Nieruchomosci (PHN). We expect weak 2023E results especially in the first half of the year. We estimate high leverage to lift quarterly financial costs to PLN20mn+ which, together with insignificant profit contribution from residential business and delayed profit recognition from Skysawa and Intraco offices, may depress the bottom line into the negative territory in 1H23E. We also expect PHN to enter a period of potentially tiny operating CF in 2023E due to high cash-consuming constructions of recently initiated residential buildings. Low single digit 2023-25E ROE justifies a heavy discount to book value, we think.
- **Challenging 2023E.** In 2023E, we expect some profit contribution from the residential segment as we assume 110 handovers volume, while the profits from Skysawa office property are expected as of 3Q23E, once the fit out works completion is scheduled. Note also, we expect y/y hike of financial costs due to the high leverage and the growth in interest rates. Overall, we expect a net loss in 1H23E and small profit in FY23E. Note also, we expect CF to be under pressure due to cash spend on the construction of the aforementioned two residential projects. In 2024E, we expect y/y profit growth on the back of full year profit contribution from leasing of Skysawa and Intraco Prime office properties and y/y increase of residential handovers (construction of Lan and Kolejowa projects of the total of 320 units initiated in mid-2022 has been scheduled for 2024E).
- **Risks:** 1) Lower than expected residential sales/handover volumes due to depressed client's borrowing capacity (we estimate nil handovers in 2023E and 320 units in 2024E), 2) EUR/PLN depreciation as part of rental fees is in EUR, 3) partly old office stock which may require capex on refurbishment in order to keep tenant base, 4) growth in exit yields due to low market liquidity and upped interest rates, 5) high financial costs, 6) high ST bank&bonds debt, 7) high 2023E financial costs and weak operating CF.
- **Triggers:** 1) Rental fee payments from Skysawa office as of 3Q23E to boost profit/CF by c. PLN9.3mn quarterly.
- **Valuation.** Our valuation of PHN is a mix of net assets valuation and equity method valuation. We decrease Target Price to PLN12.2 from PLN14.6 prev., due to changes in financial forecasts.

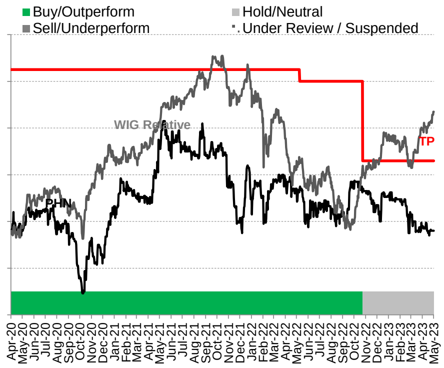
PHN: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	481	627	563	699	555
Revaluations	63	49	-10	0	0
EBIT	157	150	73	106	90
Net profit	79	31	-7	25	12
P/E (x)	7.9	21.6	-91.0	23.6	48.9
P/BV (x)	0.26	0.28	0.25	0.25	0.25
Dividend Yield	2.9%	2.8%	3.1%	3.1%	3.1%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	11.60
Target price (Dec'23, PLN)	**12.2**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 150. PHN: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Sales	**164.5**	**100.7**	**116.4**	**352.1**	**165.2**	**99.0**	**107.6**	**108.7**	**54.3**	**116.0**	**63.7**	**155.7**	**74.1**
Rental business	46.6	46.2	47.8	48.3	47.3	48	45.9	46.2	48.5	50.1	50.9	53.9	57
Residential business	78.5	5.8	15.5	227.9	78.7	8.1	7.3	9.9	0.0	54.9	1.3	89.7	8.0
Construction	37.1	46.6	50.1	70.0	36.9	38.1	49.0	48.1	54.7	68.6	58.2	55.8	63.2
Other	2.3	2.1	3	5.9	2.3	4.8	5.4	4.5	5.8	11	11.5	12.1	9.1
Gross profit	**40.2**	**27.1**	**34.0**	**102.5**	**50.7**	**34.4**	**30.2**	**39.4**	**21.6**	**41.2**	**35.7**	**64.7**	**34.2**
Rental business	25.6	25.6	25.5	28.7	26.7	26.6	26.1	33.8	27.3	27.4	30.1	33.5	31.2
Residential business	13.4	0.7	4.4	78.7	25.0	5.6	3.6	4.3	-0.1	9.5	0.2	27.7	1.4
Construction	2.2	2.8	4.4	1.5	3.8	3.0	3.1	1.9	-4.5	2.7	2.6	2.0	2.0
Other	-1.0	-2.0	-0.3	-6.4	-4.8	-0.8	-2.6	-0.6	-1.1	1.6	2.8	1.5	-0.4
Revaluation gain/loss	11.0	-70.7	6.9	11.2	4.8	-30.9	34.2	54.4	47.7	12.8	5.7	-17.2	-10.0
EBITDA	**36.6**	**-53.9**	**30.6**	**82.8**	**47.1**	**4.1**	**52.1**	**66.4**	**55.7**	**42.6**	**35.7**	**17.4**	**8.4**
EBITDA margin	*22.2%*	*-53.5%*	*26.3%*	*23.5%*	*28.5%*	*4.1%*	*48.4%*	*61.1%*	*102.6%*	*36.7%*	*56.0%*	*11.2%*	*11.3%*
EBIT	**36.3**	**-54.2**	**30.3**	**82.5**	**46.8**	**3.8**	**51.8**	**66.1**	**55.4**	**42.3**	**35.4**	**17.1**	**8.1**
EBIT margin	*22.1%*	*-53.8%*	*26.0%*	*23.4%*	*28.3%*	*3.8%*	*48.1%*	*60.8%*	*102.0%*	*36.5%*	*55.6%*	*11.0%*	*10.9%*
Adj EBIT*	**25.3**	**16.5**	**23.4**	**71.3**	**42.0**	**34.7**	**17.6**	**11.7**	**7.7**	**29.5**	**29.7**	**34.3**	**18.1**
Net profit	**29.2**	**-54.3**	**10.8**	**59.9**	**31.9**	**6.0**	**11.7**	**29.1**	**22.3**	**27.4**	**5.0**	**-23.9**	**-8.5**
Net profit margin	*17.8%*	*-53.9%*	*9.3%*	*17.0%*	*19.3%*	*6.1%*	*10.9%*	*26.8%*	*41.1%*	*23.6%*	*7.8%*	*-15.4%*	*-11.5%*

Source: Company data, Santander Brokerage Poland estimates, adjusted for revaluation gains

Fig. 151. PHN: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	563	509	*11%*	699	674	*4%*	555	-	-
Revaluation	-10	0	*n.m.*	0	0	*n.m.*	0	-	-
EBIT	73	103	*n.m.*	106	153	*-31%*	90	-	-
Net profit	-7	22	*-130%*	25	68	*-63%*	12	-	-

Source: Santander Brokerage Poland estimates

Fig. 152. PHN: Valuation changes

PLN per share	New	Previous	*Change*
Net assets valuation/SOTP	17.5	19.5	*-10%*
Equity method valuation	6.2	9.6	*-35%*
Target Price*	**12.2**	**14.6**	***-16%***

Source: Santander Brokerage Poland estimates, *weighted average: 50%/50% net assets and equity method valuation

Fig. 153. PHN: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	481	627	563	699	555
Gross profit	143	160	153	178	162
EBITDA	159	152	75	108	92
EBIT	157	150	73	106	90
Profit before tax	135	82	-5	31	15
Net profit	79	31	-7	25	12
EBITDA margin	33%	24%	13%	15%	17%
EBIT margin	33%	24%	13%	15%	16%
Net margin	16%	5%	-1%	4%	2%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	448	371	352	356	347
Fixed assets	3868	4213	4195	4197	4199
Total assets	4316	4584	4548	4553	4546
Current liabilities	484	875	875	875	875
bank debt	1284	1089	1089	1089	1089
Long-term liabilities	1442	1284	1284	1284	1284
bank debt	238	580	580	580	580
Equity	2374	2407	2381	2387	2399
Total liability and equity	4316	4584	4548	4553	4546
Net debt	1366	1559	1670	1573	1583
Net Debt/ assets (x)	0.35	0.37	0.40	0.37	0.38

*debt incl. leasing

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	27	68	-9	195	89
CF from investment	-362	-155	-4	-4	-4
CF from financing, incl.	-6	41	-98	-95	-95
dividends	-18	-19	-19	-19	-19
Net change in cash	-341	-47	-111	97	-9

Source: Company data, Santander Brokerage Poland estimates

Financials

Fig. 154. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E adjusted (x) 2023E	2024E	2025E	P/BV (x) 2023E	2024E	2025E
ALR	Neutral	47.00	44.23	6%	3.4	4.9	5.9	0.72	0.61	0.56
BHW	Underperform	65.00	79.90	-19%	4.4	9.2	10.5	1.08	1.12	1.11
BNP	Outperform	64.00	53.00	21%	3.0	4.6	4.3	0.58	0.53	0.48
ING	Neutral	190.0	178.0	7%	6.7	6.6	6.8	1.51	1.30	1.20
KOMB	Neutral	700.0	661.0	6%	7.9	7.1	6.2	1.00	0.95	0.90
MBK	Outperform	431.0	370.0	16%	3.5	4.6	5.3	1.03	0.85	0.77
MIL	Outperform	6.20	4.882	27%	2.3	3.1	3.3	0.90	0.77	0.60
OTP	Neutral	11,800	11,150	6%	4.8	4.3	5.6	0.80	0.72	0.66
PEO	Outperform	120.0	102.6	17%	4.7	6.0	6.9	0.95	0.85	0.82
PKO	Outperform	35.00	33.74	4%	4.3	5.2	5.8	0.97	0.88	0.82
PZU	Underperform	36.00	40.96	-12%	8.7	8.6	8.5	1.55	1.45	1.35
Median					**4.4**	**5.2**	**5.9**	**0.97**	**0.85**	**0.82**

Source: Company data, Santander Brokerage Poland estimates

At P/BV of 1.0x ahead of CJEU, elections and rate cuts

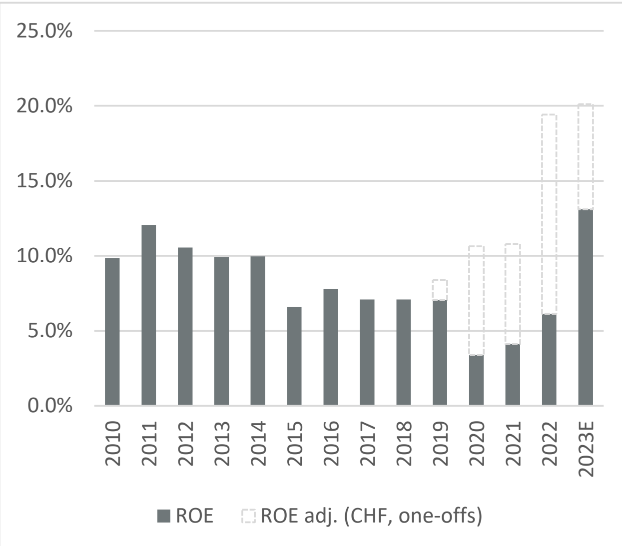
Extremely strong underlying earnings of Polish banks in the recent quarters have been consumed by CHF provisions and regulations (esp. credit moratoria). Polish banks face risks related to the CJEU verdict on CHF (scheduled for Jun 16th), elections and expected rate cuts.

Fig. 155. Impact of hedging on banks' NII, PLN mn

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	L12M 1Q22	L121M 1Q23
PKO	88	110	119	67	-268	-856	-1,218	-1,238	-1,155	28	-4,467
PEO	68	69	75	95	68	-39	-163	-280	-295	306	-776
MBK	104	100	107	102	-54	-279	-375	-414	-360	255	-1,428
SPL	-12	-12	-12	0	8	8	12	28	3	-16	51
ING	270	269	294	289	124	-278	-660	-799	-736	975	-2,473
BHW	0	-1	-5	-9	0	0	1	1	2	-14	4
MIL	28	25	23	27	26	36	21	7	9	102	72
BNP	30	42	44	32	-40	-142	-219	-220	-236	78	-817
ALR	26	27	31	16	-67	-179	-235	-236	-228	7	-877

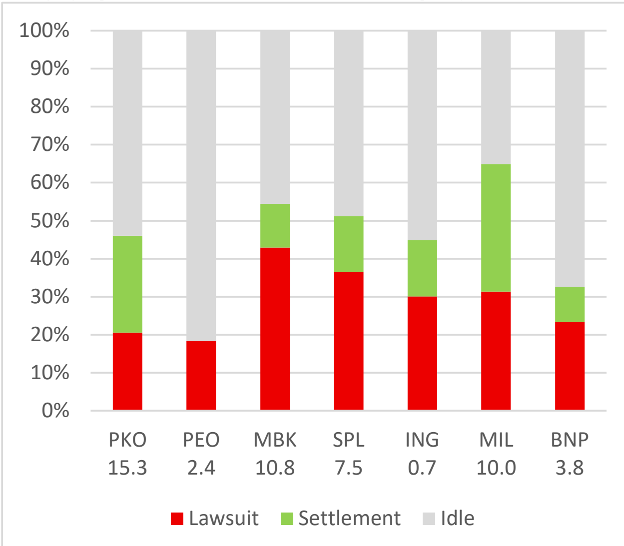
Source: Company data, Santander Brokerage Poland estimates

Fig. 156. Polish Banks – sector ROE



Source: KNF, Santander Brokerage Poland

Fig. 157. 1Q23 status of CHF contracts, 1Q23 value of CHF-mortgage portfolio in PLN bn below company ticker



Source: Companies, Santander Brokerage Poland

Alior Bank

Bloomberg: ALR PW, Reuters: ALRR.WA

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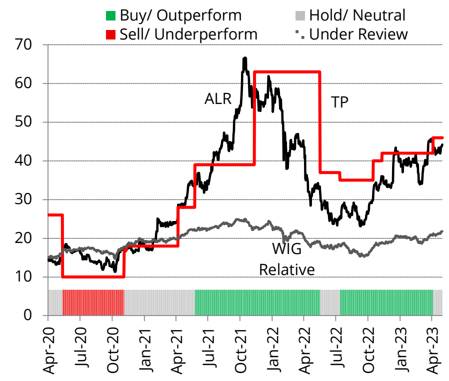
Banks, Poland

Hopes for dividends?

- **Equity story.** We think Alior share price has already benefited enough from improved sentiment towards macro. We expect Alior NIM to perform better than market on average owing to maturing hedging. We also expect Alior solvency ratios to catch up with market average in 2025 and thus improve dividend prospects.
- **Update of guidance for CoR ahead of us?** Cost of risk in 1Q23 was at 1.6% (vs full year guidance at 1.9%). CRO hinted during analyst call that quality of loan portfolio remains strong and that the outlook could be updated with 1H23 results.
- **Negative impact of hedging should be lower going forward.** 1Q23 NII was deflated by CFH impact of PLN228mn (vs PLN235mn in the previous quarter and PLN66mn a year ago). Net valuation of hedging derivative stood at negative PLN1.1bn as of 1Q23. We assume that 2H23 will be materially supported by lower negative impact of hedging – PLN6.0bn of IRS (28% of total IRS) with fixed leg of 1.5% will expire before end of 2023, which should boost ALR 2024E NII by PLN325mn y/y (assuming flat WIBOR6M).
- **Improved capital position.** Alior accounted last year net income to the capital, which caused jump in solvency ratios. We expect another jump with 3Q23 report when 1H23 net income will be accounted for. Management has already updated guidance for MREL issuance – now the issue is planned to be materially below pre-announced PLN1bn and to take place before summer holidays solely on the Polish market. Alior is already meeting targets for solvency ratios set in its strategy for end of 2024, which may revive hopes for dividend from Alior. Our valuation assumes no dividend till 2025.
- **Valuation and risks.** Our Dec'23 TP is PLN47.0 (vs PLN46.0 before) and is a weighted average of DDM pointing to valuation of PLN38.6 and a Comparative Valuation pointing to PLN55.4 (all per share). Key risks in our view include potential new regulatory burdens (election campaign), rate outlook, loan quality, loan growth and state control.

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	44.23
Target price (Dec'2023, PLN)	**47.00**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Alior Bank: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
P/E (adjusted)	12.1x	4.1x	3.4x	4.9x	5.9x
P/E (reported)	12.1x	8.5x	3.4x	4.5x	5.3x
P/BV	0.98x	1.08x	0.72x	0.61x	0.56x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EPS (adjusted) (PLN)	3.7	10.9	13.2	9.1	7.6
DPS (PLN)	0.00	0.00	0.00	0.00	0.00
BVPS (PLN)	45.3	41.4	62.3	72.7	80.3
Net Income (adj. PLN mn)	482	1,422	1,723	1,192	992
Net Income (PLN mn)	482	683	1,702	1,292	1,092

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

Kamil Stolarski, PhD, CFA, *Head of Equity Research*

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Fig. 158. Valuation summary (PLN/share)

Recommendation	Neutral
Dec'23 Target Price (PLN)	47.0
Current price (PLN)	44.2
Prospective upside (%)	6

**Our Dec'23 Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%).*

DDM valuation (PLN/share)	38.6
Discounted dividends (PLN/share)	0.0
Terminal value (PLN/share)	39
Terminal ROE (%)	10.93
g (%)	3.00
CoE 2022-2025 (%)	14.80
CoE terminal (%)	12.80
Beta (x)	1.30
ERP (%)	6.0

Comp. Valuation PLN/share	55.4
Net Income (PLN mn, next 12 months)	1,606
Applied P/E (x)	4.5
P/E peers (x)	6.0

Fig. 159. DDM Valuation sensitivity (PLN/share)

	ROE->	6.9%	8.9%	10.9%	12.9%	14.9%
	1.0%	24.0	32.1	40.2	48.3	56.3
	2.0%	21.8	30.6	39.5	48.3	57.1
g	3.0%	19.1	28.9	38.6	48.4	58.1
	4.0%	15.9	26.7	37.6	48.4	59.3
	5.0%	11.8	24.1	36.3	48.5	60.8

Fig. 160. DDM Valuation sensitivity (PLN/share)

	ERP->	4.0%	5.0%	6.0%	7.0%	8.0%
	3.0%	84.2	64.6	51.7	42.5	35.7
	4.0%	68.4	54.2	44.4	37.1	31.6
RFR	5.0%	57.0	46.4	38.6	32.8	28.2
	6.0%	48.5	40.2	34.0	29.1	25.3
	7.0%	41.9	35.3	30.2	26.1	22.9

Fig. 161. Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
Consensus	2023E	2024E	2025E	2023E	2024E	2025E
Net income	1,218	1,109	960	*40%*	*16%*	*14%*
DPS (PLN)	0.35	1.80	3.02			
ROE (%)	17.20	13.19	10.36	*7.9 pp*	*1.5 pp*	*0.6 pp*

Fig. 162. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	1.5x	2.5x	3.5x	4.5x	6.5x	8.5x
vs. peers (%)	-75	-58	-42	-25	8	42
Sensitivity	18.5	30.8	43.1	55.4	80.0	104.6

Fig. 163. Ratios, Assumptions and Forecasts

P&L (PLN mn)	2020	2021	2022	2023E	2024E	2025E
NII	2,847	2,798	4,062	4,541	4,044	3,870
F&C	636	767	796	837	872	913
Trading Income	164	93	35	121	140	140
Total Revenue	3,544	3,637	4,884	5,534	5,099	4,967
Cost	-1,665	-1,583	-1,802	-1,901	-1,984	-2,070
NLLP	-1,865	-1,039	-1,085	-1,024	-1,063	-1,101
Pre-tax Profit	14	1,016	1,299	2,598	2,053	1,797
Banking tax	-221	-237	-263	-266	-273	-281
Net Income	-311	482	683	1,702	1,292	1,092
Net Income (adj.)	-311	482	1,422	1,723	1,192	992

PLN bn	2020	2021	2022	2023E	2024E	2025E
Total Assets	78.6	83.0	84.1	86.6	90.1	93.2
Bonds	15.7	16.1	12.6	18.1	19.7	20.8
Loans	56.2	58.2	58.2	58.7	60.4	62.1
Loans growth (%)	1	4	0	1	3	3
Deposits	65.8	71.5	70.2	72.0	74.0	76.2
Equity	6.6	5.9	5.4	8.1	9.5	10.5
Mortgage loans	13.4	15.5	16.1	16.2	16.3	16.4
CHF mortgages	0.1	0.1	0.1	0.1	0.1	0.1
Other retail loans	21.5	23.0	22.1	21.3	22.7	24.2
Corporate loans	26.9	26.8	25.0	25.8	26.2	26.7

NIM ratios (%)	2020	2021	2022	2023E	2024E	2025E
Asset yield	4.39	3.79	6.41	7.87	6.27	5.77
Funding cost	0.60	0.19	1.38	2.48	1.71	1.57
NIM	3.84	3.62	5.13	5.62	4.77	4.41

Risk ratios (%)	2020	2021	2022	2023E	2024E	2025E
Stage 3 ratio	14.1	11.4	10.3	9.4		
Stage 3 coverage	55.8	56.6	56.6	54.9		
Cost of risk	3.09	1.76	1.65	1.67	1.68	1.70

Du Pont (%)	2020	2021	2022	2023E	2024E	2025E
NII/assets	3.67	3.46	4.86	5.32	4.58	4.22
CoR/assets	-2.40	-1.28	-1.30	-1.20	-1.20	-1.20
F&C/assets	0.82	0.95	0.95	0.98	0.99	1.00
Other rev/assets	0.08	0.09	-0.80	0.17	0.21	0.20
Costs/assets	-2.14	-1.96	-2.16	-2.23	-2.25	-2.26
Taxes&other/assets	-0.42	-0.66	-0.74	-1.05	-0.86	-0.77
ROA	-0.40	0.60	0.82	1.99	1.46	1.19
Leverage (x)	11.7	13.0	14.8	12.6	10.0	9.2
ROE (reported)	-4.67	7.72	12.06	25.14	14.65	10.93

Capital & dividends	2020	2021	2022	2023E	2024E	2025E
Tier-1 (PLN bn)	6.5	6.2	6.3	7.9	9.3	10.3
Tier-2 (PLN bn)	1.1	0.8	0.7	0.5	0.5	0.5
TCR (PLN bn)	3.9	4.0	4.0	3.8	3.9	4.0
RWA (PLN mn)	44.2	45.3	42.0	47.5	48.9	50.3
CT1 ratio (%)	13.6	12.6	12.6	16.6	18.9	20.3
CAR ratio (%)	15.9	14.2	14.0	17.7	20.0	21.4
Div. payout (%)	0.0	0.0	0.0	0.0	0.0	0.0
Dividend (PLN mn)	0	0	0	0	0	0
No. of shares (mn)	131	131	131	131	131	131

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

Bank Handlowy

Bloomberg: BHW PW, Reuters: BHW.WA

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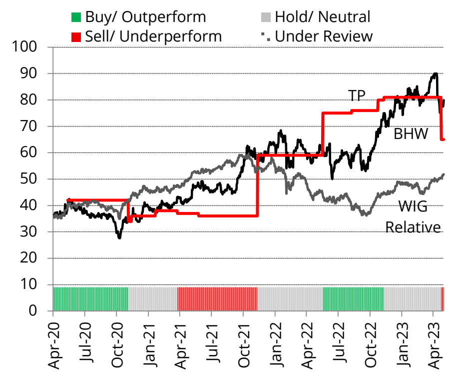
MSCI flows

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	79.90
Target price (Dec'2023, PLN)	**65.00**

- **Equity story.** BHW now faces negative trigger of dropping out from MSCI Poland. It trades ex-div and disappointing payout caused us to revive future pay-outs downwards. BHW remains our least preferred play for potential rate cuts.
- **BHW to drop from the MSCI Poland Small Cap Index** on May 31st rebalancing. This should cause accumulated passive supply of BHW shares worth PLN50mn (or 18 days of average value trading). This could have material impact on BHW share price performance.
- **Only 75% dividend pay-out.** We were hoping for 100% payout from 2022 net income in line with KNF cap and BHW dividend policy. Surprisingly BHW conservatively decided for 75% and trades already ex-div. With this report we are reducing 2024-2025 pay-outs to 75% from 100% before.
- **BHW sticks to its plans to quit retail business in Poland** – Elżbieta Światopełk-Czetwertyńska, CEO reiterated during analyst call. The transaction is already on hold and no more details were given. We would be surprised if any of the banks covered by us would show interest in BHW retail assets because of its relatively low size and dependence on Citi brand and IT.
- **11.3% salary hikes were given on average in 1Q23** to BHW employees. It is higher than what we assumed having in mind that BHW pays its employees the highest salaries (on average). Next to Pekao and BNP, Citi is another bank informing about double digit salary increases taking place in 1Q23.
- **Valuation and risks.** Our Dec'23 TP is PLN65.0 and it is a weighted average of DDM pointing to valuation of PLN47.2 and a Comparative Valuation pointing to PLN83.3 (all per share). We see the divestment of retail, retail goodwill write-off, development of NII, cost of risk and regulatory changes (potential windfall tax) as the main risks..

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Bank Handlowy: Financial summary and ratios

PLNmn, year to Dec	2021	2022	2023E	2024E	2025E
P/E (adjusted)	10.4x	6.2x	4.4x	9.2x	10.5x
P/E (reported)	10.4x	6.4x	4.4x	9.2x	10.5x
P/BV	1.05x	1.23x	1.08x	1.12x	1.11x
Dividend Yield	2.0%	7.3%	12.0%	17.0%	8.1%
EPS (adjusted) (PLN)	5.7	12.2	17.1	8.2	7.2
DPS (PLN)	1.20	5.47	9.00	12.75	6.13
BVPS (PLN)	56.7	60.9	69.4	67.0	68.0
Net Income (adj. PLN mn)	747	1,597	2,231	1,067	936
Net Income (PLN mn)	747	1,546	2,222	1,067	936

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 164. Valuation summary (PLN/share)

Recommendation	Underperform
Dec'23 Target Price (PLN)	65.00
Current price (PLN)	79.90
Prospective upside (%)	-19

Our Dec'23 Target Price is calculated as rounded average of DDM Valuation (50% weight) and Comp (50% weight) less estimated impact of CHF-mortgages.

DDM valuation (PLN/share)	47.2
Discounted dividends (PLN/share)	17.6
Terminal value (PLN/share)	30
Terminal ROE (%)	8.72
g (%)	2.00
CoE (%)	13.20
RFR (%)	12.20
Beta (x)	1.20
ERP (%)	6.0

Comp. Valuation PLN/share	83.3
Net Income (PLN mn, next 12 months)	2,176
Applied P/E (x)	5.0
P/E peers (x)	6.0
CHF impact	0.0

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Fig. 165. DDM Valuation sensitivity (PLN/share)

	ROE->	4.7%	6.7%	8.7%	10.7%	12.7%
	0.0%	35.0	42.3	49.7	57.1	64.4
	1.0%	32.5	40.5	48.6	56.6	64.6
g	2.0%	29.6	38.4	47.2	56.0	64.8
	3.0%	26.0	35.8	45.5	55.3	65.1
	4.0%	21.5	32.5	43.5	54.4	65.4

Fig. 166. DDM Valuation sensitivity (PLN/share)

	ERP->	4.0%	5.0%	6.0%	7.0%	8.0%
	3.0%	78.0	65.7	57.1	50.6	45.7
	4.0%	67.5	58.3	51.6	46.4	42.3
RFR	5.0%	59.7	52.6	47.2	43.0	39.5
	6.0%	53.6	48.0	43.6	40.1	37.2
	7.0%	48.8	44.3	40.6	37.6	35.1

Fig. 167. Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2023E	2024E	2025E	2023E	2024E	2025E
Net income	1,888	1,347	1,107	*18%*	*-15%*	*-30%*
DPS (PLN)	8.90	11.95	10.25	*1%*	*7%*	*-36%*
ROE (%)	22.0	15.8	13.0	*4.2 pp*	*10.4 pp*	*-0.3 pp*

Fig. 168. Comp Valuation sensitivity (PLN/share)

Fair P/E (x)	2.0x	3.0x	4.0x	5.0x	7.0x	9.0x
vs. peers (%)	-67	-50	-33	-17	17	50
Sensitivity	33	50	67	83	117	150

Fig. 169. Ratios, Assumptions and Forecasts

P&L (PLN mn)	2020	2021	2022	2023E	2024E
NII	1,002	788	2,804	3,390	2,267
F&C	560	650	580	578	589
Trading Income	543	987	344	636	508
Total Revenue	2,068	2,390	3,714	4,603	3,365
Cost	-1,222	-1,203	-1,338	-1,423	-1,477
NLLP	-190	-39	-105	-149	-207
Pre-tax Profit	441	1,149	2,208	3,032	1,680
Banking tax	-124	-161	-213	-192	-201
Net Income	172	747	1,546	2,233	1,143
Net Income (adj.)	346	747	1,597	2,233	1,143

PLN bn	2021	2022	2023E	2024E	2025E
Total Assets	61.9	69.8	72.1	74.9	76.9
Bonds	30.7	44.2	41.0	42.4	43.2
Loans	21.3	21.6	23.1	24.4	25.5
Loans growth (%)	-3	1	7	6	5
Deposits	43.5	50.5	53.4	55.9	58.0
Equity	7.4	8.0	9.1	8.9	8.8
Mortgage loans	2.4	2.2	2.2	2.5	2.8
CHF mortgages	0.1	0.1	0.1	0.1	0.1
Other retail loans	5.0	4.4	4.4	4.7	5.0
Corporate loans	14.8	15.9	17.4	18.4	19.2

NIM ratios (%)	2020	2021	2022	2023E	2024E
Asset yield	2.00	1.37	5.35	6.64	4.26
Funding cost	0.18	0.04	1.16	2.06	1.28
NIM	1.85	1.33	4.42	4.94	3.19

Risk ratios (%)	2021	2022	2023E	2024E	2025E
Stage 3 ratio	4.8	4.7	4.6		
Stage 3 coverage	78.5	80.8	74.8		
Cost of risk	0.18	0.49	0.67	0.87	0.84

Du Pont (%)	2020	2021	2022	2023E	2024E
NII/assets	1.77	1.28	4.26	4.78	3.08
CoR/assets	-0.34	-0.06	-0.16	-0.21	-0.28
F&C/assets	0.99	1.06	0.88	0.81	0.80
Other rev/assets	0.82	1.55	0.48	0.90	0.69
Costs/assets	-2.16	-1.96	-2.03	-2.00	-2.01
Taxes&other	-0.48	-0.65	-1.01	-1.13	-0.73
ROA	0.61	1.22	2.43	3.15	1.56
Leverage (x)	7.7	8.2	8.6	8.3	8.2
ROE (reported)	4.72	9.97	20.77	26.20	12.73

Capital & dividends	2021	2022	2023E	2024E	2025E
Tier-1 (PLN bn)	5.5	5.2	5.7	6.2	6.4
Tier-2 (PLN bn)	0.0	0.0	0.0	0.0	0.0
TCR (PLN bn)	2.2	2.4	2.5	2.6	2.7
RWA (PLN mn)	27.4	29.3	31.1	32.9	34.4
CT1 ratio (%)	20.1	17.6	18.5	18.9	18.7
CAR ratio (%)	20.1	17.6	18.5	18.9	18.7
Div. payout (%)	95.6	76.1	75.0	75.0	90.0
Dividend (PLN mn)	157	715	1,176	1,674	858
No. of shares (mn)	130.7	130.7	130.7	130.7	130.7

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

BNP Paribas Polska

Bloomberg: BNPPPL PW, Reuters: BNPP.WA

CEE Equity Research

Banks, Poland

Still on tenterhooks

- **Equity story.** We reiterate our Outperform recommendation for BNP Paribas Bank Polska with Dec'23 target price to PLN64.0 (unchanged). As BNP trades at double digit discount to Polish peers, we are concerned this will remain the case till the risk of stock overhang is resolved. A scratch on BNP's equity story is that it started to lose market share in loans after a period of outperformance.
- **From loan growth winner to loan growth loser?** Share of BNP in gross loans in Poland declined to 6.0% as of 1Q23 (from 6.2% a year ago). This was mostly caused by freeze on mortgage originations (in 1Q23 BNP originated mortgages worth PLN46mn which is 97% less than PLN1,740mn). The CEO reiterated that BNP continues to be selective in mortgages, thus we think BNP should keep losing market share in loans in the coming quarters.
- **Positive cost of risk in 1Q23.** We have been expecting material increase in the cost of risk at Polish banks in 2023, driven by GDP slowdown. Surprisingly, BNP has reported a positive cost of risk in 1Q23, driven by the reversal of macro provisions and write-backs on a single corporate client in agro segment. Additionally, the management hinted on the ongoing sale of NPLs that could reduce the reported cost of risk going forward. Consequently, we are reducing our assumptions for cost of risk in 2023E to 34 bps (from 90 bps before).
- **Valuation and risks.** BNP trades at 2023E reported P/E of 3.0x, P/BV of 0.6x. Our Dec'23 TP is at PLN64.0 and is a weighted average of DDM pointing to valuation of PLN65.3 and a comparative valuation pointing to PLN78.6 reduced by PLN8.0, related to anticipated further cost related to CHF portfolio (all per share). Risks, we note, include: PLN3.8bn CHF mortgage portfolio, regulations (potential windfall taxes), payment holidays for farmers (BNP is a market leader with PLN7.7bn portfolio), macro, elections and company-specific low share turnover and stock overhang.

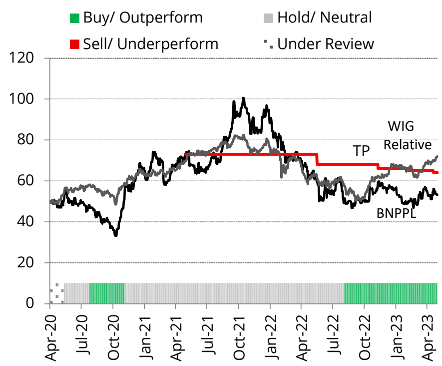
BNP Paribas Polska: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
P/E (adjusted)	6.4x	4.1x	3.0x	4.6x	4.3x
P/E (reported)	44.3x	17.7x	4.3x	8.5x	4.3x
P/BV	0.69x	0.69x	0.58x	0.53x	0.48x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	2.3%
EPS (adjusted) (PLN)	8.3	12.9	17.8	11.6	12.2
DPS (PLN)	0.00	0.00	0.00	0.00	1.24
BVPS (PLN)	77.1	76.4	91.4	99.5	111.4
Net Income (adj. PLN mn)	1,222	1,906	2,622	1,715	1,801
Net Income (PLN mn)	176	441	1,797	915	1,801

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	53.00
Target price (Dec'2023, PLN)	**64.00**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

- *The current freefloat of BNP Paribas Polska is at 11.2%. In Sep'18, BNP Paribas SA undertook to the KNF to increase BNP Paribas Polska freefloat to at least 25% before the end of 2023.*

Analyst

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Fig. 170. Valuation summary (PLN/share)

Recommendation	**Outperform**
Dec'23 Target Price (PLN)	**64.00**
Current price (PLN)	53.00
Prospective upside (%)	21

**Our Dec'23 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)	**65.3**
Discounted dividends (PLN/share)	1.4
Terminal value (PLN/share)	64
Terminal ROE (%)	11.59
g (%)	3.00
CoE 2022-2025 (%)	13.20
CoE terminal (%)	12.20
Beta (x)	1.20
ERP (%)	6.0

Comparative Valuation PLN/share	**78.6**
Net Income (PLN mn, next 12 months)	2,318
Applied P/E (x)	5.0
P/E peers (x)	6.0
CHF impact	**-8.0**

Fig. 171. DDM Valuation sensitivity (PLN/share)

	ROE->	10.5%	11.5%	12.5%	13.5%	14.5%
	0.0%	56.6	62.4	68.1	73.8	79.6
	1.0%	55.7	62.0	68.3	74.6	80.9
g	**2.0%**	54.6	61.5	68.5	75.5	82.5
	3.0%	53.1	61.0	68.8	76.7	84.5
	4.0%	51.3	60.3	69.2	78.1	87.0

Fig. 172. DDM Valuation sensitivity (PLN/share)

	ERP->	4.0%	5.0%	6.0%	7.0%	8.0%
	3.0%	119.6	95.7	79.0	66.7	57.3
	3.5%	108.5	88.1	73.5	62.5	54.0
RFR	**4.0%**	99.1	81.4	68.5	58.7	51.0
	4.5%	91.0	75.6	64.1	55.3	48.3
	5.0%	84.0	70.4	60.2	52.2	45.8

Fig. 173. Our forecast vs Bloomberg consensus

	Bloomberg consensus			**Our assumptions vs cons.**		
	2023E	**2024E**	**2025E**	**2023E**	**2024E**	**2025E**
Net income	497	1,593	1,801	*262%*	*-43%*	*0%*
DPS (PLN)	0.00	0.00	1.09	*n.a.*	*n.a.*	*14%*
ROE (%)	9.5	11.2	11.6	*3.0 pp*	*0.9 pp*	*-0.9 pp*

Fig. 174. Comparative Valuation sensitivity (PLN/share)

Fair P/E (x)	**2.0x**	**3.0x**	**4.0x**	**5.0x**	**7.0x**	**9.0x**
vs. peers (%)	-67	-50	-33	-17	17	50
Sensitivity	31.4	47.2	62.9	78.6	110.1	141.5

Fig. 175. Ratios, Assumptions and Forecasts

P&L (PLN mn)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
NII	3,141	4,388	4,663	3,796	4,067
F&C	1,049	1,137	1,186	1,222	1,259
Trading Income	687	806	1,018	1,054	1,054
Total Revenue	4,809	6,247	6,857	6,078	6,386
Cost	2,544	3,038	2,802	2,952	3,095
NLLP	266	275	305	445	460
CHF provisions	-1,045	-740	-834	-800	0
Pre-tax Profit	954	1,298	2,926	1,881	2,831
Banking tax	-338	-427	-411	-420	-435
Net Income	176	441	1,797	915	1,801
Net Income (adj.)	1,222	1,906	2,622	1,715	1,801

PLN bn	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Total Assets	132	152	147	152	159
Bonds	33	40	34	36	39
Loans	86	90	89	92	96
Loans growth (%)	*14*	*4*	*-1*	*3*	*4*
Deposits	101	120	117	121	126
Equity	11	11	13	15	16
Mortgage loans	27	27	24	24	25
CHF mortgages	5	4	4	3	3
Other retail loans	11	12	12	13	13
Corporate loans	45	53	55	57	59

NIM ratios (%)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Asset yield (%)	2.86	5.45	6.53	5.00	4.73
Funding cost (%)	0.28	2.44	3.58	2.59	2.23
NIM (%)	2.62	3.24	3.27	2.65	2.73

Risk ratios (%)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Stage 3 ratio (%)	3.6	3.3	3.2	3.2	3.2
Stage 3 coverage (%)	57.4	59.6	61.1	61.1	61.1
Cost of risk (%)	-0.33	-0.31	-0.34	-0.49	-0.49

Du Pont (%)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
NII/assets	2.50	3.10	3.12	2.53	2.61
CoR/assets	-0.21	-0.19	-0.20	-0.30	-0.30
F&C/assets	0.83	0.80	0.79	0.82	0.81
Other rev/assets	0.49	0.51	0.67	0.71	0.68
Costs/assets	-2.02	-2.15	-1.87	-1.97	-1.99
Taxes&other/assets	-1.45	-1.13	-1.31	-1.18	-0.66
ROA	0.14	0.94	1.19	0.61	1.16
Leverage (x)	10.7	12.5	12.1	10.6	10.0
ROE (reported)	1.51	11.81	14.44	6.50	11.59

Capital & dividends	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Tier-1 (PLN bn)	11.3	10.8	12.3	13.2	15.0
Tier-2 (PLN bn)	4.2	4.1	4.0	4.0	4.0
TCR (PLN bn)	7.3	7.6	7.6	7.8	8.1
RWA (PLN mn)	91.7	95.5	94.6	97.5	101.5
CT1 ratio (%)	12.3	11.3	13.0	13.6	14.8
CAR ratio (%)	16.9	15.5	17.2	17.7	18.7
Div. payout (%)	0.0	0.0	0.0	20.0	20.0
Dividend (PLN mn)	0	0	0	0	183
No. of shares (mn)	147	147	147	147	147

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

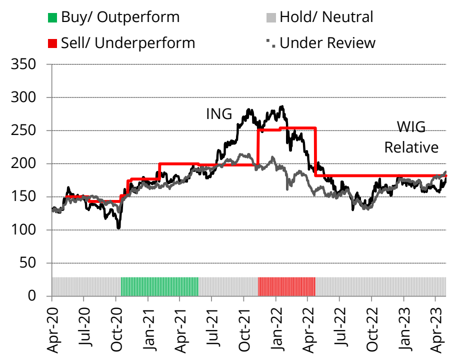
Banks, Poland

The past is already gone and the future is not yet here…

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	178.0
Target price (Dec'2023, PLN)	**190.0**

- **Equity story.** ING is in an unhappy moment of the cycle – its earnings are dimmed and its equity is burdened – both by hedging. These burdens will go away either with time or as WIBOR6M goes down. We appreciate ING's franchise and gradual market share gains but think that its valuation and moment of the cycle warrants only Neutral recommendation.
- **ING reported the lowest NIM (next to BNP) in 1Q23** among banks in our coverage as the 1Q23 cost of hedging at ING remained gigantic at PLN595.9mn (vs positive impact of PLN100.4mn a year ago, both after tax). In our opinion, banks should hedge interest rate risk (and they will because of the upcoming pan-European regulations) as it allows them to manage cost in the midterm and prevents banks from being forced to adjust operations to the rate cycle. Negative MCHF value was at PLN6,912mn as of 1Q23.
- **Net Interest Margin reported by ING was at 3.6%** (for the last 12 months ending Mar'23), but it would be 4.8% excluding hedging. We value ING assuming its NIM would converge close to the market average in time.
- **DPS of PLN3.95 (DY of 2.3%)** could be paid to investors after CHF verdict as 30% pay-out from 2022 awaits KNF's approval.
- **Valuation and risks.** Our Dec'23 TP is at PLN190.0 (vs PLN182.0 before) and is a weighted average of DDM pointing to valuation of PLN212.5 and a comparative valuation pointing to PLN169.9 less impact of CHF-mortgage portfolio (all per share). Among risk factors we note: low turnover in ING shares, MCHF impact on NII, election campaign in Poland and the growth outlook.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

ING Bank Śląski: Financial summary and ratios

PLNmn, Year to Dec	2021	2022	2023E	2024E	2025E
P/E (adjusted)	14.8x	6.3x	6.7x	6.6x	6.8x
P/E (reported)	15.0x	13.5x	6.7x	6.6x	6.8x
P/BV	2.6x	2.5x	1.51x	1.30x	1.2x
Dividend Yield	1.9%	3.0%	2.2%	4.5%	4.6%
EPS (adjusted) (PLN)	18.1	28.2	26.7	27.0	26.2
DPS (PLN)	5.10	5.30	3.95	8.00	8.11
BVPS (PLN)	104.0	71.8	117.7	136.8	154.4
Net Income adj. (PLN mn)	2,354	3,672	3,471	3,519	3,415
Net Income (PLN mn)	2,308	1,714	3,471	3,519	3,415

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 176. Valuation summary (PLN/share)

Recommendation	**Neutral**
Dec'23 Target Price (PLN)	**190.00**
Current price (PLN)	178.00
Prospective upside (%)	7

**Our Dec'23 Target Price is calculated as rounded average of DDM Valuation (50%) and Comp. Valuation (50%) less impact of CHF-mortgage portfolio.*

DDM valuation (PLN/share)	**212.5**
Discounted dividends (PLN/share)	18.4
Terminal value (PLN/share)	194
Terminal ROE (%)	18.03
g (%)	4.00
CoE 2022-2025 (%)	12.60
CoE terminal (%)	11.60
Beta (x)	1.10
ERP (%)	6.0

Comp. Valuation PLN/share	**169.9**
Net Income (PLN mn, next 12 months)	3,400
Applied P/E (x)	6.5
P/E peers (x)	6.0
CHF impact	**-1.0**

Fig. 177. DDM Valuation sensitivity (PLN/share)

	ROE->	16.0%	17.0%	18.0%	19.0%	20.0%
	2.0%	172	183	194	205	216
	3.0%	178	190	202	214	227
g	**4.0%**	185	199	212	226	240
	5.0%	194	210	226	242	258
	6.0%	207	225	244	263	282

Fig. 178. DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	6.0%	6.0%	7.0%
	4.0%	532	390	249	249	209
	4.5%	457	347	229	229	195
RFR	**5.0%**	400	312	212	212	182
	5.5%	355	282	198	198	171
	6.0%	318	258	184	184	161

Fig. 179. Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2023E	**2024E**	**2025E**	**2023E**	**2024E**	**2025E**
Net income	3,074	2,985	2,835	*-44%*	*16%*	*24%*
DPS (PLN)	8.26	10.71	9.39	*-52%*	*-25%*	*-14%*
ROE (%)	24.9	19.6	16.9	*6.5 pp*	*8.6 pp*	*4.4 pp*

Fig. 180. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	**3.5x**	**4.5x**	**5.5x**	**6.5x**	**8.5x**	**10.5x**
vs. peers (%)	-42	-25	-8	8	42	75
Sensitivity	91	118	144	170	222	274

Fig. 181. Ratios, Assumptions and Forecasts

P&L (PLN mn)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
NII	4,970	7,259	7,490	7,709	7,875
F&C	1,845	2,095	2,132	2,196	2,263
Trading Income	53	-12	218	196	196
Total Revenue	6,868	9,342	9,839	10,101	10,334
Cost	-2,965	-3,642	-3,452	-3,599	-3,751
NLLP	-316	-737	-1,098	-1,087	-1,212
Pre-tax Profit	3,560	3,050	5,308	5,433	5,389
Banking tax	-545	-647	-653	-703	-772
Net Income	2,308	1,714	3,471	3,519	3,415
Net Income (adj.)	2,354	3,672	3,471	3,519	3,415

PLN bn	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Total Assets	201.7	217.3	244.9	264.9	289.8
Bonds	47.1	50.4	50.0	56.0	62.9
Loans	146.5	155.0	165.5	179.0	196.4
Loans growth (%)	18	6	7	8	10
Deposits	171.6	193.1	214.3	231.7	254.3
Equity	13.5	9.3	15.3	17.8	20.1
Mortgage loans	57.4	55.2	55.2	57.3	63.4
CHF mortgages	0.8	0.7	0.6	0.6	0.5
Other retail loans	9.1	8.7	9.7	11.4	13.3
Corporate loans	82.5	93.7	104.2	115.0	125.7

NIM ratios (%)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Asset yield	2.87	4.78	5.62	4.58	4.22
Funding cost	0.27	1.30	2.36	1.44	1.28
NIM	2.63	3.56	3.37	3.20	2.99

Risk ratios (%)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Stage 3 ratio	2.6	2.3	2.4		
Stage 3 coverage	66	60	59		
Cost of risk	0.23	0.49	0.69	0.63	0.65

Du Pont (%)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
NII/assets	2.56	3.47	3.24	3.02	2.84
CoR/assets	-0.16	-0.35	-0.48	-0.43	-0.44
F&C/assets	0.95	1.00	0.92	0.86	0.82
Other rev/assets	0.04	-0.02	0.10	0.08	0.08
Costs/assets	-1.53	-1.74	-1.49	-1.41	-1.35
Taxes&other	-0.64	-0.64	-0.80	-0.75	-0.71
ROA	1.21	1.72	1.50	1.38	1.23
Leverage (x)	12.1	18.3	18.7	15.4	14.6
ROE (reported)	14.64	31.45	28.16	21.25	18.03

Capital & dividends	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Tier-1 (PLN bn)	13.5	14.8	14.4	14.4	14.4
Tier-2 (PLN bn)	1.7	1.6	1.9	1.9	1.9
TCR (PLN bn)	8.4	8.6	9.2	9.9	10.8
RWA (PLN mn)	92.5	95.5	100.6	108.8	119.5
CT1 ratio (%)	12.8	13.7	12.5	11.6	10.6
CAR ratio (%)	14.5	15.3	14.1	13.2	12.0
Div. payout (%)	29.9	30.0	30.0	30.0	30.0
Dividend (PLN mn)	664	690	514	1,041	1,056
No. of shares (mn)	130.1	130.1	130.1	130.1	130.1

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

Komerční banka

Bloomberg: KOMB CK, Reuters: BKOM.PR

CEE Equity Research

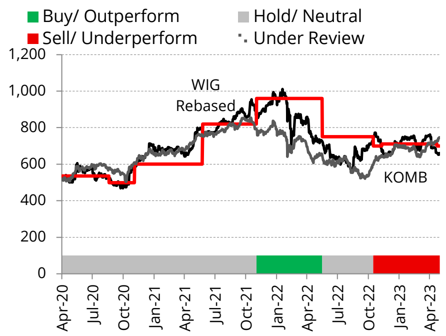
Banks, Czechia

Zero sensitivity to rates claimed

RECOMMENDATION	Neutral
Current price (May 23, 2023, CZK)	661.0
Target price (Dec'2023, CZK)	**700.0**

- **Equity story.** We find KOMB to be more expensive than Polish banks but we note its much lower sensitivity to expected rate cuts.
- **KOMB reduced NII sensitivity to rates to zero** – CEO. Before and during the rate hikes KOMB was pointing to NII sensitivity to 100bps parallel shift of the yield curve by 100 basis points to be at CZK1bn (USD50mn) during 12 months following the shift. Currently, the sensitivity is zero, according to CEO's comments during the analyst call. We note that profitability levels that have been locked by KOMB are way lower than currently observed in Poland – 1Q23 NIM at KOMB was at 1.7% and RORWA at 3.3% (vs around 4% historically).
- **Net release of risk provisions.** KOMB reversed CZK21mn (or 21 bps) of risk provisions. CRO pointed to observed very good quality of mortgages and small business loans where most recent default rates are below pre-Covid levels. The provisions that were booked in the corporate segment in the anticipation of defaults related to the war in Ukraine, energy crisis and Covid proved unnecessary at this stage. KOMB revised downwards its guidance for COR in 2023 from 20-25 bps to 15bps.
- **NII should improve in the coming quarters?** KOMB's guidance is a high single digit decline in NII in 2023E driven by the cost of funding after a miss on NII in 1Q23. We assume that 1Q23 was affected by the cost of fast build-up of hedging positions and should improve already next quarter.
- **DPS of CZK60.42 (DYof8.2%) already paid.** Dividend day was May 2nd.
- **Windfall tax to have limited impact** management reiterated. CZK1.8bn has already been paid in advance based on 2022 results, but is expected to be reversed next year.
- **Valuation and risks.** KOMB trades at 2023E P/BV 1.0x for 2022E ROE of 14%, and 2022E P/E of 7.9x. We forecast next year's dividend at 8.2%. KOMB targets 15.0% ROE, and our valuation is based on the assumption of terminal ROE of 13.6%. Major risks relate to delays in the strategy implementation, macro, rates, capital requirements, regulations, competition and war in Ukraine.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Komercni banka: Financial summary and ratios

Year to Dec, CZKmn	2021	2022	2023E	2024E	2025E
P/E (reported)	13.9x	7.1x	7.9x	7.1x	6.2x
P/E (reported)	13.9x	7.1x	7.9x	7.4x	6.8x
P/BV	1.4x	1.03x	1.00x	0.95x	0.90x
Dividend Yield	2.6%	15.0%	9.1%	8.2%	8.8%
EPS (adjusted) (CZK)	67.4	93.3	83.9	89.8	97.5
DPS (CZK)	23.86	99.30	60.42	54.50	58.39
BVPS (CZK)	654.0	643.1	664.1	696.9	735.3
Net Income (adj. CZK mn)	12,728	17,618	15,889	17,662	19,975
Net Income (CZK mn)	**12,728**	**17,618**	**15,836**	**16,964**	**18,410**

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 182. Valuation summary* (CZK/share)

Recommendation	Neutral
Dec'23 Target Price (CZK)	700.0
Current price (CZK)	661.0
Prospective upside (%)	6

**Our Dec'23 Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative (50%).*

DDM valuation (CZK/share)	893.1
Discounted dividends (CZK/share)	171.5
Terminal value (CZK/share)	722
Terminal ROE (%)	13.61
g (%)	3.00
CoE 2022-2025 (%)	12.60
CoE terminal (%)	10.60
Beta (x)	1.10
ERP (%)	6.0

Comp. Valuation CZK/share	511.3
Net Income (CZK mn, next 12 months)	16,092
Applied P/E (x)	6.0

Fig. 183. DDM Valuation sensitivity (CZK/share)

	ROE->	11.6%	12.6%	13.6%	14.6%	15.6%
	1.0%	743	797	850	904	958
	2.0%	749	809	869	929	989
g	3.0%	757	825	893	961	1,029
	4.0%	768	846	924	1,002	1,081
	5.0%	782	874	966	1,059	1,151

Fig. 184. DDM Valuation sensitivity (CZK/share)

	ERP->	4.0%	5.0%	6.0%	7.0%	8.0%
	3.0%	1,554	1,239	1,030	881	771
	3.5%	1,393	1,134	956	828	730
RFR	4.0%	1,262	1,046	893	780	693
	4.5%	1,153	970	838	738	660
	5.0%	1,062	905	789	700	630

Fig. 185. Our forecast vs. Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2023E	2024E	2025E	2023E	2024E	2025E
Net income	14,659	15,132	51,145	*8%*	*12%*	*-64%*
DPS (PLN)	54.24	51.90	53.29	*0%*	*13%*	*15%*
ROE (%)	11.9	11.6	11.0	*0.9 pp*	*1.6 pp*	*2.6 pp*

Fig. 186. Comps Valuation sensitivity (CZK/share)

Fair P/E (x)	3.0x	4.0x	5.0x	6.0x	8.0x	10.0x
vs. peers (%)	-40	-20	0	20	60	100

Fig. 187. Ratios, Assumptions and Forecasts

P&L (CZK mn)	2021	2022	2023E	2024E	2025E
NII	21,794	28,632	26,625	29,831	32,025
F&C	5,712	6,121	6,309	6,385	6,361
Trading Income	3,630	3,665	4,200	2,800	2,800
Total Revenue	31,345	38,631	37,407	39,256	41,395
Cost	15,099	16,015	16,622	15,694	15,945
NLLP	-731	-1,181	-1,135	-2,555	-2,659
Pre-tax Profit	16,020	21,833	19,849	21,190	22,975
Banking tax	0	0	-53	-698	-1,566
Net Income	12,728	17,618	15,836	16,964	18,410
Net Income (adj.)	12,728	17,618	15,889	17,662	19,975

CZK bn	2021	2022	2023E	2024E	2025E
Total Assets	1,244	1,305	1,461	1,509	1,589
Bonds	191	227	247	265	293
Loans	725	781	808	836	885
Loans growth (%)	7	8	3	3	6
Deposits	957	951	1,107	1,145	1,213
Equity	124	121	125	132	139
Mortgage loans	339	354	356	356	376
Other retail loans	39	39	33	35	37
Corporate loans	356	367	395	424	445

NIM ratios (%)	2021	2022	2023E	2024E	2025E
Asset yield	3.06	7.58	8.58	6.02	5.82
Funding cost	1.34	6.02	7.55	4.49	4.20
NIM	1.87	2.33	2.00	2.08	2.14

Risk ratios (%)	2021	2022	2023E	2024E	2025E
Stage 3 ratio	2.5	2.3	2.2	2.2	2.2
Stage 3 coverage	51.7	51.0	50.7	50.7	50.7
Cost of risk	0.10	0.16	0.14	0.31	0.31

Du Pont (%)	2021	2022	2023E	2024E	2025E
NII/assets	1.81	2.25	1.92	2.01	2.07
CoR/assets	-0.06	-0.09	-0.08	-0.17	-0.17
F&C/assets	0.47	0.48	0.46	0.43	0.41
Other rev/assets	0.36	0.34	0.34	0.22	0.21
Costs/assets	-1.25	-1.26	-1.20	-1.06	-1.03
Taxes&other	-0.27	-0.33	-0.29	-0.28	-0.29
ROA	1.06	1.38	1.15	1.14	1.19
Leverage (x)	10.2	10.4	11.2	11.6	11.5
ROE (reported)	10.73	14.38	12.87	13.20	13.61

Capital & dividends	2021	2022	2023E	2024E	2025E
Tier-1 (CZK bn)	101.1	98.6	105.1	110.9	117.3
Tier-2 (CZK bn)	2.1	3.1	2.9	2.9	2.9
TCR (CZK bn)	38.7	41.8	43.0	44.5	47.2
RWA (CZK mn)	400	431	440	455	482
CT1 ratio (%)	20.9	18.9	19.5	19.9	19.9
CAR ratio (%)	21.3	19.5	20.1	20.4	20.4
Div. payout (%)	147.3	64.8	65.0	65.0	65.0
Dividend (CZK mn)	4,506	18,753	11,411	10,293	11,027
No. of shares (mn)	188.9	188.9	188.9	188.9	188.9

Source for all tables: Company data, Santander Brokerage Poland, Bloomberg

Note: historical valuation ratios based on eoy prices

mBank

Bloomberg: MBK PW, Reuters: MBK.WA

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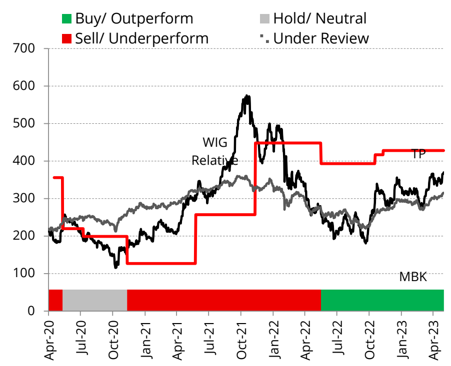
CHF mortgages still loom

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	370.0
Target price (Dec'2023, PLN)	**431.0**

- **Equity story.** We perceive mBank as one of the best banking franchises in Poland, with the youngest customer base among peers. Unfortunately it has its CHF-mortgage legacy. Additionally it is a potential M&A target once the CHF-mortgage portfolio is possible to be valued.
- **CHF – 10% settled, 45% in courts, 45% idle.** At the end of 1Q23 mBank had PLN6.6bn provisions set against PLN10.8bn CHF-mortgage portfolio). Back-of-the-envelope calculation shows that the unlikely scenario of all CHF clients annulling their CHF-mortgages and no remuneration for either banks or client could cost mBank PLN16bn. Adding remuneration for clients at the level of statutory interest doubles the potential cost to PLN32bn, we calculate. Our valuation assumes a less severe scenario and total cost related to CHF-mortgage portfolio of PLN10.7bn. Out of 38.8k active contracts, 18.8k CHF-clients filed lawsuits with mBank. As of Apr 19th 5k clients have accepted settlements.
- **Earnings forecasts.** Our valuation assumes that excluding CHF-provisions, mBank should be earning around PLN4.5-5.0bn in 2023E. In the last 12 months mBank faced the negative impact of hedging of PLN1.4bn – we think that hedging strategies materially limit its sensitivity to expected cuts in rates.
- **Valuation and risks.** Our Dec'23 TP is at PLN431 (vs PLN428 before) that is a weighted average of DDM pointing to the value of PLN387.2 and Comparative Valuation pointing to PLN555.7 (all per share) less the impact of CHF-mortgage portfolio estimated at PLN40 per share. Risks in our view include parliamentary elections scheduled for 2023, various scenarios for CHF-mortgage portfolios and WIBOR/deposits costs.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

mBank: Financial summary and ratios

PLNmn, Year to Dec	2021	2022	2023E	2024E	2025E
P/E (reported)	11.6x	4.1x	3.5x	4.6x	5.3x
P/E (adjusted)	-15.6x	-20.5x	5.1x	6.6x	8.0x
P/BV	1.3x	1.2x	1.03x	0.85x	0.77x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EPS (adjusted) (PLN)	37.3	89.3	104.6	80.0	69.8
DPS (PLN)	0.0	0.0	0.0	0.0	0.0
BVPS (PLN)	324	300	360	438	482
Net Income (adj. PLN mn)	1,579	3,786	4,437	3,394	2,962
Net Income (PLN mn)	-1,179	-766	3,069	2,394	1,962

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 188. Valuation summary* (PLN/share)

Recommendation	Outperform
Dec'23 Target Price (PLN)	431.0
Current price (PLN)	370.0
Prospective upside (%)	16

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

DDM valuation (PLN/share)	387.2
Discounted dividends (PLN/share)	0
Terminal value (PLN/share)	387
Terminal ROE (%)	15.18
g (%)	3.00
CoE 2022-2025 (%)	13.20
CoE terminal (%)	12.20
Beta (x)	1.20
ERP (%)	6.0

Comp. Valuation PLN/share	555.7
Net Income (PLN mn, next 12 months)	4,529
Applied P/E (x)	5.2
P/E peers (x)	6.0
CHF impact/ share	-40.0

Fig. 189. DDM Valuation sensitivity (PLN/share)

	ROE->	13.2%	14.2%	15.2%	16.2%	17.2%
	1.0%	318	344	370	396	423
	2.0%	321	349	378	407	435
g	3.0%	324	355	387	419	451
	4.0%	327	363	399	434	470
	5.0%	332	373	413	454	495

Fig. 190. DDM Valuation sensitivity (PLN/share)

	ERP->	4.0%	5.0%	6.0%	7.0%	8.0%
	4.0%	684	545	448	377	322
	4.5%	620	501	416	352	303
RFR	5.0%	565	462	387	330	285
	5.5%	518	428	362	310	269
	6.0%	477	398	339	292	255

Fig. 191. Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2023E	2024E	2025E	2023E	2024E	2025E
Net income	1,012	2,337	2,234	*203%*	*2%*	*-12%*
DPS (PLN)	0.00	6.74	16.89	*n.a.*	*0%*	*0%*
ROE (%)	9.0	21.3	16.0	*12.9 pp*	*-7.2 pp*	*-6.0 pp*

Fig. 192. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	1.0x	2.0x	3.2x	5.2x	7.2x	9.2x
vs. peers (%)	-83	-67	-47	-13	20	53
Sensitivity	107	214	342	556	769	983

Fig. 193. Ratios, Assumptions and Forecasts

P&L (PLNmn)	2020	2021	2022E	2023E	2024E
NII	4,009	4,104	7,169	8,670	6,941
F&C	1,508	1,890	2,143	2,075	2,104
Trading Income	366	206	-9	282	477
Total Revenue	5,867	6,111	9,124	10,985	9,482
Cost	-2,411	-2,457	-3,319	-2,859	-3,023
NLLP	-1,293	-879	-835	-1,209	-1,107
CHF prov.	-1,022	-2,758	-3,112	-1,558	-1,000
Pre-tax Profit	1,141	18	513	5,358	4,352
Banking tax	-531	-609	-684	-764	-780
Net Income	104	-1,179	-766	3,069	2,394
Net Income (adj.)	1,126	1,579	3,786	4,437	3,394

PLNbn	2020	2021	2022E	2023E	2024E
Total Assets	180.1	199.5	209.9	220.1	228.2
Bonds	52.6	53.3	55.4	60.1	64.9
Loans	109.6	118.0	120.1	121.6	124.5
Loans growth (%)	4	8	2	1	2
Deposits	151.7	173.4	183.6	189.8	194.1
Equity	16.7	13.7	12.7	15.3	18.6
Mortgage loans	46.0	49.8	48.1	46.9	47.8
CHF mortgages	13.6	12.9	11.9	10.2	9.4
Other retail loans	18.2	21.4	23.0	24.1	25.0
Corporate loans	44.8	48.0	52.3	55.1	57.3

NIM ratios (%)	2020	2021	2022E	2023E	2024E
Asset yield	2.87	2.43	5.37	7.29	5.44
Funding cost	0.47	0.20	1.85	3.36	2.44
NIM	2.45	2.25	3.66	4.20	3.22

Risk ratios (%)	2020	2021	2022E	2023E	2024E
Stage 3 ratio	4.2	3.6	3.7		
Stage 3 coverage	60.7	56.2	55.7		
Cost of risk	1.20	0.77	0.70	1.00	0.90

Du Pont (%)	2020	2021	2022E	2023E	2024E
NII/assets	2.37	2.16	3.50	4.03	3.10
CoR/assets	-0.76	-0.46	-0.41	-0.56	-0.49
F&C/assets	0.89	1.00	1.05	0.96	0.94
Other rev/assets	-0.40	-1.39	-1.61	-0.61	-0.25
Costs/assets	-1.42	-1.29	-1.62	-1.33	-1.35
Taxes&other	-0.61	-0.63	-0.62	-1.07	-0.87
ROA	0.06	-0.62	0.28	1.43	1.07
Leverage (x)	10.3	12.5	15.5	15.4	13.2
ROE (reported)	0.63	-7.76	4.39	21.94	14.15

Capital & dividends	2020	2021	2022E	2023E	2024E
Tier-1 (PLNbn)	14.9	13.5	12.2	12.1	12.1
Tier-2 (PLNbn)	2.5	2.3	2.2	2.2	2.2
TCR (PLNbn)	7.1	7.7	7.0	7.3	7.4
RWA (PLNmn)	88.5	95.7	88.0	90.9	93.1
CT1 ratio (%)	16.9	14.1	13.8	13.3	13.0
CAR ratio (%)	19.8	16.6	16.4	15.7	15.3
Div. payout (%)	0.0	0.0	0.0	0.0	0.0
Dividend (PLNmn)	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, Santander Brokerage Poland estimates, Bloomberg NOTE: historical valuation ratios based on eoy prices

Millennium

Bloomberg: MIL PW, Reuters: MILP.WA

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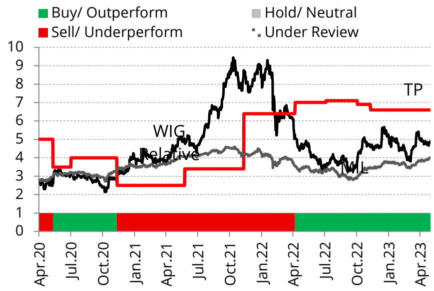
Managing CHF risks

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	4.88
Target price (Dec'2023, PLN)	**6.20**

- **Equity story.** We perceive Bank Millennium, next to ING and mBank, as one of the best banking franchises in our Polish coverage. It seems operationally lean, cost effective and consequent in strategy execution. Unfortunately, MIL's relative exposure to CHF-mortgages is the largest. Breach of capital ratio caused MIL to launch the recovery plan and submit the Capital Protection Plan in 3Q22. MIL is currently meeting the minimum capital requirements.
- **CHF-contracts: 1/3 settled, 1/3 in courts, 1/3 idle.** At the end of 1Q23 MIL had PLN5.6bn provisions against its PLN10.0bn CHF-mortgage portfolio. Out of the remaining 36.8k CHF-mortgage contracts, 17.4k (47.2%) have an open lawsuit with MIL. MIL managed to sign 18.6k settlements at the total cost of PLN919mn. In a very unlikely scenario of invalidation of all CHF-contracts and all settlements the cost for MIL would be around PLN13bn (assuming no remuneration). We value MIL assuming total CHF cost of PLN9.2bn.
- **Earnings forecasts.** We expect MIL to report 2023E net income of PLN2.8bn (excluding CHF-provisions). Such a high profitability is possible mostly due to the absence of negative impact of hedging and implies above average sensitivity to falling rates. The impact of hedging on MIL NII was positive at PLN72mn in the last 12 months.
- **Valuation and risks.** Our Dec'23 TP is at PLN6.2 (vs. PLN6.6 before), that is a weighted average of DDM pointing to the value of PLN8.3 and Comparative Valuation pointing to PLN8.8 (all per share) less the impact of CHF-mortgage portfolio estimated at PLN2.4 per share. Risks in our view include parliamentary elections scheduled for 2023, various scenarios for CHF-mortgage portfolios and WIBOR/deposits costs.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Bank Millennium: Financial summary and ratios

PLNmn, Year to Dec	2021	2022	2023E	2024E	2025E
P/E (adjusted)	5.3x	2.4x	2.3x	3.1x	3.3x
P/E (reported)	-4.4x	-5.8x	9.8x	4.3x	3.3x
P/BV	0.9x	1.08x	0.90x	0.77x	0.6x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EPS (adjusted) (PLN)	0.91	2.06	2.1	1.6	1.5
DPS (PLN)	0.00	0.00	0.00	0.00	0.00
BVPS (PLN)	5.5	4.5	5.4	6.3	7.7
Net Income (adj. PLN mn)	1,110	2,500	2,526	1,888	1,794
Net Income (PLN mn)	**-1,332**	**-1,015**	**606**	**1,388**	**1,794**

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 194. Valuation summary* (PLN/share)

Recommendation	Outperform
Dec'23 Target Price (PLN)	6.20
Current price (PLN)	4.882
Prospective upside (%)	27

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

DDM valuation (PLN/share)	8.3
Discounted dividends (PLN/share)	0.0
Terminal value (PLN/share)	8.3
Terminal ROE (%)	21.03
g (%)	2.00
CoE (%)	11.00
RFR (%)	4.00
Beta (x)	1.40
ERP (%)	5.0

Comp. Valuation PLN/share	8.8
Net Income (PLN mn, next 12 months)	2,670
Applied P/E (x)	4.0
P/E peers (x)	6.3
CHF impact/ share	-2.4

Fig. 195. DDM Valuation sensitivity (PLN/share)

	ROE->	17.0%	19.0%	21.0%	23.0%	25.0%
	0.0%	6.1	6.8	7.5	8.3	9.0
	1.0%	6.3	7.1	7.9	8.7	9.5
g	2.0%	6.6	7.5	8.3	9.2	10.1
	3.0%	6.9	7.9	8.9	9.9	10.9
	4.0%	7.3	8.5	9.6	10.7	11.9

Fig. 196. DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	3.0%	16.9	12.6	9.8	7.9	6.5
	3.5%	15.1	11.4	9.0	7.3	6.1
RFR	4.0%	13.6	10.5	8.3	6.8	5.7
	4.5%	12.3	9.6	7.8	6.4	5.4
	5.0%	11.2	8.9	7.2	6.0	5.0

Fig. 197. Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2023E	2024E	2025E	2023E	2024E	2025E
Net income	97	1,330	1,151	*523%*	*4%*	*56%*
DPS (PLN)	0.00	0.00	0.00	*n.a.*	*n.a.*	*n.a.*
ROE (%)	10.8	24.3	16.1	*-0.7 pp*	*-4.8 pp*	*4.9 pp*

Fig. 198. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	1.0x	2.0x	3.0x	4.0x	6.0x	8.0x
vs. peers (%)	-84	-68	-52	-37	-5	27
Sensitivity	2.2	4.4	6.6	8.8	13.2	17.6

Fig. 199. Ratios, Assumptions and Forecasts

P&L (PLNmn)	2021	2022	2023E	2024E	2025E
NII	2,713	4,760	5,196	4,623	4,446
F&C	831	808	808	816	824
Trading Income	-63	-197	439	46	240
Total Revenue	3,558	5,431	6,472	5,465	5,490
Cost	-1,642	-2,093	-1,991	-2,081	-2,174
NLLP	-299	-460	-745	-470	-480
CHF prov.	-2,305	-2,017	-2,364	-500	0
Pre-tax Profit	-688	-562	1,372	2,414	2,836
Banking tax	-313	-169	0	-395	-419
Net Income	-1,332	-1,015	606	1,388	1,794
Net Income (adj.)	1,110	2,500	2,526	1,888	1,794

PLNbn	2021	2022	2023E	2024E	2025E
Total Assets	103.9	110.9	119.7	127.7	136.0
Bonds	19.5	21.7	31.6	34.5	37.9
Loans	78.6	76.6	79.4	84.6	89.4
Loans growth (%)	6	-3	4	6	6
Deposits	91.5	98.3	106.5	113.4	119.9
Equity	6.7	5.5	6.6	7.7	9.4
Mortgage loans	44.2	42.4	44.4	48.6	52.5
CHF mortgages	11.8	10.5	9.4	8.7	8.0
Other retail loans	16.2	16.6	17.3	17.8	18.3
Corporate loans	20.2	19.8	20.7	21.6	22.6

NIM ratios (%)	2021	2022	2023E	2024E	2025E
Asset yield	2.89	6.14	7.64	6.09	5.59
Funding cost	0.14	1.71	3.23	2.42	2.31
NIM	2.76	4.55	4.63	3.84	3.46

Risk ratios (%)	2021	2022	2023E	2024E	2025E
Stage 3 ratio	4.1	4.2	4.5		
Stage 3 coverage	52.7	48.6	47.5		
Cost of risk	0.42	0.44	0.92	0.57	0.55

Du Pont (%)	2021	2022	2023E	2024E	2025E
NII/assets	2.69	4.43	4.51	3.74	3.37
CoR/assets	-0.30	-0.43	-0.65	-0.38	-0.36
F&C/assets	0.82	0.75	0.70	0.66	0.62
Other rev/assets	-2.27	-3.33	-1.64	-0.38	0.17
Costs/assets	-1.63	-1.95	-1.73	-1.68	-1.65
Taxes&other	-0.64	-0.42	-0.66	-0.83	-0.79
ROA	-1.32	-0.94	0.53	1.12	1.36
Leverage (x)	12.8	17.6	19.1	17.4	15.5
ROE (reported)	-16.9	-16.6	10.1	19.5	21.0

Capital & dividends	2021	2022	2023E	2024E	2025E
Tier-1 (PLNbn)	6.9	5.5	5.6	7.0	8.8
Tier-2 (PLNbn)	1.5	1.5	1.5	1.5	1.5
TCR (PLNbn)	4.0	3.9	4.0	4.3	4.6
RWA (PLNmn)	54.2	52.8	50.5	53.8	56.9
CT1 ratio (%)	14.0	11.3	11.2	13.1	15.5
CAR ratio (%)	17.1	14.4	14.1	15.8	18.1
Div. payout (%)	0.0	0.0	0.0	0.0	0.0
Dividend (PLNmn)	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, Santander Brokerage Poland estimates, Bloomberg NOTE: historical valuation ratios based on eoy prices

OTP Bank

Bloomberg: OTP HB, Reuters: OTP.HU

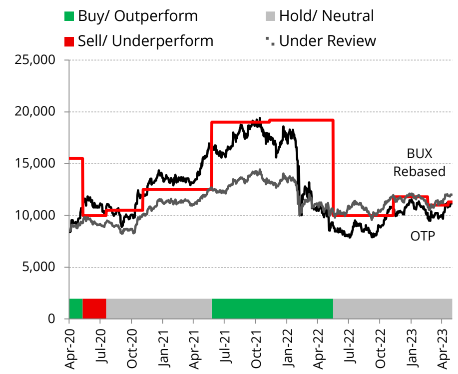
CEE Equity Research | **Banks, Hungary, CEE**

2Q23E supported with one-offs?

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	11,150
Target price (Dec'2023, PLN)	**11,800**

- **Equity story.** OTP offers double digit growth rate (powered by M&As), despite weaker outlook for Hungary (decline in NIM on change in the reserve requirements and lower originations). It remains fairly inexpensive (on P/E and P/BV but its nearest DY is at mere 2.8%). OTP keeps its Russian operations despite geopolitical risks, is about to complete acquisition in relatively distant Uzbekistan and seems utterly regulated and according to Bloomberg is to consider selling Romanian operations. With so many moving elements, we continue to rate OTP Neutral.
- **HUF74bn badwill on acquisition of Ipoteka Bank** in Uzbekistan in 2Q23. The acquisition was completed in Feb'23 and should result in EUR200mn badwill (HUF74bn), according to management comments.
- **HUF 28bn lower windfall tax.** Additionally, OTP has revised its expected cost of windfall tax and expects now HUF28bn less banking tax this year – this should be reflected in 2Q23E earnings, we calculate, as the full year amount has been already provisioned. The Hungarian government is planning to phase out the windfall profit tax for banks in 2024, Finance Minister Mihaly Varga said on May 19th.
- **Pressure on NIM in Hungary sooner than expected.** Cuts in the overnight deposits rate are expected to start at the turn of May/June, from 18% now to maybe 13% as hinted by OTP management during the analyst call.
- **Adjusted 2023 ROE could be higher than 2022 level of 18.8%** on lower cost of risk - OTP management has upgraded its guidance from flattish ROE y/y pointing to the outlook for lower risk cost as the only tangible change in expectations. The management reiterated several times that the quality of the loan portfolio remains stable. Our valuation assumes 2023E ROE of 19.0%.
- **Valuation and risks.** OTP trades at 2024E P/E of 4.3x, 2024E P/BV of 0.7x for 2024E ROE of 15.1%. The nearest dividend is at 2.7% and we expect DY to be around 4% in the coming years. Among main risks we would mention the outlook for cost of risk, regulatory changes, M&A, loan growth, and potential extension of banking tax.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

OTP: Financial summary and ratios

HUFmn (year to Dec)	2021	2022	2023E	2024E	2025E
P/E (adjusted)	9.4x	5.3x	4.8x	4.3x	5.6x
P/E (reported)	10.2x	9.3x	4.5x	5.0x	6.9x
P/BV	1.53x	0.94x	0.80x	0.72x	0.66x
Dividend Yield	0.0%	3.9%	2.7%	3.4%	3.9%
EPS (adjusted) (HUF)	1,775	2,116	2,331	2,579	2,000
DPS (HUF)	0	429	300	375	431
BVPS (HUF)	10,823	11,844	13,930	15,482	16,814
Net Income (adj. HUF mn)	497	593	653	722	560
Net Income (HUF mn)	455	335	687	622	452

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Santander

Fig. 200. Valuation summary (HUF/share)

Recommendation	Neutral
Dec'23 Target Price (HUF)	11,800
Current price (HUF)	11,150
Prospective upside (%)	6

**Our Dec'23 Target Price is calculated as rounded average of DDM Valuation (50%) and Comp. Valuation (50%).*

DDM valuation (HUF/share)	11,343
Discounted dividends (HUF/share)	1,320.9
Terminal value (HUF/share)	10,022
Terminal ROE (%)	12.38
g (%)	3.00
CoE (%)	13.80
RFR (%)	12.80
Beta (x)	1.30
ERP (%)	6.0

Comp. Valuation HUF/share	12,323
Net Income (HUF mn, next 12 months)	690
Applied P/E (x)	5.0
P/E peers (x)	6.0

Fig. 201. DDM Valuation sensitivity (HUF/share)

	ROE->	10.4%	11.4%	12.4%	13.4%	14.4%
	2.0%	9,446	10,415	11,385	12,354	13,323
	2.5%	9,333	10,349	11,365	12,381	13,397
g	3.0%	9,207	10,275	11,343	12,411	13,480
	3.5%	9,069	10,194	11,320	12,445	13,570
	4.0%	8,914	10,104	11,293	12,482	13,672

Fig. 202. DDM Valuation sensitivity (HUF/share)

	ERP->	ERP->	4.0%	5.0%	6.0%	7.0%
	4.0%	4.0%	18,918	15,324	12,817	10,975
	4.5%	4.5%	17,361	14,254	12,039	10,387
RFR	5.0%	5.0%	16,024	13,313	11,343	9,853
	5.5%	5.5%	14,864	12,480	10,718	9,367
	6.0%	6.0%	13,848	11,737	10,152	8,923

Fig. 203. Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2023E	2024E	2025E	2023E	2024E	2025E
Net income	525	656	519	*31%*	*-5%*	*-13%*
DPS (PLN)	327	354	464	*-8%*	*6%*	*-7%*
ROE (%)	15.3	15.2	13.4	*3.7 pp*	*-0.1 pp*	*-3.4 pp*

Fig. 204. Comps Valuation sensitivity (HUF/share)

Fair P/E (x)	2.0x	3.0x	4.0x	5.0x	7.0x	9.0x
vs. peers (%)	-67	-50	-33	-17	17	50
Sensitivity	4,929	7,394	9,858	12,323	17,252	22,181

Fig. 205. Ratios, Assumptions and Forecasts

P&L (HUF bn)	2021	2022	2023E	2024E	2025E
NII	874	1,091	1,349	1,573	1,544
F&C	442	600	677	702	703
Trading Income	27	-32	115	35	35
Total Revenue	1,332	1,649	2,246	2,310	2,282
Cost	-748	-1,043	-1,221	-1,410	-1,554
NLLP	-56	-211	-174	-207	-223
Pre-tax Profit	528	395	771	693	504
Banking tax	-19	-91	-69	-100	-108
Net Income	455	335	687	622	452
Net Income (adj.)	497	593	653	722	560

HUF tr	2021	2022	2023E	2024E	2025E
Total Assets	27.6	32.8	40.9	43.8	47.0
Bonds	6.5	7.1	10.1	11.3	12.5
Loans	15.7	18.6	22.1	23.9	25.8
Loans growth (%)	16	18	19	8	8
Deposits	21.1	25.2	31.6	34.1	36.9
Equity	3.0	3.3	3.9	4.3	4.7
Loans - HU	5.5	6.5	6.5	7.4	8.3
Loans - BG	2.9	3.6	3.7	4.0	4.3
Loans - CR	1.8	2.3	2.2	2.4	2.6
Loans - other	5.5	6.3	9.6	10.1	10.5

NIM ratios (%)	2021	2022	2023E	2024E	2025E
Asset yield	4.61	6.96	8.20	6.63	6.50
Funding cost	1.12	3.56	4.89	3.09	3.32
NIM	3.61	3.79	3.84	3.88	3.54

Risk ratios (%)	2021	2022	2023E	2024E	2025E
Stage 3 ratio	5.2	5.3			
Stage 3 coverage	64.4	65.4			
Cost of risk	0.26	0.91	0.80	0.90	0.90

Du Pont (%)	2021	2022	2023E	2024E	2025E
NII/assets	3.44	3.62	3.66	3.71	3.40
CoR/assets	-0.22	-0.70	-0.47	-0.49	-0.49
F&C/assets	1.74	1.99	1.84	1.66	1.55
Other rev/assets	0.06	-0.14	0.38	0.08	0.08
Costs/assets	-2.94	-3.46	-3.31	-3.33	-3.42
Taxes&other/assets	-0.29	-0.20	-0.23	-0.17	-0.11
ROA	1.79	1.11	1.87	1.47	1.00
Leverage (x)	9.1	9.5	10.2	10.3	10.0
ROE (reported)	16.37	10.55	19.05	15.11	10.00

Capital & dividends	2021	2022	2023E	2024E	2025E
Tier-1 (HUF tr)	2.5	3.5	3.8	4.3	4.8
Tier-2 (HUF tr)	0.3	0.3	0.3	0.3	0.3
TCR (HUF tr)	1.3	1.7	1.8	2.0	2.1
RWA (HUF tr)	18.4	21.8	25.9	27.9	30.2
CT1 ratio (%)	15.4	16.4	16.9	17.7	18.0
CAR ratio (%)	17.0	17.8	18.2	18.8	19.1
Div. payout (%)	26.4	27.2	15.3	19.4	30.7
Dividend (HUF bn)	0	120	91	105	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 estimates NOTE: historical valuation ratios based on eoy prices

Pekao SA

Bloomberg: PEO PW, Reuters: PEO.WA

CEE Equity Research

Banks, Poland

Still seems inexpensive

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	102.6
Target price (Dec'2023, PLN)	**120.0**

- **Equity story.** We think that Pekao remains cheap. Valuation multiples (2023E P/E of 4.7x, 2023E P/BV of 0.9x and 10.7% DY) outweighed our concerns related to state control, below market loan growth, above market cost pressure and disappointing 50% pay-outs. Therefore we rate Pekao Outperform with a 17% upside potential. Our largest concern related to Pekao is that either burdens imposed during election campaign or rate cuts could make Pekao's share price attractiveness illusionary.
- **Can 2023E net income be record high?** We assume the company could report 2023E net income of PLN5.7bn in the absence of negative one-offs. The one-offs could be triggered by the election campaign and we should have more clarity on them in mid-June.
- **Total loans 2% down y/y vs market +1%.** We note a relative weakness in both main segments. Pekao reported 1Q23 retail loans 7.5% lower than a year ago (vs market -5.1%), but this was offset by 3.5% y/y growth in corporate loans (vs 8.6% in the market).
- **Personnel cost to increase at a pace close to inflation in 2023** – deputy CEO, Paweł Strączyński, said during the analyst conference. The collective labour agreement (ZUZP) at Pekao automatically increases employees salary with inflation. We find this confusing that after years of restructuring and group lay-offs, Pekao is applying such big salary hikes.
- **DPS of PLN3.65 (DY of 3.7%) seems disappointing to us.** For the second year in a row, Pekao decided to pay out 50% of its standalone net income (record day is July 4th). We find it disappointing as it is below the maximum level of 75% allowed by both Pekao's dividend policy and PFSA recommendation. The reason given by the management was MREL requirements once again. We continue to disagree with limiting payouts because of MREL, we think Pekao could comfortably go beyond the 75% payout.
- **Valuation and risks.** Our Dec'23 TP is at PLN120.0 (vs PLN113.0 before) and is a weighted average of DDM pointing to valuation of PLN118.3 and a comparative valuation pointing to PLN124.4 (all per share), less CHF impact. Among risk factors we point to: Pekao being state-controlled, risk of disappointing dividend payout, potential deterioration in loan portfolio, risk of windfall taxes, risks related to 2023E election campaign.

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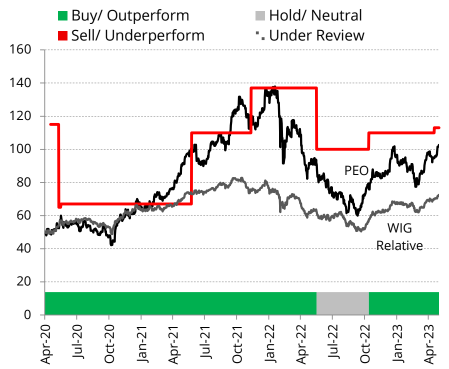

The chart measures performance against the WIG index.

Bank Pekao: Financial summary and ratios

PLNmn,Year to Dec	2021	2022E	2023E	2024E	2025E
P/E (adjusted)	14.7x	5.0x	4.7x	6.0x	6.9x
P/E (reported)	14.7x	13.2x	4.7x	6.0x	6.9x
P/BV	1.34x	1.00x	0.95x	0.85x	0.82x
Dividend Yield	2.6%	5.0%	3.6%	10.7%	8.3%
EPS (adjusted) (PLN)	8.3	17.4	21.8	17.0	15.0
DPS (PLN)	3.21	4.30	3.65	10.95	8.48
BVPS (PLN)	90.9	86.7	107.8	121.1	125.1
Net Income adj. (PLN mn)	2,175	4,579	5,724	4,452	3,928
Net Income (PLN mn)	2,175	1,718	5,746	4,452	3,928

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 206. Valuation summary (PLN/share)

Recommendation	Outperform
Dec'23 Target Price (PLN)	120.00
Current price (PLN)	102.60
Prospective upside (%)	17

**Our Dec'23 Target Price is calculated as rounded average of DDM Valuation (50%) and Comp. Valuation (50%) less impact of CHF-mortgage portfolio.*

DDM valuation (PLN/share)	118.3
Discounted dividends (PLN/share)	35.4
Terminal value (PLN/share)	83
Terminal ROE (%)	12.16
g (%)	3.00
CoE 2022-2025 (%)	13.20
CoE terminal (%)	12.20
Beta (x)	1.20
ERP (%)	6.0

Comp. Valuation PLN/share	124.4
Net Income (PLN mn, next 12 months)	5,440
Applied P/E (x)	6.0
P/E peers (x)	6.0
CHF impact	-1.0

Fig. 207. DDM Valuation sensitivity (PLN/share)

	ROE->	10.2%	11.2%	12.2%	13.2%	14.2%
	2.0%	102.0	110.1	118.3	126.5	134.6
	2.5%	101.1	109.7	118.3	126.9	135.5
g	3.0%	100.2	109.2	118.3	127.3	136.4
	3.5%	99.1	108.7	118.3	127.8	137.4
	4.0%	97.9	108.1	118.2	128.4	138.5

Fig. 208. DDM Valuation sensitivity (PLN/share)

	ERP->	4.0%	5.0%	6.0%	7.0%	8.0%
	4.0%	180.8	151.7	131.3	116.2	104.7
	4.5%	167.2	142.3	124.4	111.0	100.6
RFR	5.0%	155.6	134.1	118.3	106.3	96.8
	5.5%	145.7	126.8	112.8	102.0	93.4
	6.0%	137.0	120.4	107.9	98.1	90.3

Fig. 209. Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2023E	2024E	2025E	2023E	2024E	2025E
Net income	4,617	4,099	3,703	*24%*	*9%*	*6%*
DPS (PLN)	7.62	8.92	8.76	*44%*	*-5%*	*-15%*
ROE (%)	18.8	14.8	13.2	*3.6 pp*	*0.0 pp*	*-1.0 pp*

Fig. 210. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	3.0x	4.0x	5.0x	6.0x	8.0x	10.0x
vs. peers (%)	-50	-33	-17	0	33	67
Sensitivity	62.2	82.9	103.6	124.4	165.8	207.3

Fig. 211. Ratios, Assumptions and Forecasts

P&L (PLN mn)	2021	2022	2023E	2024E	2025E
NII	5,661	10,203	11,246	10,143	9,697
F&C	2,688	2,807	2,809	2,837	2,866
Trading Income	190	215	291	190	206
Total Revenue	8,541	12,940	14,283	13,170	12,769
Cost	-4,047	-4,561	-4,936	-5,203	-5,407
NLLP	-778	-1,103	-877	-1,068	-1,101
Pre-tax Profit	3,721	3,749	8,497	6,900	6,261
Banking tax	-719	-866	-891	-929	-955
Net Income	2,175	1,718	5,746	4,452	3,928
Net Income (adj.)	2,175	4,579	5,724	4,452	3,928

PLN bn	2021	2022	2023E	2024E	2025E
Total Assets	251	281	302	317	324
Bonds	56	70	83	89	91
Loans	170	169	174	182	185
Loans growth (%)	12	-1	3	4	2
Deposits	203	223	241	252	256
Equity	24	23	28	32	33
Mortgage loans	69	65	63	63	63
CHF mortgages	3	3	2	2	2
Other retail loans	12	11	11	11	10
Corporate loans	97	103	111	120	125

NIM ratios (%)	2021	2022	2023E	2024E	2025E
Asset yield	2.58	5.32	6.57	5.09	4.63
Funding cost	0.10	1.28	2.60	1.68	1.48
NIM	2.49	4.15	4.21	3.57	3.30

Risk ratios (%)	2021	2022	2023E	2024E	2025E
Stage 3 ratio	5.0	6.0	5.9		
Stage 3 coverage	71.1	71.2	69.3		
Cost of risk	0.48	1.19	0.51	0.60	0.60

Du Pont (%)	2021	2022	2023E	2024E	2025E
NII/assets	2.34	3.84	3.86	3.28	3.03
CoR/assets	-0.32	-0.41	-0.30	-0.34	-0.34
F&C/assets	1.11	1.06	0.96	0.92	0.89
Other rev/assets	0.08	-0.28	0.08	0.06	0.06
Costs/assets	-1.68	-1.72	-1.69	-1.68	-1.69
Taxes&other	-0.64	-0.76	-0.94	-0.79	-0.73
ROA	0.90	1.72	1.96	1.44	1.23
Leverage (x)	9.8	11.4	11.4	10.3	9.9
ROE (reported)	8.82	19.65	22.43	14.82	12.16

Capital & dividends	2021	2022	2023E	2024E	2025E
Tier-1 (PLN bn)	22.7	23.1	24.2	26.8	28.8
Tier-2 (PLN bn)	2.8	2.7	2.6	2.6	2.6
TCR (PLN bn)	12.0	11.9	12.0	12.5	12.7
RWA (PLN mn)	150.4	148.3	149.8	156.3	159.2
CT1 ratio (%)	15.1	15.6	16.1	17.2	18.1
CAR ratio (%)	16.9	17.4	17.9	18.9	19.7
Div. payout (%)	51.9	50.0	50.0	50.0	50.0
Dividend (PLN mn)	843	1,129	958	2,873	2,226
No. of shares (mn)	262	262	262	262	262

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

Santander

PKO BP

Bloomberg: PKO PW, Reuters: PKO.WA

CEE Equity Research

Banks, Poland

Waiting for CJEU verdict and elections

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	33.74
Target price (Dec'2023, PLN)	**35.00**

- **Equity story.** PKO remains relatively cheap but with a number of numerous negative (election campaign, windfall tax, further CHF provisions, rate cuts) and positive triggers (Poland addressing CHF saga with a bill, Ukraine winning war with Russia, higher 2024 payout) ahead. Triggers are likely to materialise soon and can work both ways thus our Neutral recommendation.
- **Cost of hedging was at PLN1,155mn in 1Q23 and totalled PLN4,467mn for the last 12 months…** We assume that going forward the cost of hedging will keep easing off and offset raising pressure from higher deposit cost.
- **Sensitivity to 100bps movement in rates at PLN801mn.** We were surprised to see PKO NII's sensitivity to rates increase q/q. PKO BP has built its hedging position when rates were much lower. In our opinion building hedging positions in the current high rate environment would be more beneficial. Subsequent rate cuts should have a higher impact on NII than the first move, we note.
- **New wave of CHF litigation…** Apparently, we are observing a sudden increase in the number of lawsuits after CJEU's Advocate General stated that banks cannot claim payments beyond reimbursement of the CHF-mortgage principal. 2,844 clients sued PKO in 1Q23 (the previous peak was at 2,019 in 2Q21). As of 1Q23, PKO reached 27.4k voluntary settlements. Out of the remaining 80.4k CHF-contracts 22.2k clients (27.6%) have already sued PKO. PKO had PLN8.4bn (55.1%) of provisions set against its PLN15.3bn mortgage portfolio. Recent developments.
- **Will Kredobank play a role in Ukraine…** PKO stated its ambition for Polish post war expansion into Ukraine to be directed through Kredobank.
- **Valuation and risk.** Our Dec'23 TP is at PLN35.0 and is a weighted average of DDM pointing to a valuation of PLN39.9 and a comparative valuation pointing to PLN37.5 (all per share) reduced by PLN 3.9 related to the anticipated further cost of the CHF portfolio. We note risks related to governance, macro, regulations, CHF-mortgages, dividends and equity flows.

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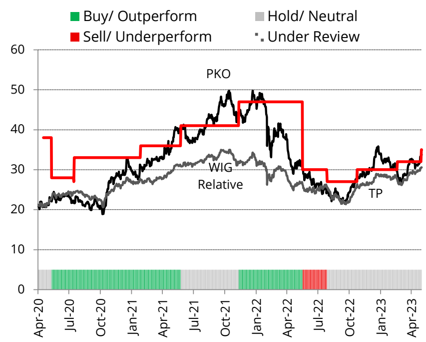

The chart measures performance against the WIG index.

PKO BP: Financial summary and ratios

PLNmn, Yeat to Dec	2021	2022E	2023E	2024E	2025E
P/E (adjusted)	11.2x	4.6x	4.3x	5.2x	5.8x
P/E (reported)	11.2x	11.4x	8.0x	7.4x	5.8x
P/BV	1.45x	1.07x	0.97x	0.88x	0.82x
Dividend Yield	6.0%	3.9%	6.3%	6.8%	8.6%
EPS (PLN)	3.90	6.59	7.70	6.44	5.70
DPS (PLN)	1.83	1.30	2.09	2.25	2.85
BVPS (PLN)	30.2	28.4	34.3	37.8	40.6
Net Income (adj. PLN mn)	4,874	8,240	9,630	8,051	7,120
Net Income (PLN mn)	4,874	3,333	5,222	5,621	7,120

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 212. Valuation summary (PLN/share)

Recommendation	Neutral
Dec'23 Target Price (PLN)	35.00
Current price (PLN)	33.74
Prospective upside (%)	4

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

DDM valuation (PLN/share)	39.9
Discounted dividends (PLN/share)	10.7
Terminal value (PLN/share)	29
Terminal ROE (%)	14.53
g (%)	3.00
CoE (%)	13.80
RFR (%)	12.80
Beta (x)	1.30
ERP (%)	6.0

Comp. Valuation PLN/share	37.5
Net Income (PLN mn, next 12 months)	9,375
Applied P/E (x)	5.0
P/E peers (x)	6.0
CHF impact	-3.9

Fig. 213. DDM Valuation sensitivity (PLN/share)

	ROE->	10.5%	12.5%	14.5%	16.5%	18.5%
	1.0%	30.7	34.9	39.1	43.3	47.5
	2.0%	30.3	34.9	39.5	44.1	48.7
g	3.0%	29.8	34.8	39.9	44.9	50.0
	4.0%	29.1	34.8	40.4	46.0	51.6
	5.0%	28.3	34.7	41.0	47.4	53.7

Fig. 214. DDM Valuation sensitivity (PLN/share)

	ERP->	4.0%	5.0%	6.0%	7.0%	8.0%
	4.0%	62.3	51.7	44.3	38.8	34.7
	4.5%	57.7	48.5	42.0	37.1	33.3
RFR	5.0%	53.7	45.7	39.9	35.5	32.1
	5.5%	50.3	43.2	38.0	34.1	30.9
	6.0%	47.2	41.0	36.3	32.7	29.9

Fig. 215. Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2023E	2024E	2025E	2023E	2024E	2025E
Net income	5,505	6,123	6,175	*-5%*	*-8%*	*15%*
DPS (PLN)	2.35	2.50	2.67	*-45%*	*-16%*	*-16%*
ROE (%)	14.4	13.8	13.6	*-1.0 pp*	*-1.3 pp*	*0.9 pp*

Fig. 216. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	1.0x	2.0x	3.0x	5.0x	8.0x	12.0x
vs. peers (%)	-83	-67	-50	-17	33	100
Sensitivity	7.5	15.0	22.5	37.5	60.0	90.0

Fig. 217. Ratios, Assumptions and Forecasts

P&L (PLN mn)	2021	2022	2023E	2024E	2025E
NII	9,882	14,924	17,133	15,694	14,947
F&C	4,431	4,951	4,907	5,029	5,155
Trading Income	718	310	202	194	192
Total Revenue	15,079	20,383	22,383	21,077	20,454
Cost	-6,174	-7,850	-7,346	-7,750	-8,126
NLLP	-1,345	-1,564	-1,553	-1,566	-1,608
one-offs	0	-5,025	-5,217	-3,000	0
Pre-tax Profit	7,591	6,015	8,319	8,801	10,760
Banking tax	-1,079	-1,266	-1,217	-1,244	-1,273
Net Income	**4,874**	**3,333**	**5,222**	**5,621**	**7,120**
Net Income (adj.)	4,874	8,240	9,630	8,051	7,120

PLN bn	2021	2022	2023E	2024E	2025E
Total Assets	420	431	455	468	480
Bonds	135	136	152	159	165
Loans	236	232	243	248	254
Loans growth (%)	*6*	*-2*	*5*	*2*	*2*
Deposits	322	340	357	366	374
Equity	38	35	43	47	51
Mortgage loans	115	105	103	106	109
CHF mortgages	20	17	13	11	9
Other retail loans	31	32	34	36	37
Corporate loans	92	104	110	112	115

NIM ratios (%)	2021	2022	2023E	2024E	2025E
Asset yield (%)	2.82	4.97	6.30	5.11	4.71
Funding cost (%)	0.22	1.41	2.47	1.69	1.55
NIM (%)	2.64	3.77	4.17	3.66	3.39

Risk ratios (%)	2021	2022	2023E	2024E	2025E
Stage 3 ratio (%)	3.9	3.7			
Stage 3 coverage (%)	61.3	61.8			
Cost of risk (%)	0.59	0.67	0.65	0.64	0.64

Du Pont (%)	2021	2022	2023E	2024E	2025E
NII/assets	2.48	3.51	3.87	3.40	3.15
CoR/assets	-0.34	-0.37	-0.35	-0.34	-0.34
F&C/assets	1.11	1.16	1.11	1.09	1.09
Other rev/assets	0.20	0.14	0.09	0.09	0.08
Costs/assets	-1.55	-1.85	-1.66	-1.68	-1.72
Taxes&other/assets	-0.68	-1.81	-1.88	-1.34	-0.77
ROA	1.22	0.78	1.18	1.22	1.50
Leverage (x)	10.3	11.6	11.3	10.2	9.7
ROE (reported)	12.55	9.11	13.32	12.47	14.53

Capital & dividends	2021	2022	2023E	2024E	2025E
Tier-1 (PLN bn)	38.2	40.8	42.5	45.1	47.9
Tier-2 (PLN bn)	2.7	2.7	2.7	2.7	2.7
TCR (PLN bn)	17.5	17.2	18.0	18.5	18.9
RWA (PLN mn)	202.9	199.1	208.5	213.4	218.3
CT1 ratio (%)	17.4	18.9	18.8	19.5	20.3
CAR ratio (%)	18.6	20.2	20.0	20.7	21.4
Div. payout (%)	46.9	50.0	50.0	50.0	50.0
Dividend (PLN mn)	0	2,288	1,625	2,611	2,811
No. of shares (mn)	1,250	1,250	1,250	1,250	1,250

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland estimates

NOTE: historical valuation ratios based on eoy prices.

PZU

Bloomberg: PZU PW, Reuters: PZU.WA

CEE Equity Research

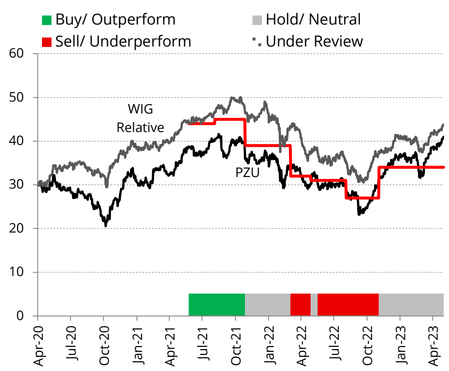
Insurance, Poland

Mean reversion ahead?

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	40.96
Target price (Dec'2023, PLN)	**36.00**

- **Equity story.** Insurance in Poland is experiencing rather difficult period – MTPL prices are not raising, pressure on cost is visible. PZU has little room to improve investment yield after previous quarters were affected by one-offs. Last two quarters were strong, we are concerned that coming quarters could be relatively weaker.
- **Nearest dividend of PLN2.40 (DY of 5.9%).** Visibility for next dividends seems limited. Nearest DPS was proposed at PLN2.40 (the cap resulting from KNF was at PLN2.44). The next year DPS is subject to KNF limitations on dividends, yield curve that affects equity of banks (and thus PZU standalone net income) and obviously reported operating results in non-life segment.
- **2023E Outlook?** We expect 1% 2023E growth in group life GWP but improved profitability (2021 was affected by Covid provisions, 2022 was affected by indexation of sum insured). In non-life, we assumed stronger GWP growth but marginal decrease in combined ratio assuming higher claims. We think that 2022 investment income was supported by one-offs and leaves little room for further improvement – we assume 2023E yield at the PZU main portfolio of 5.7% (vs 5.2% in 2022).
- **IFRS 17 implementation** will have material impact on PZU balance sheet and material impact on when earnings on long term products are recognized. The new standard has been in place since 1Q23 results.
- **Valuation and risks.** PZU trades at 2023E P/E of 8.7x, P/BV of 1.55x for 2023E ROE of 17.2%. Our Dec'23 TP for PZU at PLN36.0 is a weighted average of DDM Valuation (50% weight, PLN35.9) and Comparative valuation (50% weight, PLN35.2). Risk factors we would highlight include - the state control, broad dividend policy with pay-outs ranging from 50%-100%, volatility of investment results, volatility of combined ratio and life margin, M&A risk, regulatory risk, risks related to the banking sector and operations outside Poland esp. Ukraine.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

PZU: Financial summary and ratios

PLNmn (year-to-Dec)	2021	2022	2023E	2024E	2025E
P/E	9.2x	10.5x	8.7x	8.6x	8.5x
P/BV	1.60x	1.70x	1.55x	1.45x	1.35x
ROE	16.7%	15.5%	17.2%	16.2%	16.0%
Dividend Yield	5.5%	5.9%	6.9%	7.0%	7.1%
EPS (PLN)	3.86	3.91	4.69	4.75	4.84
DPS (PLN)	1.94	2.40	2.82	2.85	2.90
BVPS (PLN)	22.1	24.1	26.4	28.3	30.3
Net Income (PLN mn)	3,336	3,374	4,052	4,098	4,181

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Santander

Fig. 218. PZU: Valuation summary (PLN/share)

Recommendation	Underperform
Target Price (Dec'23, PLN)	36.00
Current price (PLN)	40.96
Prospective upside (%)	-12

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

DDM valuation (PLN/share)	35.9
Discounted dividends (PLN/share)	9.6
Terminal value (PLN/share)	26.3
Terminal ROE (%)	15.98
g (%)	3.00
CoE from 2026 onwards (%)	13.80
RFR from 2026 onwards (%)	12.80
Beta (x)	1.30
ERP (%)	6.0

Comp. Valuation PLN/share	35.2
Net Income (PLN mn, next 12 months)	4,052
Applied P/E (x)	7.5
P/E peers (x)	6.0

Fig. 219. PZU: DDM Valuation sensitivity (PLN/share)

	ROE->	14.0%	15.0%	16.0%	17.0%	18.0%
	1.0%	31.4	33.0	34.7	36.4	38.1
	2.0%	31.5	33.4	35.2	37.1	38.9
g	3.0%	31.8	33.8	35.9	37.9	39.9
	4.0%	32.0	34.3	36.6	38.8	41.1
	5.0%	32.4	34.9	37.5	40.0	42.6

Fig. 220. PZU: DDM Valuation sensitivity (PLN/share)

	ERP->	4.0%	5.0%	6.0%	7.0%	8.0%
	3.0%	56.5	46.7	39.9	34.8	31.0
	3.5%	52.3	43.8	37.7	33.2	29.7
RFR	4.0%	48.6	41.2	35.9	31.7	28.5
	4.5%	45.4	38.9	34.1	30.4	27.4
	5.0%	42.6	36.9	32.5	29.1	26.4

Fig. 221. PZU: Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our forecast vs cons.		
	2023C	2024C	2025C	2023E	2024E	2025E
Net income	4,177	4,175	4,233	*-3%*	*-2%*	*-1%*
DPS (PLN)	2.77	3.04	3.16	*-13%*	*-7%*	*-10%*
ROE (%)	21.6	20.0	18.3	*-4.5 pp*	*-3.8 pp*	*-2.3 pp*

Fig. 222. PZU: Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	4.5x	5.5x	6.5x	7.5x	9.5x	11.5x
vs. peers (%)	-25	-8	8	25	58	92
Sensitivity	21.1	25.8	30.5	35.2	44.6	54.0

Fig. 223. PZU: Ratios, Assumptions and Forecasts

P&L (PLN mn)	2021	2022	2023E	2024E	2025E
GWP	25,091	26,735	27,106	27,510	27,920
NEP	23,243	24,322	25,496	26,040	26,329
Claims	-15,731	-15,542	-16,807	-17,158	-17,417
Inv. result - own portfolio	2,365	2,266	1,832	1,785	1,763
Inv. result - inv. products	-83	-454	0	0	0
Inv. result - other	-270	-579	-481	-482	-489
Acquisition cost	-3,410	-3,903	-3,952	-4,036	-4,081
Admin cost	-1,824	-1,918	-2,167	-2,213	-2,238
Operating result	4,290	4,192	3,921	3,936	3,868
Net income - insurance	**2,731**	**2,794**	**2,650**	**2,660**	**2,606**
Banks	605	580	1,402	1,438	1,574
Bank impairments	0	0	0	0	0
Net Income	**3,336**	**3,374**	**4,052**	**4,098**	**4,181**

P&L (PLN mn)	2021	2022	2023E	2024E	2025E
Life - Group	870	1,249	1,611	1,683	1,692
Life - Individual	255	238	140	117	110
Corporate non-life	294	282	241	220	216
Mass non-life	1,251	1,497	1,567	1,579	1,581
Pension	96	119	110	107	107
Investment result	715	493	320	360	400
Banks	3,779	3,914	8,475	8,341	9,161
Baltics and Ukraine	214	198	180	180	180
Others	-20	-385	-771	-836	-944
PBT	**7,454**	**7,605**	**11,872**	**11,751**	**12,502**
CIT	-2,020	-2,346	-2,967	-2,836	-3,025
Minorities	-2,098	-1,885	-4,854	-4,817	-5,296
Net Income	**3,336**	**3,374**	**4,052**	**4,098**	**4,181**

KPI (%)	2021	2022	2023E	2024E	2025E
Combined ratio	90%	88%	90%	90%	90%
Loss ratio	68%	64%	66%	66%	66%
Admin cost ratio	12%	12%	13%	13%	13%
Acquisition ratio	15%	16%	16%	16%	16%
Expense ratio	26%	28%	28%	28%	28%
Margin - life	**13%**	**17%**	**20%**	**20%**	**20%**
Margin - life group	12%	17%	22%	23%	23%
Margin - life individual	15%	16%	9%	8%	7%
CoR (non-life)	**89%**	**90%**	**90%**	**90%**	**90%**
CoR (mass non-life)	89%	89%	89%	89%	89%
CoR (corporate)	90%	93%	95%	96%	96%
Yield on debt	3.5%	5.3%	5.3%	5.3%	5.4%
Investment yield	**5.4%**	**5.2%**	**5.7%**	**5.7%**	**5.8%**

Balance sheet (PLN bn)	2021	2022	2023E	2024E	2025E
Equity - attr.	19.1	20.8	22.8	24.4	26.2
Equity - total	45.0	48.6	51.6	54.3	57.2
Investment assets	43.4	43.3	44.9	46.3	47.6
Total assets	404	420	428	445	464
Solvency Ratio	224%	233%	244%	252%	260%
Own funds (PLN bn)	24.6	26.3	28.3	30.0	31.7
Capital req (PLN bn)	11.00	11.30	11.6	11.9	12.2

Capital & dividends	2021	2022	2023E	2024E	2025E
Net income standalone	2,028	1,637	2,698	2,730	2,784
Dividend (PLN mn)	1,675	2,072	2,431	2,459	2,508
payout - standalone	83%	127%	90%	90%	90%
payout - consolidated	50%	61%	60%	60%	60%
DPS (PLN)	**1.94**	**2.40**	**2.82**	**2.85**	**2.90**
No shares (mn)	864	864	864	864	864

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

Industrials

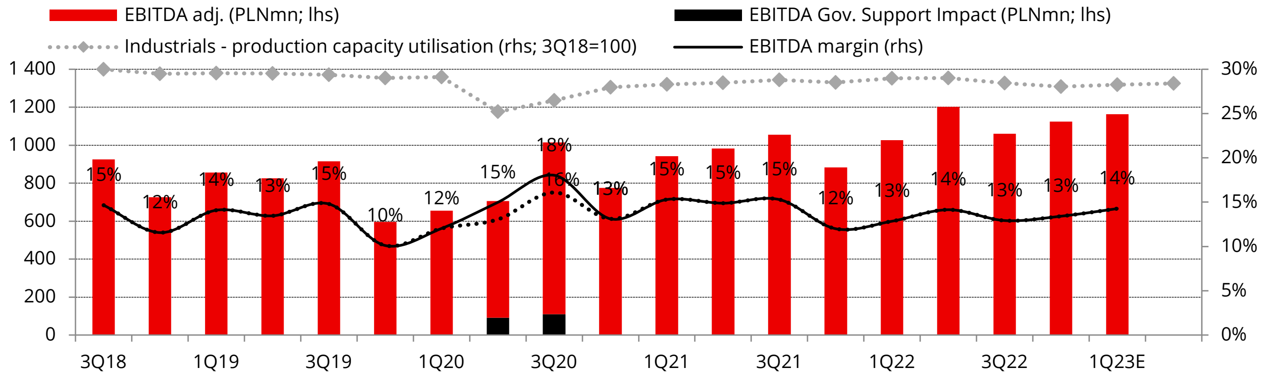
Fig. 224. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2023E	2024E	2025E	EV/EBITDA (x) 2023E	2024E	2025E
Ciech	Outperform	53.1	47.0	12.9%	8.0	7.2	6.8	4.0	3.7	3.4
Grenevia	Outperform	4.23	3.39	25.1%	10.0	11.6	11.5	4.8	4.6	4.2
Grupa Azoty	Outperform	33.1	27.8	19.1%	NA	504.8	3.0	14.5	5.1	3.3
Grupa Kęty	Neutral	622.9	577.0	7.9%	12.4	10.4	9.8	8.6	7.3	6.8
Mo-BRUK	Outperform	358.0	278.0	28.8%	10.6	9.7	7.7	7.8	7.4	5.5
PKP Cargo	Underperform	18.0	19.7	-8.3%	14.8	8.7	5.2	3.2	3.1	3.0
Median	-	-	-	-	**11.8**	**10.4**	**8.4**	**8.6**	**4.6**	**3.8**

Source: Company data, Santander Brokerage Poland estimates

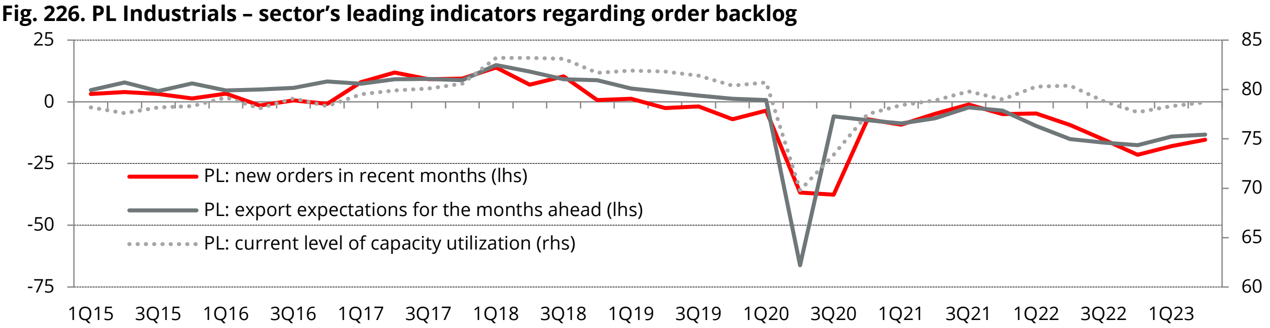
The anticipated negative y/y volume effect in coming months creates some operational risks and may take its toll on the generated profits, we believe. Fortunately, (1) the hypothetical gradual economic activity recovery and (2) nearshoring trends may bring to the end the short-run negative market trends. We stubbornly stick to our perception of the industrials intact and reckon the domestic manufactures may have reached a climax of operational margins performance mid-22. The turning point appears to be still ahead.

Fig. 225. Industrials EBITDA margin performance vs. production capacity utilisation



Source: Santander Brokerage Poland

Fig. 226. PL Industrials – sector's leading indicators regarding order backlog



Source: Santander Brokerage Poland

Taking into account the current economic cycle accompanied by lowering money supply and tighter financial condition, we continue to (accordingly to our 2023 Equity Strategy) prefer stocks with sound balance sheet structure allowing for absorption of potential subsequent negative external shocks. Paired the aforementioned with recent solid share price performance of our sector's favourites, we believe **Grenevia** (Outperform, TP PLN4.23) may offer reasonable risk / reward among the covered names with Outperform rating. **Grupa Azoty** (Outperform, TP PLN33.1) is our speculative call, as we anticipate the company may face more favourable business environment in 2H23E. **PKP Cargo** (Underperform, TP PLN18.0) is our least preferred stock as we see downside risks related both to demand and services prices development, which may not allow for visible balance sheet structure improvement coming months due to inflated capex.

Santander

Ciech

Bloomberg: CIE PW, Reuters: CIE.WA

CEE Equity Research

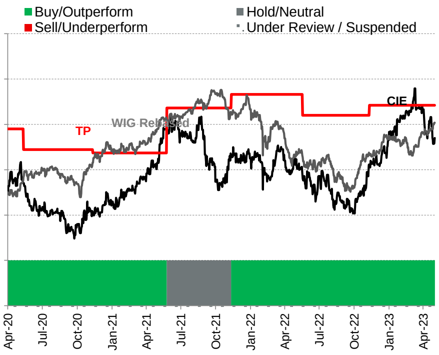
Industrials, Poland

Going global

- **Equity story.** Ciech step by step reshapes its business model leveraging on the implementation of growth-oriented projects and increasing the effectiveness of the capital employed. Over recent quarters, the entity monetized on the supportive demand / supply imbalance observed in the global soda ash market and some market opportunities that emerged in the remaining business segments. From the balance sheet perspective, the mix of solid cash generation combined with muted capex (ca. PLN400-600mn in the mid run) might allow for further net debt reduction in the coming quarters, assuming no M&A projects. The availability and prices of energy sources (gas and thermal coal) in the EU are of high importance for the company's operational margins, as Ciech depends solely on external suppliers.
- **Recent developments.** The recent downturn in the EU construction industry, accompanied by increased competitive pressure (particularly in the light of lowered freight rates), may negatively affect the company's sales volume. The general less appealing economic environment may leave limited space for unit sale price growth, resulting in downside risks in the company's main operational segment. The aforementioned should, in our opinion, correspond with the recently disclosed Solvay's market comments regarding the performance of its chemical segment in *1Q2023* (*the key point is lowered soda ash demand*), with a rather vague business outlook in the mid-run. The potentially expanding q/q evaporated salt production volume (following a rather extended ramp-up phase triggered by Covid-19 restrictions) could partially offset the negative market tendencies. Moving to the remaining business divisions, the silicates segment may stand out positively, especially when contrasted with the challenging market environment faced by agro and foams divisions.
- **Valuation and risks.** DCF-driven valuation points to PLN45.0. Comparable valuation implies PLN77.3 value per share. The weighted average approach points to a TP at PLN53.1/sh. That said, we reiterate Outperform recommendation for Ciech. Volumes delivery (including those related to new capacities), clients' price elasticity of demand, key feedstock materials costs/ availability and assumed expenses related to the CO_2 emission allowances constitute the key risks to the valuation. The momentum of the economic slowdown may turn detrimental to the path of the forecasted operating margins.

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	47.0
Target price (Dec'23, PLN)	**53.1**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Ciech: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	3,460	5,415	5,340	5,355	5,287
EBITDA	730	989	905	951	980
EBIT	356	590	454	493	515
Net profit	230	563	309	343	365
P/E (x)	10.8	4.4	8.0	7.2	6.8
EV/ EBITDA (x)	5.0	3.8	4.0	3.7	3.4
FCF Yield	13.8%	-0.7%	7.5%	10.7%	12.4%
Dividend Yield	6.4%	3.2%	0.0%	2.5%	2.8%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 227. Ciech: Quarterly results review

PLNmn	1Q22	2Q22	3Q22	4Q22	1Q23E	*y/y*	*q/q*	FY21	FY22	LTM
Sales	**1,243**	**1,236**	**1,407**	**1,530**	**1,553**	***25%***	***2%***	**3,460**	**5,415**	**5,726**
EBITDA	**229**	**189**	**226**	**377**	**217**	***-5%***	***-42%***	**730**	**1,021**	**1,009**
% EBITDA	*18%*	*15%*	*16%*	*25%*	*14%*	*-447*	*-1069*	*21%*	*19%*	*18%*
Soda	*127*	*154*	*184*	*323*	*167*	*31%*	*-48%*	*588*	*789*	*829*
Organic	*107*	*30*	*16*	*41*	*33*	*-69%*	*-20%*	*179*	*195*	*121*
Silicates&glasses	*4*	*27*	*36*	*33*	*27*	*509%*	*-18%*	*48*	*101*	*123*
Other	*-9*	*-23*	*-10*	*-21*	*-10*	*7%*	*-51%*	*-85*	*-63*	*-63*
EBIT	**131**	**86**	**114**	**259**	**100**	***-24%***	***-61%***	**356**	**590**	**559**
% EBIT	*11%*	*7%*	*8%*	*17%*	*6%*	*-413*	*-1051*	*10%*	*11%*	*10%*
Net profit	**104**	**44**	**85**	**332**	**55**	***-48%***	***-84%***	**292**	**565**	**515**
% Net profit	*8%*	*4%*	*6%*	*22%*	*4%*	*-486*	*-1819*	*8%*	*10%*	*9%*
adj. EBITDA	**229**	**202**	**230**	**372**	**217**	***-5%***	***-42%***	**736**	**1,033**	**1,021**
OCF	151	242	127	323	270	79%	-16%	1,279	842	962
Net debt (ND)	1,220	1,329	1,322	1,280	1,197	-2%	-6%	1,178	1,280	1,197
ND / LTM EBITDA	1.65	1.79	1.61	1.25	1.19	-0.47	-0.07	1.61	1.25	1.19

Source: Company data, Santander Brokerage Poland estimates

Fig. 228. Ciech: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	5,340	5,096	*5%*	5,355	4,919	*9%*	5,287	4,789	*10%*
EBITDA	905	871	*4%*	951	824	*15%*	980	816	*20%*
EBIT	454	439	*3%*	493	387	*27%*	515	373	*38%*
Net profit	309	324	*-5%*	343	285	*20%*	365	275	*33%*

Source: Company data, Santander Brokerage Poland estimates,

Fig. 229. Ciech: Valuation changes*

PLN per share	New	Previous	*Change*
DCF valuation	45.0	49.0	*-8%*
Comparable valuation	77.3	69.7	*11%*
Target Price	**53.1**	**54.2**	***-2%***

*Source: Company data, Santander Brokerage Poland estimates, *weighted average: DCF: 75%, CV: 25% - more weight assigned to DCF as a prime valuation tool relying on the long-term outlook*

Fig. 230. Ciech: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	3,460	5,415	5,340	5,355	5,287
Gross profit	648	1,168	1,073	1,148	1,206
EBITDA	730	989	905	951	980
EBIT	356	590	454	493	515
Profit before tax	272	590	407	451	480
Net profit	230	563	309	343	365
EBITDA margin	21.1%	18.3%	17.0%	17.8%	18.5%
EBIT margin	10.3%	10.9%	8.5%	9.2%	9.7%
Net margin	6.6%	10.4%	5.8%	6.4%	6.9%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	2,348	3,192	3,048	3,066	3,016
Fixed assets	4,798	4,901	4,946	5,039	5,124
Total assets	7,146	8,093	7,994	8,105	8,140
Current liabilities	2,207	3,207	2,930	2,903	2,829
bank debt	35	224	208	190	166
Long-term liabilities	2,542	2,181	2,050	1,908	1,720
bank debt	1,975	1,776	1,645	1,503	1,315
Equity	2,401	2,710	3,019	3,300	3,596
Total liability and equity	7,146	8,093	7,994	8,105	8,140
Net debt	1,212	1,315	1,177	1,015	812
Net Debt/ EBITDA (x)	1.7	1.3	1.3	1.1	0.8

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	1,284	612	737	817	858
CF from investment	-707	-629	-551	-551	-551
CF from financing, incl.	-222	-97	-195	-264	-315
dividends	-158	-79	0	-62	-69
Net change in cash	355	-114	-9	2	-9

Source: Company data, Santander Brokerage Poland estimates

Grenevia

Bloomberg: GEA PW, Reuters: GEA.WA

CEE Equity Research

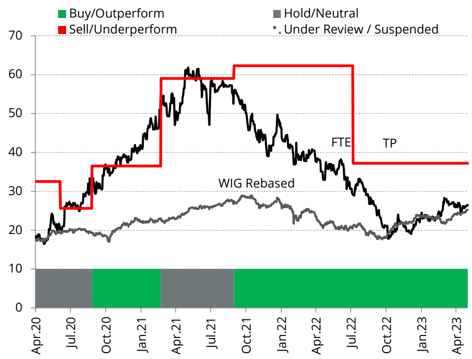
Industrials, Poland

Scaling up new businesses

- **Equity story.** Grenevia is getting closer and closer to the end of its business model transformation process toward a more business-diversified platform with ambitions to enter into the Renewable Energy Sources segment, drifting away from its historical dominant position in the area of the underground mining services / products (such as high-performance machines and equipment) in the sales mix. At this point it is, however, worth keeping in mind there is still a lot to be done to reach the assumed business scale of the new product lines. In the nearest future, PV segment appears to offer more market opportunities. Lack of dividend pay-outs in the mid-run may turn into a side-effect on the business-scaling phase of the PV and batteries divisions due to rising working capital balance.
- **Recent developments.** Grenevia continues to monetize on the underground segment thanks to its unique know-how and potential recovery of the capex budgets of the Polish key mining groups. With respect to the PV segment, the expansion plans with almost 124MW of the PV farms being developed and 65MW in the preparation phase could finally result in a cash inflow, should the entity manage to sell a batch of its PV projects, we calculate. Taking the opportunity, we highlight the company's ambitions to set the footprint in the hybrid PV projects (embracing energy storage facilities and onshore wind capacity in addition to traditional PV capacity). With respect to the battery systems division (Impact), the group's goals assume further production volumes expansion and development of new manufacturing capacity to over 1 GWh by 2024E (from ca. 0.6GWh currently), with a minimum goal at 2 GWh in 2027E. For the time being, however, the estimated capex + opex at PLN120mn in 2023E should weigh on the FCF path.
- **Foreign expansion.** Taking into account the undergoing remodelling of the group's business structure, we see high odds for higher geographical sales diversification, which in a longer perspective may positively affect the valuation metrics due to lower dependence on the domestic state-owned customers.
- **Valuation and risks.** DCF model points to PLN4.02 per share. The Comparative Valuation implies a fair value at PLN4.87 per share. Adopting a mixed approach (DCF: 75%; CV: 25%), we have arrived at TP of PLN4.23. We thus upgrade our recommendation for the stock to Outperform. Successful business transformation creates some upside risks to the presented valuation, while demand and costs issues are among the key risks.

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	3.39
Target price (Dec'23, PLN)	**4.23**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Grenevia: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	1,050	1,296	2,169	1,705	1,713
EBITDA	314	406	449	398	389
EBIT	134	257	288	236	226
Net profit	34	158	192	166	167
P/E (x)	52.1	7.1	10.0	11.6	11.5
EV/ EBITDA (x)	3.5	4.3	4.8	4.6	4.2
FCF Yield	-7.9%	-31.6%	5.8%	21.9%	16.4%
Dividend Yield	0.0%	0.0%	0.0%	5.0%	4.3%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 231. Grenevia: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23E	y/y	q/q	FY21	FY22	LTM
Sales	274.0	244.0	238.0	294.0	260.0	290.0	307.0	439.0	393.0	51.2%	-10.5%	1,050.0	1,296.0	1,429.0
EBITDA	91.0	70.0	80.0	73.0	95.0	96.0	92.0	123.0	101.0	6.3%	-17.9%	314.0	406.0	412.0
EBITDA margin	*33.2%*	*28.7%*	*33.6%*	*24.8%*	*36.5%*	*33.1%*	*30.0%*	*28.0%*	*25.7%*	*-1083.9*	*-231.8*	*29.9%*	*31.3%*	*28.8%*
EBIT	44.0	27.0	39.0	24.0	52.0	60.0	56.0	89.0	62.0	19.2%	-30.3%	134.0	257.0	267.0
EBIT margin	*16.1%*	*11.1%*	*16.4%*	*8.2%*	*20.0%*	*20.7%*	*18.2%*	*20.3%*	*15.8%*	*-422.4*	*-449.7*	*12.8%*	*19.8%*	*18.7%*
Net profit	39.0	21.0	38.0	-64.0	39.0	-2.0	59.0	62.0	49.3	26.5%	-20.4%	34.0	158.0	168.3
Net margin	*14.2%*	*8.6%*	*16.0%*	*-21.8%*	*15.0%*	*n.a.*	*19.2%*	*14.1%*	*12.6%*	*-244.7*	*-157.0*	*3.2%*	*12.2%*	*11.8%*
Net debt	-489	-386	-394	-423	-482	-349	-180	127	80	562	-47	-423	127	80
Net debt / LTM EBITDA	-1.23	-1.08	-1.26	-1.35	-1.52	-1.01	-0.51	0.31	0.19	1.7	-0.1	-1.35	0.31	0.19
OCF	91	-55	70	103	92	-117	-45	62	-30	n.a.	n.a.	209	-8	-130

Source: Company data, Santander Brokerage Poland estimates

Fig. 232. Grenevia: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	2,169	1,565	*39%*	1,705	1,699	*0%*	1,713	1,716	*0%*
EBITDA	449	399	*12%*	398	400	*-1%*	389	387	*1%*
EBIT	288	233	*24%*	236	236	*0%*	226	223	*2%*
Net profit	192	216	*-11%*	166	225	*-26%*	167	223	*-25%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 233. Grenevia: Valuation changes*

PLN per share	New	Previous	*Change*
DCF valuation	4.02	3.32	*21%*
Comparable valuation	4.87	5.54	*-12%*
Target Price	**4.23**	**3.87**	**9%**

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

Fig. 234. Grenevia: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	1,050	1,296	2,169	1,705	1,713
Gross profit	330	469	487	437	428
EBITDA	314	406	449	398	389
EBIT	134	257	288	236	226
Profit before tax	56	258	280	243	244
Net profit	30	237	192	166	167
EBITDA margin	29.9%	31.3%	20.7%	23.3%	22.7%
EBIT margin	12.8%	19.8%	13.3%	13.9%	13.2%
Net margin	2.9%	18.3%	8.9%	9.8%	9.8%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	2,621	2,882	3,269	3,185	3,264
Fixed assets	599	788	733	756	744
Total assets	3,220	3,670	4,002	3,941	4,008
Current liabilities	669	916	1,055	924	907
bank debt	45	420	399	379	360
Long-term liabilities	670	659	659	659	659
bank debt	17	0	0	0	0
Equity	1,721	1,845	2,037	2,108	2,192
Total liability and equity	3,220	3,670	4,002	3,941	4,008
Net debt	-466	86	-25	-350	-582
Net Debt/ EBITDA (x)	-1.5	0.2	-0.1	-0.9	-1.5

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	-141	-197	217	605	466
CF from investment	18	-332	-106	-184	-151
CF from financing, incl.	557	135	-21	-116	-102
dividends	0	0	0	-96	-83
Net change in cash	434	-394	90	304	213

Source: Company data, Santander Brokerage Poland estimates

Grupa Azoty

Bloomberg: ATT PW, Reuters: ATT.WA

CEE Equity Research

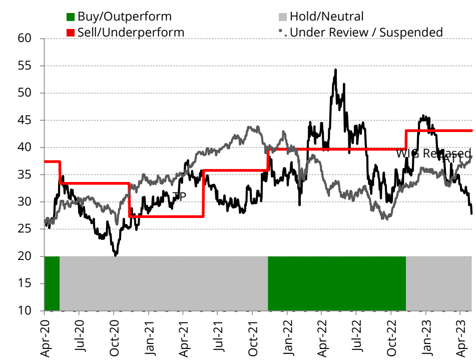
Industrials, Poland

Short run turmoil

- **Equity story.** Grupa Azoty is a leading player on the EU fertilizer and chemical markets. It is the EU's number two manufacturer of nitrogen and compound fertilizers, while the remaining product range includes melamine, caprolactam, polyamide, OXO alcohols, and titanium white.
- **Recent developments.** Grupa Azoty has faced a turbulent business environment over the recent quarters, caused by highly volatile natgas prices and decreased demand for chemicals/ plastics. The demanding market environment was additionally worsened by easier imports of fertilizers / plastics from the East / Asia, resulting in additional increased competitive pressure. Suffice to say, the entity had to temporarily suspend production of caprolactam and melamine from March 10, 2023. In the context of gas supplies, the company consistently points to the harmful (operational margins wise) impact of increased volatility of the commodities' prices on the group's pricing policy.
- **Agriculture industry under the political special supervision.** The decreased demand and decreasing prices of agriculture products pushed the government to subsidize agricultural production (including, among others, subsidizing the purchase of agricultural produce) in order to support the financial standing of domestic farmers. Simultaneously, in response to the changing market conditions and the adjustment of product prices to the current situation in the raw material market, the company reduced the prices of fertilizers by approx. 20-30% from February 2023, which resulted in a visible contraction of the operational margins.
- **Earnings forecasts.** Taking into account the fact that all the group's operational segments recorded a negative EBITDA margin in 1Q23P, we visibly cut our FY23E financial estimates. Should the commodity prices stabilize and economic cycle rebound, we see high odds for the volumes recovery, resulting in a rather optimistic long-term outlook, which is our baseline scenario at this point.
- **Valuation and risks.** DCF model valuation implies PLN33.1 value per share. The comparative valuation points to a price per share at PLN40.1. Based on the DCF approach only (due to highly volatile gas price since 2H21), we set our TP at PLN33.1 and upgrade rating for the stock to Outperform. Sales volumes performance, competitive pressure and trajectory of gas prices are the key risks to the presented valuation.

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	27.8
Target price (Dec'23, PLN)	**33.1**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Grupa Azoty: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	15,901	24,658	15,552	17,266	17,604
EBITDA	1,638	1,622	485	1,597	2,485
EBIT	877	866	-610	437	1,262
Net profit	582	620	-997	5	914
P/E (x)	4.7	4.5	-2.8	504.8	3.0
EV/ EBITDA (x)	3.2	4.5	14.5	5.1	3.3
FCF Yield	121.8%	96.5%	-47.1%	-3.7%	30.6%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 235. Grupa Azoty: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23E	y/y	q/q
Revenues	3,362	3,173	3,882	5,484	6,827	6,410	6,314	5,107	3,895	-42.9%	-23.7%
EBITDA	405	361	300	880	1,335	1,240	267	-303	-401	-130.0%	32.5%
EBITDA margin	*12.0%*	*11.4%*	*7.7%*	*16.0%*	*19.6%*	*19.3%*	*4.2%*	*-5.9%*	*-10.3%*	*-2984.9*	*-437.0*
EBIT	213	169	107	387	1,155	1,059	82	-1,430	-596	-151.6%	-58.3%
EBIT margin	*6.3%*	*5.3%*	*2.8%*	*7.1%*	*16.9%*	*16.5%*	*1.3%*	*-28.0%*	*-15.3%*	*-3222.2*	*1270.8*
Net profit	88	143	12	340	854	716	-53	-897	-555	-165.0%	-38.1%
Net margin	*2.6%*	*4.5%*	*0.3%*	*6.2%*	*12.5%*	*11.2%*	*-0.8%*	*-17.6%*	*-14.2%*	*-2675.2*	*330.6*

Source: Company data, Santander Brokerage Poland estimates

Fig. 236. Grupa Azoty: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	15,552	20,645	*-25%*	17,266	19,070	*-9%*	17,604	18,780	*-6%*
EBITDA	485	2,150	*-77%*	1,597	1,587	*1%*	2,485	1,726	*44%*
EBIT	-610	1,236	*-149%*	437	624	*-30%*	1,262	727	*74%*
Net profit	-997	860	*-216%*	5	400	*-99%*	914	637	*43%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 237. Grupa Azoty: Valuation changes*

PLN per share	New	Previous	*Change*
DCF valuation	33.1	43.1	*-23%*
Comparable valuation	40.1	98.6	*-59%*
Target Price	**33.1**	**43.1**	***-23%***

*Source: Company data, Santander Brokerage Poland estimates, *DCF: 100%, CV: 0% as we believe the CV based only on 2023-25E may lead to distorted perception of the Grupa Azoty's valuation (due to mix of peculiar mid-run factors related to the current company's business environment)*

Fig. 238. Grupa Azoty: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	15,901	24,658	15,552	17,266	17,604
Gross profit	3,078	3,935	992	2,513	3,354
EBITDA	1,638	1,622	485	1,597	2,485
EBIT	877	866	-610	437	1,262
Profit before tax	718	671	-935	86	1,140
Net profit	582	620	-997	5	914
EBITDA margin	10.3%	6.6%	3.1%	9.3%	14.1%
EBIT margin	5.5%	3.5%	-3.9%	2.5%	7.2%
Net margin	3.7%	2.5%	-6.4%	0.0%	5.2%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	8,739	8,917	7,147	7,471	7,446
Fixed assets	14,906	16,949	17,183	17,497	17,829
Total assets	23,645	25,866	24,329	24,968	25,275
Current liabilities	8,761	8,615	7,189	7,712	7,864
bank debt	818	690	585	736	754
Long-term liabilities	5,951	7,294	6,542	7,631	7,758
bank debt	3,641	4,972	4,219	5,309	5,435
Equity	7,942	8,936	9,556	8,559	8,565
Total liability and equity	23,645	25,867	24,329	24,968	25,275
Net debt	2,097	4,285	3,936	5,081	5,206
Net Debt/ EBITDA (x)	1.28	2.64	8.12	3.18	2.10

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	5,785	4,827	152	1,350	2,396
CF from investment	-2,423	-2,163	-1,451	-1,451	-1,551
CF from financing, incl.	-1,918	-3,650	790	197	-826
dividends	0.0	0.0	0.0	0.0	0.0
Net change in cash	1,444	-986	-509	96	19

Source: Company data, Santander Brokerage Poland estimates

Grupa Kęty

Bloomberg: KTY PW, Reuters: KTY.WA

CEE Equity Research

Industrials, Poland

Navigating through the storm

- **Equity story.** Grupa Kęty is the largest domestic supplier of aluminum profiles and aluminum systems for the construction sector. Additionally, the company manufactures packaging materials and BOPP films earmarked chiefly for the FMCG sector.
- **Recent developments.** Grupa Kęty currently faces business headwinds due to the downturn in the domestic construction industry and inflated financial costs. Unfortunately, the rising backlog, slight increase of employment and finally decreasing decline of the new orders enjoyed by the aluminum industry at the beginning of 2023 turned short-lived and the business environment started deteriorating from March onward. The March Global Aluminium Users PMI survey points to (1) modest contraction of new orders at global aluminum users resulting in backlog decreases for the first time since EOP 2022, (2) decreased employment and (3) finally the slowest rise in output charges since October 2020. In a longer perspective, market opportunities are associated with the green transition that should fuel demand for aluminum in EU (by ca. 5mn tons until 2050). Growth in electrical vehicles (EV), electrical grid and solar, should be the key market drivers. With respect to the EV, the average content of aluminum per vehicle is anticipated (by the sector agencies) to fall in the range of ca. 250-300 kg per car, up from ca. 150-200 kg in 2020.
- **FCF may attract attention in the mid-run.** We stick to the view that the currently observed (1) demand contraction and (2) hiccup of the industrial sector may result in a visible working capital balance improvement, which in turn may allow for both (1) hefty dividend pay-outs (DPS of PLN62.5 to be paid out from FY22 net profit already in 2023E) and (2) strengthening of the balance sheet structure. The latter, may also result in the improved perception of the company among suppliers/ customers.
- **Valuation and risks.** DCF model offers PLN640.5 /sh. The CV points to PLN569,8 /sh. Based on the weighted approach, we arrive at TP at PLN622.9. As a result, we downgrade Grupa Kęty to Neutral. The depth and time-length of the economic downturn, feedstock availability, demand for end products, and ability to swiftly monetize the capex, are among the key business risks. We indicate also the potentially unfavorable tendencies in terms of labour, external services and energy costs.

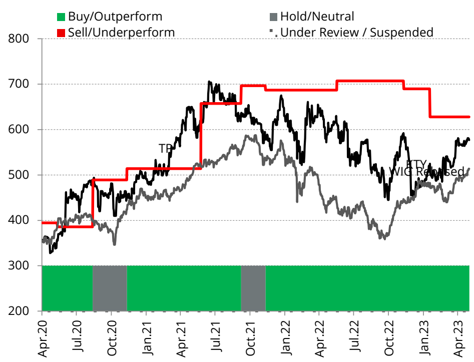
Grupa Kęty: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	4,598	5,931	5,146	5,816	5,888
EBITDA	900	1,031	781	919	977
EBIT	746	865	608	726	769
Net profit	595	680	451	533	567
P/E (x)	9.8	7.7	12.4	10.4	9.8
EV/ EBITDA (x)	7.4	6.1	8.6	7.3	6.8
FCF Yield	11.6%	2.1%	6.6%	7.4%	7.0%
Dividend Yield	7.4%	9.6%	10.4%	6.9%	8.1%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	577.0
Target price (Dec'23, PLN)	**622.9**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

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Fig. 239. Grupa Kęty: Quarterly results review

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	y/y	q/q	LTM (E)
Revenues	**990**	**1,151**	**1,242**	**1,215**	**1,500**	**1,648**	**1,508**	**1,275**	**1,373**	**1,467**	***-11%***	***7%***	**5,622**
Extruded products	371	446	511	491	642	726	611	473	594	636	*-12%*	*7%*	2,314
Aluminium systems	411	493	548	544	585	691	594	569	560	610	*-12%*	*9%*	2,334
Flexible packaging	284	305	299	282	404	399	393	320	349	336	*-16%*	*-4%*	1,399
EBITDA	**200**	**252**	**245**	**203**	**268**	**350**	**253**	**160**	**201**	**221**	***-37%***	***10%***	**835**
% EBITDA	*20.2%*	*21.9%*	*19.7%*	*16.7%*	*17.9%*	*21.2%*	*16.8%*	*12.6%*	*14.6%*	*15.1%*	*-618*	*46*	*14.8%*
EBIT	**162**	**214**	**207**	**163**	**229**	**310**	**212**	**115**	**157**	**177**	***-43%***	***13%***	**660**
% EBIT	*16.4%*	*18.6%*	*16.7%*	*13.4%*	*15.3%*	*18.8%*	*14.0%*	*9.0%*	*11.4%*	*12.1%*	*-671*	*64*	*11.7%*
Net profit	**137**	**162**	**167**	**129**	**175**	**246**	**171**	**87**	**136**	**138**	***-44%***	***1%***	**532**
% Net profit	*13.9%*	*14.1%*	*13.5%*	*10.6%*	*11.7%*	*14.9%*	*11.3%*	*6.9%*	*9.9%*	*9.4%*	*-555*	*-52*	*9.5%*
EURPLN	*4.55*	*4.53*	*4.56*	*4.62*	*4.62*	*4.62*	*4.74*	*4.72*	*4.71*	*4.65*	*1%*	*-1%*	
USDPLN	*3.78*	*3.76*	*3.87*	*4.04*	*4.11*	*4.11*	*4.70*	*4.62*	*4.39*	*4.27*	*4%*	*-3%*	
Aluminium (USD/t)	*2,100*	*2,395*	*2,652*	*2,762*	*3,242*	*3,242*	*2,390*	*2,375*	*2,440*	*2,562*	*-21%*	*5%*	
Capex	27	34	57	57	29	73	127	159	65	70	*-4%*	*8%*	420
OCF	99	94	131	45	85	85	208	356	298	185	*119%*	*-38%*	1,047

Source: Company data, Santander Brokerage Poland estimates

Fig. 240. Grupa Kęty: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	5,146	5,146	*0.0%*	5,816	5,816	*0.0%*	5,888	5,888	*0.0%*
EBITDA	781	787	*-0.7%*	919	944	*-2.6%*	977	979	*-0.2%*
EBIT	608	613	*-0.9%*	726	751	*-3.3%*	769	771	*-0.3%*
Net profit	451	453	*-0.6%*	533	551	*-3.1%*	567	564	*0.5%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 241. Grupa Kęty: Valuation changes*

PLN per share	New	Previous	*Change*
DCF valuation	640.5	619.5	3.4%
Comparable valuation	569.8	653.8	-12.8%
Target Price	**622.9**	**628.0**	**-0.8%**

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

Fig. 242. Grupa Kęty: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	4,598	5,931	5,146	5,816	5,888
EBITDA	900	1,031	781	919	977
EBIT	746	865	608	726	769
Profit before tax	733	799	550	663	704
Net profit	595	680	451	533	567
EBITDA margin	19.6%	17.4%	15.2%	15.8%	16.6%
EBIT margin	16.2%	14.6%	11.8%	12.5%	13.1%
Net margin	12.9%	11.5%	8.8%	9.2%	9.6%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	1804	1983	1662	2045	2150
Fixed assets	1,723	1,903	2,046	2,103	2,132
Total assets	3,527	3,886	3,707	4,148	4,283
Current liabilities	1209	955	872	1159	1176
bank debt	535	295	294	382	402
Long-term liabilities	548	989	1026	1026	1026
bank debt	422	854	954	954	954
Equity	1,769	1,942	1,809	1,963	2,081
Total liability and equity	3,527	3,886	3,707	4,148	4,283
Net debt	853	1010	1176	1168	1099
Net Debt/ EBITDA (x)	0.9	1.0	1.5	1.3	1.1

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	313	680	711	600	706
CF from investment	-191	-330	-297	-212	-189
CF from financing, incl.	-169	-315	-485	-291	-429
dividends	-430	-506	-578	-383	-453
Net change in cash	-47	35	-70	97	89

Source: Company data, Santander Brokerage Poland estimates

Santander

Mo-Bruk

Bloomberg: MBR PW, Reuters: MBR.WA

CEE Equity Research

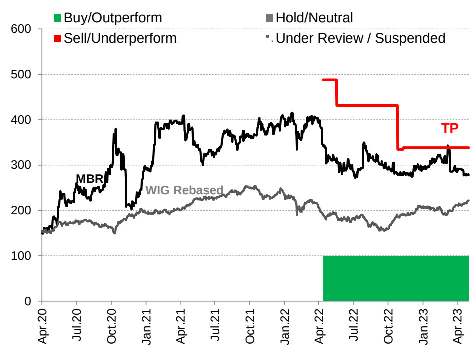
Industrials, Poland

Nothing but capex

- **Equity story.** Mo-BRUK specializes in hazardous waste recovery / disposal. The company's production facilities are concentrated in southern Poland, but the business strategy assumes geographical expansion (both in Poland and abroad). Due to the industry characteristics, the entity is exposed to legal risk, including changing legislation, lobbying, ambiguous interpretation of regulations and finally ineffective law enforcement.
- **Recent developments.** The Group's perception is that the business environment in its key segments is 'stable'. To maintain the growth profile, Mo-BRUK is actively screening the market for new sales geographies (Czech Republic and Ukraine appear the most promising markets at this point). At the moment, the biggest business challenges result from decreased volume of 'environmental bombs' to be processed as there are no new tenders on the market, while Mo-BRUK has utilized its backlog (revenues attributable to the activity stood at PLN0.5mn in 1Q23). As far as the M&A activity is concerned, Mo-BRUK has started due diligence processes for three potential acquisition targets. Two of them operate in the maritime sector, while the third one focuses on the automotive sector. As regards the coal sludge excavation project, the company estimates its sales volume potential in the range of 50-100k tons in 2023 (the first volumes should be offered to customers at the turn of May and June).
- **Investment process may interfere with day-to-day business.** Mo-BRUK's current capex plan assumes expenditures at PLN210mn (by the end of 2024E). The key goals are (1) production capacity increase and (2) energy self-sufficiency as of 2025E onward (by mid-2024, the company's generation capacity should increase to over 2.5 MW vs. annual consumption of ca. 0.7MW in 2022). In 2023E, capital outlays may exceed PLN90mn, of which ca. PLN55mn for the capacity expansion of the Karsy's incineration plant. The execution of the development plan may, however, result in a partial shutdown of production capacity in 1H24E.
- **Valuation and risks.** We set the target price at PLN358.0 based on DCF and comparable valuation (75%/25% weightings respectively). As a result, we reiterate Outperform rating for the stock. Major business risk are related to (1) shape of the waste industry framework (both the EU and the local one), (2) ongoing technology changes, (3) changing ecology-related trends and (4) GDP output determining the waste supply / demand for Mo-BRUK's services.

RECOMMENDATION	**Outperform**
Current price (May 23, 2023, PLN)	278.0
Target price (Dec'23, PLN)	**358.0**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Mo-Bruk: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	267	243	258	290	335
EBITDA	151	117	120	133	170
EBIT	146	111	115	126	158
Net profit	115	92	93	101	127
P/E (x)	10.9	13.6	10.6	9.7	7.7
EV/ EBITDA (x)	7.5	10.0	7.8	7.4	5.5
FCF Yield	14.2%	8.3%	0.7%	0.4%	11.6%
Dividend Yield	5.2%	8.2%	5.6%	4.7%	7.2%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 243. Mo-Bruk: Quarterly results review

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	*y/y*	*q/q*	FY20	FY21	FY22	LTM
Sales	60.4	71.1	67.2	68.5	49.6	62.0	61.2	70.6	55.1	11.2%	-21.9%	178.5	267.2	243.4	248.9
EBITDA	37.2	36.9	40.7	36.5	24.6	34.0	28.6	30.0	25.8	4.5%	-14.3%	103.1	151.3	117.3	118.4
EBITDA margin	*61.5%*	*51.9%*	*60.6%*	*53.3%*	*49.7%*	*54.8%*	*46.7%*	*42.6%*	*46.7%*	*-300.1*	*412.7*	*57.8%*	*56.6%*	*48.2%*	*47.6%*
EBIT	35.8	35.6	39.4	35.2	23.3	32.7	27.3	28.7	23.9	2.6%	-16.5%	97.2	145.9	111.9	112.6
EBIT margin	*59.3%*	*50.0%*	*58.6%*	*51.3%*	*47.1%*	*52.7%*	*44.6%*	*40.6%*	*43.4%*	*-362.5*	*279.8*	*54.5%*	*54.6%*	*46.0%*	*45.2%*
Net profit	28.0	27.8	30.8	28.5	18.9	26.7	22.5	24.1	19.6	3.6%	-18.6%	78.7	115.0	92.2	92.8
Net margin	*46.3%*	*39.0%*	*45.8%*	*41.5%*	*38.2%*	*43.0%*	*36.7%*	*34.1%*	*35.6%*	*-259.2*	*144.6*	*44.1%*	*43.0%*	*37.9%*	*37.3%*
OCF	21.9	35.8	37.8	41.2	19.5	21.4	29.2	21.9	21.1	8.3%	-3.4%	74.2	136.7	91.9	93.5
y/y	*-14.6%*	*171.4%*	*1268.0%*	*26.4%*	*-10.8%*	*-40.3%*	*-22.8%*	*-47.0%*	*8.3%*	*n.a.*	*n.a.*	*81.2%*	*84.3%*	*-32.7%*	*-30.4%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 244. Mo-Bruk: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	258	243	*6%*	290	287	*1%*	335	323	*4%*
EBITDA	120	117	*2%*	133	149	*-11%*	170	171	*-1%*
EBIT	115	110	*4%*	126	137	*-8%*	158	155	*2%*
Net profit	93	88	*5%*	101	110	*-8%*	127	125	*2%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 245. Mo-Bruk: Valuation changes*

PLN per share	New	Previous	*Change*
DCF valuation	356.5	346.9	*3%*
Comparable valuation	362.8	312.1	*16%*
Target Price	**358.0**	**338.2**	***6%***

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

Fig. 246. Mo-Bruk: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	267	243	258	290	335
Gross profit	165	124	127	139	175
EBITDA	151	117	120	133	170
EBIT	146	111	115	126	158
Profit before tax	144	113	115	125	158
Net profit	115	92	93	101	127
EBITDA margin	56.6%	48.0%	46.5%	45.9%	50.7%
EBIT margin	54.6%	45.8%	44.5%	43.4%	47.2%
Net margin	43.0%	37.6%	35.9%	34.8%	38.0%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	143	125	97	72	117
Fixed assets	116	146	227	321	332
Total assets	260	271	324	393	449
Current liabilities	24	60	65	71	73
bank debt	0	0	5	10	9
Long-term liabilities	29	23	33	42	40
bank debt	0	2	11	20	18
Equity	207	188	226	280	337
Total liability and equity	260	271	324	393	449
Net debt	-114	-85	-37	5	-38
Net Debt/ EBITDA (x)	-0.8	-0.7	-0.3	0.0	-0.2

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	143	119	93	106	136
CF from investment	-5	-38	-86	-102	-23
CF from financing, incl.	-75	-109	-40	-33	-74
dividends	-71	-111	-55	-46	-70
Net change in cash	64	-27	-33	-29	40

Source: Company data, Santander Brokerage Poland estimates

Santander

PKP Cargo

Bloomberg: PKP PW, Reuters: PKP.WA

CEE Equity Research

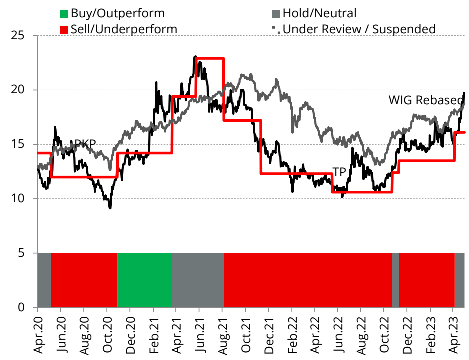
Industrials, Poland

Risk of sidetracking

- **Equity story.** PKP Cargo Group is Poland's largest railway freight service provider. The company delivers logistics solutions and operates in Poland and abroad.
- **Recent developments.** The industry has recently enjoyed an improved transport mix vs. historical patterns, boosting the average distance covered. Looking forward, we believe, both the market and PKP Cargo may face declining y/y volume momentum in the coming months due to decreased demand for fossil fuels carriage and rather gloomy outlook for the other market segments, even despite increased grain and metals & ores transport carriage.
- **Price effect should remain positive in FY23E.** The unit revenues expanded ca. 27% y/y in 2H22, which we associate with increased demand for railway bulk transport services (driven in lion's share by thermal coal and military equipment transport). Moving forward, we expect the freight rates to report a positive y/y dynamic in 1H23E, and a flattish one in 2H23E, on average improving the operational margins y/y.
- **FCF pattern not so encouraging.** In the light of anticipated solid set of P&L data to be reported in 2023E (even despite tougher 2H23E), we await a robust OCF delivery in FY23E. This, in turn, should allow for both (1) financing of ambitious capex program and (2) reducing the debt level. With respect to the latter, we estimate that the balance sheet structure improvement may leave some more hunger as at EOP FY23E. While the latter is combined with the highly cyclical character of the TSL industry and a relatively high share of fixed costs, we continue to stress the company's discouraging (from an investment perspective) specific characteristics translating into a visible valuation discount compared to the industry peers.
- **Valuation and risks.** We set the target price as the weighted average of DCF (75%) and comparative valuation (25%) at PLN18.0 share. As a result, we downgrade our rating for the stock to Underperform. The dynamic of transport volumes / fees is both a risk and an opportunity. Additionally, we indicate the shaky energy costs and persistent wage pressure. The ability to reduce the operational / financial leverage would determine the long-term prospects for the company. The key aspect, however, is the current shaky geopolitical environment, which highlights the strategic role of PKP Cargo's position in the CEE region.

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	19.7
Target price (Dec'23, PLN)	**18.0**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

PKP Cargo: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	2,466	5,390	5,625	5,851	5,836
EBITDA	513	1,066	983	1,050	1,042
EBIT	-209	333	219	275	267
Net profit	-225	148	60	101	171
P/E (x)	-3.6	3.9	14.8	8.7	5.2
EV/ EBITDA (x)	6.5	2.6	3.2	3.1	3.0
FCF Yield	-41.4%	43.4%	-5.9%	-9.7%	6.0%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 247. PKP Cargo: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23P	y/y	q/q	FY21	FY22	LTM
Sales	996	1,050	1,100	1,121	1,166	1,285	1,363	1,576	1,564	34.1%	-0.7%	4,267	5,390	5,788
EBITDA	104	122	166	121	152	219	277	418	359	135.8%	-14.0%	513	1,066	1,273
EBITDA margin	*10.5%*	*11.7%*	*15.0%*	*10.8%*	*13.1%*	*17.0%*	*20.3%*	*26.5%*	*23.0%*	*991.3*	*-353.9*	*12.0%*	*19.8%*	*22.0%*
EBIT	-71	-57	-10	-70	-32	38	92	235	168	n.a.	-28.5%	-209	333	533
EBIT margin	*-7.1%*	*-5.5%*	*-0.9%*	*-6.3%*	*-2.7%*	*2.9%*	*6.8%*	*14.9%*	*10.7%*	*n.a.*	*-417.4*	*-4.9%*	*6.2%*	*9.2%*
Net profit	-71	-59	-24	-72	-48	5	38	153	104	n.a.	-31.8%	-225	148	300
Net margin	*-7.2%*	*-5.6%*	*-2.1%*	*-6.4%*	*-4.1%*	*0.4%*	*2.8%*	*9.7%*	*6.7%*	*n.a.*	*-303.0*	*-5.3%*	*2.7%*	*5.2%*
Carriage turnover (bn tkm)	5.9	6.5	6.5	6.6	6.6	6.8	6.8	6.9	6.4	-2.0%	-6.9%	25.6	27.0	26.9
Unit revenues	0.169	0.161	0.168	0.170	0.178	0.189	0.201	0.229	0.244	36.9%	6.6%	0.167	0.200	0.215
y/y dynamic	*-5.4%*	*-7.9%*	*-0.4%*	*0.6%*	*5.5%*	*17.9%*	*19.7%*	*34.7%*	*36.9%*	*n.a.*	*n.a.*	*-3.3%*	*19.7%*	*27.4%*
Capex (ex. MSSF16)	183	239	146	275	213	153	131	212	200	-5.9%	-5.8%	843	709	696
Net debt	2,406	2,449	2,574	2,310	2,516	2,430	2,407	2,372	2,230	-11.4%	-6.0%	2310	2372	2230
ND / LTM EBITDA	4.0	4.1	4.8	4.5	4.5	3.7	3.1	2.2	1.8	-2.7	-0.5	4.5	2.2	1.8
OCF	57.8	132.9	123.2	385.9	37.6	282.4	252.2	446.2	370	884.0%	-17.1%	700	1018	1351

Source: Company data, Santander Brokerage Poland estimates

Fig. 248. PKP Cargo: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	5,625	5,530	*2%*	5,851	5,842	*0%*	5,836	5,829	*0%*
EBITDA	983	927	*6%*	1,050	1,000	*5%*	1,042	995	*5%*
EBIT	219	167	*31%*	275	232	*18%*	267	226	*18%*
Net profit	60	18	*236%*	101	67	*51%*	171	138	*24%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 249. PKP Cargo: Valuation changes*

PLN per share	New	Previous	*Change*
DCF valuation	8.6	8.9	*-4%*
Comparable valuation	46.5	37.5	*24%*
Target Price	**18.0**	**16.1**	**12%**

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

Fig. 250. PKP Cargo: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	4,327	5,449	5,625	5,851	5,836
EBITDA	513	1,066	983	1,050	1,042
EBIT	-209	333	219	275	267
Profit before tax	-264	192	74	125	211
Net profit	-225	148	60	101	171
EBITDA margin	11.9%	19.6%	17.5%	17.9%	17.9%
EBIT margin	-4.8%	6.1%	3.9%	4.7%	4.6%
Net margin	-5.2%	2.7%	1.1%	1.7%	2.9%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	1,061	1,306	1,281	1,326	1,466
Fixed assets	6,492	6,354	6,618	6,806	6,925
Total assets	7,559	7,660	7,899	8,132	8,392
Current liabilities	1,824	2,083	2,208	2,286	2,320
bank debt	630	661	681	715	750
Long-term liabilities	2,726	2,345	2,399	2,453	2,507
bank debt	1,998	1,712	1,763	1,816	1,870
Equity	3,009	3,233	3,293	3,394	3,565
Total liability and equity	7,559	7,660	7,899	8,132	8,392
Net debt	2,516	2,191	2,243	2,329	2,276
Net Debt/ EBITDA (x)	4.9	2.1	2.3	2.2	2.2

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	473	830	974	876	947
CF from investment	-807	-580	-1,026	-962	-894
CF from financing, incl.	139	-180	71	87	90
dividends	0	0	0	0	0
Net change in cash	-195	70	19	1	143

Source: Company data, Santander Brokerage Poland estimates

IT Sector

Fig. 251. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2023E	2024E	2025E	EV/EBITDA (x) 2023E	2024E	2025E
Asseco Poland	Neutral (↓)	96 (↑)	91.85	5%	15.0	14.3	13.9	4.6	4.4	4.2
Asseco SEE	Neutral (↓)	55 (↑)	50.4	9%	13.6	12.6	11.8	7.5	6.6	5.9
Asseco BS	Neutral (→)	42 (↑)	40.0	5%	13.1	12.3	11.7	8.8	8.3	7.9
Comarch	Outperform (→)	178 (↓)	142.0	25%	12.2	10.4	9.1	3.7	3.1	2.5
LiveChat Software	Underperform (↓)	139 (↑)	145.2	-4%	19.0	17.0	16.6	15.9	14.2	13.8

Source: Santander Brokerage Poland estimates

We downgrade our rating for IT names to neutral

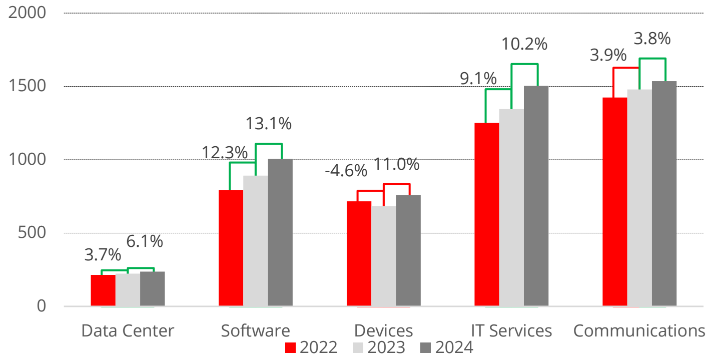
We downgrade our rating for IT names to Neutral as the 'story' has materialized. In October 2022 we issued a report with a positive view on Polish IT sector, but the positive turnaround story has been already discounted by the market, we think, with WIG-Informatyka (IT) staying 18% up since our sector report release. Currently, we point to slowed down backlogs growths of big IT names (CMR, ACP), and continued (though eased y/y) pressure on salaries growth.

Business slowdown? We expect the economic slowdown to narrow business development opportunities this year. The backlogs of Asseco BS or Asseco SEE surprised us positively thanks to contracts indexation to CPI and pending digitalisation, but flattish y/y backlog of Asseco Poland and only 7% higher y/y backlog of Comarch came below our expectations. Nevertheless, we believe in Gartner's expectations of increasing spending on digital business initiatives in response to economic turmoil. Gartner consultants expect the software expenditures to accelerate to 12.3% y/y in 2023E and 13.1% y/y in 2024E from 8.8% in 2022, and for IT services to 9.1% y/y in 2023E and 10.2% in 2024E from 3.5% in 2022.

The end of strong pressure on salaries growth? We also estimate wage pressure to deescalate, following worsened macro outlook and some recent job cuts on the global IT market. According to Gartner, though, tech lay-offs do not mean the IT talent shortage is over, and the demand for tech talent may greatly outstrip the supply until at least 2026. It means the pressure on salaries growth may stay high, and weigh on businesses profitability, we think.

Stock picking. Overall, we are neutral on Asseco Poland, Asseco Business Solutions and Asseco South Eastern Europe. We remain positive on Comarch due to fundamental upside, discount to peers, and a likely 2024E earning recovery but we highlight weak 1Q23 earnings and the uninspiring ST results outlook. With slight downside, we downgrade rating for Livechat Software to Underperform, following the massive share price outperformance, and the risk of lower than expected by the market cash flows from initiatives focused on AI/chatGPT.

Worldwide IT pending forecast (USDbn)



Source: Gartner (April 2023)

Asseco Poland

Bloomberg: ACP PW, Reuters: ACP.WA

CEE Equity Research

IT, Poland

Downgraded to Neutral

- **Equity story.** We downgrade rating for Asseco Poland to Neutral. We appreciate the solid business and geographical diversification in the light of a pending economic slowdown. We also think that the 'rationalisation' of valuations of potential acquisition targets has created opportunities to expand the M&A front and potentially complete some accretive deals. We expect, though, flattish y/y headline EBIT/net profit in 2023E. We continue to believe in single digit y/y sales growth to be offset the by expected pressure on salaries growth, though, eased compared to 2022. Asseco trades at 15.0x P/E 2023E, which is close to past 4Y avg.
- **Dividend and buyback?** Asseco Poland proposed PLN3.5 DPS in 2023E which offers 4.7% DY in 2023E, above the c. 2% peers' average. The Board announced a draft resolution on up to PLN1.2bn share buy-back. The news is potentially positive for minority shareholders, but in case of no response from them (which would depend on the offered buy-back price), Asseco could hypothetically buy shares from Cyfrowy. The buy-back requires the AGM approval (50%+ votes at the meeting). Cyfrowy Polsat and Mr. Adam Goral hold (according to stock.pl) a 32.7% stake, thus financial investors could, as we see it, potentially not agree to the buyback. Note that Asseco Poland did not use to buy back its shares, as it followed the policy of dividend payments in the past.
- **Earnings outlook**. We estimate flattish y/y profits in 2023E on a minor y/y sales increase and pressure on salaries growth to remain high (though eased y/y). We believe profit to enter the growth trajectory as of 2024E, when we expect the full impact of contracts valorization (because of the likely high 2023E inflation) and better controlled costs (pressure on salaries to potentially ease in 2024E on lower inflation).
- **Upsides:** 1) Valuation of potential acquisition targets 'rationalised', which we expect Asseco could exploit over 2023E, (2) we expect flattish y/y net margin at 2.8% (below the past average of 3.3%), but any softening of the cost growth (probable end of employees' salaries growth expectations) represents an upside risk to margins, (3) PLN FX rate depreciation. Risks: (1) any deeper than expected economic slowdown, (2) higher than expected salaries increase in 2023E, 3) any value destroying acquisitions, 4) PLN FX rate appreciation.
- **Valuation.** We downgrade our rating to Neutral a while increase Target Price to PLN96. Our valuation is based 100% on peer comparison.

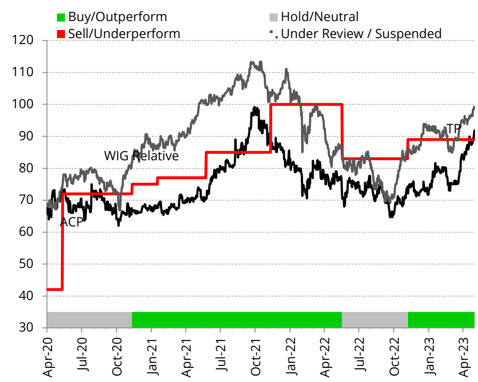
Asseco Poland: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	12,192	14,498	18,195	19,105	19,678
EBITDA	1,921	2,244	2,720	2,811	2,868
EBIT	1,215	1,456	1,820	1,911	1,968
Net profit	402	468	507	532	550
P/E (x)	15.3	12.4	15.0	14.3	13.9
EV/ EBITDA (x)	5.1	4.0	4.6	4.4	4.2
Dividend Yield	3.6%	4.5%	3.8%	3.8%	3.8%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	91.85
Target price (Dec'23, PLN)	**96**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 252. Asseco Poland: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Sales	3339.1	3451.9	3502.1	4205.0	4075.5	4236.2	4497.1	4561.1	4335.4
EBITDA	497.8	535.7	562.9	648.8	603.5	754.1	658.4	691.5	622.5
EBITDA margin	*14.9%*	*15.5%*	*16.1%*	*15.4%*	*14.8%*	*17.8%*	*14.6%*	*15.2%*	*14.4%*
EBIT	323.0	349.0	373.0	411.3	390.3	539.5	422.2	463.2	397.6
EBIT margin	*9.7%*	*10.1%*	*10.7%*	*9.8%*	*9.6%*	*12.7%*	*9.4%*	*10.2%*	*9.2%*
Net profit	101.9	138.2	120.3	106.0	108.2	140.9	127.5	126.4	108.1
Net margin	3.1%	4.0%	3.4%	2.5%	2.7%	3.3%	2.8%	2.8%	2.5%

Source: Company data, Santander Brokerage Poland estimates

Fig. 253. Asseco Poland: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	18195	18722	*-3%*	19105	19283	*-1%*	19678	19862	*-1%*
EBITDA	2720	2641	*3%*	2811	2693	*4%*	2868	2747	*4%*
EBIT	1820	1741	*5%*	1911	1793	*7%*	1968	1847	*7%*
Net profit	507	516	*-2%*	532	533	*0%*	550	551	*0%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 254. Asseco Poland: Valuation changes

PLN per share	New	Previous	*Change*
Peer comparison	120	119	*1%*
Peer comparison (adjusted multiples)	96	89	*7%*
Target Price*	**96**	**89**	***7%***

*Source: Company data, Santander Brokerage Poland estimates, * calculated as a 100% of peers comparison on adjusted multiples, as it fully reflects the global nature of Asseco's business model*

Fig. 255. Asseco Poland: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	12,192	17,370	18,195	19,105	19,678
Gross profit	2,663	3,784	3,876	4,069	4,191
EBITDA	1,921	2,715	2,720	2,811	2,868
EBIT	1,215	1,815	1,820	1,911	1,968
Profit before tax	1,079	1,744	1,693	1,779	1,837
Net profit	402	503	507	532	550
EBITDA margin	15.8%	15.6%	14.9%	14.7%	14.6%
EBIT margin	10.0%	10.4%	10.0%	10.0%	10.0%
Net margin	3.3%	2.9%	2.8%	2.8%	2.8%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	9,956	10,639	11,282	9,956	10,639
Fixed assets	10,756	10,756	10,756	10,756	10,756
Total assets	20,712	21,395	22,038	20,712	21,395
Current liabilities	6,439	6,616	6,727	6,439	6,616
bank debt	1,924	1,924	1,924	1,924	1,924
Long-term liabilities	2,941	2,941	2,941	2,941	2,941
bank debt	2,778	2,778	2,778	2,778	2,778
Equity	11,242	12,338	13,479	11,242	12,338
Total liability and equity	20,712	21,395	22,038	20,712	21,395

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	1960	1593	1911	2359	2429
CF from investment	-738	-599	-900	-900	-900
CF from financing, incl.	-520	-18	-993	-1021	-1040
dividends	-250	-258	-291	-291	-291
Net change in cash	702	976	18	438	489

Source: Company data, Santander Brokerage Poland estimates

Asseco SEE

Bloomberg: ASE PW, Reuters: ASE.WA

CEE Equity Research

IT, Poland

Appetite for growth

- **Equity story.** 2022 has been another year in which Asseco SEE proved its talent to both close some small size acquisitions and scale up its business organically. In our view the solid profits growth in 2022 (19% y/y EBITDA increase), created a big base for earnings expansion in 2023E. Notwithstanding that we do believe in the company's capacity to further grow its business (though with softened earnings momentum) in the light of the pending banking and FMCG sectors' digitalisation and extraordinary strong 16%+ y/y backlog increase. We also believe in the recent 'rationalisation' of the valuation of IT vendors, which opened opportunities for tocreating value via M&As. On top of that, the conservative nature of the Board's profits outlook suggests the likelihood of surprises on the upside also in the future. Overall, we like high FCF yield (8-9% in 2023E-25E) and 2023E-25E multiples (P/E, EV/EBITDA) below the 2020-22 averages, but, we downgrade rating to Neutral, following share price outperformance and insignificant fundamental upside.
- **Results outlook.** Surprisingly, 2023E backlog increased 16% y/y despite the economic slowdown in countries in which Asseco SEE operates. In our opinion the indexation of contracts to inflation, concluded M&As in 2022 and the pending digitalisation opened the room for a double digit y/y sales increase in 2023E. The recent EUR/PLN at c. 4.5x decreased 4% compared to 2022 average, though, may moderately mitigate y/y sales growth rate in 2023E reflected in the PLN currency. We expect the salaries growth rate to decelerate in 2023E, which altogether bring our EBITDA forecast 8% higher y/y. It should be noted that Asseco SEE recognized PLN22mn one-off financial gain related to hyperinflation in Turkey in 2022, which resulted in a big base effect at the bottom line level, thus we estimate low single digit net profit increase this year.
- **Upisdes:** 1) Valuation of potential acquisition targets 'rationalised', which we expect ASE could fully exploit over 2023E, (2) we expect marginal y/y margin compression in 2023E, as the costs growth may soften in the light of likely end of employees' salaries growth expectations. **Risks**. (1) Any deeper than expected economic slowdown in CEE and SEE countries may put a weigh on demand on IT solutions, (2) higher than expected salaries increase in 2023E, 3) any value destroying acquisitions, 4) PLN vs. EUR appreciation.
- **Valuation.** We downgrade our rating to Neutral while increase the Target Price to PLN55 from PLN50 thanks to higher financial forecasts.

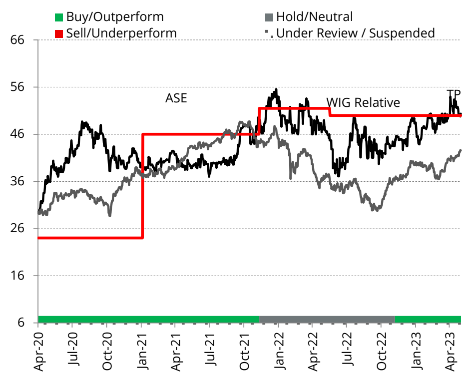
Asseco SEE: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	1147	1565	1737	1903	2037
EBITDA	259	309	334	354	369
EBIT	180	215	243	263	278
Net profit	149	188	192	208	221
P/E (x)	15.2	12.7	13.6	12.6	11.8
EV/ EBITDA (x)	8.8	7.8	7.5	6.6	5.9
Dividend Yield	2.0%	2.5%	2.9%	3.3%	3.5%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	50.4
Target price (Dec'23, PLN)	**55**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 256. Asseco SEE: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Sales	252.8	273.0	264.3	357.0	311.2	349.4	419.5	484.9	380.1
EBITDA	57.5	61.1	65.7	72.9	67.7	74.8	80.8	85.0	72.8
EBITDA margin	*22.7%*	*22.4%*	*24.9%*	*20.4%*	*21.7%*	*21.4%*	*19.3%*	*17.5%*	*20.4%*
EBIT	38.9	42.2	47.1	53.2	46.7	52.4	57.2	61.5	50.2
EBIT margin	*15.4%*	*15.5%*	*17.8%*	*14.9%*	*15.0%*	*15.0%*	*13.6%*	*12.7%*	*13.2%*
Net profit	31.7	33.4	37.7	47.6	39.1	65.0	50.3	35.5	45.5
Net margin	*12.5%*	*12.2%*	*14.3%*	*13.3%*	*12.6%*	*18.6%*	*12.0%*	*7.3%*	*12.0%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 257. Asseco SEE: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	1737	1538	*13%*	1903	1615	*18%*	2037	1728	*18%*
EBITDA	334	314	*6%*	354	322	*10%*	369	335	*10%*
EBIT	243	223	*9%*	263	231	*14%*	278	244	*14%*
Net profit	192	177	*8%*	208	184	*13%*	221	195	*13%*

Source: Santander Brokerage Poland estimates

Fig. 258. Asseco SEE: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	55.0	50.0	*10%*
Comparable valuation	68.0	66.0	*3%*
Target Price*	**55.0**	**50.0**	***10%***

*Source: Santander Brokerage Poland estimates, *Target Price calculated as 100% DCF as it fully reflects long term business prospects of Asseco SEE*

Fig. 259. Asseco SEE: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	1,147	1,565	1,737	1,903	2,037
Gross profit	315	393	440	479	508
EBITDA	259	309	334	354	369
EBIT	180	215	243	263	278
Profit before tax	192	259	240	260	275
Net profit	149	188	192	208	221
EBITDA margin	22.5%	19.7%	19.3%	18.6%	18.1%
EBIT margin	15.7%	13.8%	14.0%	13.8%	13.6%
Net margin	13.0%	12.0%	11.0%	10.9%	10.8%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	631	846	1045	1251	1454
Fixed assets	886	993	962	931	900
Total assets	1518	1840	2007	2182	2354
Current liabilities	536	728	771	816	852
bank debt	238	314	314	314	314
Long-term liabilities	10	11	12	12	13
bank debt	238	314	314	314	314
Equity	971	1115	1231	1354	1482
Total liability and equity	1518	1840	2007	2182	2354
Net debt	7	16	-123	-270	-427
Net Debt/ EBITDA (x)	0.0	0.1	-0.4	-0.8	-1.2

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	235	241	278	297	312
CF from investment	-175	-96	-58	-57	-56
CF from financing, incl.	-83	-75	-81	-92	-99
dividends	-52	-66	-76	-85	-93
Net change in cash	-22	69	139	148	156

Source: Company data, Santander Brokerage Poland estimates

Asseco BS

Bloomberg: ABS PW, Reuters: ABS.WA

CEE Equity Research

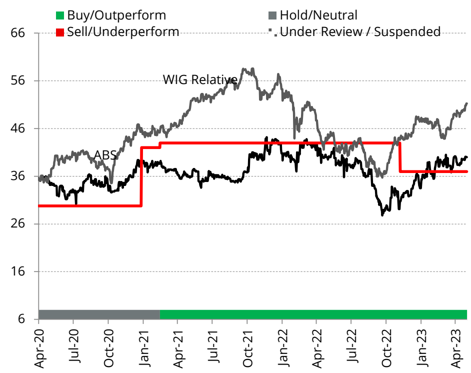
IT, Poland

Solid CF and DYs

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	40.0
Target price (Dec'23, PLN)	**42**

- **Equity story.** We maintain Neutral rating for Asseco BS (ABS) with Target Price upped to PLN42. We like the business model of Asseco BS. We appreciate high sales visibility due to the company's subscription model, high earnings (EBITDA) to cash conversion ratio (almost 100% in 2022), healthy balance sheet, and relatively attractive DYs (6-7%) in the mid-run. We have revised up our financial forecasts based on a surprisingly strong backlog in 1Q23 (16.4% y/y). We believe Asseco BS to continue to benefit from the high demand for ERP products in Poland and to accelerate export sales this year following recent changes in the Board. Asseco BS trades at c. 13x P/E 2023E ratio, which settles slightly below the past 5Y average of 14.4x. Nevertheless, we remain neutral when it comes to the stock due to an insignificant upside (DCF-implied).
- **Surprising backlog growth.** 2022 has been a challenging year for ABS, due to high costs inflation. Nevertheless, ABS has managed to increase EBITDA as the growth in costs was offset by y/y sales increase. Profit (EBITDA) to cash conversion ratio improved y/y to 98% in 2022 from 70% in 2021, which we find to be a strong level. 16% y/y backlog growth in 1Q23 demonstrates successful contrast valorisation and bodes well for a double digit y/y sales increase in 2023E, we estimate. We also believe in salaries y/y growth rate deceleration, which may drive a healthy earnings growth this year. Overall, we increase our results forecast in the mid-run.
- **Risks.** (1) ABS is focused on ERP products offered to small and mid-size enterprises, thus any macroeconomic slowdown might depress demand for the company's products, (2) any salaries growth rate acceleration, (3) failure in export sales growth acceleration.
- **Upsides.** (1) We see a potential upside risk to export sales as we think that 2022 sales growth at 8% (vs. 10% y/y domestic sales increase) settled below the Board's ambitious plans, (2) e-invoice implementation as of 2024E opens opportunities for Asseco BS to penetrate the market, (3) sales increase from 'image recognition' software.
- **Valuation.** We reiterate our Neutral rating while increase Target Price to PLN42 from PLN38 based on lowered risk free rate and upped financial forecasts.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Asseco BS: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	307	339	383	409	434
EBITDA	122	131	148	155	161
EBIT	95	101	118	125	131
Net profit	81	85	102	109	114
P/E (x)	15.5	14.7	13.1	12.3	11.7
EV/ EBITDA (x)	10.4	9.6	8.8	8.3	7.9
FCF yield	9.1%	7.4%	7.8%	8.4%	8.8%
Dividend Yield	5.3%	5.7%	5.6%	6.7%	7.1%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 260. Asseco BS: Quarterly results review

PLNmn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Sales	66.9	64.4	63.9	86.9	72.5	70.3	74.7	89.9	77.0	78.1	82.6	100.6	89.1
EBITDA	26.3	25.4	25.4	40.7	26.6	26.9	30.1	38.4	28.4	28.0	33.0	41.4	32.3
EBITDA margin	*39.3%*	*39.5%*	*39.8%*	*46.8%*	*36.7%*	*38.3%*	*40.3%*	*42.7%*	*36.9%*	*35.9%*	*40.0%*	*41.2%*	*36.2%*
EBIT	19.5	19.2	19.4	34.5	20.2	19.9	23.1	31.3	21.0	20.5	25.5	33.8	23.6
EBIT margin	*29.2%*	*29.8%*	*30.3%*	*39.7%*	*27.9%*	*28.3%*	*30.9%*	*34.8%*	*27.3%*	*26.2%*	*30.8%*	*33.6%*	*26.5%*
Net profit	15.5	15.7	15.8	29.4	16.4	16.6	18.8	28.9	17.6	17.2	21.3	29.2	20.3
Net margin	*23.2%*	*24.4%*	*24.6%*	*33.9%*	*22.5%*	*23.6%*	*25.1%*	*32.1%*	*22.9%*	*22.0%*	*25.8%*	*29.0%*	*22.8%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 261. Asseco BS: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	383	359	*7%*	409	380	*8%*	434	395	*10%*
EBITDA	148	141	*5%*	155	146	*7%*	161	148	*9%*
EBIT	118	111	*7%*	125	116	*8%*	131	118	*11%*
Net profit	102	96	*7%*	109	101	*8%*	114	103	*11%*

Source: Santander Brokerage Poland estimates

Fig. 262. Asseco BS: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	42	38	*10%*
Comparable valuation	48	43	*12%*
Target Price*	**42**	**38**	***10%***

Source: Santander Brokerage Poland estimates, *Target Price calculated as 100% DCF as it fully reflects long term business prospects of Asseco BS

Fig. 263. Asseco BS: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	307	339	383	409	434
Gross profit	133	140	161	170	178
EBITDA	122	131	148	155	161
EBIT	95	101	118	125	131
Profit before tax	94	99	119	127	133
Net profit	81	85	102	109	114
EBITDA margin	40%	39%	39%	38%	37%
EBIT margin	31%	30%	31%	31%	30%
Net margin	26%	25%	27%	27%	26%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	88	100	135	161	185
Fixed assets	366	374	373	373	378
Total assets	454	474	508	533	564
Current liabilities	53	70	77	82	87
bank debt	11	9	9	9	9
Long-term liabilities	53	70	77	82	87
bank debt	54	43	43	43	43
Equity	346	362	389	409	428
Total liability and equity	454	474	508	533	564
Net debt	22	4	-25	-46	-67
Net Debt/ EBITDA (x)	0.2	0.0	-0.2	-0.3	-0.4

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	97	128	126	133	138
CF from investment	17	-35	-22	-21	-20
CF from financing, incl.	-78	-87	-77	-91	-97
dividends	-67	-71	-75	-89	-95
Net change in cash	36	5	28	21	21

Source: Company data, Santander Brokerage Poland estimates

Santander

Comarch

Bloomberg: CMR PW, Reuters: CMR.WA

CEE Equity Research

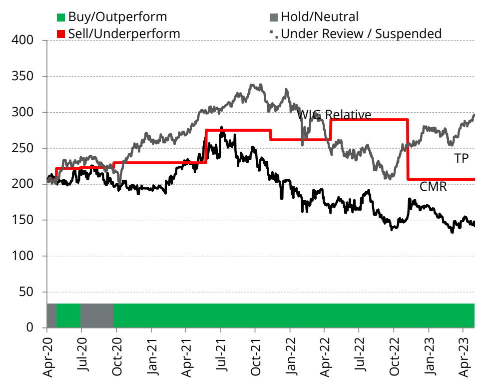
IT, Poland

Discount to peers

- **Equity story.** We maintain Outperform rating and decrease Target Price to PLN178 from PLN207 previously. The year 2022 was challenging for Comarch as high costs inflation depressed margins and profits. Moreover, Cracovia's football club subsidiary escalated a net loss y/y. We expect 2023E to be a difficult year as well, due to expected salaries growth to outpace sales increase. Moreover, one-off costs related to e-marketplace platform could weigh on profits. Totally, we expect y/y EBITDA contraction. We think, however, the market has already discounted the 2023E outlook due to the share price underperformance (to peer - Asseco Poland). Comarch trades at 3.7x 2023E EV/EBITDA. We believe the 2Q23 opening of the data centre in the US could offer room for backlog growth and the profit growth trajectory as of 2024E implying EV/EBITDA contraction to 3.1x in 2024E. We also expect Comarch to generate a high FCF yield in 2023E-25E
- **Costs pressure to potentially ease.** The salaries growth rate decelerated to 14% y/y in 1Q23 from 23.4% y/y in 9M22. The price pressure in the IT sector has eased following headcount cuts in the biggest global IT companies and the economic slowdown. Moreover, Comarch has cut its R&D expenditures. We expect a salaries growth rate deceleration in 2023E. Moreover, the Board suggested further cuts in the R&D expenditures – any 1pp cut (measured in relation to sales) could generate c. PLN19mn of additional EBITDA, we estimate.
- **2023E earnings outlook.** We expect the salaries growth (low double-digit rate) to outpace the sales increase in 2024E, which could weigh on 2024E margins/profits. Any additional marketing costs related to wszystko.pl marketplace platform represent a profits downside risk. Overall, we expect EBITDA y/y fall in 2023E. We expect profits to enter the growth trajectory as of 2024E, thanks to Comarch's US data centre opening (2Q23) and the likely global IT spending y/y acceleration (to 8.6% from 5.5% y/y in 2023E), according to Gartner.
- **Risks:** 1) Any economic slowdown could weigh on Comarch's sales growth plans; 2) any 1% salaries increase might depress Comarch's EBITDA by 4%, we estimate; 3) any energy cost growth related to power consuming data centres, 4) expenditure on the minority stake in Cracovia football club.
- **Valuation.** We reiterate our Outperform rating while decrease Target Price to PLN178.

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	142.0
Target price (Dec'23, PLN)	**178**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Comarch: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	1,627	1,859	2,021	2,160	2,309
EBITDA	279	242	206	224	245
EBIT	187	148	111	129	149
Net profit	123	108	95	112	127
P/E (x)	13.2	11.5	12.2	10.4	9.1
EV/ EBITDA (x)	5.0	3.8	3.7	3.1	2.5
FCF Yield	2.9%	7.2%	7.7%	9.0%	10.4%
Dividend Yield	1.6%	2.6%	2.1%	2.8%	2.8%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

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Fig. 264. Comarch: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Sales	384	337	386	517	416	426	471	544	428
EBITDA	67	43	78	89	66	52	84	40	42
EBITDA margin	*17.5%*	*12.9%*	*20.2%*	*17.2%*	*15.8%*	*12.2%*	*17.8%*	*7.4%*	*9.8%*
EBIT	46	19	59	62	43	28	60	17	19
EBIT margin	*12.0%*	*5.5%*	*15.3%*	*11.9%*	*10.3%*	*6.7%*	*12.8%*	*3.0%*	*4.5%*
Net profit	26	29	30	36	32	12	28	36	23
Net margin	*6.8%*	*8.4%*	*7.9%*	*6.9%*	*7.8%*	*2.9%*	*5.9%*	*6.7%*	*5.4%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 265. Comarch: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	2,021	1969	*3%*	2,160	2104	*3%*	2,309	2248	*3%*
EBITDA	206	270	*-24%*	224	278	*-20%*	245	288	*-15%*
EBIT	111	175	*-37%*	129	183	*-30%*	149	192	*-22%*
Net profit	95	144	*-34%*	112	153	*-27%*	127	159	*-20%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 266. Comarch: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	178	207	*-14%*
Comparable valuation	283	343	*-17%*
Target Price*	**178**	**207**	***-14%***

*Source: Company data, Santander Brokerage Poland estimates, *Target Price calculated as 100% DCF as it fully reflects long term business prospects of the company*

Fig. 267. Comarch: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	1,627	1,859	2,021	2,160	2,309
EBITDA	279	242	206	224	245
EBIT	187	148	111	129	149
Profit before tax	174	153	111	129	149
Net profit	123	108	95	112	127
EBITDA margin	17.2%	13.0%	10.2%	10.4%	10.6%
EBIT margin	11.5%	7.9%	5.5%	6.0%	6.5%
Net margin	7.6%	5.8%	4.7%	5.2%	5.5%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	1223	1295	1387	1503	1638
Fixed assets	887	976	956	938	918
Total assets	2110	2272	2343	2441	2557
Current liabilities	669	736	744	763	783
bank debt	40	45	45	45	45
Long-term liabilities	244	256	256	256	256
bank debt	105	127	127	127	127
Equity	1228	1312	1395	1489	1598
Total liability and equity	2110	2272	2385	2483	2598
Net debt	-219	-326	-391	-463	-551
Net Debt/ EBITDA (x)	-0.8	-1.4	-1.9	-2.1	-2.2

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	197	164	171	181	196
CF from investment	-151	-76	-82	-77	-76
CF from financing, incl.	-63	-36	-24	-33	-33
dividends	-26	-33	-24	-33	-33
Net change in cash	-16	53	65	72	87

Source: Company data, Santander Brokerage Poland estimates

LiveChat Software

Bloomberg: LVC PW, Reuters: LVC.WA

CEE Equity Research

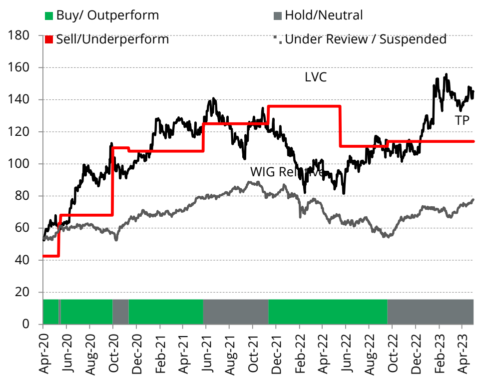
IT, Poland

Not so easy to capitalise on AI?

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	145.2
Target price (Dec'23, PLN)	**139**

- **Equity story.** Livechat Software's (LVC) share price has appreciated strongly YTD on the 'AI/ChatGPT' story. We do believe ChatGPT may support business development of LiveChat Software but it may become difficult to monetize the new technology, on a scale potentially anticipated by the market. LiveChat Software has implemented the AI technology to its core products in the recent months – a 'must-have' technology these days – but we do not expect the new functionalities to help LVC easily reflect them in higher prices for its services. Moreover, peers such as Interkom already implemented the AI on a high scale some time ago and LVC is probably one step behind. On top of that, USD/PLN depreciated c. 4% y/y to 4.19x from 6x 2022-average and 4% YTD, which may weigh on sales/profit reflected in PLN this year. Overall, we significantly increase the financial forecast in order to reflect the impact of the already implemented new pricing policy and current USD/PLN but we downgrade the rating to Underperform, due to a slight downside.
- **Strong APRU.** Late in 2022, LVC raised prices for its SaaS products (LiveChat and Chatbot) for the first time in 9 years. The price uplift reached approx. 25%, and fully translated into the avg. ARPU (monthly) growth; the latter grew to c. PLN160 in 4Q22-1Q23 from c. PLN120 in 2Q21-3Q22. We implemented into our model the new product prices, which lifted our sales and profits forecast. We think that the recent AI/chatGPT integration might potentially lift LVC's APRU further, but we think it may come not so easy as investors had originally estimated. Overall, we estimate flattish ARPU in 2Q23E, and a slight (5%) y/y increase this year.
- **Clients net additions to accelerate growths.** We expect LVC's number of flagship 'livechat' products to continue the growth trajectory in 2Q23E and in the remainder of 2023E. We assume 1.2k net additions this year on expected fall in churn ratio (to 3%+ monthly level from almost 4% in the late 2022).
- **Risks.** Any USD/PLN depreciation (4.2x rate incorporated into our forecasts) represents a downside risk to our earnings estimate. We also see both upside and downside risks to our APRU and clients number assumptions.
- **Valuation.** We downgrade our rating to Underperform while increase Target Price to PLN139 due to upped financial forecasts.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

LiveChat Software: Financial summary and ratios

Year to Mar, PLNmn	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Sales	179	223	320	342	368
EBITDA	117	138	205	225	249
EBIT	107	128	193	212	236
Net profit	100	119	176	197	220
P/E (x)	18.5	26.4	15.3	19.0	17.0
EV/ EBITDA (x)	15.4	22.4	12.5	15.9	14.2
Dividend Yield	4.0%	3.2%	4.1%	4.7%	5.3%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 268. LiveChat Software: Quarterly results review

Calendar quarter	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
PLNmn	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	3Q22E	4Q22E
Sales	48.1	48.9	55.7	56.1	61.8	66.8	74.51	85.90	87.89
EBITDA	32.2	31.0	38.5	34.9	35.1	42.0	46.0	54.6	58.5
EBITDA margin	*66.9%*	*63.4%*	*69.1%*	*62.1%*	*56.9%*	*62.9%*	*61.7%*	*63.6%*	*66.6%*
EBIT	29.5	28.0	35.8	32.0	32.2	38.7	42.6	50.9	55.2
EBIT margin	*61.3%*	*57.3%*	*64.3%*	*57.0%*	*52.2%*	*58.0%*	*57.1%*	*59.3%*	*62.8%*
Net profit	27.5	26.6	32.7	29.4	30.3	36.0	39.6	47.2	50.2
Net margin	*57.2%*	*54.4%*	*58.7%*	*52.4%*	*49.0%*	*53.9%*	*53.1%*	*54.9%*	*57.1%*
Clients (eop)	32,864	33,358	33,909	34,582	35,559	36,823	37,114	36,850	37,061
Clients (avg.)	32,470	33,111	33,634	34,246	35,071	36,191	36,969	36,982	36,956
ARPU (PLN)	117	119	119.4	119.2	120.9	120.5	121.2	160.7	159.7
Sales y/y (PLN)	*17%*	*29%*	*21%*	*29%*	*37%*	*34%*	*53%*	*42%*	*17%*
Sales y/y (USD)	*26%*	*26%*	*14%*	*15%*	*17%*	*8%*	*36%*	*37%*	*26%*
Preliminary sales (USDmn)	12.7	13.0	14.3	13.9	14.6	15.2	15.5	18.91	20.02

Source: Company data, Santander Brokerage Poland estimates

Fig. 269. LiveChat Software: Forecasts changes

PLNmn	2022E/23E			2023E/24E			2024E/25E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	315	307	*3%*	342	343	*0%*	368	355	*4%*
EBITDA	201	194	*4%*	225	217	*4%*	249	226	*10%*
EBIT	188	181	*4%*	212	204	*4%*	236	213	*11%*
Net profit	172	166	*4%*	197	190	*4%*	220	199	*11%*

Source: Santander Brokerage Poland estimates

Fig. 270. LiveChat Software: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	139	114	*22%*
Comparable valuation	239	214	*12%*
Target Price*	**139**	**114**	***22%***

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

Fig. 271. LiveChat Software: Financial statements forecast

PLNmn	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Net sales	179	223	315	342	368
EBITDA	117	138	201	225	249
EBIT	107	128	188	212	236
Profit before tax	107	128	188	212	237
Net profit	100	119	172	197	220
EBITDA margin	65.3%	62.0%	63.7%	65.8%	67.6%
EBIT margin	59.8%	57.6%	59.7%	62.0%	64.1%
Net margin	56.0%	53.5%	54.6%	57.7%	59.7%

PLNmn	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Current assets	86	95	186	228	271
Fixed assets	39	42	47	47	48
Total assets	124	137	233	276	319
Current liabilities	12	11	18	19	21
bank debt	0	0	0	0	0
Long-term liabilities	12	11	18	19	21
bank debt	0	0	0	0	0
Equity	107	125	213	255	298
Total liability and equity	124	137	233	276	319
Net debt	-57	-53	-128	-166	-203
Net Debt/ EBITDA (x)	-0.5	-0.4	-0.6	-0.7	-0.8

PLNmn	2020/21	2021/22	2022/23E	2023/24E	2024/25E
CF from operations	107	115	171	205	228
CF from investment	-14	-17	-13	-13	-12
CF from financing, incl.	-72	-102	-84	-155	-178
dividends	-71	-101	-84	-155	-178
Net change in cash	21	-4	75	38	38

Source: Company data, Santander Brokerage Poland estimates

Metals & Mining

Fig. 272. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2023E	P/E (x) 2024E	P/E (x) 2025E	EV/EBITDA (x) 2023E	EV/EBITDA (x) 2024E	EV/EBITDA (x) 2025E
KGHM	Underperform	76.00	111.0	-32%	33.6	35.7	21.5	6.8	6.6	5.8
Bogdanka	Outperform	75.20	41.80	+80%	1.0	1.2	1.5	0.1	0.0	-0.1
JSW	Underperform	32.00	40.88	-22%	1.2	Neg.	Neg.	-0.1	0.8	7.3
Median					**1.2**	**1.2**	**1.5**	**0.1**	**0.8**	**5.8**

Source: Santander Brokerage Poland estimates

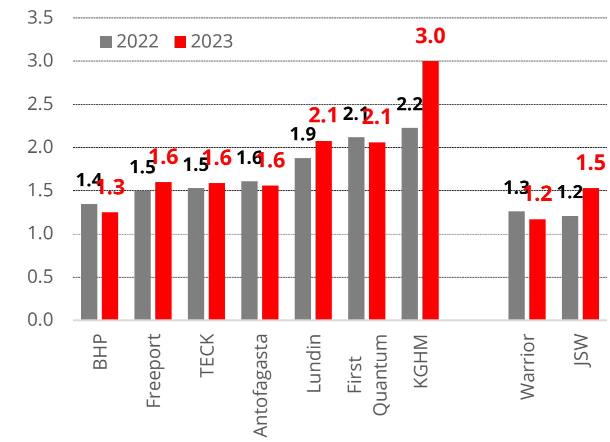
Snowballing opex / capex cancels our sector's attractiveness

Short KGHM and JSW, play LWB cautiously. Both KGHM and JSW remain top line-exposed to the Chinese macro black box, while the most recent data come in distressing. Booming opex should keep companies' FCF under strong pressure, and both names may burn cash as of 2Q2023E, we assume. Also, JSW admits its mid-term capex will come PLN1bn above guidance, and we expect KGHM to announce multi-billion and multi-year maintenance capex as of 2024E. Bogdanka is different - the declining Upper Silesian coal production should provide support, yet wide-spreading PV-based electricity production for own needs may keep coal-fired generation plummeting.

Polish snowballing opex & capex. Both KGHM and JSW post exceptionally strong C1 / unit MCC cash cost growth y/y, very contradictory to 2023 trends observed among other coper or coking coal miners. Importantly, personnel costs are +20% higher y/y in Poland, and in our view the likely rise of the minimal wage by 20% in 2023 and 2024E will make this growth irreversible. Also, the Polish names' core capex should remain elevated in medium term, we assess. We believe the sorrow trends in opex and capex should keep the two companies' FCF under strong pressure.

Sector Rotation: Switch to Sugar and Cocoa from JSW / LWB? El Niño becomes the official global weather pattern for the next year. We have reviewed past price patterns of industrial and soft commodities, and during the last three El Niños, prices of thermal and coking coal used to remain under pressure. In contrast, sugar price has always come in much stronger to coal, growing 27% on average during El Niño, and cocoa (avg. price growth at 5%) would represent our second-best pick among soft commodities.

Fig. 273. C1 / MCC cash costs' growth



Source: companies, Santander Brokerage Poland estimates
unit MCC [USD/t/100] for JSW / Warrior, C1 cash cost [USD/lb] for others

Fig. 274. Winners and losers of the past El Ninos

	2009-10	2015-16	2018-19	Avg.
Thermal coal	**10%**	**-34%**	**-27%**	**-17%**
Copper	33%	-22%	4%	5%
Coking coal	**0%**	**-28%**	**4%**	**-8%**
Soybean	7%	-19%	-4%	-5%
Cocoa	**29%**	**-11%**	**-2%**	**5%**
Wheat	-6%	-6%	-9%	-7%
Corn	1%	-2%	1%	0%
Coffee	13%	-14%	-3%	-1%
Sugar	**68%**	**-4%**	**18%**	**28%**

Source: Bloomberg, Santander Brokerage Poland estimates

JSW

Bloomberg: JSW PW, Reuters: JSW.WA

CEE Equity Research

Mining, Poland

Snowballing opex & capex outweigh upsides

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	40.88
Target price (Dec'23, PLN)	**32**

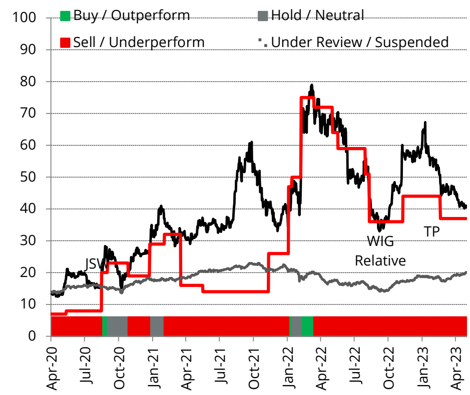
- **Equity story**. The company's net cash settles at PLN9bn (or PLN7.7bn taking into account 2Q23E PLN1.3bn tax dues), which along with the management's rosy outlook for the European steel demand, represent the only two positives. Still, negatives seem overwhelming, we believe. Numerous geological force majeure events trim volumes (and geology shall not improve in the future), and the company's opex rallies 31% y/y in 1Q2023 (unit MCC up 49% y/y); we calculate that in two years JSW would be 12% above its own opex guidance. Capex remains on the rise as well, and we expect the company's investment outlays at PLN3.5bn in 2023-25E, PLN1bn above the official annual long-term guidance. Finally, while the methane risk seems to be mitigated, the windfall tax risk remains on the rise (we expect PLN1.2bn cash-out in 2024E). In the meantime, the Chinese macro uncertainty and coal volume-supportive El Nino pose multi-year downside risks.
- **1Q2023 takeaways**. Reported results come in above consensus, though the entire upside originates from re-pricing of the company's bond portfolio. The company's net cash position expands to PLN9bn, or PLN3.9bn excluding rainy day fund, of which PLN1.3bn will be spent on 2022 taxes in 2Q23. Mining Cash Cost grows 34% y/y and unit MCC is 49% higher y/y due to weak 1Q2023 volumes. JSW's total COGS are 31% higher y/y and 7% higher q/q.
- **Outlook remains almost all-negative**. The outlook for steel demand remains solid acc. to JSW, supportive of the potential future demand for coke and coking coal. In two years the company's MCC growth outpaces the official guidance by 12%, we calculate. JSW admits its capex should peak in 2H2023 and remain elevated for the next two years, potentially coming in +PLN1bn above the official mid-term guidance. Three force majeure events turned 4Q22/1Q23 KPIs weak, and the company guides for some potential upside to short-term volumes in late 2023. Finally, while methane imminent risk seems to be controllable, the management still sees risk of windfall tax.
- **Earnings forecasts**. We keep forecasts as of 25/05/2023 unchanged.
- **Valuation and risks**. JSW's blended valuation settles at PLN32, and substantial downside justifies Underperform recommendation. Geology and mining volumes represent the key downside risk to call on JSW. The recovery of the Chinese economy or the EU-subsidized rebound in the steel segment would pose an upside risk, we believe, just as the remedied global housing crunch. The re-opening of the borders of Mongolia, the renewed China-Australia relations or the initiation of China-Russia trading would all pose downside risks to JSW. Windfall tax may represent a downside to the stock.

JSW: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	10,629	20,199	18,156	15,007	13,489
EBITDA	2,483	10,564	6,177	2,025	515
EBIT	1,263	9,336	4,875	623	-987
Net profit	904	7,561	3,846	-746	-923
P/E (x)	5.0	0.8	1.2	-6.4	-5.2
EV/ EBITDA (x)	3.2	0.1	-0.1	0.8	7.3
FCF Yield	-2.2%	133.5%	17.3%	-52.0%	-44.7%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2021-22 valuation ratios based on historical average prices

STOCK PERFORMANCE



The chart measures performance against the WIG index.

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Fig. 275. JSW: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	*y/y*	*q/q*
Sales	1,998	2,179	2,579	3,873	4,931	5,972	5,146	4,149	**4,851**	*-1.6%*	*16.9%*
EBITDA	104	152	659	1,567	2,636	3,187	2,910	1,831	**1,956**	*-25.8%*	*6.8%*
EBITDA margin	*5.2%*	*7.0%*	*25.5%*	*40.5%*	*53.5%*	*53.4%*	*56.5%*	*44.1%*	***40.3%***	*-13.1*	*-3.8*
EBIT	-194	-151	358	1,249	2,309	2,890	2,608	1,530	**1,575**	*-31.8%*	*2.9%*
EBIT margin	*-9.7%*	*-6.9%*	*13.9%*	*32.3%*	*46.8%*	*48.4%*	*50.7%*	*36.9%*	***32.5%***	*-14.4*	*-4.4*
Net profit	-188	-151	268	1,024	1,850	2,355	2,155	1,233	**1,267**	*-31.5%*	*2.7%*
Net margin	*-9.4%*	*-6.9%*	*10.4%*	*26.4%*	*37.5%*	*39.4%*	*41.9%*	*29.7%*	***26.1%***	*-11.4*	*-3.6*

Source: Company data

Fig. 276. JSW: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	18,156	18,156	*0%*	15,007	15,007	*0%*	13,489	13,489	*0%*
EBITDA	6,177	6,177	*0%*	2,025	2,025	*0%*	515	515	*0%*
EBIT	4,875	4,875	*0%*	623	623	*0%*	-987	-987	*n.m.*
Net profit	3,846	3,846	*0%*	-746	-746	*n.m.*	-923	-923	*n.m.*

Source: Santander Brokerage Poland estimates

Fig. 277. JSW: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	1	1	0%
Comparable valuation	103	103	0%
Target Price	**32**	**32**	**0%**

*Source: Santander Brokerage Poland estimates, * weights 70% DCF, 30% comparable, as DCF is our primary valuation tool as it relies more on the company's long-term outlook*

Fig. 278. JSW: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	10,629	20,199	18,156	15,007	13,489
COGS ex. depr.	7,223	8,712	11,056	12,059	12,051
Depreciation	1,220	1,228	1,302	1,402	1,502
EBITDA	2,483	10,564	6,177	2,025	515
EBIT	1,263	9,336	4,875	623	-987
Profit before tax	1,137	9,221	4,771	511	-1,121
Net profit	904	7,561	3,846	-746	-923
EBITDA margin	23.4%	52.3%	34.0%	13.5%	3.8%
EBIT margin	11.9%	46.2%	26.9%	4.2%	-7.3%
Net margin	8.5%	37.4%	21.2%	-5.0%	-6.8%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	4,659	14,984	15,472	12,809	10,495
Fixed assets	11,303	11,980	15,212	16,913	18,199
Total assets	15,962	26,963	30,684	29,723	28,694
Current liabilities	3,849	7,734	7,590	7,368	7,261
bank debt	1,014	3,018	3,018	3,018	3,018
Long-term liabilities	3,815	3,292	3,292	3,292	3,292
bank debt	1,658	1,096	1,096	1,096	1,096
Equity	7,852	15,437	19,282	18,537	17,614
Total liability and equity	15,962	26,963	30,684	29,723	28,694
Net debt	1,024	-7,354	-8,183	-5,689	-3,545
Net Debt/ EBITDA (x)	0.4	-0.7	-1.3	-2.8	-6.9

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	1,497	8,842	5,364	609	644
CF from investment	-1,595	-487	-4,535	-3,104	-2,788
CF from financing, incl.	-22	1,520	19	6	2
dividends	0	0	0	0	0
Net change in cash	-120	9,875	848	-2,488	-2,142

Source: Company data, Santander Brokerage Poland estimates

KGHM

Bloomberg: KGH PW, Reuters: KGH.WA

CEE Equity Research

Mining, Poland

Copper's sneeze is KGHM's fever

- **Equity story**. 1Q2023 results come in line with consensus and are strong at parent company level, but investors should not overlook the Group's EBITDA sliding 30% y/y. The opex misery turns real, and the parent company's 30% y/y opex rally drove both parent and consolidated C1 cash cost to USD3.0/lb. As the cost spread to copper spot price halved in five months to today's USD0.7/t, and zloty remains relatively strong, we believe 10th cost decile KGHM is highly exposed to copper downturn materializing, implying a weak short-term outlook. We also assume KGHM does not represent a strong mid- to long-term business case: its profit center is located in Poland, suffering from the highest CPI among top mining countries (and in pre-election promises' phase), while we expect KGHM to proceed with multi-year capex-intensive projects (new mines, shafts, longwalls, smelters).
- **Outlook weakens: opex...** The parent company's C1 cash cost grew 28% y/y to USD3.08/lb, primarily due to strong increases in salaries, energy and materials. This compares very poorly to other world miners guiding for flattish C1 cost y/y, where rising by-product input mitigates core opex growth. Furthermore, the Polish CPI settles at 14.7%, yielding a weak outlook for local opex when compared to single-digit CPIs in Chile, Peru or Australia. Last but not least, the Polish pre-election promises might stall CPI declines in the mid- term, we fear.
- **...and capex?** We believe that KGHM's mid-term capex outlook is very far from predictable or low, and we expect KGHM to incur multi-year heavy outlays on underground mines, shafts, and smelters, not to mention the SMR theme. All these would drive the company's capex, additionally inflating opex, while offering no top line upside, which may further weaken KGHM's mid-term investment story, we believe.
- **Earnings forecasts**. We keep forecasts as of 19/05/2023 unchanged.
- **Valuation and risks.** With SoTP and comparative valuations respectively at PLN74 and PLN81, we keep blended TP at PLN76. The global GDP, the Chinese developments, USDPLN and eased extraction tax, represent key KGHM drivers. The Polish rallying inflation could pose a lasting risk to opex; KGHM entering new high-capex phase and copper price slide represent the key risks.

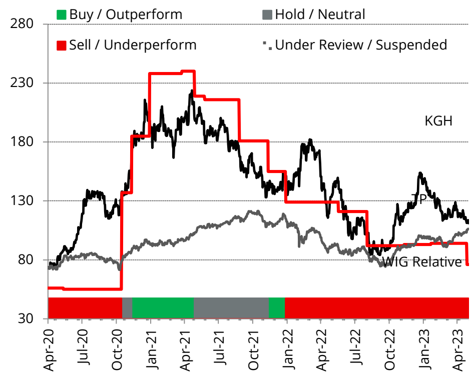
KGHM: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	29,803	33,847	34,848	34,395	35,188
EBITDA, incl. SG	10,327	8,845	5,819	5,758	6,246
EBIT	4,710	4,396	1,720	1,831	2,366
Net profit	6,156	4,772	661	622	1,034
P/E (x)	5.9	5.3	33.6	35.7	21.5
EV/ EBITDA (x)	5.8	4.7	6.8	6.6	5.8
FCF Yield	4.1%	-2.8%	1.5%	-2.8%	-0.7%
Dividend Yield	0.8%	2.4%	0.8%	0.1%	0.1%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2021-22 valuation ratios based on historical average prices

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	111
Target price (Dec'23, PLN)	**76**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 279. KGHM: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	*y/y*	*q/q*
Sales	6,745	7,761	7,229	8,068	8,993	8,933	7,770	8,151	**9,585**	*6.6%*	*17.6%*
EBITDA	2,608	2,705	2,417	2,597	3,133	2,176	1,636	1,920	**1,882**	*-39.9%*	*-2.0%*
EBITDA margin	*38.7%*	*34.9%*	*33.4%*	*32.2%*	*34.8%*	*24.4%*	*21.1%*	*23.6%*	***19.6%***	*-15.2*	*-3.9*
EBIT	1,442	1,364	1,065	839	1,801	1,230	655	658	**662**	*-63.2%*	*0.6%*
EBIT margin	*21.4%*	*17.6%*	*14.7%*	*10.4%*	*20.0%*	*13.8%*	*8.4%*	*8.1%*	***6.9%***	*-13.1*	*-1.2*
Net profit	1,365	2,358	1,039	1,393	1,899	2,281	1,087	-493	**164**	*-91.4%*	*n.m.*
Net margin	*20.2%*	*30.4%*	*14.4%*	*17.3%*	*21.1%*	*25.5%*	*14.0%*	*-6.0%*	***1.7%***	*-19.4*	*7.8*

Source: Company data

Fig. 280. KGHM: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	34,848	34,848	*0%*	34,395	34,395	*0%*	35,188	35,188	*0%*
EBITDA (incl. SG)	5,819	5,819	*0%*	5,758	5,758	*0%*	6,246	6,246	*0%*
EBIT	1,720	1,720	*0%*	1,831	1,831	*0%*	2,366	2,366	*0%*
Net profit	661	661	*0%*	622	622	*0%*	1,034	1,034	*0%*

Source: Santander Brokerage Poland estimates

Fig. 281. KGHM: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	74	74	*0%*
Comparable valuation	81	81	*0%*
Target Price	**76**	**76**	***0%***

*Source: Santander Brokerage Poland estimates, * weights 70% DCF, 30% comparable, as DCF is our primary valuation tool as it relies more on the company's long-term outlook*

Fig. 282. KGHM: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	29,803	33,847	34,848	34,395	35,188
COGS	25,093	29,451	33,129	32,564	32,822
EBITDA (incl. SG)	10,327	8,845	5,819	5,758	6,246
EBITDA	7,160	6,655	4,055	4,313	4,938
EBIT	4,710	4,396	1,720	1,831	2,366
Pre-tax profit	7,824	7,081	1,690	1,675	2,232
Net profit	6,156	4,772	661	622	1,034
EBITDA margin	24.0%	19.7%	11.6%	12.5%	14.0%
EBIT margin	15.8%	13.0%	4.9%	5.3%	6.7%
Net margin	20.7%	14.1%	1.9%	1.8%	2.9%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	11,363	13,065	10,965	10,477	11,581
Fixed assets	36,664	40,379	43,031	44,072	45,108
Total assets	48,027	53,444	53,996	54,548	56,689
Current liabilities	9,538	9,185	9,277	9,235	9,308
bank debt	1,453	1,657	1,657	1,657	1,657
Long-term liabilities	11,351	12,113	12,113	12,113	13,174
bank debt	6,543	5,939	5,939	5,939	7,000
Equity	27,046	32,089	32,550	33,144	34,152
Total liability and equity	48,027	53,444	53,996	54,548	56,689
Net debt	5,124	5,600	5,476	6,126	6,306
Net Debt/ EBITDA (x)	0.7	0.8	1.4	1.4	1.3

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	4,282	5,723	5,347	2,949	3,510
CF from investment	-2,800	-6,435	-5,022	-3,571	-3,664
CF from financing, incl.	-1,132	-164	-200	-28	1,035
dividends	300	600	200	28	26
Net change in cash	350	-876	124	-650	881

Source: Company data, Santander Brokerage Poland estimates

Santander

LW BOGDANKA

Bloomberg: LWB PW, Reuters: LWB.WA

CEE Equity Research

Mining, Poland

New Strategy's Lights and Shadows

- **Equity story.** New strategy provides a genuine outlook for 2023-25E, with EBITDAs at PLN2.7bn and FCF yield at ~100% p.a. Moreover, as Bogdanka plans to pay out up to 50% of its profits in dividends, hypothetical 2024-26E DYs could settle at ~50%. Still, long-term outlook comes in less appealing, we believe. Multi-commodity theme (or transformation away from coal) should take place in mid-2030s at best, renewable projects are delayed till 2027/28, and origination of ¼ of EBITDA beyond 2030 remains vague. Importantly, the new strategy does not include outlays on new mines, which might trim early high dividend pay-outs, we assume. Finally, the strategy seems to be built on the assumption of the Upper Silesian mining dying out by early 2030s – it would represent a strong booster to LBW valuation, yet it remains less-than-certain today. Also, low gas prices and plummeting electricity demand weaken the investment story for Polish coal.
- **Medium-term frenzy at EBITDA / FCF / DY**. Bogdanka's short-term 2023-25 outlook remains very bullish, we believe. Company guides for annual revenues at PLN5.9bn and 46% EBITDA margin p.a., which would imply Bogdanka's three-year average EBITDA at PLN2.7bn, substantially above consensus. Moreover, despite capex upped to ~PLN1bn p.a. until 2030E (PLN0.4bn above consensus), Bogdanka's FCF should settle at PLN4.2bn in 2023-25E acc. to the official strategy, offering very high 309% FCF yield in three years. Additionally, LWB's suggestion of up-to-50% pay-out should result in 6% DY within several months, followed potentially by three annual ~50% DYs.
- **Long-term uncertainties**. The company's CEO has been very vocal on Bogdanka's multi-commodity transformation, but the strategy (initiation of geological search in 2023/24) disappoints at this point, as diversification away from thermal coal might take place in late 2030s at the earliest, we believe. Also, the company guides for its share in the Polish coal market at 58% in 2030, which would imply extinction of PGG's mining within several years. Finally, capex outlook does not include outlays on new resource mines, and we find origination of ¼ of EBITDA guidance beyond 2031 quite vague.
- **Earnings forecasts**. We keep forecasts as of 22/05/2023 unchanged.
- **Valuation and risks**. Blended valuation approach yields Bogdanka's TP at PLN75.2, validating Outperform recommendation. The EU pro-renewable policy and investors' ESG approach represent the key long-term risks to coal-relying LWB. Current gas/coal prices pose downside, as well as stable PGG production or NABE-PGG l-t contracts. Moreover, weak macro and booming renewable capacity could cut coal demand at an accelerated pace. Weather anomalies and Ukrainian coal imports represent an upside to stock.

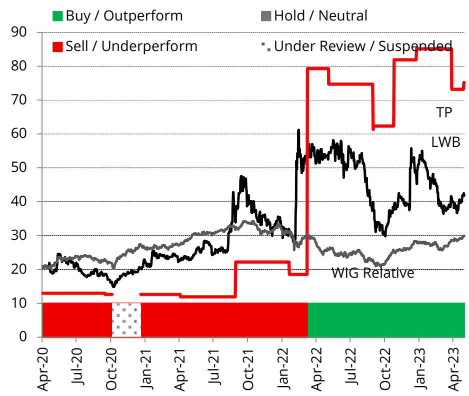
Bogdanka: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	2,371	2,452	4,643	5,031	4,796
EBITDA	798	610	2,219	2,515	2,167
EBIT	367	200	1,807	2,076	1,692
Net profit	288	176	1,480	1,206	962
P/E (x)	3.4	8.6	1.0	1.2	1.5
EV/ EBITDA (x)	1.0	2.3	0.1	0.0	-0.1
FCF Yield	36.5%	0.2%	87.2%	48.9%	32.7%
Dividend Yield	0.0%	4.6%	6.2%	30.7%	25.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2021-22 valuation ratios based on historical average prices

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	41.8
Target price (Dec'23, PLN)	**75.2**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 283. BOGDANKA: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	*y/y*	*q/q*
Sales	543.7	502.9	621.9	702.8	731.8	730.8	567.5	421.6	**940.7**	*28.5%*	*123.1%*
EBITDA	170.2	160.4	207.7	258.7	276.5	338.9	61.0	-66.4	**291.6**	*5.5%*	*n.m.*
EBITDA margin	*31.3%*	*31.9%*	*33.4%*	*36.8%*	*37.8%*	*46.4%*	*10.7%*	*-15.7%*	***31.0%***	*-6.8*	*46.7*
EBIT	64.5	52.4	95.9	154.0	179.7	232.3	-38.0	-173.7	**155.8**	*-13.3%*	*n.m.*
EBIT margin	*11.9%*	*10.4%*	*15.4%*	*21.9%*	*24.6%*	*31.8%*	*-6.7%*	*-41.2%*	***16.6%***	*-8.0*	*57.8*
Net profit	50.3	41.7	72.8	123.5	143.2	192.8	-25.7	-134.7	**126.2**	*-11.9%*	*n.m.*
Net margin	*9.3%*	*8.3%*	*11.7%*	*17.6%*	*19.6%*	*26.4%*	*-4.5%*	*-31.9%*	***13.4%***	*-6.2*	*45.4*

Source: Company data

Fig. 284. BOGDANKA: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	4,643	4,643	*0%*	5,031	5,031	*0%*	4,796	4,796	*0%*
EBITDA	2,219	2,219	*0%*	2,515	2,515	*0%*	2,167	2,167	*0%*
EBIT	1,807	1,807	*0%*	2,076	2,076	*0%*	1,692	1,692	*0%*
Net profit	1,480	1,480	*0%*	1,206	1,206	*0%*	962	962	*0%*

Source: Santander Brokerage Poland estimates

Fig. 285. BOGDANKA: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	81.1	81.1	*0%*
DDM valuation	42.2	42.2	*0%*
Comparable valuation	90.6	90.6	*0%*
Target Price	**75.2**	**75.2**	***0%***

*Source: Santander Brokerage Poland estimates, * weights 60% DCF, 20% DDM, 20% comparable, DCF is assigned more weight and is our primary valuation tool as it relies more on the company's long-term outlook*

Fig. 286. BOGDANKA: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	2,371	2,452	4,643	5,031	4,796
COGS	1,399	1,645	2,221	2,303	2,406
EBITDA	798	610	2,219	2,515	2,167
EBIT	367	200	1,807	2,076	1,692
Pre-tax profit	359	220	1,853	2,122	1,703
Net profit	288	176	1,480	1,206	962
EBITDA margin	33.6%	24.9%	47.8%	50.0%	45.2%
EBIT margin	15.5%	8.2%	38.9%	41.3%	35.3%
Net margin	12.2%	7.2%	31.9%	24.0%	20.1%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	1,026	938	2,275	2,569	2,641
Fixed assets	3,676	3,881	4,281	4,820	5,320
Total assets	4,702	4,819	6,556	7,389	7,961
Current liabilities	516	449	792	853	816
bank debt	3	3	3	3	3
Long-term liabilities	593	662	662	662	662
bank debt	5	2	2	2	2
Equity	3,583	3,697	5,089	5,858	6,465
Total liability and equity	4,702	4,819	6,556	7,389	7,961
Net debt	-582	-523	-1,676	-1,934	-2,042
Net Debt/ EBITDA (x)	-0.7	-0.9	-0.8	-0.8	-0.9

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	709	586	2,048	1,672	1,440
CF from investment	-353	-583	-807	-977	-976
CF from financing, incl.	3	-65	-85	-434	-354
dividends	0	85	88	437	356
Net change in cash	358	-61	1,155	261	111

Source: Company data, Santander Brokerage Poland estimates

Oil & Gas

Fig. 287. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2023E	2024E	2025E	EV/EBITDA (x) 2023E	2024E	2025E
MOL	Neutral	2,900	2,778	4%	8.6	9.0	7.1	2.5	2.8	2.8
OMV	Outperform	59	43.58	35%	6.2	6.7	7.3	2.9	3.2	3.6
PKN	Underperform	61	64.09	-5%	3.0	4.1	5.3	1.6	2.1	2.7
Median					**6.2**	**6.7**	**7.1**	**2.5**	**2.8**	**2.8**

Source: Company data, Santander Brokerage Poland estimates

Generous dividends vs. moderating industry macro

Performance of Oil & Gas companies has been lacklustre in 2023-to-date: moderating industry macro (upstream and downstream) overshadowed low valuation multiples and prospects of generous cash returns to shareholders. We believe the latter should be in the spotlight in the short-run. Our CEE Oil & Gas sector offers average dividend yield of 11% and all stocks have a dividend record day within next 10 weeks. Our top pick is OMV (Outperform, TP EUR59) as we forecast the company offers double-digit dividend yield not only this year but also in 2024E. We rate MOL Neutral (TP HUF2,900). PKN (underperform, TP PLN61) is our least preferred exposure, despite superior earnings performance this year.

Fig. 288. CEE Oil & Gas: Dividend payments in2023

Company	DPS (local)	Dividend yield	Record day	Ex day	Payment date
MOL	350	**12.6%**	19-Jul	20-Jul	28-Jul
OMV	5.05	**11.6%**	05-Jun	06-Jun	12-Jun
PKN	5.5	**8.6%**	10-Aug	11-Aug	31-Aug

Source: Company data, Santander Brokerage Poland estimates

We believe dividends should offer a short-term shelter, however underlying industry macro keeps on deteriorating:

- Upstream: crude oil prices have been fairly resilient year-to-date as disciplined action of largest producers (OPEC+) prevented from any substantial price drops. Natural gas prices have plunged, however, with spot TTF recently falling even below EUR30/MWh. While we believe natural gas prices to remain volatile (demand, partially driven by weather conditions, is hardly predictable) we point out that high inventory levels, sluggish industrial demand and increasing LNG regasification capacity in Europe make short-term supply/demand balance fairly comfortable.
- Downstream: moderation in the refining environment has been primarily in middle distillates markets. EU embargo on Russian oil products has not resulted in any shortages in Europe. Contrary, diesel markets appear well supplied while sluggish industrial activity weighs negatively on demand. Diesel crack spreads in Europe declined to c. USD15/bbl in April, which equals the long term average. Personal mobility, as opposed to industrial, has been recovering in recent months, helping gasoline crack spreads. We expect refining moderation to continue.

Fig. 289. CEE Oil & Gas: Macro assumptions

	2020	2021	2022E	2023E	2024E	2025E
Brent (USD/bbl)	42.0	71.0	101.1	80.0	73.0	66.0
Nat gas NCG (EUR/MWh)	9.5	40.1	123.2	48.3	50.0	40.0
Refining margin (USD/bbl)						
MOL*	3.9	5.2	15.4	17.5	9.3	6.6
OMV	2.4	3.7	14.7	10.7	7.0	5.0
PKN*	-0.2	2.6	20.0	12.4	8.0	6.0

*Source: Santander Brokerage Poland *NOTE: effective margin, refining EBITDA per boe*

Santander

MOL

Bloomberg: MOL HB, Reuters: MOL.BU

CEE Equity Research

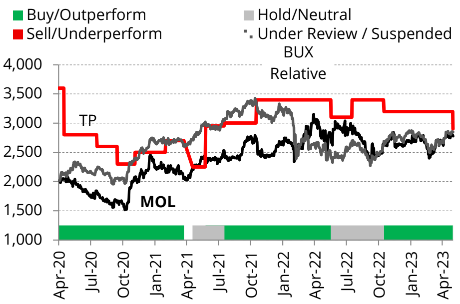
Oil & Gas, Hungary

Taxes increased leverage

RECOMMENDATION	Neutral
Current price (May 23, 2023, HUF)	2,778
Target price (Dec'23, HUF)	**2,900**

- **Equity story.** MOL offers 12.6% dividend yield, but we are concerned such payments are unlikely to repeat in the following years. Windfall taxes, now partially based on revenues, increased MOL's operating leverage, while industry macro (both upstream and downstream) keeps on deteriorating. We estimate this year MOL is set to witness higher pressure on FCF generation than its regional peers, even despite very sound capital discipline. The outlook beyond 2023 partially hinges on special tax regulations, visibility of which is low. We rate MOL Neutral with target price of HUF2,900. The latter offers 4% upside but we also point out that the company trades cum-dividend (12.6% yield), which justifies our Neutral recommendation.
- **Recent developments.** In 1Q23 MOL delivered clean EBITDA of USD714mn, which nearly matched our expectations (USD731), but missed consensus estimates (USD776mn). Segment-wise, both upstream and downstream delivered mediocre performance. In upstream (USD283mn) cost performance (incl. royalties) surprised negatively. In downstream (USD299mn) refining margin capture was sound (USD13/bbl, largely unchanged q/q), but petchems posted a loss of USD48mn (due to weak market environment). Consumer services (USD127mn, +97% y/y) were a bright spot, as the lifting of fuel price caps allowed to regain profitability.
- **Earnings forecasts.** Industry macro has been deteriorating recently with pressure on prices of nat gas and refining margin. The latter (excl. differential) dropped to USD3.1/bbl in April from USD9.9/bbl in 1Q23. Additionally, since April, a portion of windfall tax in Hungary has been revenue-based, which increases the company's operating leverage. In the past, special taxes had mostly variable nature. Now the formula of special taxes partially moves towards fixed-amount, while industry macro fades. Additionally, now special taxes are likely to be booked below EBITDA, which makes the latter an inferior measure of profitability. We forecast 2023E EBITDA at USD3.7bn, but if we were to apply previous accounting treatment of special taxes, it corresponds to USD2.6bn.
- **Valuation and risks.** Our target price of HUF2,900 is based on DCF and a comparative valuation with 50/50 weightings. Key risks include industry macro issues (oil prices, refining and petchem margins, the Brent-Urals spread), regulatory environment (windfall taxes) while company level risks are corporate governance, INA and capital allocation policy.

STOCK PERFORMANCE



The chart measures performance against the BUX index.

MOL: Financial summary and ratios

Year to Dec, HUFbn	2021	2022	2023E	2024E	2025E
Sales	5,889	9,912	8,609	8,570	7,737
EBITDA clean	1,072	1,774	1,296	1,163	1,091
EBIT	573	1,259	851	628	524
Net profit	526	852	244	234	295
P/E (x)	3.4	2.4	8.6	9.0	7.1
EV/ EBITDA clean (x)	2.7	1.7	2.5	2.8	2.8
FCF Yield	23.0%	24.7%	4.4%	9.1%	19.0%
Dividend Yield	4.0%	11.1%	12.6%	5.4%	5.9%

Source: Company data, Santander Brokerage Poland estimates

Analyst

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Fig. 290. MOL: Quarterly results review

Assumptions	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23E	3Q23E	4Q23E	2023E
Brent (USD/bbl)	102.2	113.9	100.8	88.9	101.3	81.2	80.0	78.0	77.0	79.0
Nat gas (EUR/MWh)	98.7	100.2	201.8	95.0	130.9	53.7	40.0	40.0	60.0	48.4
Refining EBITDA per bbl (USD/bbl)	4.8	22.7	19.8	12.4	15.4	13.0	17.9	17.9	18.9	17.5
Benchmark petchem margin (EUR/t)	488	600	438	398	481	329	350	400	400	370
USDHUF FX rate	325	362	401	403	373	362	345	345	345	350
EURHUF FX rate	364	386	403	411	391	389	380	380	380	382
Upstream output (consol. kbpd)	84	83	81	82	83	85	82	82	82	83
Downstream throughput (kbpd)	305	355	377	301	333	284	350	366	325	330

Clean EBITDA breakdown in USDmn	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23E	3Q23E	4Q23E	2023E
E&P	504	576	689	492	2,212	283	274	273	316	1,146
Downstream	254	861	741	384	2,240	299	569	631	612	2,111
Consumer services	64	46	121	89	320	127	140	166	122	555
Gas midstream	48	15	38	61	163	79	29	29	58	196
Other	-39	-150	-92	49	-232	-75	-72	-72	-72	-292
Total	833	1,345	1,449	1,074	4,702	714	939	1,027	1,035	3,716

Source: Company data, Santander Brokerage Poland estimates

Fig. 291. MOL: Valuation changes

HUF per share	New	Previous	Change
DCF valuation	1,582	1,582	*0%*
Comparable valuation	4,167	4,167	*0%*
Target Price*	**2,900**	**2,900**	***0%***

*Source: Company data, Santander Brokerage Poland estimates. *NOTE: rounded to the nearest hundred, target price is based on DCF and a comparative valuation with 50/50 weightings*

Fig. 292. MOL: Financial statements forecast

HUFbn	2021	2022	2023E	2024E	2025E
Sales	5,889	9,912	8,609	8,570	7,737
EBITDA	1,120	1,735	1,309	1,163	1,091
Clean CCS EBITDA	1,072	1,774	1,296	1,163	1,091
E&P	474	827	401	410	393
Downstream	451	848	734	563	489
Consumer services	183	121	194	227	249
Gas midstream	41	61	69	71	73
Other	-76	-84	-102	-107	-113
EBIT	573	1,259	851	628	524
Net financial costs	40	74	0	30	29
Pre-tax profit	555	1,155	865	614	510
Tax	48	466	597	349	185
Minorities	23	61	23	30	30
Net profit	526	852	244	234	295
Brent (USD/bbl)	70.9	101.3	79.0	72.0	65.0
Nat gas (EUR/MWh)	46.5	130.9	48.4	50.0	50.0
Effective ref .margin (USD/bbl)	5.2	15.4	17.5	9.3	6.6
USDHUF FX rate	303	373	350	345	345
EBITDA in USDmn	3,531	4,702	3,716	3,417	3,249

HUFbn	2021	2022	2023E	2024E	2025E
PPE	3,381	3,818	4,112	4,200	4,216
Other non-current assets	1,126	1,289	1,289	1,289	1,289
Cash	367	595	397	457	714
Other current assets	1,620	2,266	2,016	2,009	1,846
Total Assets	6,494	7,968	7,814	7,955	8,065
Equity	2,757	3,633	3,598	3,712	3,876
Minorities	301	379	402	432	462
Short and Long term Debt	1,052	1,119	1,119	1,119	1,119
Other financial liabilities	253	231	231	231	231
Other liabilities	2,131	2,605	2,464	2,460	2,377
Total Equity and Liabilities	6,494	7,968	7,814	7,955	8,065
Net debt	937	755	953	893	636
Net Debt/ EBITDA (x)	0.9	0.4	0.7	0.8	0.6

HUFbn	2021	2022	2023E	2024E	2025E
CF from operations	895	1,365	811	779	948
CF from investment	-482	-854	-717	-588	-548
FCF pre dividends	413	511	94	191	400
Dividends paid	-63	-191	-280	-120	-132

Source: Company data, Santander Brokerage Poland estimates

Santander

OMV

Bloomberg: OMV AV, Reuters: OMV.VI

CEE Equity Research

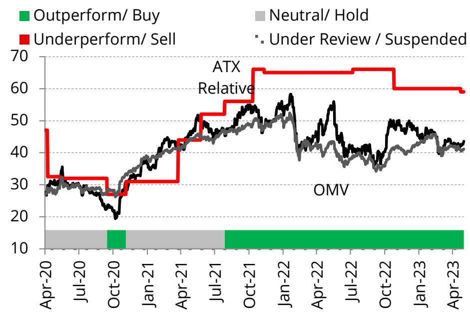
Oil & Gas, Austria

Shelter in dividends

RECOMMENDATION	Outperform
Current price (May 23, 2023, EUR)	43.58
Target price (Dec'23, EUR)	**59**

- **Equity story.** Industry macro (upstream and downstream) has been moderating in recent weeks, unarguably undercutting short-term earnings outlook. Negative earnings momentum, however, is unlikely to affect dividend outlook: this year OMV offers dividend yield of 12% and we expect similar payments in the following years, unless a substantial M&A is delivered. Unleveraged balance sheet (net debt to equity at 2% as of March 2023) and continued sound generation of FCF support our dividend forecasts. We reiterate our Outperform rating with target price of EUR59.
- **Recent developments.** OMV beat expectations in 1Q23 largely on strong rebound in profitability of gas trading. We expect the latter is likely to normalise in the following quarters, as well as we note the recent decline in refining margins and weakness in nat gas prices. Petchems appears to be the only division, earnings of which are likely to improve (though from a very low base), but overall earnings momentum is likely to be negative throughout the year. We forecast clean EBITDA at EUR9,036mn in 2023E and at EUR8,374mn in 2024E. Our major assumptions for 2023/24E are Brent at 79/72 USD/bbl, TTF at 49/50 EUR/MWh and refining margin at 10.7/ 7.0 USD/bbl.
- **Earnings forecasts.** OMV still trades cum dividend of EUR5.05 (ex-dividend date is 6 June), yielding 12%. We expect similar dividend payments to be sustained in the following periods and generous returns to shareholders are one of the pillars of the positive investment case. The company declared a return of 20-30% of operating CF to shareholders as long as its gearing ratio is below 30%. We estimate OMV would have to spend on M&As EUR6.7bn in 2023 to suspend special dividend payment next year. We forecast total dividend payment in 2024E at EUR5.0 (12% yield), which accounts for 28% of operating CF from 2023E (the company's dividend policy and our earnings forecasts imply next year DPS range of EUR3.6-EUR5.4, yielding 9-13%).
- **Valuation and risks.** We set our price at EUR59 based on DCF and comparative evaluation with 50%/50% weightings. Sector-specific risks include hydrocarbon prices, refining and petchem margins, and additional taxes. Company-specific risks mainly lie with the execution of the company's strategy.

STOCK PERFORMANCE



The chart measures performance against the ATX index.

OMV: Financial summary and ratios

Year to Dec, EURmn	2021	2022	2023E	2024E	2025E
EBITDA Clean CCS	8,599	13,907	9,036	8,374	7,639
EBIT Clean CCS	5,961	11,175	6,401	5,593	4,767
Net profit	2,093	3,634	2,304	2,111	1,938
P/E (x)	7.2	4.1	6.2	6.7	7.3
EV/ EBITDA Clean CCS (x)	3.5	2.0	2.9	3.2	3.6
EV/DACF (x)	4.2	3.5	4.6	4.4	4.5
FCF Yield (x)	34.6%	38.7%	21.4%	17.8%	17.5%
Dividend Yield	4.0%	5.0%	11.6%	11.5%	11.5%

Source: Company data, Santander Brokerage Poland estimates.

Analyst

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Fig. 293. OMV: Quarterly results review

Industry macro/ KPIs	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23E	3Q23E	4Q23E	2023E
Brent (USD/bbl)	102.2	113.9	100.8	88.9	101.3	81.2	80.0	78.0	77.0	79.0
NCG gas price (EUR/MWh)	97.7	96.3	197.3	94.6	121.7	54.3	40.0	40.0	60.0	48.6
Benchmark refining margin (USD/bbl)	6.8	20.5	14.4	17.5	14.7	14.8	10.0	10.0	8.0	10.7
Average petchem margin* (EUR/t)	490	580	464	437	493	402	400	425	450	419
EURUSD FX rate	1.12	1.07	1.01	1.02	1.05	1.07	1.10	1.10	1.10	1.09
Upstream output (kbpd)	457	345	381	385	392	376	363	360	365	366
Downstream oil throughput (kbpd)	367	242	197	380	292	362	93	90	83	356
P&L extracts (EURmn)	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**2022**	**1Q23**	**2Q23E**	**3Q23E**	**4Q23E**	**2023E**
EBITDA	3,769	4,162	4,205	2,784	14,919	2,019	2,065	2,016	2,235	8,335
Clean CCS EBITDA, of which	3,217	3,568	4,231	2,890	13,907	2,720	2,065	2,016	2,235	9,036
Energy (E&P)	2,280	2,165	3,414	1,899	9,759	1,881	1,330	1,256	1,493	5,960
Downstream	1,016	1,421	789	969	4,194	905	734	760	742	3,141
Fuels & Feedstock (Refining)	*300*	*684*	*440*	*776*	*2,200*	*683*	*472*	*460*	*384*	*1,999*
Chemicals & Materials	*716*	*737*	*349*	*193*	*1,994*	*222*	*263*	*300*	*358*	*1,142*
Other	-79	-18	28	22	-46	-66	0	0	0	-66
Clean CCS EBIT	2,621	2,937	3,516	2,101	11,175	2,079	1,415	1,366	1,541	6,401
Net profit	546	1,947	833	308	3,634	390	0	0	0	2,304

Source: Company data, Santander Brokerage Poland estimates

Fig. 294. OMV: Valuation changes

EUR per share	New	Previous	*Change*
DCF valuation	33.3	33.3	*0%*
Comparable valuation	83.8	83.8	*0%*
Target Price*	**59**	**59**	***0%***

*Source: Company data, Santander Brokerage Poland estimates. *NOTE: rounded to the nearest integer, target price is based on DCF and a comparative valuation with 50/50 weightings*

Fig. 295. OMV: Financial statements forecast

EURmn	2021	2022	2023E	2024E	2025E
Revenues	35,555	62,298	42,180	38,742	35,034
EBITDA	9,000	14,919	8,335	8,374	7,639
Clean CCS EBITDA,	8,599	13,907	9,036	8,374	7,639
E&P	4,457	9,759	5,960	5,214	4,312
Downstream	4,201	4,194	3,141	3,180	3,347
Other	-59	-46	-66	-20	-20
EBIT	5,065	12,246	5,700	5,593	4,767
Clean CCS EBIT	5,961	11,175	6,401	5,593	4,767
Net financial costs	-195	-1,481	67	-293	-293
Pre-tax profit	4,870	10,765	5,767	5,299	4,474
Tax	2,066	5,590	2,595	2,385	1,789
Minorities	617	1,470	793	729	671
Hybrid equity owners	94	71	75	75	75
Net profit	2,093	3,634	2,304	2,111	1,938
Brent (USD/bbl)	70.9	101.3	79.0	72.0	65.0
NCG gas price (EUR/MWh)	46.3	121.7	48.6	50.0	50.0
Refining margin (USD/bbl)	3.7	14.7	10.7	7.0	5.0
Petchem margin (EUR/t)	560	493	419	425	425
EURUSD FX rate	1.18	1.05	1.09	1.10	1.10

EURmn	2021	2022	2023E	2024E	2025E
PPE	18,569	19,317	20,651	21,473	22,130
Other non-current assets	15,155	13,067	13,068	13,068	13,068
Cash	5,050	8,090	9,748	10,037	10,278
Other current assets	15,024	15,955	11,123	10,583	10,001
Total Assets	53,798	56,429	54,590	55,161	55,477
Equity (ex-hybrid)	13,022	16,666	16,854	16,971	16,913
Hybrid equity	2,483	2,483	2,483	2,483	2,483
Minorities	6,491	7,478	8,271	9,000	9,671
Short and Long term Debt	9,835	8,807	9,777	9,777	9,777
Pension obligations	1,299	997	997	997	997
Decommissioning obligations	3,755	3,796	3,796	3,796	3,796
Other liabilities	16,913	16,200	12,407	12,132	11,836
Total Equity and Liabilities	53,798	56,429	54,585	55,156	55,472
Net debt	5,962	2,207	1,519	1,230	989
Net Debt/ EBITDA (x)	0.7	0.2	0.2	0.1	0.1

EURmn	2021	2022	2023E	2024E	2025E
CF from operations	7,017	7,758	5,848	5,961	5,842
CF from investment	-1,820	-1,966	-2,799	-3,429	-3,349
FCF pre dividends	5,197	5,792	3,049	2,532	2,492
Dividends paid	-997	-1,459	-2,116	-1,994	-1,996

Source: Company data, Santander Brokerage Poland estimates

PKN Orlen

Bloomberg: PKN PW, Reuters: PKN.WA

CEE Equity Research

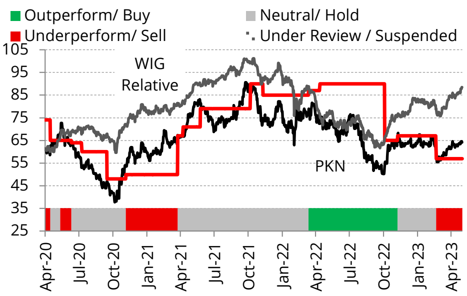
Oil & Gas, Poland

1Q23 earnings unsustainable

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	64.09
Target price (Dec'23, PLN)	**61**

- **Equity story.** PKN delivered very strong earnings in 1Q23 but we believe such a level of profitability is unsustainable. Firstly, industry macro in upstream and downstream continues to deteriorate. Secondly, we expect margins in gas trading to compress. After 1Q23, we forecast FY2023E EBITDA at PLN49.4bn, but 2024E at PLN42.4bn. PKN's weak capital discipline (i.e. huge spending on projects yielding inferior returns) is our major concern. PKN offers 8.5% dividend yield in 2023E but its regional peers (MOL and OMV) offer 11-12%. We reiterate our Underperform rating with target price of PLN61.
- **Recent developments.** 1Q23 was a smashing quarter. Deterioration of industry macro notwithstanding, PKN delivered clean EBITDA of PLN17.4bn (in line with our expectations, vs. pro forma of PLN15.9bn in 1Q22). The level of profitability in gas trading (EBITDA of PLN5bn, 30% of total) was amazing and reflects high volatility of nat gas prices but also PKN's decision to limit hedging. Cash flow was also strong (operating CF of PLN23bn, FCF of PLN13bn) reflecting working capital release and seasonally low capex. PKN ended the quarter with net cash (excl. leases) of PLN11.5bn.
- **Earnings forecasts.** Oil & Gas industry macro continues to deteriorate. In upstream, nat gas prices (c. 75% of PKN's upstream production) nosedived. In the refining, margins have moderated on normalisation in middle distillates. Relative strength in gas trading business might sustain throughout the year, but not beyond. We forecast 2023E EBITDA at PLN49.4bn, but 2024E at PLN42.4bn and 2025E at PLN37.9bn. Based on our revised forecasts, PKN is likely to be FCF positive in 2023E despite huge capex spending. We forecast FCF at PLN8.3bn yielding 11%. But we expect the company to be FCF negative from 2024E onwards and are concerned 2023E earnings bonanza is likely to be again allocated to additional low-return projects. PKN offers 8.5% dividend yield in 2023E but its regional peers (MOL and OMV) offer 11-12%.
- **Valuation and risks.** Our target price of PLN61 is based on the DCF and comparative valuation with 50%/50% weights. Key risks include the industry macro backdrop (oil prices, nat gas prices, refining and petchem margins, FX) and the regulatory environment (windfall levies, energy and nat gas prices regulations).

STOCK PERFORMANCE



The chart measures performance against the WIG index.

PKN: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	131,341	278,509	379,321	315,373	291,091
EBITDA	14,151	38,731	49,428	42,437	37,882
EBIT	19,211	50,455	49,428	42,437	37,882
Net profit	11,122	35,331	24,682	17,932	13,945
P/E (x)	2.8	1.2	3.0	4.1	5.3
EV/ EBITDA (x)	3.5	1.3	1.6	2.1	2.7
FCF Yield	9.2%	73.5%	11.2%	-5.6%	-11.0%
Dividend Yield	4.8%	5.1%	8.6%	6.5%	6.7%

Source: Company data, Santander Brokerage Poland estimates NOTE:

Analyst

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Fig. 296. PKN: Quarterly results review

Assumptions	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23E	3Q23E	4Q23E	2023E
Brent (USD/bbl)	102.0	112.9	101.0	88.3	101.1	81.0	80.5	79.0	78.0	79.6
Nat gas (EUR/MWh)	99.0	99.1	199.9	94.9	123.2	53.2	40.0	40.0	60.0	48.3
Ref. margin, Brent-based (USD/bbl)	6.0	26.5	16.4	22.0	17.7	18.3	12.0	10.0	10.0	12.6
Effective ref. margin (USD/bbl)	5.9	19.8	22.5	28.2	20.1	17.6	12.0	10.0	10.0	12.4
Petchem margin (EUR/t)	1,166	1,405	1,155	1,056	1,190	1,018	1,000	1,050	1,000	1,017
USDPLN FX rate	4.13	4.36	4.71	4.64	4.46	4.39	4.18	4.18	4.18	4.23
Upstream output (kbpd)	17	19	30	191	92	190	187	181	187	186
Downstream throughput (kbpd)	671	589	840	904	752	762	824	837	847	822
EBITDA adjustments	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**2022**	**1Q23**	**2Q23E**	**3Q23E**	**4Q23E**	**2023E**
Clean EBITDA	**4,511**	**8,139**	**11,809**	**16,131**	**40,590**	**17,427**	**10,721**	**9,217**	**12,334**	**49,428**
Upstream	*162*	*336*	*841*	*6,312*	*7,651*	*2,273*	*988*	*995*	*2,931*	*7,186*
Refining	*1,472*	*4,632*	*9,903*	*11,032*	*27,039*	*5,486*	*3,764*	*3,220*	*3,257*	*15,727*
Petchem	*1,065*	*1,620*	*782*	*581*	*4,048*	*98*	*552*	*776*	*592*	*2,019*
Energy	*1,547*	*1,155*	*1,479*	*305*	*4,486*	*3,275*	*1,550*	*1,225*	*1,551*	*7,600*
Retail	*585*	*697*	*856*	*663*	*2,801*	*233*	*687*	*839*	*689*	*2,448*
Gas distribution and trading				*-1,926*	*-1,926*	*6,196*	*3,500*	*2,500*	*3,900*	*16,100*
Other	*-320*	*-301*	*-2,052*	*-559*	*-3,232*	*-408*	*-319*	*-338*	*-587*	*-1,652*
Cash flow extracts (PLNmn)	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**2022**	**1Q23**	**2Q23E**	**3Q23E**	**4Q23E**	**2023E**
EBITDA, as reported	4,933	6,665	16,987	19,424	48,009	15,453	10,721	9,217	12,334	49,428
Operating CF	1,572	8,785	8,759	12,896	30,059	23,032				44,503
Investing CF	-4,655	-4,581	-467	7,805	1,517	-10,274*				-36,200
FCF pre-dividends	-3,083	4,204	8,292	20,701	31,576	12,758				8,303

*Source: Company data, Santander Brokerage Poland estimates * NOTE: Adj. forPLN3.1bn spending on government bonds*

Fig. 297. PKN: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	41.4	41.4	*0%*
Comparable valuation	80.4	80.4	*0%*
Target Price*	**61**	**61**	***0%***

*Source: Company data, Santander Brokerage Poland estimates; *NOTE: rounded to the nearest integer, target price is based on DCF and a comparative valuation with 50/50 weightings*

Fig. 298. PKN: Financial statements forecast

PLNmn	2021	2022E	2023E	2024E	2025E
Sales	131,341	277,564	379,321	315,373	291,091
EBITDA	19,211	48,009	49,428	42,437	37,882
EBITDA LIFO (clean)	14,151	39,076	49,428	42,437	37,882
Upstream	387	7,651	7,186	17,480	16,059
Refining	3,614	24,586	15,727	10,236	7,727
Petchem	4,295	3,373	2,019	3,256	3,380
Energy	3,680	4,092	7,600	5,200	5,305
Retail	2,897	2,801	2,448	2,975	3,064
Gas Distribution and Trading	0	-1,926	16,100	5,090	4,183
Other/ corporate	-722	-1,501	-1,652	-1,800	-1,836
EBIT	13,870	41,093	37,543	28,550	22,171
Pre-tax profit	13,683	40,593	37,347	27,981	20,997
Net profit	11,122	33,488	24,682	17,932	13,945
Brent (USD/bbl)	71.0	101.1	79.6	73.0	66.0
Nat gas (EUR/MWh)	46.4	123.2	48.3	50.0	40.0
Effective ref. margin (USD/bbl)	2.6	20.1	12.4	8.0	6.0
USDPLN/FX rate	3.86	4.46	4.23	4.18	4.18

PLNmn	2021	2022E	2023E	2024E	2025E
Total Assets	106,754	272,327	306,983	316,913	332,423
Equity	51,707	135,948	154,245	167,360	176,312
Minorities	871	1,011	1,211	1,411	1,611
Net debt	17,830	8,033	5,215	13,273	25,545
Net debt to EBITDA LIFO (x)	1.3	0.2	0.1	0.3	0.7
Net debt to Equity	34%	6%	3%	8%	14%

PLNmn	2021	2022	2023E	2024E	2025E
Operating CF	12,594	30,059	44,503	33,720	31,383
Capex	-11,225	-20,216	-36,200	-37,860	-39,564
Other investing CF	1,486	21,733	0	0	0
FCF pre dividends	2,855	31,576	8,303	-4,140	-8,181
Dividends paid	-1,498	-1,500	-6,385	-4,818	-4,992

Source: Company data, Santander Brokerage Poland estimates

Pharmaceuticals and Biotechnology

Fig. 299. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2023E	2024E	2025E	EV/EBITDA (x) 2023E	2024E	2025E
Gedeon Richter	Outperform	10,000	8,200	22%	8.5	8.0	7.2	5.6	5.0	4.4
Mabion	Underperform	14.0	18.26	-23%	12.1	11.1	11.1	8.2	7.8	7.3
Selvita	Underperform	73	77.6	-5%	33.4	19.9	16.0	16.1	11.6	9.6
Median					**12.1**	**11.1**	**11.1**	**8.2**	**7.8**	**7.3**

Source: Company data, Santander Brokerage Poland estimates

Company specific drivers count

CEE Pharma & Biotech sector is a very diverse group thus company-specific factors count the most. Within our covered universe, we have Outperform rating on Gedeon Richter (TP HUF10,000) and Underperform for Mabion (TP PLN14) and Selvita (TP PLN73).

Gedeon Richter is our top pick. The company targets 10% growth of its business in constant currency in 2023 and in light of strong 1Q23 delivery and FX headwind notwithstanding, we view the target conservative. Strong growth in innovative portfolio (incl. Vraylar) should be the major driver this year. Richter is trading at 8x P/E even assuming special taxes in Hungary remain in place for longer. Based on our forecasts, it offers low-teens EPS growth in the mid run and dividends yielding up to 5%.

Mabion is undergoing a transformation from a biotech into contract pharma business model. We believe smooth execution largely relies on Mabion's co-operation with Novavax. The latter, however, recently said 'substantial doubt exists regarding our ability to continue as a going concern'. What we see as Mabion's excessive reliance on Novavax is the major negative and the reason for our Underperform rating.

Selvita has attractive business model and appealing long term growth story, underpinned by near-shoring among big pharma. However, 1) valuation multiples are at double digit premium to peers, 2) the market of contract pharma services is unlikely to soon return to the 2022 growth rates - in a hindsight it is easy to say that post pandemic boom was a one-off event. We rate Selvita Underperform.

Gedeon Richter

Bloomberg: RICHT HB, Reuters: GDRB.BU

CEE Equity Research

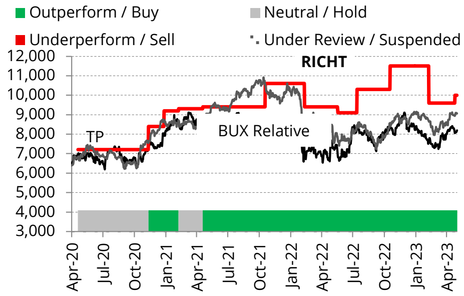
Pharmaceuticals, Hungary

Growth at single digit P/E

RECOMMENDATION	Outperform
Current price (May 23, 2023, HUF)	8,200
Target price (Dec'23, HUF)	**10,000**

- **Equity story.** Richter targets 10% growth of its business in constant currency in 2023 and in light of strong 1Q23 delivery and FX headwind notwithstanding, we view the target conservative. Strong growth in innovative portfolio (incl. Vraylar) should be the major driver this year. Richter is trading at 8x P/E even assuming special taxes in Hungary remain in place for longer. Based on our forecasts, it offers low-teens EPS growth in the mid run and dividends yielding up to 5%. We reiterate our Outperform rating with target price of HUF10,000.
- **Recent developments.** Sales growth was double-digit in 1Q23 (+25% in HUFs, +17% in EURs) and gross margin in pharmaceuticals improved to 70.0% from 68.5% a year before (to 61.0% from 60.5% excl. Vraylar). Innovative portfolio posted nearly 40% y/y sales growth in EURs, within which Vraylar delivered a 40% y/y expansion. EBIT of HUF54bn implied impressive margin of 25.8%.
- **Earnings forecasts.** The FX headwind is likely to intensify in the reminder of the year as well as the base for y/y comparison becomes demanding. Both factors suggest declining earnings momentum. Management reiterated the target to grow business (sales and clean EBIT excl. special taxes and FX) by 10% in 2023. We point out that the management guidance proved to be overly conservative numerous times. Our own forecasts are slightly ahead of the guidance (headline EBIT at HUF190bn). Our forecasts do not include any one-off gains on disposal of Romanian wholesale operations (the deal has just been closed). Impressive growth in Vraylar (after label extension to MDD) and across women healthcare innovative portfolio should be major drivers. Our medium term forecast assume special tax in Hungary (consuming c. 15% of our net profit) is likely to stay and we expect Richter to grow its EPS at low teens.
- **Valuation and risks.** We value Richter at HUF10,000/share based on the average of DCF and peer comparisons, with 50/50 weightings. Richter is currently trading at our 2023E and 2024E P/E of 8.5x and 8.0x respectively. The Russian business, lower-than-expected revenues from innovative medicines, falling margins in generics and FX rates constitute key risks, we think.

STOCK PERFORMANCE



The chart measures performance against the BUX index.

Gedeon Richter: Financial summary and ratios

Year to Dec, HUFbn	2021	2022	2023E	2024E	2025E
Sales	630.6	802.8	761.6	802.1	902.4
EBITDA	183.3	222.3	240.5	260.9	289.1
EBIT	135.8	153.6	190.6	204.0	225.3
Net profit	139.6	155.6	179.8	192.1	211.4
Net profit adj.*	142.0	173.9	179.8	192.1	211.4
P/E adj. (x)	11.1	8.3	8.5	8.0	7.2
EV/ EBITDA (x)	7.9	5.7	5.6	5.0	4.4
FCF Yield	-0.3%	7.6%	5.2%	6.9%	6.0%
Dividend Yield	2.7%	2.9%	4.8%	4.3%	4.4%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2020-21 valuation ratios based on historical average prices

Analyst

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Fig. 300. Gedeon Richter: Quarterly results review and forecasts

HUFbn	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23E	3Q23E	4Q23E	2023E
Revenues	168.1	192.9	217.8	224.0	802.8	209.7	183.0	168.0	201.0	761.6
Gross profit	96.0	110.0	130.7	123.8	460.5	127.4	120.7	124.6	131.7	504.4
EBITDA	49.1	64.0	78.1	31.0	222.3	66.6	59.6	55.8	58.5	240.5
EBIT	37.5	52.0	64.8	-0.7	153.6	54.1	47.1	43.3	46.0	190.6
Net profit	37.1	76.5	82.4	-40.4	155.6	39.2				179.8

Source: Company data, Santander Brokerage Poland estimates

Fig. 301. Gedeon Richter: Changes to forecasts

HUFbn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	761.6	761.6	*0%*	802.1	802.1	*0%*	902.4	902.4	*0%*
EBITDA	240.5	240.5	*0%*	260.9	260.9	*0%*	289.1	289.1	*0%*
EBIT	190.6	190.6	*0%*	204.0	204.0	*0%*	225.3	225.3	*0%*
Net profit	179.8	179.8	*0%*	192.1	192.1	*0%*	211.4	211.4	*0%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 302. Gedeon Richter: Valuation changes

HUF per share	New	Previous	*Change*
DCF valuation	5,507	5,507	*0%*
Comparable valuation	14,473	14,473	*0%*
Target Price*	**10,000**	**10,000**	***0%***

*Source: Company data, Santander Brokerage Poland estimates *NOTE: rounded to the nearest hundred; average of DCF and comparable valuation with 50%/50% weightings.*

Fig. 303. Gedeon Richter: Financial statements forecast

HUFbn	2021	2022	2023E	2024E	2025E
Net sales	630.6	802.8	761.6	802.1	902.4
Gross profit	349.3	460.5	504.4	546.5	615.1
EBITDA	183.3	222.3	240.5	260.9	289.1
EBIT	135.8	153.6	190.6	204.0	225.3
Profit before tax	146.6	165.7	197.6	211.1	232.6
Net profit	139.6	155.6	179.8	192.1	211.4
Net profit adj.	142.0	173.9	179.8	192.1	211.4
EBITDA margin	29.1%	27.7%	31.6%	32.5%	32.0%
EBIT margin	21.5%	19.1%	25.0%	25.4%	25.0%
Net margin	22.1%	19.4%	23.6%	23.9%	23.4%

Assumptions	2021	2022	2023E	2024E	2025E
EURHUF FX rate	359	394	380	380	380
Sales in EURmn					
Vraylar	283	351	466	535	605
Total pharmaceuticals	1,408	1,667	1,900	2,137	2,405
Other sales	350	372	104	-27	-30
Total revenues	1,759	2,039	2,004	2,111	2,375

HUFbn	2021	2022	2023E	2024E	2025E
Current assets	412.6	575.8	610.5	670.4	742.3
Fixed assets	732.7	764.5	836.5	908.0	988.6
Total assets	1,145.3	1,340.3	1,447.1	1,578.4	1,730.9
Current liabilities	123.2	179.5	177.2	179.5	185.2
bank debt	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	99.0	100.4	100.4	100.4	100.4
bank debt	0.0	0.0	0.0	0.0	0.0
Equity	914.9	1,049.9	1,157.0	1,283.9	1,428.1
Minorities	8.1	10.4	12.4	14.6	17.1
Total liability and equity	1,145.3	1,340.3	1,447.1	1,578.4	1,730.9
Net debt	-134.4	-176.8	-186.4	-227.3	-252.2
Net Debt/ EBITDA (x)	-0.7	-0.8	-0.8	-0.9	-0.9

HUFbn	2021	2022	2023E	2024E	2025E
CF from operations	139.9	184.9	201.2	234.5	236.5
CF from investment	-143.9	-74.6	-121.9	-128.3	-144.4
CF from financing, incl.	-4.0	110.3	79.4	106.2	92.1
dividends	-42.1	-42.1	-72.7	-65.2	-67.2

Source: Company data, Santander Brokerage Poland estimates

Santander

Mabion

Bloomberg: MAB PW, Reuters: MAB.WA

CEE Equity Research

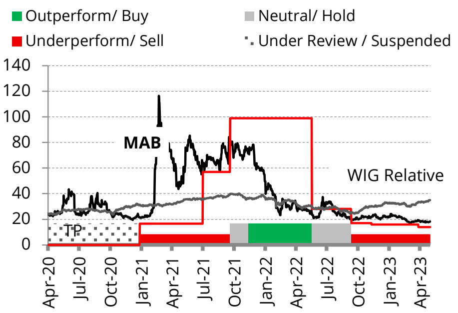
Pharma & Biotech, Poland

Between the rock and a hard place

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	18.26
Target price (Dec'23, PLN)	**14**

- **Equity story.** Mabion's recent strategy update confirmed planned transformation into contract pharma business model. We believe smooth execution largely relies on Mabion's co-operation with Novavax. The latter, however, recently said 'substantial doubt exists regarding our ability to continue as a going concern'. What we see as Mabion's excessive reliance on Novavax is the major reason for our Underperform rating (unchanged) and target price of PLN14.
- **Recent developments.** Mabion delivered very sound results for 1Q23 with EBITDA of PLN20mn accounting for 70% of our FY projections. Despite that, the management reiterated full year guidance (sales of c. PLN150mn, EBITDA margin of 25%) which suggests a substantial decrease in profitability in the remainder of the year. We believe planned modernisation of the production facility (Jun-Nov) is likely to affect margins. We have decreased our revenues forecast assuming now lower recognition of sales of materials purchased, but this item is irrelevant for profitability so we have left our earnings forecasts unchanged.
- **Novavax situation.** Mabion presented its strategy update in April which assumes 1) continued transformation into contract pharma business model, 2) discontinuation of in-house development of innovative portfolio (CD20 is planned to be partnered). The company sticks to its plan to modernise current production facility in 2023-24 (capex of PLN90-100mn) and said it would make final investment decision as to Mabion II production plant in 2024-25. Mabion estimates its revenues potential at PLN150mn in 2023 and PLN150-200mn in 2024-27 and EBITDA margin at 25% and 20-35% respectively. Beyond 2028, following completion of Mabion II facility, Mabion sees its revenues potential at PLN400-500mn and EBITDA margin at 25-35%. The M&A process has been discontinued. We believe Mabion's strategy failed to address risks related to co-operation with Novavax.
- **Valuation and risks.** We set our target price based on a sum of the parts model at PLN14. We believe situation of Novavax, Mabion's major business partner, is a major risk factor. Regulatory process, production process (i.e. quality) and competitive environment are other business risks.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Mabion: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	56.9	164.0	186.0	245.9	245.9
EBITDA	-1.0	37.2	34.5	38.7	39.7
EBIT	-9.8	28.2	24.5	26.7	26.7
Net profit	1.9	23.2	24.5	26.7	26.7
P/E (x)	531.0	20.2	12.1	11.1	11.1
EV/ EBITDA (x)	NM	11.3	8.2	7.8	7.3
FCF Yield	-6.4%	4.9%	-12.0%	-5.5%	3.4%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates

Analyst

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Fig. 304. Mabion: Quarterly results review and forecasts

PLNmn	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23E	3Q23E	4Q23E	2023E
Sales	38.6	43.9	38.5	42.9	164.0	39.5	45.3	46.5	54.7	186.0
EBITDA	9.6	5.6	-4.4	26.4	37.2	19.8	5.3	2.0	7.5	34.5
EBIT	7.1	3.1	-6.4	24.5	28.2	18.0	2.8	-0.6	4.2	24.5
Net profit	7.4	5.1	-5.1	15.7	23.2	16.5	2.8	-0.6	5.8	24.5

Source: Company data, Santander Brokerage Poland estimates

Fig. 305. Mabion: Changes to forecasts

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	186.0	257.9	*-28%*	245.9	285.9	-14%	245.9	285.9	*-14%*
EBITDA	34.5	34.5	*0%*	38.7	38.7	0%	39.7	39.7	*0%*
EBIT	24.5	24.5	*0%*	26.7	26.7	0%	26.7	26.7	*0%*
Net profit	24.5	24.5	*0%*	26.7	26.7	0%	26.7	26.7	*0%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 306. Mabion: Valuation

Method	Value (PLNmn)	Value per share (PLN)	Assumptions
Replacement cost	160	9.9	According to Mabion's 2022 financial statement, the value of the company's fixed assets before deduction of accumulated depreciation amounted to PLN160mn.
Capacity additions by CDMOs	315	19.5	We looked at recent capacity addition projects. Lonza, a CDMO which produces the drug substance for Moderna's Covid vaccine, has been adding new capacity (in the USA and Switzerland) at a cost of c. CHF70mn for the production of API for 100mn doses of vaccine annually. We believe it could also be a proxy value for Mabion's manufacturing plant.
NPV of contract with Novavax	172	10.6	We calculated NPV of Mabion's contract with Novavax at PLN172mn. We no longer assume the contract will be fully executed due to lack of commercial success of Novavax's covid vaccine and waning of the pandemic. We now assume the contract to be executed in c. 50% only, average contract profitability at 46%, USDPLN FX rate at 4.3, lack of overhead costs, zero working capital engagement (prepayments from Novavax) and zero tax rate (utilisation of tax shield).We use WACC of 20% as we believe uninspiring outlook of the vaccine market requires additional risk premium.
Average	216	13.3	
Net cash (debt)	11	0.7	
Total*	**226**	**14**	

Source: Company data, Santander Brokerage Poland estimates. NOTE: Rounded to the nearest integer.* ***Our target price of PLN14 is 100% based on a sum-of the-parts model****, in which we focus on the GMP-certified manufacturing plant. We continue to value CD20 project at zero as we believe commercial environment does not justify its development. Numerous biotech companies have no recurrent earnings, which means earnings-based ratios are not meaningful.*

Fig. 307. Mabion: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	56.9	164.0	186.0	245.9	245.9
EBITDA	-1.0	37.2	34.5	38.7	39.7
EBIT	-9.8	28.2	24.5	26.7	26.7
Profit before tax	-10.3	22.0	24.5	26.7	26.7
Net profit	1.9	23.2	24.5	26.7	26.7
EBITDA margin	NM	22.7%	18.5%	15.7%	16.1%
EBIT margin	NM	17.2%	13.2%	10.8%	10.8%
Net margin	NM	14.1%	13.2%	10.8%	10.8%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	82.4	82.2	91.7	97.8	107.8
Fixed assets	101.8	104.0	159.0	182.0	189.0
Total assets	184.2	186.2	250.7	279.8	296.8
Current liabilities	96.1	74.3	64.3	39.3	24.6
Long-term liabilities	34.8	35.4	85.4	112.9	117.9
Equity	53.3	76.5	101.0	127.7	154.4
Total liability and equity	184.2	186.2	250.7	279.8	296.8
Net debt	-28.3	-46.4	-10.8	5.5	-4.5
Net Debt/ EBITDA (x)	28.7	-1.2	-0.3	0.1	-0.1

PLNmn	2021	2022	2023E	2024E	2025E
Operating CF, of which	-32.9	38.8	29.5	18.7	30.0
Investing CF	-31.3	-16.1	-65.0	-35.0	-20.0
FCF pre financing	-64.2	22.8	-35.5	-16.3	10.0
Equity raised	117.5	0.0	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

Selvita

Bloomberg: SLV PW, Reuters: SLV.WA

CEE Equity Research

Pharm & Biotech, Poland

Hard braking

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	77.6
Target price (Dec'23, PLN)	**73**

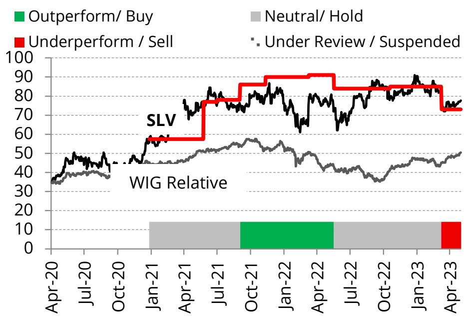
- **Equity story.** Selvita has built an organisation and cost base to be able to accommodate +20% revenues growth in 2023. The expected top line expansion seems unlikely to materialise, however as the biotech sector, wrestling with the funding issues, trims spending. Severe cost cutting does not appear an option (high share of fixed costs) thus a noticeable margin pressure appears imminent. Selvita gave a disappointing guidance for 1Q23, and even though we assume top-line growth to accelerate in the following quarters, FY2023 is shaping up a tough year: we forecast adj. EBITDA at PLN97mn (-14% y/y). Selvita's long term story is still appealing, underpinned by near-shoring among big pharma. However, 1) valuation multiples are high (16x EV/EBITDA for 2023E) and at double digit premium to peers, 2) the market of contract pharma services is unlikely to soon return to the 2022 growth rates - in a hindsight it is easy to say that post pandemic boom was a one-off event. We rate Selvita Underperform with target price of PLN73.
- **Recent developments** The company's guidance for 1Q23 appears very weak : 4-7% sales growth and 20-21% EBITDA margin (mid-point implies EBITDA of PLN17.5mn, - 30% y/y).
- **Earnings outlook.** 2023E is likely to be tough. Selvita has just completed a new lab service centre. Increase in the lab space, which inflates the cost base, coincides however with deceleration in the contract pharma market. The funding in the biotech sector has been drying up after the pandemic-driven boom while biotechs account for half of Selvita's revenues. Selvita has been preparing for faster growth in 2023 and additionally most of its costs have a fixed nature. Margin pressure appears imminent. Our 2023E sales forecast assumes a 13% sales growth (apple-to-apple) and EBITDA drop to PLN97mn (-14% y/y). We expect adj. net profit of PN43mn (-30% y/y).
- **Valuation and risks.** We set our target price at PLN73 based on the average of DCF and peer comparison with 50%/50% weightings. Regulatory actions, possibly affecting spending on new medicines, and the competitive environment are the major sector risks.

Selvita: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	315.7	415.8	413.9	496.7	596.1
EBITDA adj.	85.0	112.4	96.6	131.6	158.0
EBIT	26.1	44.8	43.0	83.8	107.2
Net profit adj.	46.4	61.1	42.6	71.4	88.9
P/E adj. (x)	28.6	23.1	33.4	19.9	16.0
EV/ EBITDA adj. (x)	16.7	13.8	16.1	11.6	9.6
FCF Yield	-7.5%	-2.3%	0.7%	1.6%	0.7%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 308. Selvita: Quarterly results review and forecasts

PLNmn	1Q22	2Q22	3Q22	4Q22	2022	1Q23E	2Q23E	3Q23E	4Q23E	2023E
Sales	95.0	103.4	109.1	108.3	415.8	89.7	101.9	111.8	110.5	413.9
EBITDA adj.	27.7	28.5	29.8	26.5	112.4	18.8	23.9	26.8	27.0	96.6
EBIT	7.9	7.7	14.7	14.5	44.8	6.6	10.5	12.9	13.0	43.0
Net profit	4.9	3.7	9.0	12.7	30.3					33.1
Net profit adj.	15.9	15.3	14.3	15.7	61.1					42.6

Source: Company data, Santander Brokerage Poland estimates

Fig. 309. Selvita: Changes to forecasts

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	413.9	413.9	*0%*	496.7	496.7	*0%*	596.1	596.1	*0%*
EBITDA adj.	96.6	96.6	*0%*	131.6	131.6	*0%*	158.0	158.0	*0%*
EBIT	43.0	43.0	*0%*	83.8	83.8	*0%*	107.2	107.2	*0%*
Net profit	33.1	33.1	*0%*	70.7	70.7	*0%*	88.8	88.8	*0%*
Net profit adj.	42.6	42.6	*0%*	71.4	71.4	*0%*	88.9	88.9	*0%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 310. Selvita: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	79.7	79.7	*0%*
Comparable valuation	66.9	66.9	*0%*
Target Price*	**73**	**73**	***0%***

*Source: Company data, 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. 311. Selvita: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	315.7	415.8	413.9	496.7	596.1
EBITDA	85.0	112.4	96.6	131.6	158.0
EBIT	26.1	44.8	43.0	83.8	107.2
Profit before tax	21.1	40.2	41.7	80.5	104.5
Net profit	14.9	30.3	33.1	70.7	88.8
Net profit adj.	46.4	61.1	42.6	71.4	88.9
EBITDA adj. margin	26.9%	27.0%	23.3%	26.5%	26.5%
EBIT margin	8.3%	10.8%	10.4%	16.9%	18.0%
Net adj. margin	14.7%	14.7%	10.3%	14.4%	14.9%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	179.1	203.1	193.3	233.5	264.3
Fixed assets	287.5	381.8	428.9	468.5	536.5
Total assets	466.6	584.9	622.2	701.9	800.8
Short and Long term Debt	179.8	213.0	213.0	213.0	213.0
Deferred income	23.3	26.2	26.2	26.2	26.2
Other liabilities	57.9	72.6	74.4	83.3	93.4
Equity	205.6	273.2	308.7	379.5	468.3
Total liability and equity	466.6	584.9	622.2	701.9	800.8
Net debt	96.3	138.8	128.9	106.1	96.2
Net Debt/ EBITDA (x)	1.1	1.2	1.3	0.8	0.6

PLNmn	2021	2022	2023E	2024E	2025E
Operating CF less leases	63.2	47.4	75.9	82.4	99.4
Investing CF	-162.3	-79.8	-66.0	-59.6	-89.4
organic	-25.4	-79.8	-66.0	-59.6	-89.4
inorganic	-136.8	0.0	0.0	0.0	0.0
FCF pre financing	-99.1	-32.4	9.9	22.8	10.0
Equity raised	0.0	0.0	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

Telecoms

Fig. 312. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2023E	P/E (x) 2024E	P/E (x) 2025E	EV/EBITDA (x) 2022E	EV/EBITDA (x) 2023E	EV/EBITDA (x) 2024E
Orange Pl	Neutral	8.00	7.50	+7%	10.5	11.6	10.9	4.4	4.2	4.0
Cyfrowy Polsat	Underperform	17.80	17.56	+1%	28.7	26.2	13.8	5.8	5.2	4.7
Magyar Telekom	Underperform	371	429	-14%	5.7	4.7	4.5	3.6	3.2	3.2
Median					**10.5**	**11.6**	**10.9**	**4.4**	**4.2**	**4.0**

Source: Santander Brokerage Poland estimates

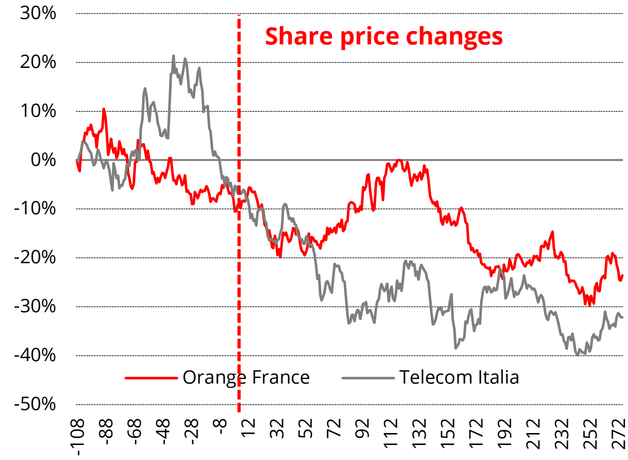
Could Play's lightning strike the same country twice?

OPL's uncertainties / Cyfrowy Polsat's attractiveness to improve in 2024E / Waiting for more taxation at Magyar Telekom. Aside from Play's new offer (key downside to OPL, potentially), Orange Pl's low indebtedness and cost control come in supportive of the stock, just as its DPS upped to new long-term minimum at PLN0.35. Additionally, un-sold mobile infrastructure and ORA's potential year-end EUR4bn dividend recap should support the stock, we assume. We expect CPS to cut its dividend to nil in 2023E. However, falling energy cost should add PLN0.2bn to annual EBITDA as of mid-2024E, we calculate, and new investments' project-finance and some internal financial engineering (real estate / Asseco Pl / renewables) could deleverage the company. In Hungary we expect more taxes and levies, and we believe 2023's supplementary telco tax may be kept in place in the form of a new MTel's flat fee.

Polish 5G auction, new short-term uncertainty? The Polish regulator upped c-band's block size to 100MHz, leaving no room for any new entrant, at the same time keeping its bid price stable at PLN450mn. Hence, either attractive price at EUR0.03/MHz/pop holds (upside), or the price might potentially grow significantly on the home straight (risk).

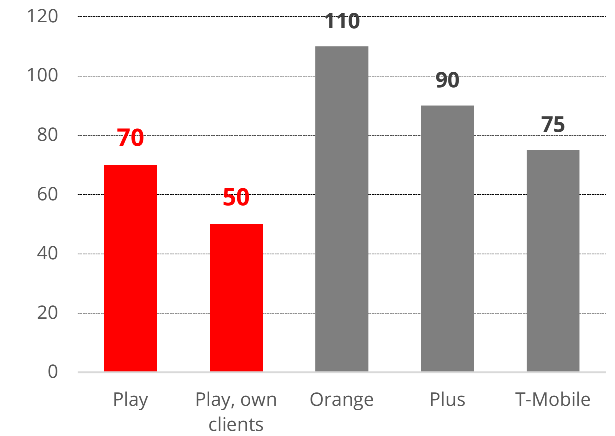
Could Play's lightning strike the same country twice? Fifteen years ago Play entered the Polish oligopolistic mobile market, and with a little help from the regulator it totally changed its shape, in the meantime triggering OPL's 1) share price halving and 2) dividend suspension. In mid-May 2023 Play surprised with aggressively priced fiber+TV offer, kicking off an ad campaign. It might go unnoticed, or it might change the shape of another Polish telco segment; it should also put any APRU increases on hold, leaving telecoms more inflation-vulnerable, we conclude. Sadly, this offer shed new light on OPL CEO's very cautious view on the Polish ARPU evolution / growth, expressed at 1Q2023 confcall.

Fig. 313. FR/IT incumbents, days following Iliad's offer



Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 314. Fiber+TV bundle: Play vs competitors [PLN, 1Mb/s]



Source: company data, Santander Brokerage Poland estimates

Cyfrowy Polsat

Bloomberg: CPS PW, Reuters: CPS.WA

CEE Equity Research

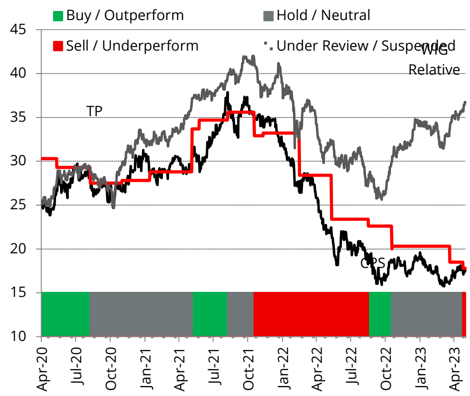
Telecoms, Poland

Negative Underlying Trends

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	17.56
Target price (Dec'23, PLN)	**17.80**

- **Equity story**. We believe the underlying trends remain disconcerting at Cyfrowy Polsat. We observe an acceleration of declines at both customer base and RGUs in contract sub-segment, and the churn grew to its two-year high at 7.2%. Importantly, contract ARPU growth stalled to 2.3% y/y (and pre-paid ARPU growth is gone), both metrics coming the weakest in the market. Finally, high neg. Working Capital depressed adj. FCF into red, driving dividend covenant to 3.3x in 1Q2023. In renewables, while these might reduce telco opex by some PLN150mn as of 2025E, we see valuation upside at risk due to the most recent ruling party leaders' suggestions ("we will protect Poles from high electricity prices"). Last but not least, the pre-election pro-inflation campaign has officially begun, and we reckon that telecoms may represent a poor inflation hedge.
- **Negative 1Q2023 developments**. We find all key underlying core trends negative, including acceleration of declines at customer base and RGUs in contract sub-segment. Additionally, churn grew to two-year high at 7.2%, and contract ARPU growth stalled to 2.3% y/y. Finally, high negative Working Capital turned adj. 1Q23 FCF red, upping net debt to PLN11bn and covenant to 3.3x.
- **Renewable (high) pay-outs at risk?** Minister Sasin announced his plans to protect Poles from high electricity prices. This could be yet another election slogan, but it also might herald the risk of renewable pay-out trimmed for more than one year alone, negative for CPS's new business leg's mid- to long-term results.
- **Earnings forecasts.** We keep forecasts as of 17/05/2023 unchanged.
- **Valuation and risks**. We apply no changes to our blended TP at PLN17.8 as of 17/05/2023, and negligible upside warrants Underperform recommendation. The low-priced 5G mobile auction poses an upside risk, we believe, just as the cancelation of Treasury shares, use of the shares to acquire operating assets, creation of renewable SPV (or any other financial engineering) or potential ACP stake disposal. Dividend policy put on hold could pose downside risk, just as the Polish hypothetical consumption slowdown or further KPIs' weakening. High-priced energy PPAs would offer an upside, while potential entry into nuclear energy would represent downside risk to CPS, we conclude.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Cyfrowy Polsat: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	12,444	12,915	13,397	14,475	15,140
EBITDA	7,655	3,471	3,355	3,673	3,977
EBIT	5,752	1,642	1,481	1,654	1,981
Net profit	4,339	902	391	429	812
P/E (x)	4.7	16.0	28.7	26.2	13.8
EV/ EBITDA (x)	3.2	5.7	5.8	5.2	4.7
FCF Yield	10.0%	0.4%	-41.5%	-7.9%	-3.9%
Dividend Yield	3.7%	5.3%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2021-22 valuation ratios based on historical average prices

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Fig. 315. Cyfrowy Polsat: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	y/y	q/q
Sales	2,987	3,160	3,032	3,265	2,987	3,228	3,271	3,430	**3,199**	*7.1%*	*-6.7%*
EBITDAaL	1,083	1,141	4,595	881	767	893	953	858	**761**	*-0.8%*	*-11.3%*
EBITDAaL margin	*36.2%*	*36.1%*	*151.6%*	*27.0%*	*25.7%*	*27.7%*	*29.1%*	*25.0%*	***23.8%***	*-1.9*	*-1.2*
EBIT	562	684	4131	420	320	426	501	395	**299**	*-6.7%*	*-24.4%*
EBIT margin	*18.8%*	*21.6%*	*136.2%*	*12.9%*	*10.7%*	*13.2%*	*15.3%*	*11.5%*	***9.3%***	*-1.4*	*-2.2*
Net profit	390	542	3,142	334	213	283	186	174	**71**	*-66.7%*	*-59.3%*
Net margin	*13.1%*	*17.1%*	*103.6%*	*10.2%*	*7.1%*	*8.8%*	*5.7%*	*5.1%*	***2.2%***	*-4.9*	*-2.9*

Source: Company data

Fig. 316. Cyfrowy Polsat: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	13,397	13,397	*0.0%*	14,475	14,475	*0.0%*	15,140	15,140	*0.0%*
EBITDA	3,355	3,355	*0.0%*	3,673	3,673	*0.0%*	3,977	3,977	*0.0%*
EBIT	1,481	1,481	*0.0%*	1,654	1,654	*0.0%*	1,981	1,981	*0.0%*
Net profit	391	391	*0.0%*	429	429	*0.0%*	812	812	*0.0%*

Source: Santander Brokerage Poland estimates

Fig. 317. Cyfrowy Polsat: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	20.9	20.9	*0%*
DDM valuation	12.9	12.9	*0%*
Comparable valuation	16.5	16.5	*0%*
Target Price	**17.8**	**17.8**	***0%***

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

Fig. 318. Cyfrowy Polsat: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	12,444	12,915	13,397	14,475	15,140
Cost of sales	-2,850	-3,235	-3,277	-3,489	-3,688
Operating exp.	-5,552	-6,326	-6,868	-7,079	-7,288
EBITDA	7,655	3,471	3,355	3,673	3,977
EBIT	5,752	1,642	1,481	1,654	1,981
Profit before tax	5,621	1,110	478	557	1,103
Net profit	4,339	902	391	429	812
EBITDA margin	61.5%	26.9%	25.0%	25.4%	26.3%
EBIT margin	46.2%	12.7%	11.1%	11.4%	13.1%
Net margin	34.9%	7.0%	2.9%	3.0%	5.4%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	8,077	6,531	7,815	8,071	8,715
Fixed assets	24,160	25,775	28,325	29,318	29,666
Total assets	32,237	32,307	36,140	37,389	38,381
Current liabilities	5,626	6,315	6,737	7,360	7,480
bank debt	1,340	1,867	2,875	2,875	2,875
Long-term liabilities	11,226	10,180	13,201	13,201	13,201
bank debt	10,111	8,871	12,000	12,000	12,000
Equity	15,396	15,270	15,656	16,085	16,897
Total liability and equity	32,237	32,307	36,140	37,389	38,381
Net debt	7,807	9,793	12,646	12,311	11,762
Net Debt/ EBITDA (x)	1.0	2.8	3.8	3.4	3.0

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	5,162	3,455	1,488	3,038	2,612
CF from investment	-3,382	-4,829	-5,209	-2,514	-1,983
CF from financing, incl.	-1,939	-1,848	3,993	-189	-80
dividends	-1,184	-661	0	0	0
Net change in cash	-160	-3,222	273	335	549

Source: Company data, Santander Brokerage Poland estimates

Magyar Telekom

Bloomberg: MTELEKOM HB, Reuters: MYTAY.PK

CEE Equity Research

Telecoms, Hungary

Grab (2023 pay-outs) and Run?

- **Equity story**. MTel's direct and indirect costs are rallying (+12% y/y and +29% y/y in 1Q2023, the latter due to the quadrupling of electricity price and adjustment for supplementary tax), quite distressing readings for any telco, we ascertain. MTelekom enjoys inflation-indexation clauses in all its agreements, but its recent extra wage increases may eat up some 5-7% of the company's valuation, we believe. Also, we believe that the supplementary telco tax will become a perpetuity (strong negative) and that the Hungarian government's approach to foreign investors should rise concerns. Finally, MTel's management openly points at high economic and competitive challenges MTelekom faces in both Hungarian and Macedonian telco markets. 2023 dividend and buyback are already gone, and we suggest staying away from regulation / competition / inflation-exposed Magyar Telekom for a (longer?) while.
- **1Q2023 takeaways**. 1Q2023 EBITDA dynamics (down 9% y/y) remain misleading due to 1) non-existing supplementary telco tax in 1Q2022 (to be levelled out in 2Q2023E) and 2) ARPU inflationary increases applied only as of March 2023. Still, directs costs are 12% higher y/y and indirect ones are 28% higher y/y (adjusted for supplementary tax). We believe the lack of an increase in FY2023 guidance represents a highly cautious approach of MTelekom's management.
- **Sour outlook?** Hungarian inflation at 24% presently bodes poorly for opex outlook, and the possibility of a 24% hike in APRUs remains questionable (as it could trigger client outflow). The supplementary telco tax may easily turn from one-off into a perpetuity, we believe. Magyar Telekom has just granted a HUF1.4bn/quarter voluntary salary increase to its employees as of 3Q2023, which should cut the company's valuation by 7.5% alone, we calculate. Moreover, please note that the management openly points at high economic / business and competitive challenges MTelekom faces in its core telco markets.
- **Earnings forecasts.** We keep forecasts as of 12/05/2023 unchanged.
- **Valuation and risks**. We apply no changes to our blended TP at HUF371, keeping Underperform recommendation unchanged. The Hungarian state builds its media player, which represents a major long-term downside risk (highlighted by MTel's management). The prolongation of the supplementary telco tax beyond 2023 poses a downside risk to MTelekom. High inflation poses a risk to the company's results and to spectrum renewal fees in the future. The government's approach to foreign investors might become an issue for German-controlled MTelekom. Softened investors' approach to Hungary and its stocks would offer a decent share price upside to MTelekom via catch-up with peers on a comparative valuation basis.

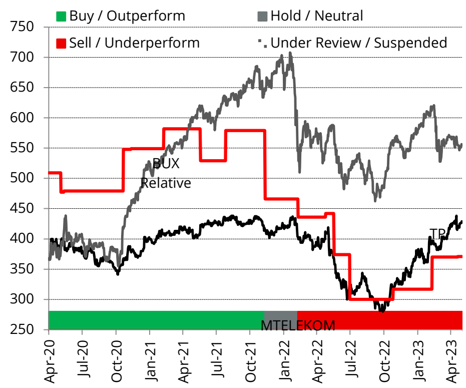
Magyar Telekom: Financial summary and ratios

Year to Dec, HUFmn	2021	2022	2023E	2024E	2025E
Sales	700,120	746,669	800,443	873,515	887,598
EBITDA	240,771	247,946	263,718	294,822	295,090
EBIT	92,809	109,178	126,558	157,662	157,930
Net profit	58,997	67,074	75,824	91,048	95,814
P/E (x)	7.4	5.3	5.7	4.7	4.5
EV/ EBITDA (x)	4.0	3.5	3.6	3.2	3.2
FCF Yield	12.7%	1.0%	11.0%	11.1%	13.5%
Dividend Yield	6.0%	8.3%	10.2%	11.6%	14.1%

Source: Company data, Santander Brokerage estimates NOTE: 2021-22 valuation ratios based on historical average prices

RECOMMENDATION	Underperform
Current price (May 23, 2023, HUF)	429
Target price (Dec'23, HUF)	**371**

STOCK PERFORMANCE



The chart measures performance against the BUX index.

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Fig. 319. Magyar Telekom: Quarterly results review

HUFmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	y/y	q/q
Sales	160,468	165,014	175,083	192,284	174,055	182,496	190,915	199,203	**195,870**	*12.5%*	*-1.7%*
EBITDA	44,151	53,239	60,292	58,581	55,815	51,395	58,578	55,725	**50,821**	*-8.9%*	*-8.8%*
EBITDA margin	*27.5%*	*32.3%*	*34.4%*	*30.5%*	*32.1%*	*28.2%*	*30.7%*	*28.0%*	***25.9%***	*-6.1*	*-2.0*
EBIT	15,066	22,595	29,482	25,666	26,777	22,686	31,306	28,409	**24,447**	*-8.7%*	*-13.9%*
EBIT margin	*9.4%*	*13.7%*	*16.8%*	*13.3%*	*15.4%*	*12.4%*	*16.4%*	*14.3%*	***12.5%***	*-2.9*	*-1.8*
Net profit	8,902	13,504	17,873	18,718	18,453	10,570	17,062	16,869	**10,519**	*-43.0%*	*-37.6%*
Net margin	*5.5%*	*8.2%*	*10.2%*	*9.7%*	*10.6%*	*5.8%*	*8.9%*	*8.5%*	***5.4%***	*-5.2*	*-3.1*

Source: Company data

Fig. 320. Magyar Telekom: Forecasts changes

HUFmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	800,443	800,443	*0%*	873,515	873,515	*0%*	887,598	887,598	*0%*
EBITDAaL	237,246	237,246	*0%*	268,350	268,350	*0%*	268,618	268,618	*0%*
EBIT	126,558	126,558	*0%*	157,662	157,662	*0%*	157,930	157,930	*0%*
Net profit	75,824	75,824	*0%*	91,048	91,048	*0%*	95,814	95,814	*0%*

Source: Santander Brokerage Poland estimates

Fig. 321. Magyar Telekom: Valuation changes *

HUF per share	New	Previous	*Change*
DCF valuation	205	205	*0%*
DDM valuation	263	263	*0%*
Comparable valuation	813	813	*0%*
Target Price	**371**	**371**	***0%***

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

Fig. 322. Magyar Telekom: Financial statements forecast

HUFbn	2021	2022	2023E	2024E	2025E
Net sales	700.1	746.7	800.4	873.5	887.6
Taxes	-34.2	-58.3	-58.5	-59.3	-60.2
Cost of sales	-284.9	-297.9	-317.0	-338.2	-345.6
Operating exp.	-144.3	-150.8	-163.2	-183.2	-188.7
EBITDA	240.8	247.9	263.7	294.8	295.1
EBIT	92.8	109.2	126.6	157.7	157.9
Profit before tax	79.1	84.4	97.2	116.7	122.8
Net profit	59.0	67.1	75.8	91.0	95.8
EBITDA margin	34.4%	33.2%	32.9%	33.8%	33.2%
EBIT margin	13.3%	14.6%	15.8%	18.0%	17.8%
Net margin	8.4%	9.0%	9.5%	10.4%	10.8%

HUFbn	2021	2022	2023E	2024E	2025E
Current assets	231.9	241.3	261.6	281.4	300.8
Fixed assets	1,168.8	1,215.1	1,238.4	1,275.1	1,313.3
Total assets	1,400.7	1,456.4	1,500.1	1,556.5	1,614.1
Current liabilities	295.4	306.9	318.8	334.5	357.1
bank debt	115.8	106.2	106.2	106.2	130.0
Long-term liabilities	412.3	414.7	414.7	414.7	414.7
bank debt	379.9	385.4	385.4	385.4	385.4
Equity	652.9	691.7	723.5	764.3	799.3
Total liability and equity	1,400.7	1,456.4	1,500.1	1,556.5	1,614.1
Net debt	520.1	521.7	518.4	520.9	523.7
Net Debt/ EBITDA (x)	2.2	2.1	2.0	1.8	1.8

HUFbn	2021	2022	2023E	2024E	2025E
CF from operations	138.1	201.5	207.9	221.5	233.5
CF from investment	-128.5	-170.1	-160.1	-173.4	-174.9
CF from financing, incl.	-12.9	-34.2	-44.5	-50.6	-37.5
dividends	-16.1	-29.6	-44.1	-50.2	-60.9
Net change in cash	0.6	-2.9	3.3	-2.5	21.1

Source: Company data, Santander Brokerage Poland estimates

Santander

Orange Pl

Bloomberg: OPL PW, Reuters: OPL.WA

CEE Equity Research

Telecoms, Poland

Plateau has been reached?

- **Equity story**. At above-consensus 1Q2023 results, revenues were supported by exceptionally strong equipment sales, and EBITDAaL beat originated in full from ~PLN20mn positive one-off. Looking further, we would expect every future quarterly EBITDAaL in 2023 to remain more pressurized by the Polish inflation, and strong minimal wage growth could keep these pressures on in the medium term, we believe. While strong zloty might ease s-t opex pressures, growth at OPL's KPIs remains disturbingly slow, we admit. Keeping in mind management's 1) remarks on strong competition in broadband, 2) surprisingly cautious ARPO outlook and 3) inflationary pressures, we assume that the coming quarters should not come in bold at y/y growth. Still, in late 2023 Orange France is to receive EUR4.3bn recap dividend and the thesis of ORA taking advantage of this cash to buy back Orange Belgium and / or Poland should remain very alive in 2H2023, we assume. Along with yet un-sold OPL's mobile network, all this might provide strong support to Orange Pl share price till 2023 year-end, we ascertain, while in short-term, 4.6%-yielding dividend may be collected till June 20, 2023.
- **1Q2023 takeaways**. 1Q2023 readings were all above consensus, but we believe that some PLN20mn one-off explains beat at EBITDAaL in full, while the company's exceptionally strong real estate disposal (one-off, highly unlikely to reoccur on the same scale in the coming quarters, we assume) fueled EBIT / net profit. Gross margin expansion (up PLN80mn acc. to Orange Pl) represents the key positive forward-looking info in 1Q2023, acc. to the management. Still, Orange Pl also points at strong competition in fixed broadband segment, where operators like T-Mobile kick off their operations from scratch. At ARPUs, the management guides for a very slow improvement at y/y dynamics level due to the mechanism of offers' renewals, but the CEO remained quite conservative about the 2024 outlook, suggesting uncertainty about OPL's growth dynamics.
- **Mid-term support: ORA's EUR4.3bn recap dividend, mobile network disposal**. Orange France plans to ink its Spanish merger (Orange Spain + MasMovil) at the turn of 2023/24. It should result in ORA's EUR4.2bn recap dividend, acc. to the official reports. ORA's official plan is to use it for deleveraging and potential NewCo ramp-up. Still, with the Belgian and Polish subsidiaries traded at a discount, no scenario could be ruled out, we believe. Additionally, OPL still holds cash frozen in its mobile infrastructure.
- **Earnings forecasts**. We keep forecasts as of 10/05/2023 unchanged.
- **Valuation and risks**. We apply no changes to our valuation at PLN8.0, keeping Neutral recommendation unchanged. New aggressive convergent offer(s) represents the key risk factor to the Polish incumbent. Global GDP growth faltering could expose equity markets and valuations, just as the sudden weakening of consumer equipment spree. ARPU inflation-indexing could pose an upside, just as low price paid for 5G spectrum. The disposal of mobile infrastructure or sale of access to OPL network (fiber to Iliad, hypothetically, mobile to MVNOs) could offer upsides to OPL valuation, we believe.

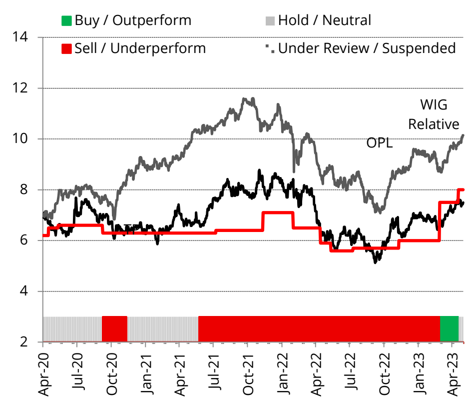
Orange Pl: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	11,928	12,488	12,946	13,248	13,781
EBITDAaL	2,972	3,078	3,132	3,258	3,508
EBIT	2,220	1,161	1,383	1,367	1,532
Net profit	1,681	724	937	847	899
P/E (x)	5.7	12.1	10.5	11.6	10.9
EV/ EBITDA (x)	4.6	4.1	4.4	4.2	4.0
FCF Yield	16.5%	7.9%	2.9%	9.0%	5.9%
Dividend Yield	0.0%	3.7%	4.7%	6.7%	9.3%

Source: Company data, Santander Brokerage estimates NOTE: 2021-22 valuation ratios based on historical average prices

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	7.504
Target price (Dec'23, PLN)	**8.0**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 323. Orange Pl: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	*y/y*	*q/q*
Sales	2,918	2,954	2,885	3,171	2,931	3,055	3,123	3,379	**3,139**	7.1%	-7.1%
EBITDAaL	709	756	791	707	722	798	822	736	**762**	5.5%	3.5%
EBITDAaL margin	*24.3%*	*25.6%*	*27.4%*	*22.3%*	*24.6%*	*26.1%*	*26.3%*	*21.8%*	***24.3%***	*-0.4*	*2.5*
EBIT	116	224	1,856	15	244	337	324	256	**393**	61.1%	53.5%
EBIT margin	*4.0%*	*7.6%*	*64.3%*	*0.5%*	*8.3%*	*11.0%*	*10.4%*	*7.6%*	***12.5%***	*4.2*	*4.9*
Net profit	39	116	1,586	-69	125	243	193	163	**270**	116.0%	65.6%
Net margin	*1.3%*	*3.9%*	*55.0%*	*-2.2%*	*4.3%*	*8.0%*	*6.2%*	*4.8%*	***8.6%***	*4.3*	*3.8*

Source: Company data

Fig. 324. Orange Pl: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	12,946	12,946	*0%*	13,248	13,248	*0%*	13,781	13,781	*0%*
EBITDAaL	3,132	3,132	*0%*	3,258	3,258	*0%*	3,508	3,508	*0%*
EBIT	1,383	1,383	*0%*	1,367	1,367	*0%*	1,532	1,532	*0%*
Net profit	937	937	*0%*	847	847	*0%*	899	899	*0%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 325. Orange Pl: Valuation changes*

PLN per share	New	Previous	*Change*
DCF valuation	7.3	7.3	*0%*
DDM valuation	8.3	8.3	*0%*
Comparable valuation	9.1	9.1	*0%*
Target Price	**8.0**	**8.0**	***0%***

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

Fig. 326. Orange Pl: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	11,928	12,488	12,946	13,248	13,781
Cost of sales	-4,340	-4,368	-4,643	-4,744	-5,003
Operating exp.	-4,021	-4,378	-4,445	-4,482	-4,491
EBITDAaL	2,972	3,078	3,132	3,258	3,508
EBIT	2,220	1,161	1,383	1,367	1,532
Net profit	1,681	724	937	847	899
EBITDA margin	24.9%	24.6%	24.2%	24.6%	25.5%
EBIT margin	18.6%	9.3%	10.7%	10.3%	11.1%
Net margin	14.1%	5.8%	7.2%	6.4%	6.5%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	4,137	4,507	6,083	6,376	6,167
Fixed assets	22,020	22,259	23,155	23,196	23,669
Total assets	26,157	26,766	29,238	29,572	29,836
Current liabilities	4,353	5,245	5,560	5,560	5,698
bank debt	573	1,330	1,330	1,330	1,330
Long-term liabilities	9,193	8,068	9,603	9,603	9,603
bank debt	7,268	6,465	8,000	8,000	8,000
Equity	12,609	13,451	14,073	14,407	14,533
Total liability and equity	26,157	26,766	29,238	29,572	29,836
Net debt	4,060	3,991	3,969	3,735	4,069
Net Debt/ EBITDA (x)	1.4	1.3	1.3	1.1	1.2

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	2,042	2,489	3,168	2,929	3,055
CF from investment	65	-2,022	-2,881	-2,040	-2,471
CF from financing, incl.	-1,532	-374	1,076	-656	-918
dividends	0	-328	-459	-656	-918
Net change in cash	575	93	1,363	233	-334

Source: Company data, Santander Brokerage Poland estimates

Utilities

Fig. 327. Recommendation and valuation summary

Company	Rec.	TP (local)	Price (local)	Upside to TP	P/E (x) 2023E	P/E (x) 2024E	P/E (x) 2025E	EV/EBITDA (x) 2023E	EV/EBITDA (x) 2024E	EV/EBITDA (x) 2025E
PGE	Neutral	7.70	7.40	+4%	6.6	4.8	3.9	5.0	4.5	4.1
Tauron	Outperform	5.10	2.37	+115%	2.4	2.3	2.1	5.3	4.5	4.5
Enea	Outperform	12.30	7.27	+69%	2.0	5.6	4.4	3.2	6.0	5.9
Polenergia	Restricted	n.a.	83.80	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ZE PAK	Underperform	16.60	22.40	-26%	n.a.	15.7	5.5	-28.5	12.5	9.4
CEZ *	Underperform	740	1,011	-27%	15.1	15.2	16.5	7.6	6.7	7.2
Median					**6.6**	**5.6**	**4.4**	**5.3**	**6.0**	**5.9**

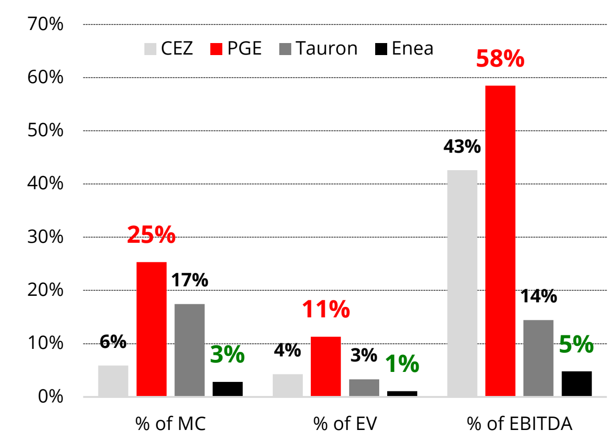
*Source: Santander Brokerage Poland estimates, * TP and local price in CZK*

In carve-out we trust, 8.5% distribution WACC distinguishes TPE

Key Sector Themes: Regulations… In late 2022 the Polish government capped renewables' electricity prices and margins in the sales segment, clear negatives to these sectors. G segment electricity price stays regulated, the regulator plays with short-term tariffs in heat, while the distribution segment's future (despite very decent 2023 WACC at 8.5%) remains obscure. In our view, all these factors add to the vagueness of the sector's results and FCF. **…and Carve-Out.** Two years have passed, and utilities' coal-fired conventional generation assets have not yet been carved-out. If it goes ahead, the companies' carbon footprint would see a highly material reduction, likely turning them investable again, we believe. We assume that unionists' approval might make the carve-out real this year. However, we cautiously assume utilities' debt will not be reduced, which would cap PGE / TPE / ENA upsides.

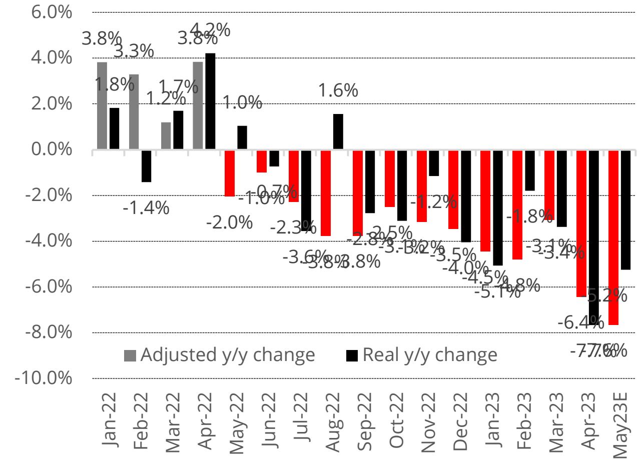
TPE Top pick, Zero-pollution ENA, Nuclear-exposed PGE. The carve-out of TPE's mining (key valuation driver) is finalized, while the distribution yielded the WACC growth of 2.8pp y/y to 8.5%in 2023, both factors pointing at TPE as the top pick among the state-run utilities. PGE's appeal remains muted due to its high exposure to coal and gas via the Polish-largest heat segment, not to mention disconcerting new-born exposure to a greenfield large-scale nuclear project. Enea's relative low net debt comes at the expense of negligible renewable assets, while we expect its carbon footprint falling almost to nil after the carve-out.

Fig. 328. Annual CO2 payment vs MC / EV / EBITDA



Source: companies, Santander Brokerage Poland estimates

Fig. 329. Polish electricity consumption / distribution trend



Source: PSE, Santander Brokerage Poland estimates

CEZ

Bloomberg: CEZ CP, Reuters: CPS.CP

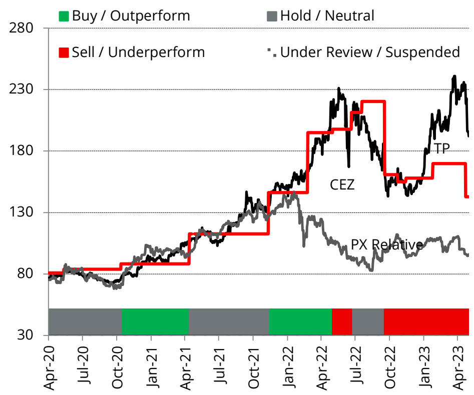
CEE Equity Research

Utilities, Czechia

Weakening Fundamentals vs (Insider?) Trading

RECOMMENDATION	Underperform
Current price (May 23, 2023, CZK)	1,011
Target price (Dec'23 CZK)	**740**

STOCK PERFORMANCE



The chart measures performance against the PX index.

- **Equity story**. Market normalization zeroed gains on volatility, triggering below-consensus 1Q2023 readings. Moreover, these circumstances made CEZ cut its FY2023 EBITDA guidance to CZK105-115bn (upper-end range cut by CZK10bn vs Feb2023). Additionally, fossil fuels' continuing heavy price declines resulted in 2024/25 electricity forwards falling by ~30% in three months, a clear negative info for electricity price-driven FCFs of CEZ. Additionally, the Czech koruna strength exacerbates the above-mentioned, which along with EU's determination to keep CO2 price high (negative for profitability of coal/gas-fired units) exerts strong negative pressure on the company's financial outlook, depressing our 2024/25E EBITDA forecasts ~30% vs Feb2023, dozen pp below Bloomberg consensus. Given a potential buy-out / split, we assume the Czech government's official focus on the budget discipline should minimize odds of premium paid to minority shareholders, the only counterargument being the steadily build up stake in CEZ since Feb2023 by Pavel Tykac, a Czech billionaire.
- **2024/25E: macro weighs on results / dividends, consensus massively overstated**. Plummeting gas and thermal coal prices (hot winter and macro fears) resulted in substantial decline in 2024/25E electricity price forwards, down some 30% vs Feb2023. Additionally, the EU seems willing to keep CO2 price high (negative for fossil units' profitability), and the Czech koruna strengthened by ~10% in the last three months. We cut our EBITDA forecasts by 28-33% in 2024/25E, which fall dozen pp short of Bloomberg consensus.
- **Split / Buy-Out Ideas?** Last year the Czech government's actions gave rise to speculations on CEZ's split or buy-out. We have heard no news since, and the Czech government's recent focus on curbing the budget deficit turns buyout at premium even less likely, we believe. Though, the Czech billionaire Pavel Tykac has been building up his stake in CEZ since Feb2023, suggesting that CEZ's intrinsic value is high.
- **Earnings forecasts.** We keep forecasts as of 15/05/23 unchanged.
- **Valuation and risks**. As blended TP at CZK740 offers scalable downside, we maintain CEZ at Underperform. Extreme temperatures could drive demand for fossil fuels and thus their prices of, supporting thus CEZ valuation. Delays in renewable fleet expansion and idled nuclear units would come in negative to valuation. The EU or Czech energy market regulation(s) represent the key downside risk, we believe, (i.e. prolonged electricity cap beyond 2023). Changes at RFR should affect company's DCF/DDM valuation and DY-based attractiveness. Early cancelation of windfall tax would offer upside to valuation and DYs, just like the State's hypothetical buy-out at a premium.

CEZ: Financial summary and ratios

Year to Dec, CZKmn	2021	2022	2023E	2024E	2025E
Sales	227,793	287,493	294,669	315,342	315,163
EBITDA	63,192	131,570	111,189	126,648	119,513
EBIT	16,098	101,927	76,557	90,295	83,533
Net profit	9,791	80,786	36,068	35,820	33,025
P/E (x)	35.1	6.2	15.1	15.2	16.5
EV/ EBITDA (x)	9.1	6.2	7.6	6.7	7.2
FCF Yield	23%	-14.2%	14.3%	5.6%	4.2%
Dividend Yield	8.2%	5.2%	11.6%	5.3%	5.3%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 330. CEZ: Quarterly results review

CZKmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	*y/y*	*q/q*
Sales	59,075	49,175	47,705	71,845	75,997	54,523	80,535	77,430	**93,380**	*22.9%*	*20.6%*
EBITDA	19,967	11,633	15,921	15,679	43,737	15,655	30,073	42,135	**32,655**	*-25.3%*	*-22.5%*
EBITDA margin	*33.8%*	*23.7%*	*33.4%*	*21.8%*	*57.6%*	*28.7%*	*37.3%*	*54.4%*	***35.0%***	*-22.6*	*-19.4*
EBIT	11,235	-5,091	7,660	2,296	36,189	8,061	20,961	36,716	**24,298**	*-32.9%*	*-33.8%*
EBIT margin	*19.0%*	*-10.4%*	*16.1%*	*3.2%*	*47.6%*	*14.8%*	*26.0%*	*47.4%*	***26.0%***	*-21.6*	*-21.4*
Net profit	8,386	-6,810	5,127	3,197	26,723	6,895	18,692	28,395	**10,772**	*-59.7%*	*-62.1%*
Net margin	*14.2%*	*-13.8%*	*10.7%*	*4.4%*	*35.2%*	*12.6%*	*23.2%*	*36.7%*	***11.5%***	*-23.6*	*-25.1*

Source: Company data

Fig. 331. CEZ: Forecasts changes

CZKmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	294,669	294,669	*0.0%*	315,342	315,342	*0.0%*	315,163	315,163	*0.0%*
EBITDA	111,189	111,189	*0.0%*	126,648	126,648	*0.0%*	119,513	119,513	*0.0%*
EBIT	76,557	76,557	*0.0%*	90,295	90,295	*0.0%*	83,533	83,533	*0.0%*
Net profit	36,068	36,068	*0.0%*	35,820	35,820	*0.0%*	33,025	33,025	*0.0%*

Source: Santander Brokerage Poland estimates

Fig. 332. CEZ: Valuation changes *

CZK per share	New	Previous	*Change*
DCF valuation	700	700	0%
DDM valuation	617	617	0%
Comparable valuation	982	982	0%
Target Price	**740**	**740**	**0%**

*Source: Santander Brokerage Poland estimates, * weights 60% DCF, 20% DDM, 20% comparable, as DCF is our primary valuation tool as it relies more on the company's long term outlook*

Fig. 333. CEZ: Financial statements forecast

CZKbn	2021	2022	2023E	2024E	2025E
Net sales	227.8	287.5	294.7	315.3	315.2
COGS	164.6	155.9	183.5	188.7	195.7
EBITDA	63.2	131.6	111.2	126.6	119.5
EBIT	16.1	101.9	76.6	90.3	83.5
Pre-tax profit	13.4	99.6	75.9	89.3	82.4
Net profit	9.8	80.8	36.1	35.8	33.0
EBITDA margin	27.7%	45.8%	37.7%	40.2%	37.9%
EBIT margin	7.1%	35.5%	26.0%	28.6%	26.5%
Net margin	4.3%	28.1%	12.2%	11.4%	10.5%

CZKbn	2021	2022	2023E	2024E	2025E
Current assets	708.9	555.4	363.9	280.2	281.4
Fixed assets	474.0	552.0	517.6	522.4	533.7
Total assets	1,182.9	1,107.4	881.6	802.6	815.1
Current liabilities	759.0	507.4	301.0	207.1	207.0
bank debt	42.0	61.9	61.9	61.9	61.9
Long-term liabilities	261.1	339.7	347.2	355.2	363.5
bank debt	95.9	140.2	147.2	154.2	161.2
Equity	162.8	260.3	233.4	240.3	244.6
Total liability and equity	1,182.9	1,107.4	881.6	802.6	815.1
Net debt	111.2	165.5	150.9	149.4	155.1
Net Debt/ EBITDA (x)	1.8	1.3	1.4	1.2	1.3

CZKbn	2021	2022	2023E	2024E	2025E
CF from operations	118.2	21.5	86.4	71.6	70.3
CF from investment	-38.5	-92.4	-8.8	-41.1	-47.3
CF from financing, incl.	-99.5	80.9	-55.9	-21.9	-21.7
dividends	-28.0	-25.8	-62.9	-28.9	-28.7
Net change in cash	-19.8	10.0	21.7	8.5	1.3

Source: Company data, Santander Brokerage Poland estimates

Santander

Enea

Bloomberg: ENA PW, Reuters: ENA.WA

CEE Equity Research

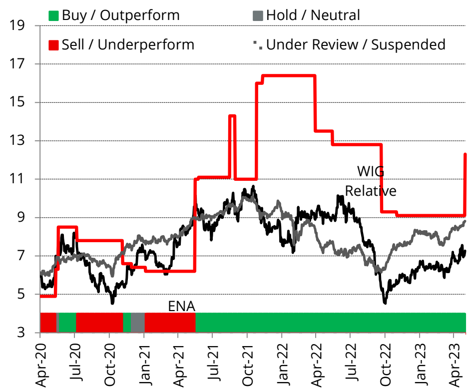
Utilities, Poland

Stellar Results, while Risks Mount

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	7.27
Target price (Dec'23, PLN)	**12.3**

- **Equity story.** Enea beat the consensus in 1Q23, yet the scale of outperformance was the smallest. Also, debt carve-out represents Enea's strongest potential driver, but in our view this scenario is quite unlikely. Enea's ratios are very low at 2023E due to consolidation of Bogdanka, and the disposal of the latter should turn the company relatively expensive. Finally, Enea's low indebtedness is in our view driven by the lack of renewable fleet, which should take a lot of capex to catch up with peers. Still following the carve-out, Enea's CO2 pollution will almost disappear.
- **Stellar 1Q2023 results, decent FY2023E outlook…** All three utilities posted 1Q23P results above-consensus, 1) monetizing 2023 distribution WACC at 8.5% (vs 5.7% in 2022), 2) taking advantage of unique heat segment opportunity (high Jan-Apr23 tariff vs plummeting gas prices and un-regulated electricity sales), and finally 3) finding numerous ways to cope with government's restrictions in conventional generation and sales segments. We expect 1Q23 robust performance to continue in 2Q23E as well, likely warranting above-consensus results of all three names.
- **…but Carve-Out certainty represents a stretch …** Conventional coal-fired generation assets were to be carved-out in 1Q2023, but creation of NABE vehicle has been delayed till some vague date in 2H2023. As unionists have approved the carve-out, we believe it will come true this year, though we admit the delays are annoying, and certainty of transformation (fundamental for uncovering the Polish utilities' value) falls below 100%.
- **…while risks mount**. Strong 1H23E may make the regulator / government get tough on utilities as of July 2023, just ahead of the Parliamentary elections. Also, Polish electricity consumption plummets (down 5-7% y/y), undermining the distribution segment's strength. We also believe renewable electricity price caps may be maintained in the long-term. Finally, recent CEZ share price de-rating depressed Czech (nuclear units/dividend payer) company's ratios, with Polish utilities' inexpensiveness waning.
- **Earnings forecasts.** We keep forecasts as of 23/05/2023 unchanged.
- **Valuation and risks**. Blended approach yields Enea's TP at PLN12.3, validating Outperform recommendation. Carve-out represents the key value driver, but there are numerous unknowns to the process. The regulations could pose unpredictable risks, just as potential windfall taxes. Weakening macro and high inflation would come in detrimental, while the EU funds would unlock a decent upside.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Enea: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	21,275	30,076	36,518	37,187	37,187
EBITDA	3,636	2,220	4,894	2,178	2,679
EBIT	2,067	578	3,163	1,139	1,572
Net profit	1,679	48	1,892	684	866
P/E (x)	2.2	80.0	2.0	5.6	4.4
EV/ EBITDA (x)	3.1	7.5	3.2	6.0	5.9
FCF Yield	75%	-47%	30%	-141%	-72%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 334. Enea: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	*y/y*	*q/q*
Sales	5,041	4,778	5,467	5,924	7,241	7,465	8,021	7,386	**12,531**	*73.1%*	*69.7%*
EBITDA	923	730	1,121	832	1,059	779	456	146	**1,044**	*-1.4%*	*615.1%*
EBITDA margin	*18.3%*	*15.3%*	*20.5%*	*14.0%*	*14.6%*	*10.4%*	*5.7%*	*2.0%*	***8.3%***	*-6.3*	*6.4*
EBIT	548	355	727	437	680	396	46	-544	**611**	*-10.1%*	*n.m.*
EBIT margin	*10.9%*	*7.4%*	*13.3%*	*7.4%*	*9.4%*	*5.3%*	*0.6%*	*-7.4%*	***4.9%***	*-4.5*	*12.2*
Net profit	406	314	570	496	548	244	45	-743	**202**	*-63.1%*	*n.m.*
Net margin	*8.1%*	*6.6%*	*10.4%*	*8.4%*	*7.6%*	*3.3%*	*0.6%*	*-10.1%*	***1.6%***	*-6.0*	*11.7*

Source: Company data

Fig. 335. Enea: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	36,518	36,518	*0%*	37,187	37,187	*0%*	37,187	37,187	*0%*
EBITDA	4,894	4,894	*0%*	2,178	2,178	*0%*	2,679	2,679	*0%*
EBIT	3,163	3,163	*0%*	1,139	1,139	*0%*	1,572	1,572	*0%*
Net profit	1,892	1,892	*0%*	684	684	*0%*	866	866	*0%*

Source: Santander Brokerage Poland estimates

Fig. 336. Enea: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	15.0	15.0	*0.0%*
DDM valuation	3.4	3.4	*0.0%*
Comparable valuation	13.4	13.4	*0.0%*
Target Price	**12.3**	**12.3**	***0.0%***

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

Fig. 337. Enea: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	21,275	30,076	36,518	37,187	37,187
COGS	17,639	27,856	31,624	35,008	34,508
EBITDA	3,636	2,220	4,894	2,178	2,679
EBIT	2,067	578	3,163	1,139	1,572
Pre-tax profit	1,962	278	2,996	845	1,070
Net profit	1,679	48	1,892	684	866
EBITDA margin	17.1%	7.4%	13.4%	5.9%	7.2%
EBIT margin	9.7%	1.9%	8.7%	3.1%	4.2%
Net margin	7.9%	0.2%	5.2%	1.8%	2.3%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	12,290	14,273	17,777	10,010	9,241
Fixed assets	22,338	23,162	24,958	19,543	23,071
Total assets	34,628	37,435	42,734	29,553	32,312
Current liabilities	11,579	13,589	15,322	8,360	8,238
bank debt	2,209	782	1,000	1,000	1,000
Long-term liabilities	7,871	7,700	8,840	10,437	12,452
bank debt	5,023	4,712	5,712	8,712	10,712
Equity	15,178	16,146	18,572	10,756	11,623
Total liability and equity	34,628	37,435	42,734	29,553	32,312
Net debt	3,078	3,972	2,814	8,224	10,993
Net Debt/ EBITDA (x)	0.8	1.8	0.6	3.8	4.1

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	3,913	-2,028	3,493	4,701	1,865
CF from investment	-1,506	214	-2,869	-10,111	-4,634
CF from financing, incl.	-195	-818	1,753	3,000	2,000
dividends	0	0	0	0	0
Net change in cash	2,212	-2,632	2,377	-2,411	-769

Source: Company data, Santander Brokerage Poland estimates

PGE

Bloomberg: PGE PW, Reuters: PGE.WA

CEE Equity Research

Utilities, Poland

Stellar Results, while Risks Mount

- **Equity story.** PGE is the most liquid and recognizable Polish utility, hence we believe it could be the first one to be re-rated on the assumed carve-out. Though, PGE's net debt (CO2 dues and pricey acquisitions) should grow to ~PLN20bn, depressing the stock's upside. The company high first-round of support for its off-shore projects along with their scale and high support for gas units distinguish PGE from the two other names. However, heat segment should keep PGE's carbon footprint relatively high in the long term, and most importantly the company has just entered large-scale nuclear project, which we perceive as long-term value disruptor.
- **Stellar 1Q2023 results, decent FY2023E outlook...** All three utilities posted 1Q23P results above-consensus, 1) monetizing 2023 distribution WACC at 8.5% (vs 5.7% in 2022), 2) taking advantage of unique heat segment opportunity (high Jan-Apr23 tariff vs plummeting gas prices and un-regulated electricity sales), and finally 3) finding numerous ways to cope with government's restrictions in conventional generation and sales segments. We expect 1Q23 strength to be continued in 2Q23E as well, likely warranting above-consensus results of all the three names.
- **...but Carve-Out certainty represent a stretch...** Conventional coal-fired generation assets were to be carved-out in 1Q2023, but creation of NABE vehicle has been delayed till some vague date in 2H2023. As unionists have approved carve-out, we believe it will come true this year, though we admit the delays are annoying, and certainty of transformation (fundamental for the Polish utilities) falls below 100%.
- **...while risks mount.** Strong 1H23E may make the regulator / government get tough on utilities as of July 2023, just ahead of the Parliamentary elections. Also, Polish electricity consumption plummets (down 5-7% y/y), undermining the distribution segment's strength. We also believe renewable electricity price caps may be maintained in the long-term. Finally, recent CEZ share price de-rating depressed Czech (nuclear units/dividend payer) company's ratios, with Polish utilities' inexpensiveness waning.
- **Earnings forecasts.** We keep forecasts as of 23/05/2023 unchanged.
- **Valuation and risks.** Blended approach yields PGE's TP at PLN7.7, and despite only 4% upside we keep it at Neutral ahead of anticipated carve-out. Carve-out represents the key value driver, but there are numerous unknowns to the process. The regulations could pose unpredictable risks, just as potential windfall taxes. Weakening macro and high inflation would come in detrimental, while the EU funds would unlock a decent upside.

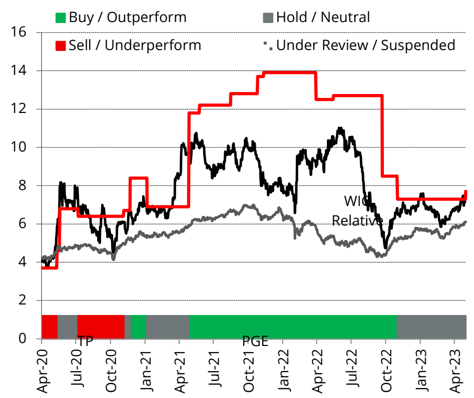
PGE: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	52,730	73,435	84,733	98,855	98,855
EBITDA	9,535	8,671	7,938	8,107	9,611
EBIT	5,123	4,299	3,476	5,076	6,460
Net profit	3,949	3,359	2,527	3,479	4,236
P/E (x)	4.1	5.5	6.6	4.8	3.9
EV/ EBITDA (x)	3.2	4.5	5.0	4.5	4.1
FCF Yield	30%	15%	-15%	-79%	-19%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2020-21 valuation ratios based on historical average prices

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	7.4
Target price (Dec'23, PLN)	**7.7**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 338. PGE: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	y/y	q/q
Sales	11,900	11,710	10,942	19,880	16,897	15,728	19,355	21,455	**27,208**	*61.0%*	*26.8%*
EBITDA	2,206	3,023	2,110	2,171	2,615	3,777	1,926	339	**3,430**	*31.2%*	*911.8%*
EBITDA margin	*18.5%*	*25.8%*	*19.3%*	*10.9%*	*15.5%*	*24.0%*	*10.0%*	*1.6%*	***12.6%***	*-2.9*	*11.0*
EBIT	1,164	1,981	972	993	1,550	2,704	805	-760	**2,343**	*51.2%*	*n.m.*
EBIT margin	*9.8%*	*16.9%*	*8.9%*	*5.0%*	*9.2%*	*17.2%*	*4.2%*	*-3.5%*	***8.6%***	*-0.6*	*12.2*
Net profit	808	1,425	561	721	1,022	2,266	698	-614	**1,724**	*68.7%*	*n.m.*
Net margin	*6.8%*	*12.2%*	*5.1%*	*3.6%*	*6.0%*	*14.4%*	*3.6%*	*-2.9%*	***6.3%***	*0.3*	*9.2*

Source: Company data

Fig. 339. PGE: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	84,733	84,733	*0.0%*	98,855	98,855	*0.0%*	98,855	98,855	*0.0%*
EBITDA	7,938	7,938	*0.0%*	8,107	8,107	*0.0%*	9,611	9,611	*0.0%*
EBIT	3,476	3,476	*0.0%*	5,076	5,076	*0.0%*	6,460	6,460	*0.0%*
Net profit	2,527	2,527	*0.0%*	3,479	3,479	*0.0%*	4,236	4,236	*0.0%*

Source: Santander Brokerage Poland estimates

Fig. 340. PGE: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	9.1	9.1	*0.0%*
DDM valuation	2.5	2.5	*0.0%*
Comparable valuation	8.7	8.7	*0.0%*
Target Price	**7.7**	**7.7**	***0.0%***

*Source: Santander Brokerage Poland estimates, * weights 60% DCF, 20% DDM, 20% comparable, as DCF is our primary valuation tool as it relies more on the company's long-term outlook*

Fig. 341. PGE: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	52,730	73,435	84,733	98,855	98,855
COGS	43,195	64,764	76,794	90,748	89,244
EBITDA	9,535	8,671	7,938	8,107	9,611
EBIT	5,123	4,299	3,476	5,076	6,460
Pre-tax profit	4,850	4,141	3,120	4,295	5,230
Net profit	3,949	3,359	2,527	3,479	4,236
EBITDA margin	18.1%	11.8%	9.4%	8.2%	9.7%
EBIT margin	9.7%	5.9%	4.1%	5.1%	6.5%
Net margin	7.5%	4.6%	3.0%	3.5%	4.3%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	22,727	34,046	32,627	19,518	19,314
Fixed assets	66,239	71,732	74,363	47,223	54,512
Total assets	88,966	105,778	106,989	66,740	73,826
Current liabilities	21,797	35,296	33,936	16,117	15,996
bank debt	2,160	3,766	3,766	3,766	3,766
Long-term liabilities	18,878	16,099	16,143	24,200	27,170
bank debt	8,666	6,799	6,799	20,000	23,000
Equity	48,291	54,383	56,910	26,424	30,660
Total liability and equity	88,966	105,778	106,989	66,740	73,826
Net debt	4,093	-1,322	1,100	14,221	17,425
Net Debt/ EBITDA (x)	0.4	-0.2	0.1	1.8	1.8

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	5,032	998	7,093	6,873	7,388
CF from investment	-686	1,635	-9,515	-19,149	-10,592
CF from financing, incl.	-769	2,520	0	12,356	3,000
dividends	0	0	0	0	0
Net change in cash	3,577	5,154	-2,422	80	-204

Source: Company data, Santander Brokerage Poland estimates

Tauron

Bloomberg: TPE PW, Reuters: TPE.WA

CEE Equity Research

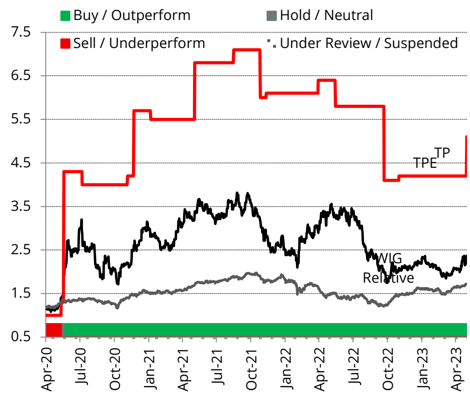
Utilities, Poland

Stellar Results, while Risks Mount

- **Equity story.** 2022's carve-out of the company's coal mining segment was in general overlooked by the market, but carve-out of conventional generation may unlock company's intrinsic value we believe. Tauron enjoys high net value of distribution and renewable assets, the former of key importance taking into account Poland's distribution WACC at 8.5%. The company intensively builds its renewable pipeline, along with ~450MW in future off-shore. High indebtedness and minor heat segment exposure might weaken the company's investment story, just as consumption trends and recession risk could expose Tauron to declining distribution volumes / EBITDAs. The stock is our Top Pick.
- **Stellar 1Q2023 results, decent FY2023E outlook…** All three utilities posted 1Q23P results above-consensus, 1) monetizing 2023 distribution WACC at 8.5% (vs 5.7% in 2022), 2) taking advantage of unique heat segment opportunity (high Jan-Apr23 tariff vs plummeting gas prices and un-regulated electricity sales), and finally 3) finding numerous ways to cope with government's restrictions in conventional generation and sales segments. We expect 1Q23 strength to be continued in 2Q23E as well.
- **…but Carve-Out certainty represents a stretch…** Conventional coal-fired generation assets were to be carved-out in 1Q2023, but creation of NABE vehicle has been delayed till some vague date in 2H2023. As unionists have approved carve-out, we believe it will come true this year, though we admit the delays are annoying, and certainty of transformation (fundamental for the Polish utilities) falls below 100%.
- **…while risks mount**. Strong 1H23E may make the regulator / government get tough on utilities as of July 2023, just ahead of the Parliamentary elections. Also, Polish electricity consumption plummets (down 5-7% y/y), undermining distribution segment's strength. We also believe renewable electricity price caps may be maintained in the long-term. Finally, recent CEZ share price de-rating depressed Czech (nuclear units/dividend payer) company's ratios, with Polish utilities' inexpensiveness waning.
- **Earnings forecasts.** We keep forecasts as of 23/05/2023 unchanged.
- **Valuation and risks**. Blended approach yields Tauron's TP at PLN5.1, validating Outperform recommendation. Carve-out represents the key value driver, but there are numerous unknowns to the process. The regulations could pose unpredictable risks, just as potential windfall taxes. Weakening macro, declining distribution volumes and high inflation would come in detrimental, while the EU funds would unlock a decent upside.

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	2.370
Target price (Dec'23, PLN)	**5.1**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Tauron: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	25,614	36,311	42,311	49,882	50,880
EBITDA	4,141	4,016	5,133	5,079	5,290
EBIT	916	1,069	3,048	3,221	3,347
Net profit	338	-132	1,725	1,821	1,984
P/E (x)	16.3	-35.4	2.4	2.3	2.1
EV/ EBITDA (x)	5.4	6.9	5.3	4.5	4.5
FCF Yield	17%	-21%	8%	-52%	-35%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 342. Tauron: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	y/y	q/q
Sales	6,445	5,422	5,990	7,749	9,813	8,311	8,686	10,531	**15,863**	*61.7%*	*50.6%*
EBITDA	1,735	1,183	787	445	1,955	396	495	1,170	**2,229**	*14.0%*	*90.5%*
EBITDA margin	*26.9%*	*21.8%*	*13.1%*	*5.7%*	*19.9%*	*4.8%*	*5.7%*	*11.1%*	***14.1%***	*-5.9*	*2.9*
EBIT	1,212	-482	279	-110	1,418	-252	-41	-6	**1,697**	*19.7%*	*n.m.*
EBIT margin	*18.8%*	*-8.9%*	*4.7%*	*-1.4%*	*14.5%*	*-3.0%*	*-0.5%*	*-0.1%*	***10.7%***	*-3.8*	*10.8*
Net profit	851	-469	102	-112	901	-272	-232	-529	**988**	*9.7%*	*n.m.*
Net margin	*13.2%*	*-8.6%*	*1.7%*	*-1.4%*	*9.2%*	*-3.3%*	*-2.7%*	*-5.0%*	***6.2%***	*-3.0*	*11.3*

Source: Company data

Fig. 343. Tauron: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	42,311	42,311	*0%*	49,882	49,882	*0%*	50,880	50,880	*0%*
EBITDA	5,133	5,133	*0%*	5,079	5,079	*0%*	5,290	5,290	*0%*
EBIT	3,048	3,048	*0%*	3,221	3,221	*0%*	3,347	3,347	*0%*
Net profit	1,725	1,725	*0%*	1,821	1,821	*0%*	1,984	1,984	*0%*

Source: Santander Brokerage Poland estimates

Fig. 344. Tauron: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	6.1	6.1	*0.0%*
DDM valuation	1.9	1.9	*0.0%*
Comparable valuation	5.4	5.4	*0.0%*
Target Price	**5.1**	**5.1**	***0.0%***

*Source: Santander Brokerage Poland estimates, * weights 60% DCF, 20% DDM, 20% comparable, as DCF is our primary valuation tool as it relies more on the company's long term outlook*

Fig. 345. Tauron: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	25,614	36,311	42,311	49,882	50,880
COGS	21,473	32,295	37,179	44,803	45,589
EBITDA	4,141	4,016	5,133	5,079	5,290
EBIT	916	1,069	3,048	3,221	3,347
Pre-tax profit	675	112	2,130	2,248	2,449
Net profit	338	-132	1,725	1,821	1,984
EBITDA margin	16.2%	11.1%	12.1%	10.2%	10.4%
EBIT margin	3.6%	2.9%	7.2%	6.5%	6.6%
Net margin	1.3%	-0.4%	4.1%	3.7%	3.9%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	6,220	10,267	11,416	9,968	9,681
Fixed assets	33,855	35,053	36,615	30,574	33,990
Total assets	40,075	45,320	48,030	40,543	43,671
Current liabilities	9,917	10,195	10,866	7,639	7,732
bank debt	3,204	528	528	528	528
Long-term liabilities	13,634	18,511	18,825	21,543	22,596
bank debt	11,063	15,959	15,959	18,000	19,000
Equity	16,524	16,614	18,339	11,360	13,344
Total liability and equity	40,075	45,320	48,030	40,543	43,671
Net debt	12,977	13,865	13,532	15,692	17,150
Net Debt/ EBITDA (x)	3.1	3.5	2.6	3.1	3.2

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	6,371	2,887	3,864	2,312	3,882
CF from investment	-4,537	-3,775	-3,531	-4,472	-5,340
CF from financing, incl.	-1,454	2,220	0	2,041	1,000
dividends	0	0	0	0	0
Net change in cash	381	1,332	333	-119	-458

Source: Company data, Santander Brokerage Poland estimates

Santander

ZE PAK

Bloomberg: ZEP PW, Reuters: ZEP.WA

CEE Equity Research

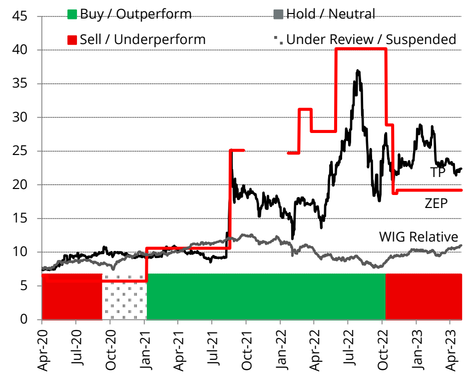
Utilities, Poland

New Mix: Lignite and early-stage Nuclear

- **Equity story.** High downside risk resulting from government's regulations was managed, we believe, for 2023E. With renewable assets' disposal to CPS on July 1, 2023 (and renewable assets' deconsolidation), ZE PAK should remain a lignite player till year-end 2024E, with substantial uncertainly related to its new large-scale nuclear venture (plan for some 24% stake in 2.8GW nuclear capacity). The gas unit might provide upside as of 2026E (capacity market, low gas price), yet until 2025E it should consume as much as PLN2bn, we assess.
- **High short-term uncertainties.** The original government's regulations were very negative to high fixed-costs of ZE PAK. However, these were eased in early 2023, which along with other utilities' solid delivery in conventional generation should result in positive ZEPAK's 2023E EBITDA in combined lignite generation and mining.
- **Renewable developments.** ZE PAK has been active in acquiring renewable assets recently, which should result in total installed capacity at 330MW in 2024E and 680MW in 2025, acc. to Cyfrowy Polsat. CPS maintains its plan to take over ZE PAK assets on July 1, 2023, which should result in ZE PAK receiving PLN360mn in equity and CPS taking over its entire net debt. However, we expect electricity sales directly to Cyfrowy Polsat while potential continuing electricity price caps might trim renewable segment's FCFs, we calculate.
- **Large-scale nuclear, the game-changer.** Several months ago ZE PAK replaced SMRs with large-scale 2.8GW nuclear project initiated with PGE and the Koreans. We appreciated the scalable idea of SMRs, but a large-scale nuclear project might trigger large equity needs at ZE PAK. However, we note that value of ZE PAK's Patnow brownfield might reduce its early outlays by some PLN1bn (own estimate).
- **Earnings forecasts.** One-off depresses our 2023E forecasts, while its partial reversal supports 2025E forecasts.
- **Valuation and risks.** Blended approach yields the company's TP at PLN16.6, 14% decrease vs previous report, validating our Underperform recommendation. We assume ZE PAK's 2023E variable costs will be covered, but potential new regulations (2024 lignite, renewables) pose downside risk. Gas economics has improved, and lasting low gas price would offer upside to EBITDAs/FCFs as of 2026E. Large-scale nuclear project poses risk to FCF and valuation. Corporate actions (equity issues, more projects disposals) cannot be ruled out, we believe. Off-shore cooperation with Orsted could offer an upside.

RECOMMENDATION	Underperform
Current price (May 23, 2023, PLN)	22.40
Target price (Dec'23, PLN)	**16.6**

STOCK PERFORMANCE



The chart measures performance against the WIG index.

ZE PAK: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	2,451	4,200	3,732	3,612	1,560
EBITDA	243	391	-45	166	311
EBIT	-513	351	-137	124	309
Net profit	-318	203	-135	72	207
P/E (x)	n.a.	5.4	n.a.	15.7	5.5
EV/ EBITDA (x)	4.1	4.2	-28.5	12.5	9.4
FCF Yield	-45%	-17%	-1%	-70%	-73%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: 2021-22 valuation ratios based on historical average prices

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Fig. 346. ZE PAK: Quarterly results review

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	y/y	q/q
Sales	462	610	618	824	996	960	1,137	1,107			
EBITDA	26	57.5	102.2	58	129.0	70	227	-34	**-389**	*n.m.*	*n.m.*
EBITDA margin	*5.6%*	*9.4%*	*16.5%*	*7.0%*	*12.9%*	*7.3%*	*19.9%*	*-3.1%*			
EBIT	-8	24	68	24	118	58	217	-42			
EBIT margin	*-1.8%*	*3.9%*	*11.1%*	*2.9%*	*11.9%*	*6.0%*	*19.1%*	*-3.8%*			
Net profit	-7	28	86	-416	104	49	129	-66	**-383**	*n.m.*	*n.m.*
Net margin	*-1.6%*	*4.6%*	*13.9%*	*-50.5%*	*10.4%*	*5.1%*	*11.3%*	*-6.0%*			

Source: Company data

Fig. 347. ZE PAK: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	3,732	4,856	*-23%*	3,612	4,696	*-23%*	1,560	4,696	*-67%*
EBITDA	-45	155	*n.m.*	166	199	*-16%*	311	199	*56%*
EBIT	-137	116	*n.m.*	124	160	*-22%*	309	160	*93%*
Net profit	-135	112	*n.m.*	72	117	*-38%*	207	117	*77%*

Source: Santander Brokerage Poland estimates

Fig. 348. ZE PAK: Valuation changes *

PLN per share	New	Previous	*Change*
DCF valuation	19.1	21.7	*-12%*
Comparable valuation (based on 2024E)	10.8	13.4	*-19%*
Target Price	**16.6**	**19.2**	***-14%***

*Source: Santander Brokerage Poland estimates, * weights 70% DCF, and 30% comparable, as DCF is our primary valuation tool as it relies more on the company's long-term outlook*

Fig. 349. ZE PAK: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	2,451	4,200	3,732	3,612	1,560
COGS	2,209	3,809	3,777	3,446	1,249
EBITDA	243	391	-45	166	311
EBIT	-513	351	-137	124	309
Pre-tax profit	-519	317	-195	84	243
Net profit	-318	203	-135	72	207
EBITDA margin	9.9%	9.3%	-1.2%	4.6%	19.9%
EBIT margin	-20.9%	8.4%	-3.7%	3.4%	19.8%
Net margin	-13.0%	4.8%	-3.6%	2.0%	13.3%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	2,038	2,561	2,136	1,220	1,281
Fixed assets	1,274	1,979	1,470	1,696	2,532
Total assets	3,312	4,539	3,607	2,916	3,813
Current liabilities	1,993	2,126	1,693	1,694	1,102
bank debt	209	488	100	100	100
Long-term liabilities	795	1,199	1,587	1,423	2,429
bank debt	249	620	620	500	2,000
Equity	524	1,215	327	-201	283
Total liability and equity	3,312	4,539	3,607	2,916	3,813
Net debt	-49	-355	-346	456	1,292
Net Debt/ EBITDA (x)	-0.2	-0.9	7.7	2.7	4.2

PLNmn	2021	2022	2023E	2024E	2025E
CF from operations	389	598	343	70	-208
CF from investment	-677	-779	-353	-872	-629
CF from financing, incl.	297	1,137	-388	-120	1,500
dividends	0	0	0	0	0
Net change in cash	9	956	-397	-921	664

Source: Company data, Santander Brokerage Poland estimates

Other

Grupa Pracuj

Bloomberg: GPP PW, Reuters: GPP.WA

CEE Equity Research

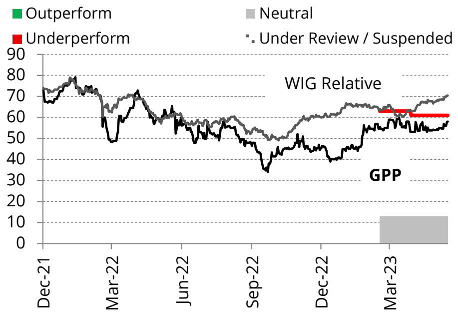
Technology/E-commerce, Poland

Macro headwinds persist

RECOMMENDATION	Neutral
Current price (May 23, 2023, PLN)	58.1
Target price (Dec'23, PLN)	**61**

- **Equity story.** Grupa Pracuj targets PLN1bn sales and >40% EBITDA margin in 2025 (vs. PLN0.6bn and 44% in 2022). The plan appears ambitious to us but we like the companies that aim high. We believe the delivery needs more supportive macro environment that we witness now: Polish labour market has been slowing down since mid-2022, making 2023E outlook (especially 1H 2023) challenging. Grupa Pracuj, having dominant position in Polish job classifieds market, has been able to increase its prices and in that way compensate for lower volumes, but we estimate earnings growth this year is likely to be at low single digits, if any. We believe Grupa Pracuj 2023E valuation multiples (EV/EBITDA of 14x and P/E of 21x) are unlikely to expand. We reiterate our Neutral rating and target price of PLN61.
- **Recent developments.** Grupa Pracuj delivered solid results for 1Q23 with 5% y/y growth in adj. EBITDA to PLN82mn (excluding M&As adj. EBITDA was flat y/y). In Poland, number of advertising projects declined by 13% y/y but it was largely offset by higher average prices (+9% y/y).
- **Earnings forecasts.** Macro data published in recent weeks point to continued deceleration in job market in Poland. Employment growth in the enterprise segment declined to 0.4% in April (vs. c. 2.4% in FY 2022). Number of new job offers declined by 13% y/y in April (Grant Thorton data). Against this backdrop, we expect pressure on margins to be visible also in 2Q23E but believe outlook for 2H2023E appears more upbeat due to expected waning of macro headwinds and undemanding base. We forecasts: full year 2023E EBITDA at PLN289mn (+8% y/y, driven by acquisition of softgarden in Germany) and 2024E at PLN327mn (+13% y/y).
- **Valuation and risks.** Out target price of PLN61 is set as the average of peer comparison and DCF with 50/50 weightings. Grupa Pracuj is trading at 2023E EV/EBITDA of 14x and P/E of 21x. Risks include macro environment, especially with regard to the labour market. Company-specific risks include execution of international expansion and capital allocation.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Grupa Pracuj: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	475.1	608.5	720.0	814.0	908.8
EBITDA	239.5	268.4	288.9	326.9	363.5
EBIT	227.5	252.6	260.9	296.5	330.8
Net profit	254.7	171.5	187.5	223.4	255.6
P/E (x)	25.4	21.9	21.1	17.8	15.5
EV/ EBITDA (x)	19.0	15.0	14.4	12.4	10.9
FCF Yield	4.6%	-8.0%	4.3%	5.6%	6.4%
Dividend Yield	0.0%	3.6%	2.2%	2.4%	4.2%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2021-22 valuation ratios based on historical average prices

Analyst

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Fig. 350. Grupa Pracuj: Quarterly results review

KPIs in Poland	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23E	3Q23E	4Q23E	2023E
No of recruitment projects (k)	152.0	146.0	136.0	115.3	549.3	132.7	124.1	122.4	109.5	489.8
Av price of recruitment project (PLN)	787.0	838.0	866.0	885.3	835.0	853.2	938.6	961.3	973.8	932.2
Income statement (PLNmn)	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**2022**	**1Q23**	**2Q23E**	**3Q23E**	**4Q23E**	**2023E**
Revenues	142.1	138.2	183.5	144.8	608.5	185.3	182.4	183.7	175.5	720.0
Poland	131.6	134.6	126.5	115.9	508.6	129.6	130.9	132.2	119.9	513.0
Germany	0.0	0.0	51.6	22.4	74.0	46.1	45.0	45.0	52.0	182.0
Ukraine	10.5	3.6	5.4	6.4	25.9	9.7	6.5	6.5	3.7	25.0
EBITDA Adj.	79.9	81.8	85.3	59.0	305.3	83.9	75.6	77.0	58.1	288.9
EBITDA	71.8	70.5	82.7	43.4	268.4	81.9	75.6	77.0	58.1	288.9
Poland	71.7	75.8	73.9	38.7	260.1	73.5	68.9	70.2	50.7	261.6
Germany	0.0	0.0	8.9	4.0	12.9	5.5	6.8	6.8	9.4	27.3
Ukraine	0.1	-5.3	-0.2	0.7	-4.7	2.8	0.0	0.0	-2.0	0.0
D&A	-3.1	-3.1	-8.1	-1.4	-15.8	5.5				28.0
EBIT	68.7	67.4	74.5	42.0	252.6	76.4				260.9
Net profit	55.1	49.4	53.1	13.9	171.5	51.0				187.5

Source: Company data, Santander Brokerage Poland estimates

Fig. 351. Grupa Pracuj: Forecasts changes

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	720.0	718.6	*0%*	814.0	812.5	*0%*	908.8	907.1	*0%*
EBITDA	288.9	288.2	*0%*	326.9	326.1	*0%*	363.5	362.6	*0%*
EBIT	260.9	260.2	*0%*	296.5	295.8	*0%*	330.8	330.0	*0%*
Net profit	187.5	187.0	*0%*	223.4	222.8	*0%*	255.6	254.9	*0%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 352. Grupa Pracuj: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	61.9	61.9	*0%*
Comparable valuation	60.6	60.6	*0%*
Target Price*	**61**	**61**	***0%***

*Source: Company data, Santander Brokerage Poland estimates *NOTE: Rounded to the nearest integer, Out target price is set as the average of peer comparison and DCF with 50/50 weightings*

Fig. 353. Grupa Pracuj: Financial statements forecast

PLNmn	2021	2022	2023E	2024E	2025E
Net sales	475.1	608.5	720.0	814.0	908.8
EBITDA	239.5	268.4	288.9	326.9	363.5
EBITDA Adj.	257.0	305.3	288.9	326.9	363.5
EBIT	227.5	252.6	260.9	296.5	330.8
Profit before tax	319.5	227.2	234.4	279.3	319.5
Net profit	254.7	171.5	187.5	223.4	255.6
EBITDA margin	54.1%	50.2%	40.1%	40.2%	40.0%
EBIT margin	47.9%	41.5%	36.2%	36.4%	36.4%
Net margin	53.6%	28.2%	26.0%	27.4%	28.1%

PLNmn	2021	2022	2023E	2024E	2025E
Current assets	272.4	218.1	209.0	249.4	244.5
Fixed assets	227.3	804.6	811.8	820.0	829.0
Total assets	499.7	1,022.7	1,020.8	1,069.3	1,073.6
Current liabilities	199.3	366.1	362.5	381.3	397.5
bank debt	9.2	74.4	74.4	74.4	74.4
Long-term liabilities	51.2	341.1	241.1	141.1	41.1
bank debt	17.1	311.9	211.9	111.9	11.9
Equity	249.2	315.4	417.2	546.9	634.9
Total liability and equity	250.5	707.3	603.6	522.4	438.7
Net debt	-145.0	286.0	201.1	71.1	-13.7
Net Debt/ EBITDA (x)	-0.6	1.1	0.7	0.2	0.0

PLNmn	2021	2022	2023E	2024E	2025E
Operating CF less leases	216.7	229.3	195.8	252.3	284.1
Capex	-8.1	-15.8	-25.2	-28.5	-31.8
M&As	0.0	-514.0	0.0	0.0	0.0
FCF pre dividends	216.0	-299.9	170.6	223.8	252.3
Dividends paid/ buybacks	-114.6	-136.5	-85.8	-93.8	-167.6

Source: Company data, Santander Brokerage Poland estimates

Santander

Wirtualna Polska Holding

Bloomberg: WPL PW, Reuters: WPL.WA

CEE Equity Research

Media/ Technology, Poland

Bottoming out

RECOMMENDATION	Outperform
Current price (May 23, 2023, PLN)	120.6
Target price (Dec'23, PLN)	**150**

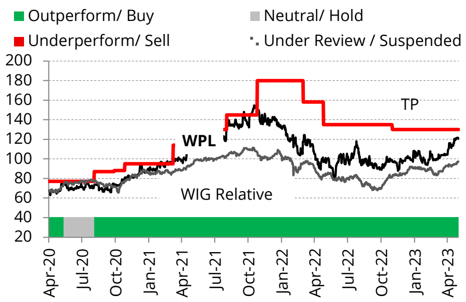
- **Equity story.** The start of 2023 was somewhat slow: strength in travel business offset margin pressure in digital advertising, but overall EBITDA momentum was close to zero. We are upbeat, though, as 1) digital advertising appears to be bottoming out, 2) travel, which we expect to deliver robust performance this year, seasonally improves in 2Q/3Q. WPL stock, despite its recent strength, is still trading at 2023-24E EV/EBITDA of 9.0x and 7.7x, which we view appealing. We reiterate our Outperform rating and target price of PLN150. Secular growth of digital media/ e-commerce businesses and high FCF generation of WPL's business are the pillar of our positive stance.
- **Recent developments.** WPL delivered 1Q23 earnings in line with expectations and its own guidance. Revenues growth totalled 46% within which organic expansion stood at 23%. EBITDA of PLN76mn was flat y/y (on apple-to-apple basis). Segment-wise, profitability in advertising & subscriptions was under pressure as organic revenues growth was single digit while opex pressure was maintained. The travel segment had a very good quarter, we think.
- **Earnings forecasts.** We expect earnings momentum to improve in the following quarters. Firstly, digital ad market is bottoming out in Poland (as it does globally), which we expect should more than offset cost pressure in the segment. Secondly, performance of the travel segment continues to be very robust and the apparent slowdown in consumer spending does not appear to affect discretionary services. We forecast 2023E adj. EBITDA at PN445mn and 2024E at PLN498mn.
- **Valuation and risks.** Our target price of PLN150 is the average of DCF and peer comparisons, with 50%/50% weightings. The risks to our investment view include the war in Ukraine, a hard landing in the economy, the competitive environment, both in digital and e-commerce businesses, and capital allocation (M&As might prove value destructive).

WPL: Financial summary and ratios

Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
Sales	872.2	1,077.7	1,452.1	1,592.7	1,784.6
EBITDA Adj.	307.8	371.4	444.7	497.9	565.2
EBIT	227.6	239.6	298.0	341.8	395.7
Net profit	182.7	170.5	169.4	221.7	278.6
P/E (x)	18.7	17.8	20.7	15.8	12.6
EV/ EBITDA Adj. (x)	11.6	9.7	8.9	7.6	6.3
FCF Yield	3.5%	-10.7%	5.2%	6.6%	8.1%
Dividend Yield	1.3%	1.1%	2.1%	2.1%	2.1%

Source: Company data, Santander Brokerage Poland estimates

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 354. WPL: Quarterly results review

PLNmn, year to Dec.	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23E	3Q23E	4Q23E	2023E
Revenues	213.2	266.6	270.9	327.1	1077.7	310.5	368.1	401.5	372.0	1452.1
y/y, of which	19.1%	22.2%	20.3%	30.8%	23.6%	45.6%	38.1%	48.2%	13.8%	34.7%
advertising & subscriptions	126	136	129	203	595	158	173	166	211	709
travel	35	70	76	61	243	92	123	156	85	456
consumer finance	32	42	51	46	171	49	55	66	53	222
other	19	18	15	17	69	11	17	14	24	65
EBITDA	67.3	87.3	89.3	96.1	340.1	75.6	102.0	138.5	128.2	444.7
adj. EBITDA	72.4	93.0	95.8	110.2	371.4	76.0	102.0	138.5	128.2	444.7
advertising & subscriptions	60.6	68.2	61.5	92.1	282.3	59.9	68.0	65.0	104.1	297.0
travel	6.1	16.6	27.9	10.6	61.2	10.0	25.0	65.0	15.6	115.7
consumer finance	5.6	8.5	7.3	8.6	30.0	6.2	10.0	9.5	10.3	36.0
other	0.1	-0.3	-0.8	-1.1	-2.2	-0.1	-1.0	-1.0	-1.9	-4.0
Adj. EBITDA margin	34.8%	35.9%	36.3%	34.8%	35.4%	24.9%	28.2%	35.1%	35.5%	32.6%
EBIT	45.5	64.5	66.4	63.1	239.6	38.6	66.0	102.5	90.5	298.0
Pre-tax	54.3	61.8	64.4	50.9	231.4	26.1	51.3	87.8	72.4	237.9
Net profit	43.4	45.8	48.9	32.4	170.5	14.4	36.2	65.4	53.1	169.4

*Source: Company data, Santander Brokerage Poland estimates *SAN estimate*

Fig. 355. WPL: Valuation changes

PLN per share	New	Previous	*Change*
DCF valuation	131.8	131.8	*0%*
Comparable valuation	167.5	167.5	*0%*
Target Price	**150**	**150**	***0%***

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

Fig. 356. WPL: Financial statements forecast

PLNmn	2021	2022E	2023E	2024E	2025E
Revenues	872	1,078	1,452	1,593	1,785
Advertising & subscriptions	521	595	709	780	858
Travel	128	243	456	502	577
Consume finance	132	171	222	245	281
EBITDA Adj.	308	371	445	498	565
Advertising & subscriptions	251	282	297	335	377
Travel	28	61	116	130	150
Consume finance	25	30	36	37	42
EBITDA reported	310	340	445	498	565
EBIT	228	240	298	342	396
Net profit	183	171	169	222	279
Adj. EBITDA margin	35.3%	34.5%	30.6%	31.3%	31.7%
EBIT margin	26.1%	22.2%	20.5%	21.5%	22.2%
Net margin	20.9%	15.8%	11.7%	13.9%	15.6%

PLNmn	2021	2022E	2023E	2024E	2025E
Current assets	355	477	526	569	681
Fixed assets	907	1,534	1,533	1,535	1,541
Total assets	1,263	2,011	2,059	2,104	2,222
Current liabilities	219	446	538	573	620
bank debt	49	168	168	168	168
Long-term liabilities	301	642	492	342	192
bank debt	248	569	419	269	119
Equity	743	923	1,028	1,189	1,410
Total liability and equity	1,263	2,011	2,059	2,104	2,222
Net debt	162	551	442	285	71
Net Debt/ EBITDA (x)	0.5	1.5	1.0	0.6	0.1

PLNmn	2021	2022E	2023E	2024E	2025E
Operating CF less leases	232	252	313	374	447
Investing CF	-114	-576	-131	-143	-161
FCF pre dividends	118	-324	182	230	286
Dividends paid	-45	-34	-73	-73	-73

Source: Company data, Santander Brokerage Poland estimates

Santander

Wizz Air Holdings Plc

Bloomberg: WIZZ LN, Reuters: WIZZ.L

CEE Equity Research

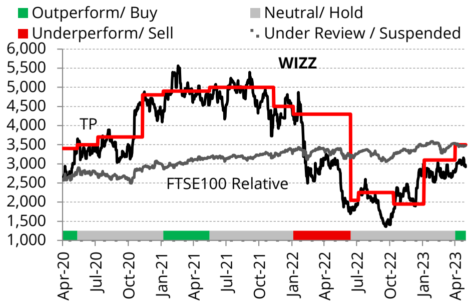
Airlines, UK/ Hungary

Wind beneath the wings

RECOMMENDATION	Outperform
Current price (May 23, 2023, GBp)	2,917
Target price (Dec'23, GBp)	**3,500**

- **Equity story.** We see numerous positives. Firstly, notwithstanding macro slowdown, the demand for air travel appears robust. Secondly, rising fleet utilisation should allow the company to regain cost efficiency (ex-fuel). Thirdly, jet fuel prices have declined recently despite resilient crude oil prices. Fourthly, FX has become a tailwind. All these factors suggest earnings might surprise positively in FY2024E. Improved earnings outlook also makes our worries about liquidity and balance sheet situation wane. Long term growth prospects are underpinned by best-in-class low cost profile. We reiterate Outperform rating and target price of GBp3,500.
- **Earnings forecasts.** Wizz is yet to report 4Q FY23E earnings, which we expect to be weak (EBIT loss of EUR177mn, low season, high fuel prices). However, we are increasingly optimistic about FY2024E. Robust demand at the beginning of the season suggests good pricing environment. High fleet utilisation (Wizz targets over 12:30h in 1H FY24E) should allow Wizz to regain unit costs efficiency. Fuel costs should be a tailwind, despite the fact that we believe most of the planned consumption is already hedged (the hedges, even though originated last year, imply a notable y/y decline in fuel costs). We also point out that jet fuel prices have been declining in recent months despite fairly stable crude oil prices. We believe earnings in FY2024E might surprise positively. We forecast FY2024E EBIT at EUR547mn and net profit at EUR392mn.
- **Liquidity concerns wane.** As operational risks seemingly diminish and the earnings outlook improves, we are less concerned about the liquidity situation. We forecast Wizz to generate operating CF (after leases) of EUR0.8bn in FY 2024E, which should allow it to cover capex (which we estimate at EUR0.3bn) and repayment of EUR0.5bn of notes. Equity raising still cannot be ruled out, but it does not appear to be a necessity now.
- **Valuation and risks.** We set our target price at GBp3,500. Our valuation is based on the average of mid-cycle target multiple valuation (7.5x EV/EBITDAR) with a 50% weight and a comparison to other low-cost carriers (based on EV/EBITDAR and P/E), with a 50% weight. Major risks in our view are: macroeconomic environment, oil prices, FX rates, and the competitive and regulatory environment.

STOCK PERFORMANCE



The chart measures performance against the FTSE 100 index.

Wizz Air: Financial summary and ratios

Year to March, EURmn	2022	2023E	2024E	2025E	2026E
Sales	1,663	3,899	5,539	6,786	7,903
EBITDA	-19	177	1,201	1,481	1,740
EBIT	-465	-397	547	714	847
Net profit	-632	-505	392	525	614
P/E (x)	-10.6	-6.9	10.8	8.1	6.9
EV/ EBITDA (x)	-497.4	42.7	6.9	5.3	4.1
FCF Yield (%	-6.1%	-6.7%	12.6%	17.1%	19.3%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates.

Analyst

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Fig. 357. Wizz Air: Quarterly results review

Year to March, EURmn	1Q23	2Q23	3Q23	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E
Revenues	809	1,385	912	793	3,899	1,168	1,979	1,315	1,077	5,539
EBIT	-285	221	-156	-177	-397	-69	671	48	-103	547
Net profit	-453	78	38	-168	-505					392

Source: Company data, Santander Brokerage Poland estimates

Fig. 358. Wizz Air: Valuation changes

GBp per share	New	Previous	*Change*
Mid-cycle sector valuation	4,294	4,294	*0%*
Comparable valuation	2,691	2,691	*0%*
Target Price*	**3,500**	**3,500**	*0%*

Source: Company data, Santander Brokerage Poland estimates NOTE: rounded to the nearest hundred. Target price is an average of mid-cycle target multiple valuation (7.5x EV/EBITDAR) with a 50% weight and a comparison to other low-cost carriers.*

Fig. 359. Wizz Air Assumptions

Year to March	2020	2021	2022	2023E	2024E	2025E	2026E
No of aircrafts (eop)	121	137	153	172	208	242	277
No of seats per aircraft (eop)	201	205	212	220	226	231	234
Fleet utilisation (block hours per aircraft per day)	12.20	4.13	7.73	11.42	11.52	12.28	12.40
ASK (Available Seat Kilometre, mn km)	69,973	25,552	55,788	96,506	127,641	161,225	187,764
YoY (%)	*16.1%*	*-63.5%*	*118.3%*	*73.0%*	*32.3%*	*26.3%*	*16.5%*
Load factor (%)	93.6%	64.0%	78.1%	87.8%	93.2%	93.2%	93.2%
No of passengers (mn)	40.0	10.2	27.1	51.1	69.1	87.7	102.1
YoY (%)	*15.8%*	*-74.6%*	*166.3%*	*88.3%*	*35.4%*	*26.8%*	*16.5%*
Unit revenue (Revenue per ASK, EURc)	3.95	2.89	2.98	4.04	4.34	4.21	4.21
YoY (%)	*2.7%*	*-26.8%*	*3.1%*	*35.5%*	*7.4%*	*-3.0%*	*0.0%*
Revenue per passenger (EUR)	69.0	72.6	61.3	76.3	80.1	77.4	77.4
YoY (%)	*2.8%*	*5.1%*	*-15.5%*	*24.5%*	*4.9%*	*-3.4%*	*0.0%*
Unit cost (Cost per ASK, EURc)*	3.44	5.22	3.97	4.57	4.03	3.87	3.87
YoY (%)	*1.2%*	*51.8%*	*-23.9%*	*15.2%*	*-11.9%*	*-3.8%*	*-0.2%*
Unit cost ex-fuel (per ASK, EURc)*	2.28	3.86	2.81	2.56	2.43	2.37	2.39
YoY (%)	*-0.5%*	*69.4%*	*-27.3%*	*-8.7%*	*-5.3%*	*-2.2%*	*0.6%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 360. Wizz Air: Financial statements forecast (year to March)

EURmn	2022	2023E	2024E	2025E	2026E
Revenues	1,663	3,899	5,539	6,786	7,903
EBITDA	-19	177	1,201	1,481	1,740
EBIT	-465	-397	547	714	847
Net financial costs	-3	107	147	173	201
Pre-tax profit	-642	-528	400	541	646
Net profit	-632	-505	392	525	614
EBITDA margin	-1.1%	4.5%	21.7%	21.8%	22.0%
Net profit margin	-38.0%	-13.0%	7.1%	7.7%	7.8%

EURmn	2022	2023E	2024E	2025E	2026E
PPE	3,694	4,777	5,308	5,739	5,866
Restricted cash	162	162	162	162	162
Inventories	71	141	164	200	232
Receivables	190	374	531	651	758
Cash	1,217	985	1,018	1,239	2,058
Equity	279	-241	152	677	1,291
Financial liabilities	3,965	5,070	5,015	4,899	5,009
Payables	559	706	821	998	1,160
Deferred income	397	757	1,049	1,271	1,470
Net debt	2,748	4,086	3,997	3,659	2,951
Net debt/EEBITDA (x)	-144.6	23.1	3.3	2.5	1.7

EURmn	2022	2023E	2024E	2025E	2026E
CF from operations	370.6	438.2	1,419.8	1,709.5	1,928.6
lease payments	-470.7	-532.1	-629.8	-744.8	-860.5
Operating CF less leases	-100.1	-93.9	790.0	964.8	1,068.1
CF from investment	-310.9	-138.0	-257.0	-243.0	-250.0
FCF	-411.0	-231.9	533.0	721.8	818.1

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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