PEPCO GROUP

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CEE Equity Research

Retail, Poland

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More tailwinds ahead

Outperform maintained, TP down to PLN52.9

We reiterate Outperform recommendation after 1H23 results though it came in below our expectations. Pepco explained the weakness of 1H23 gross margin (the main culprit behind a miss) as a culmination of headwinds from previous periods, namely operating cost inflation and weakening consumer sentiment. It said the pressure on margins should have already bottomed out in 1H23, while perspectives for 2H23E and 2024E are much brighter. In the guidance for FY23, Pepco clarified the previous statement and said it now expected EBITDA growth at mid-teens comparing to 'nominal growth' narrative earlier. It also pointed at over 2pp gross margin opportunity in 2024E (return to gross margin at 42.4% from pre-Covid's 2019). Because of all of these factors (1) we have not changed our positive view on the company and (2) we apply only a slight downward correction to our TP (-3% to PLN52.9).

Mid-teens EBITDA growth expected this year. Former guidance pointed at 'mid to high teens' sales growth, 550+ new stores (>500 under Pepco label), pressure on EBITDA margin and capex at EUR350-400mn in 2023E. After 1H23 results, Pepco clarified EBITDA growth expectations to mid-teens for the full year, which is a positive change in narrative, we think. We expect 14% growth in adj. EBITDA and 12% in adj. net profit this year.

300 Delaz stores by end-2023E. Pepco confirmed it planned to have 300 Dealz stores in total by the end of 2023. In 1H23, the number of stores in Poundland/Dealz unit declined by 25 stores to 1,026 mainly due to the closures of 62 Dealz stores in Spain (with potentially 47 of these stores to be opened as Pepco+ under the Pepco banner). As Poundland store numbers are expected to be flat y/y, we expect that the stores number in P/D unit should start growing in 2H23 mainly due to accelerating rollout of Dealz in Poland. We also expect that 550+ new store openings guidance might be increased in 2H23.

Strong results expected in 2H23E. We expect (1) 20% sales growth y/y (+25% y/y in Pepco and +13% y/y in P/D) to EUR2,939mn, (2) 19% y/y growth in adj. EBITDA to EUR457mn and (3) 83% growth in adj. net profit to EUR187mn in 2H23E.

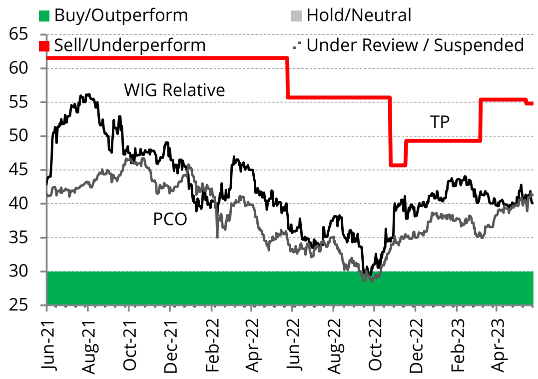
Valuation and risk. Our TP went down by 3% to PLN52.9 mainly due to 16% lower DCF valuation (30% weight; lower financial forecast). Multiple valuation (70% weight) was roughly untouched as we moved NTM EBITDA forecast to next periods of 2H23E & 1H24E (11% higher base; target multiple left at 12x). As the main risks we see (1) a risk of potential share overhang from the parent company, (2) consumption slowdown, (3) increased competition from other discounters and VFM segment, and (4) longer than assumed pressure on costs.

Pepco: Financial summary*

EURmn (year to Sep)	2020	2021	2022	2023E	2024E	2025E
Sales	3,518	4,122	4,823	5,778	6,971	8,203
Adj. EBITDA	442	647	731	834	1,011	1,201
Adj. EBITDA (ex. IFRS16)	242	424	470	529	670	831
Adj. net profit	15	164	227	243	327	419
P/E (x)	n.a.	37.1	21.8	20.1	15.0	11.7
EV/EBITDA (x)	n.a.	14.6	11.2	10.1	7.8	6.0
FCF Yield	n.a.	4.9%	-2.4%	-2.5%	1.6%	5.1%
Dividend Yield	n.a.	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates , 2020-2022 ratios calculated on historical annual share price average*

Recommendation	Outperform
Target price (Dec'23, PLN)	52.9
Price (PLN, June 16, 2023)	38.7
Market cap. (PLNmn)	21,850
Free float (%)	21.1
Number of shares (mn)	575
Average daily turnover 3M (mn)	15.1
EURPLN	4.44



The chart measures performance against the WIG index.

What has changed

- TP down to PLN52.9 on 4% higher multiple valuation (70% weight) and 16% lower DCF (30% weight);
- FY23-24E EBITDA (ex. IFRS16) went down 11.0% and 10%, respectively.

Main shareholders	% of votes
IBEX Retail Investments	78.9

Source: GPW

Company description

Pepco is the CEE variety discounter leader with rising footprint in Western Europe.

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Forecast change

Fig. 1. Pepco: 1H23 results' review

EURmn	1H21	2H21	2021	1H22	2H22	2022	1H23	y/y	SANe
Sales	**1,995**	**2,127**	**4,122**	**2,372**	**2,451**	**4,823**	**2,839**	20%	**2,917**
Pepco	1,017	1,149	2,166	1,282	1,432	2,714	1,719	34%	1,707
P/D	979	977	1,956	1,090	1,019	2,109	1,120	3%	1,210
Underlying EBITDA	**323**	**329**	**652**	**347**	**384**	**731**	**377**	9%	**432**
margin	16.2%	15.5%	15.8%	14.6%	15.6%	15.2%	13.3%	-1.4	14.8%
Pepco	215	242	457	240	279	519	282	18%	318
margin	21.1%	21.1%	21.1%	18.7%	19.5%	19.1%	16.4%	-2.3	18.6%
P/D	108	87	195	107	104	211	98	-9%	115
margin	11.0%	8.9%	10.0%	9.8%	10.2%	10.0%	8.8%	-1.1	9.5%
Net profit	**90**	**65**	**155**	**95**	**79**	**174**	**81**	-15%	**133**
margin	4.5%	3.0%	3.8%	4.0%	3.2%	3.6%	2.9%	-1.1	4.6%

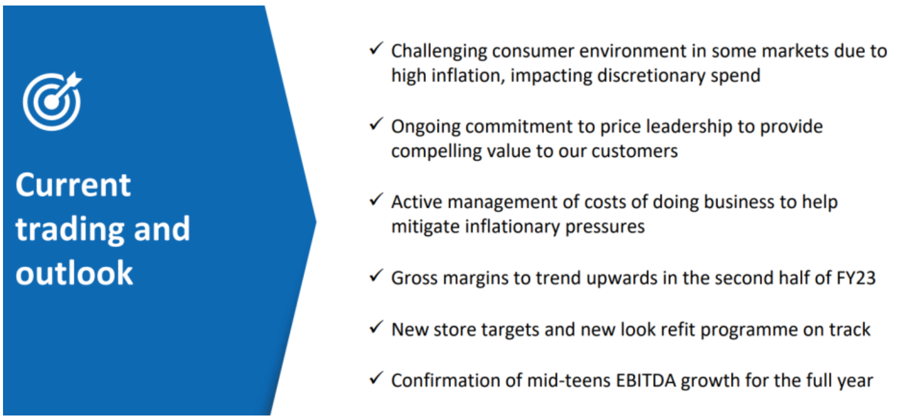
Source: Company data, Santander Brokerage Poland

Fig. 2. Pepco: Forecast change

		FY23E			FY24E			FY25E	
EURmn	new	old	chng.	new	old	chng.	new	old	chng.
Sales	5,778	6,133	-5.8%	6,971	7,518	-7.3%	8,203	8,925	-8.1%
Adj. EBITDA (ex. IFRS16)	529	592	-10.6%	670	741	-9.5%	831	897	-7.3%
Adj. net profit	243	281	-13.5%	327	349	-6.4%	419	427	-2.0%
EBITDA margin	9.2%	9.7%	-50	9.6%	9.9%	-23	10.1%	10.0%	9
net profit margin	4.2%	4.6%	-37	4.7%	4.6%	4	5.1%	4.8%	32

Source: Company data, Santander Brokerage Poland estimates

Fig. 3. Pepco: FY2023 guidance; Underlying EBITDA growth seen at mid-teens vs. prior nominal growth in EBITDA



Source: Company data

Santander

Fig. 4. Pepco: Key assumptions

EURmn	1H22	2H22	2022	1H23	2H23E	2023E	1H24E	2H24E	2024E	1H25E	2H25E	2025E
Pepco	**1,282**	**1,432**	**2,714**	**1,719**	**1,789**	**3,508**	**2,060**	**2,152**	**4,212**	**2,455**	**2,529**	**4,984**
chng.	26.1%	24.6%	25.3%	34.1%	24.9%	29.3%	19.8%	20.3%	20.1%	19.2%	17.5%	18.3%
LFL	7.2%	7.6%	7.4%	15.8%	8.0%	11.8%	4.0%	7.0%	5.5%	6.0%	6.0%	6.0%
Stores	**2,666**	**2,910**	**2,910**	**3,101**	**3,416**	**3,416**	**3,626**	**3,916**	**3,916**	**4,126**	**4,416**	**4,416**
new (q/q)	202	244	446	191	**315**	506	**210**	**290**	500	**210**	**290**	500
new (y/y)	437	446	446	435	506	506	525	500	500	500	500	500
% chng	19.6%	18.1%	18.1%	16.3%	17.4%	17.4%	16.9%	14.6%	14.6%	13.8%	12.8%	12.8%
floor (k sqm)	1,200	1,310	1,310	1,395	1,537	1,537	1,632	1,762	1,762	1,857	1,987	1,987
avg, store size	*450*	*450*	*450*	*450*	*450*	*450*	*450*	*450*	*450*	*450*	*450*	*450*
P/D	**1,090**	**1,019**	**2,109**	**1,120**	**1,150**	**2,270**	**1,369**	**1,389**	**2,758**	**1,616**	**1,603**	**3,220**
chng.	11.4%	4.3%	7.8%	2.7%	12.9%	7.6%	22.3%	20.7%	21.5%	18.1%	15.4%	16.7%
LFL	3.3%	1.9%	2.6%	4.9%	2.0%	3.4%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
Stores	**1,030**	**1,051**	**1,051**	**1,026**	**1,126**	**1,126**	**1,196**	**1,296**	**1,296**	**1,346**	**1,426**	**1,426**
new (q/q)	-10	21	11	-25	**100**	75	**70**	**100**	170	**50**	**80**	130
new (y/y)	13	11	11	-4	75	75	170	170	170	150	130	130
% chng	1.3%	1.1%	1.1%	-0.4%	7.1%	7.1%	16.6%	15.1%	15.1%	12.5%	10.0%	10.0%
floor (k sqm)	721	736	736	718	788	788	837	907	907	942	998	998
avg, store size	*700*	*700*	*700*	*700*	*700*	*700*	*700*	*700*	*700*	*700*	*700*	*700*
Sales	**2,372**	**2,451**	**4,823**	**2,839**	**2,939**	**5,778**	**3,429**	**3,541**	**6,971**	**4,071**	**4,132**	**8,203**
chng.	18.9%	15.2%	17.0%	19.7%	19.9%	19.8%	20.8%	20.5%	20.6%	18.7%	16.7%	17.7%
LFL	**5.4%**	**5.2%**	**5.3%**	**11.5%**	**5.7%**	**8.5%**	**4.4%**	**6.2%**	**5.3%**	**5.6%**	**5.6%**	**5.6%**
Stores	**3,696**	**3,961**	**3,961**	**4,127**	**4,542**	**4,542**	**4,822**	**5,212**	**5,212**	**5,472**	**5,842**	**5,842**
chng.	13.9%	13.0%	13.0%	11.7%	14.7%	14.7%	16.8%	14.8%	14.8%	13.5%	12.1%	12.1%
new	450	457	457	431	581	581	695	670	670	650	630	630
EBITDA	**326**	**339**	**665**	**355**	**457**	**812**	**457**	**554**	**1011**	**548**	**653**	**1201**
chng	3%	12%	7%	9%	35%	22%	29%	21%	25%	20%	18%	19%
margin	13.7%	13.8%	13.8%	12.5%	15.5%	14.0%	13.3%	15.6%	14.5%	13.5%	15.8%	14.6%
Pepco	**234**	**268**	**502**	**274**	**349**	**623**	**353**	**424**	**777**	**426**	**503**	**929**
chng	13%	12%	12%	17%	30%	24%	29%	22%	25%	21%	19%	20%
margin	18.3%	18.7%	18.5%	15.9%	19.5%	17.8%	17.1%	19.7%	18.4%	17.3%	19.9%	18.6%
P/D	**95**	**86**	**181**	**79**	**108**	**187**	**104**	**130**	**234**	**122**	**150**	**272**
chng	-12%	46%	9%	-16%	25%	3%	31%	21%	25%	18%	15%	17%
margin	8.7%	8.5%	8.6%	7.1%	9.4%	8.2%	7.6%	9.4%	8.5%	7.6%	9.4%	8.5%
other	-3	-15	-18	2	0	2	0	0	0	0	0	0
Adj. EBITDA	**347**	**384**	**731**	**377**	**457**	**834**	**457**	**554**	**1011**	**548**	**653**	**1201**
chng	7.3%	18.8%	13.0%	8.6%	19.0%	14.1%	21.1%	21.4%	21.2%	20.0%	17.9%	18.9%
margin	14.6%	15.6%	15.2%	13.3%	15.5%	14.4%	13.3%	15.6%	14.5%	13.5%	15.8%	14.6%
Pepco	**240**	**279**	**519**	**282**	**349**	**630**	**353**	**424**	**777**	**426**	**503**	**929**
chng	11.5%	15.6%	13.7%	17.4%	24.8%	21.4%	25.4%	21.5%	23.3%	20.5%	18.7%	19.5%
margin	18.7%	19.5%	19.1%	16.4%	19.5%	18.0%	17.1%	19.7%	18.4%	17.3%	19.9%	18.6%
P/D	**106**	**108**	**214**	**98**	**108**	**206**	**104**	**130**	**234**	**122**	**150**	**272**
chng	-1.9%	24.4%	9.8%	-7.2%	-0.4%	-3.7%	5.2%	20.7%	13.3%	18.1%	15.4%	16.6%
margin	9.7%	10.6%	10.2%	8.8%	9.4%	9.1%	7.6%	9.4%	8.5%	7.6%	9.4%	8.5%
Other	1	-4	-3	-3	0	-3	0	0	0	0	0	0
Adj. EBITDA (ex. IFRS16)	**224**	**246**	**470**	**236**	**294**	**529**	**297**	**374**	**670**	**373**	**458**	**831**
chng	8%	13%	11%	5%	19%	12%	26%	27%	27%	26%	23%	24%
margin	14.6%	15.6%	15.2%	13.3%	15.5%	14.4%	13.3%	15.6%	14.5%	13.5%	15.8%	14.6%

Source: Company data, Santander Brokerage Poland estimates

Valuation

Fig. 5. Pepco: Valuation summary

PLN/shr	New	Previous	Change
DCF valuation	57.3	68.6	-16%
Multiple	51.0	48.8	4%
Target Price (Dec'23, PLN)	**52.9**	**54.8**	**-3%**

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

Fig. 6. Pepco: multiple valuation

EURmn	Multiple	EBITDA*	
Pepco			
	12.0x	553	We are leaving our target EV/EBITDA multiple for Pepco banner at 12.0x NTM EBITDA (ex. IFRS16). We moved NTM EBITDA forecast to next periods of 2H23E & 1H24E (13% higher base at EUR553mn vs. prior EUR490mn). Please also note DM Variety Discounters valuation at EV/EBITDA of avg. 13.8x comparing to fast fashion (9.5x). This also proves that Pepco deserves higher multiple, which is additionally supported by higher projected growth comparison between Pepco and DM Variety sector. Pepco with its 3Y CAGR of sales/EBITDA ex. IFRS16 at 19%/21% is better than DM Variety Discounters (3Y CAGR of sales/EBITDA ex. IFRS16 at 9.8%/10.1%).
EV		**6,641**	
P/D			
	6.4x	37	P/D's EV calculation at EUR237mn is based on target EV/EBITDA multiple at 6.4x (in line with Tesco). We increased multiple from 5.4x due to faster rollout of Dealz.
EV		**237**	
Total		**6,879**	
(-) net debt (cash)		316	
Equity Value (EURmn)		**6,563**	
EURPLN		4.5	
Equity Value (PLNmn)		**29,325**	
no. of shares		575	
Target Price (Dec'23, PLN)		**51.0**	

*Source: Santander Brokerage Poland estimates, * EBITDA (ex. IFRS16, NTM)*

Fig. 7. Pepco: Variety Discounters multiples

Name	CCY	Price	Cap. (USD)	2023E	P/E 2024E	2025E	2023E	EV/EBITDA 2024E	2025E	FCF'23E yield
DOLLAR GENERAL	USD	163.7	35,902	16.2	14.9	13.4	10.7	10.0	9.2	4.0%
FIVE BELOW	USD	194.6	10,834	34.8	28.9	23.7	19.8	16.3	13.4	0.3%
DOLLARAMA	CAD	86.6	18,674	27.1	23.8	20.2	16.9	15.5	14.3	2.0%
B&M EUROPEAN	GBp	549.4	7,031	15.2	14.1	13.0	10.0	9.3	8.5	6.0%
Median				**21.7**	**19.3**	**16.8**	**13.8**	**12.7**	**11.3**	**3.0%**
Average				**23.3**	**20.4**	**17.6**	**14.3**	**12.8**	**11.4**	**3.1%**

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 8. Pepco: Variety Discounters industry growth ratios

	Sales CAGR'22/25E	EBITDA CAGR'22/25E	Net profit CAGR'22/25E
DOLLAR GENERAL	5.6%	4.7%	2.5%
FIVE BELOW	17.0%	21.9%	20.8%
DOLLARAMA	9.4%	10.2%	12.9%
B&M EUROPEAN	7.2%	3.7%	5.8%
Median	**8.3%**	**7.5%**	**9.3%**
Average	**9.8%**	**10.1%**	**10.5%**

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 9. Pepco: DCF valuation

PLNmn	2023E	2024E	2025E	2026E	2027E	2028E	TV
Revenue	**5,778**	**6,971**	**8,203**	**9,276**	**10,340**	**11,481**	
EBITDA (ex. IFRS16)	529	670	831	960	1,093	1,219	
EBIT	366	489	603	691	783	866	
tax	90	98	121	138	157	173	
NOPAT	**276**	**392**	**482**	**553**	**626**	**693**	
D&A	139	181	229	270	310	353	
WC	-132	-56	-60	-56	-57	-52	
CAPEX	-354	-375	-337	-257	-265	-350	
FCF	**-71**	**141**	**313**	**509**	**614**	**645**	**667**
WACC	11.4%			10.5%			10.5%
PV FCF 2023-28E	1,718						
Terminal growth	3.5%						
Terminal Value (TV)	9,510						
PV TV	5,219						
Total EV	**6,937**						
Net debt	316						
Equity Value	6,621						
Equity Value (year end)	**7,379**						
EURPLN	4.5						
Equity Value (PLN)	**32,972**						
Number of shares (m)	575						
YE target price (PLN)	**57.3**						
DPS	0						
YE TP (ex-div, PLN)	**57.3**						

Source: Company data, Santander Brokerage Poland estimates

Fig. 10. Pepco: WACC

	23/25E fcst	26/28E + TV
Risk free rate (10-year Polish T-bond yield)	6.0%	5.0%
Unlevered beta	1.0	1.0
Levered beta	1.5	1.5
Equity risk premium	6.0%	6.0%
Cost of equity	**14.9%**	**13.9%**
Risk free rate (10-year Polish T-bond yield)	6.0%	5.0%
Debt risk premium	1.0%	1.0%
Tax rate	19%	19%
After tax cost of Debt	**5.7%**	**4.9%**
%D	38%	38%
%E	62%	62%
WACC	**11.4%**	**10.5%**

Source: Company data, Santander Brokerage Poland estimates

Financial forecasts

Fig. 11. Pepco: P&L forecast

EURmn	2020	2021	2022	2023E	2024E	2025E
Sales	**3,518**	**4,122**	**4,823**	**5,778**	**6,971**	**8,203**
chng.	3%	17%	17%	20%	21%	18%
Pepco	**1,738**	**2,166**	**2,714**	**3,508**	**4,212**	**4,984**
chng.	7%	25%	25%	29%	20%	18%
P/D	**1,780**	**1,956**	**2,109**	**2,270**	**2,758**	**3,220**
chng.	0%	10%	8%	8%	21%	17%
Gross profit	1,433	1,769	1,968	2,381	2,920	3,463
chng.	-1%	23%	11%	21%	23%	19%
margin	40.7%	42.9%	40.8%	41.2%	41.9%	42.2%
Opex	1,301	1,495	1,690	2,014	2,431	2,860
chng.	9%	15%	13%	19%	21%	18%
as % of sales	37.0%	36.3%	35.0%	34.9%	34.9%	34.9%
Profit on sales	132	274	278	367	489	603
chng.	-47%	108%	1%	32%	33%	23%
margin	3.8%	6.7%	5.8%	6.3%	7.0%	7.3%
other op. costs	12	21	0	1	0	0
EBIT	120	253	278	366	489	603
chng.	-53%	111%	10%	32%	34%	23%
margin	3.4%	6.1%	5.8%	6.3%	7.0%	7.3%
D&A	290	324	387	443	521	598
EBITDA	**423**	**599**	**665**	**810**	**1,011**	**1,201**
chng.	n.a.	42%	11%	22%	25%	19%
margin	12.0%	14.5%	13.8%	14.0%	14.5%	14.6%
Adj. EBITDA	**442**	**647**	**731**	**834**	**1,011**	**1,201**
chng.	33%	46%	13%	14%	21%	19%
margin	12.6%	15.7%	15.2%	14.4%	14.5%	14.6%
Pepco	299	457	519	630	777	929
chng.	n.a.	53%	14%	21%	23%	20%
margin	17.2%	21.1%	19.1%	18.0%	18.4%	18.6%
P/D	142	195	214	206	234	272
chng.	n.a.	37%	10%	-4%	13%	17%
margin	8.0%	10.0%	10.2%	9.1%	8.5%	8.5%
other	1	-5	-3	-3	0	0
Adj. EBITDA (ex. IFRS16)	**242**	**424**	**470**	**529**	**670**	**831**
chng.	n.a.	75%	11%	12%	27%	24%
margin	6.9%	10.3%	9.8%	9.2%	9.6%	10.1%
Financial income	4	1	2	5	2	4
Financial costs	106	87	55	74	84	84
PBT	18	167	226	298	408	524
chng.	n.a.	846%	35%	32%	37%	28%
margin	0.5%	4.1%	4.7%	5.2%	5.9%	6.4%
tax	17	41	52	73	82	105
X/O	1	0	0	0	0	0
Net profit	**-1**	**125**	**174**	**224**	**327**	**419**
chng.	n.a.	n.a.	39%	29%	46%	28%
margin	n.a.	3.0%	3.6%	3.9%	4.7%	5.1%
Adj. net profit	**15**	**164**	**227**	**243**	**327**	**419**
chng.	n.a.	983%	38%	7%	34%	28%
margin	0.4%	4.0%	4.7%	4.2%	4.7%	5.1%
Adj. EPS	0.0	0.3	0.4	0.4	0.6	0.7
chng.		983%	38%	7%	34%	28%

Source: Company data, Santander Brokerage Poland estimates

Fig. 12. Pepco Group: Balance sheet forecasts

EURmn	2020	2021	2022	2023E	2024E	2025E
Current assets	1,020	1,232	1,543	1,720	2,082	2,629
cash and equivalents	400	508	344	205	281	531
other short term investments	0	0	0	0	0	0
accounts receivable	49	61	75	90	109	128
inventories	567	597	959	1,260	1,527	1,805
prepaid expenses	4	66	165	165	165	165
Fixed assets	2,050	2,305	2,456	2,671	2,865	2,974
PPE	379	440	525	723	901	993
long-term investments	0	0	0	0	0	0
intangibles	810	835	814	831	847	864
goodwill	0	0	0	0	0	0
long-term receivables	3	3	2	2	2	2
right-of-use asset	807	957	1,018	1,018	1,018	1,018
other	51	70	96	96	96	96
Long-term deferred charges	0	0	0	0	0	0
Total assets	**3,070**	**3,537**	**3,999**	**4,390**	**4,947**	**5,603**
Current liabilities	883	1,114	1,408	1,575	1,804	2,041
bank debt	10	71	105	88	88	88
accounts payable	611	744	928	1,112	1,341	1,578
lease liabilities	247	260	310	310	310	310
Deferred income	15	39	65	65	65	65
Long-term liabilities	1,434	1,460	1,446	1,446	1,446	1,446
bank debt	707	545	554	554	554	554
lease liabilities	672	839	823	823	823	823
Provisions	55	76	69	69	69	69
Equity	754	963	1,145	1,369	1,696	2,115
share capital	6	6	6	6	6	6
capital reserves	748	832	965	1,139	1,364	1,690
net income	-1	125	174	225	327	419
Minority Interest	0	0	0	0	0	0
Total liabilities and equity	**3,070**	**3,537**	**3,999**	**4,390**	**4,947**	**5,603**
Bank debt	717	616	660	642	642	642
lease liabilities	919	1,099	1,134	1,134	1,134	1,134
Net debt (ex. IFRS16)	317	109	316	437	361	111
Net debt/EBITDA (ex. IFRS16)	1.3	0.3	0.7	0.8	0.5	0.1
Net debt/EBITDA	2.9	2.0	2.2	1.9	1.5	1.0

Source: Company data, Santander Brokerage Poland estimates

Fig. 13. Pepco Group: Cash flow statement forecasts

EURmn	2020	2021	2022	2023E	2024E	2025E
Cash flow from operations	**580**	**673**	**363**	**536**	**792**	**957**
Net profit	-1	125	174	225	327	419
Provisions	-12	-11	-10	0	0	0
Depreciation and amortisation	91	102	126	139	181	229
RoU amortization	200	222	260	304	340	370
Changes in WC, o/w	207	101	-220	-132	-56	-60
inventories	-51	-19	-384	-301	-267	-278
receivables	20	-21	-20	-15	-19	-19
payables	238	141	184	184	229	237
Other, net	94	133	33	0	0	0
Cash flow from investment	**-165**	**-154**	**-224**	**-354**	**-375**	**-337**
Additions to PPE and intangibles	-163	-151	-224	-354	-375	-337
Change in long-term investments	-2	-3	0	0	0	0
Other, net	0	0	0	0	0	0
Cash flow from financing	**-261**	**-411**	**-303**	**-322**	**-340**	**-370**
Change in long-term borrowing	0	-129	2	0	0	0
Change in short-term borrowing	0	0	0	-17	0	0
Change in equity	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Other, net*	-261	-283	-305	-304	-340	-370
Net change in cash and equivalents	**153**	**108**	**-164**	**-139**	**76**	**250**
FCF	217	300	-121	-122	76	250
FCF (ex. growth) *	289	349	-23	93	271	359

*Source: Company data, Santander Brokerage Poland estimates, * capex assumed to be at D&A level*

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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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