PEPCO GROUP

Reuters: PCOP.WA Bloomberg: PCO PW

CEE Equity Research

Retail, Poland
10/10/2023 07:53 CET

Lower growth forecast

Outperform maintained, TP down to PLN25.2

We reiterate Outperform recommendation for Pepco Group (PCO) with new TP at PLN25.2 (total return at 38%), primarily in the context of the awaited reversal of excessive negative sentiment embedded in PCO's share price after the recent profit warning and announced downward revision of rollout plans. Once seen as a 'growth' retailer with estimated 3Y selling floor CAGR at 12%, it should be now perceived as a 'fading growth' retailer looking at our new forecast of store park rollout pointing at 3YCAGR of 6% and then slowing to a flattish growth afterwards. CEO's comments on the revision of rollout plans and focus on core markets and brands indicates that the expansion on Western markets is questioned, while core CEE markets offer limited potential for 4-5 years of growth. In this light, we materially decrease our sales/adj. EBITDA (ex. IFRS16) forecast by 10%/24% in 2024E and 17%/30% in 2026E, respectively. We also decreased target EV/EBITDA (ex. IFRS16) to 8.0x for Pepco brand's valuation vs. the prior 12.0x. We also added 20% discount to reflect the risk of share overhang (72% PCO's stake put up for sale by major shareholder). Pepco's share price decreased 48%, following the news on Steinhoff's liquidity problems with acceleration after the profit warning last week. This resulted in the sentiment towards the PCO's shares hitting a rock bottom, we think. We also see that the overall sentiment towards the Polish retail is very low (top retailer LPP's 2024E EV/EBITDA at 6.2x) just ahead of a big new wave of fresh cash from social aids that would be poured into the market. We keep Outperform for PCO as we bet that some of this negative sentiment might reverse soon. Incoming Capital Market Day might bring in some sweeteners. However, we note that this is no longer the same equity story as it was two weeks before.

Revised forecast of store rollout. Following a profit warning, the CEO said in an interview that PCO had to revise its store rollout plan and focus on core brands/markets development. In the aftermath, we materially cut our assumptions on new store openings to 280 new stores per annum (240 in Pepco and 40 in Dealz) in 2024/26E respectively vs. the previous forecast of 670/630/490 new stores in this period. We think that core CEE markets should get saturated with Pepco stores by 2028E, while growth opportunities on WE markets are much lower than we thought earlier.

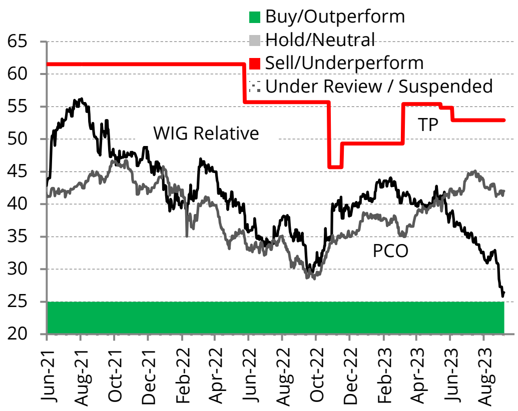
Valuation and risk. Our TP went down by 40% to PLN25.2 from PLN52.9, mainly due to 48% lower multiple valuation (70% weight; lower target multiple for Pepco). DCF valuation (30% weight) also went down by 24% (lower financial forecast). Additionally, the valuation time horizon changed to Dec'24 from Dec'23 prev. The main risks we see: (1) the fact that problems (margins, rollout etc.) could take longer than we expect, (2) prolonged 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	5,597	6,277	6,822
Adj. EBITDA	442	647	731	750	838	942
Adj. EBITDA (ex. IFRS16)	242	424	470	452	512	584
Adj. net profit	15	164	227	189	219	269
P/E (x)	n.a.	37.1	21.8	12.6	10.9	8.8
EV/EBITDA (x)	n.a.	14.6	11.2	6.3	5.5	4.5
FCF Yield	n.a.	4.9%	-2.4%	-7.4%	3.3%	7.7%
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'24, PLN)	25.2
Price (PLN, Oct 9, 2023)	18.0
Market cap. (PLNmn)	10,488
Free float (%)	21.1
Number of shares (mn)	575
Average daily turnover 3M (mn)	15.1
EURPLN	4.59



The chart measures performance against the WIG index.

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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Equity story

We reiterate Outperform recommendation for Pepco Group (PCO) with new TP at PLN25.2 (total return at 38%) as we mainly look for some reversal of excessive negative sentiment embedded in PCO's share price after the recent profit warning and announced revision of rollout plans. Since the beginning of June PCO's share price tumbled by c55% (and 48% following Steinhoff's liquidity problems announcement) bringing its valuation to FY23/24E EV/EBITDA of 6.1x/5.3x. On the other hand, we note that this is no longer the same equity story after the CEO announced the revision of rollout plans and focus on core markets/brands. In the meantime, Pepco did a downward revision of FY23 adj. EBITDA forecast to EUR750mn from mid-teens growth (or 10% vs. SANe EUR834mn). We perceive recent comments from the company as negative for its equity story. Before, it was mainly based on its dynamic (+14%/12% store park growth in 2023/24E) chain expansion mainly in Western Europe (Spain, Italy, Germany and Greece). CEE markets were perceived as more mature markets with limited room for further dynamic rollout. We see that the company admitted that its previous plans presented during the IPO had been too ambitious. Our previous TP included 500 new Pepco stores in 2024E/26E and 170/130 new Dealz stores in the same period. In our view, the significant reshuffle in management (former CEO of a rather defensive format Poundland is now in charge of 'growth like' Pepco banner) along with the CEO's comments on more rational store rollout could indicate that the outcome of too dynamic rollout on Western markets (i.e. Spain, Italy, Germany) might have been below expectations and losses, which started to weight on the overall performance of the Group and low demand has just brought out the problem. We revisited PCO's rollout plan presented during the IPO and last year's CMD (5Y rollout plan) trying to find a hint how a new plan for development might look like.

During the IPO, PCO said it had 3,021 stores as at the end of September 2020 and believed then that it had the potential to roll out both the Pepco & Poundland/Dealz brands over the next two decades to reach 11,100 stores in existing and prioritised new markets. During Capital Market Day in 2022, this plan was updated and even +20k stores potential was presented. During IPO, the company identified the potential for 8,188 Pepco stores in the long term (vs. 2,100 now) and 2,928 Poundland/Dealz stores (vs. 921 now; management analysis). As regards to Pepco, 52% of the roll-out potential was seen in the existing markets with a vast majority in WE. When it comes to P/D, 59% of its roll-out potential is seen as taking place in existing markets, which is equally split between WE and CEE markets.

Fig. 1. Pepco Group: Long-term roll out opportunity

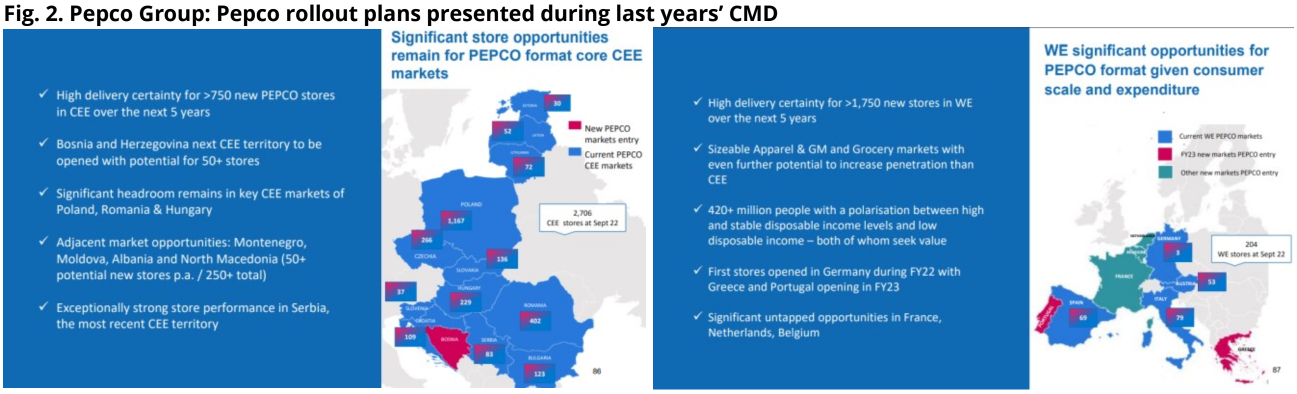
	Sep'20	Existing markets CEE	Existing markets WE	Priority Expansion Markets CEE	Priority Expansion Markets WE	L-T goal
Pepco	**2,100**	908	2,250	217	2,713	**8,188**
P/D	**921**	592	595	735	85	**2,928**
Total	**3,021**					**11,116**

Source: OC&C, Company data, validated by OC&C except for Pepco Spain&Italy, Poundland/Dealz: management estimates, For Pepco priority CEE markets include: Montenegro, Moldova, Albania, Bosnia, North Macedonia, Priority WE markets include Germany, Portugal, Austria and Greece; For P/D existing markets include: Poland, Spain and Ireland, Priority new markets include Portugal, Romania, Hungary, Czech Rep., Slovakia

During the Capital Market Day in 2022, PCO indicated that it saw a high delivery certainty for >750 Pepco stores in CEE over the next 5 years. Also, high delivery certainty for >1,750 Pepco stores in Western Europe over the next 5 years was seen.

We assume, that Pepco could open 228 Pepco stores in CEE and 278 in Western Europe in FY23. It still leaves capacity for 522 new Pepco stores in the next 4 years in CEE until the region gets saturated. In WE, 1,472 new stores could be still opened within the next 4 years, but we materially cut these plans assuming only c440 new stores could be opened. All in all, we see capacity for c240 new Pepco store net openings annually by FY28E and a materially lower number (c50 stores per annum) afterwards. We also assumed that the growth of Dealz format (no growth in Poundland) would be visibly lower (40 new stores by 2028E vs. the previous forecast of over 100 per annum). All in all, we assumed 280 new stores per annum (240 in Pepco and 40 in Dealz) in 2024/26E respectively vs. the previous forecast of 670/630/490 new stores in this period.

Fig. 2. Pepco Group: Pepco rollout plans presented during last years' CMD



Source: Company data

Forecast change

Fig. 3. Pepco: Forecast change

	FY23E			FY24E			FY25E		
EURmn	**new**	**old**	**chng.**	**new**	**old**	**chng.**	**new**	**old**	**chng.**
Sales	5,597	5,778	-3.1%	6,277	6,971	-10.0%	6,822	8,203	-16.8%
Adj. EBITDA (ex. IFRS16)	452	529	-14.5%	512	670	-23.7%	584	831	-29.8%
Adj. net profit	189	243	-22.4%	219	327	-33.0%	269	419	-35.7%
EBITDA margin	8.1%	9.2%	-108	8.2%	9.6%	-147	8.6%	10.1%	-158
net profit margin	3.4%	4.2%	-84	3.5%	4.7%	-120	3.9%	5.1%	-116

Source: Company data, Santander Brokerage Poland estimates

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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**	**1,598**	**3,317**	**1,926**	**1,812**	**3,739**	**2,147**	**1,971**	**4,118**
chng.	26.1%	24.6%	25.3%	34.1%	11.6%	22.2%	12.0%	13.4%	12.7%	11.5%	8.7%	10.1%
LFL	7.2%	7.6%	7.4%	15.8%	-3.5%	6.5%	0.0%	7.0%	3.4%	5.0%	3.0%	4.0%
Stores	**2,666**	**2,910**	**2,910**	**3,101**	**3,416**	**3,416**	**3,516**	**3,656**	**3,656**	**3,756**	**3,896**	**3,896**
new (q/q)	202	244	446	191	315	506	100	140	240	100	140	240
new (y/y)	437	446	446	435	506	506	415	240	240	240	240	240
% chng	19.6%	18.1%	18.1%	16.3%	17.4%	17.4%	13.4%	7.0%	7.0%	6.8%	6.6%	6.6%
floor (k sqm)	1,200	1,310	1,310	1,395	1,537	1,537	1,582	1,645	1,645	1,690	1,753	1,753
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**	**1,160**	**2,280**	**1,301**	**1,237**	**2,538**	**1,386**	**1,318**	**2,705**
chng.	11.4%	4.3%	7.8%	2.7%	13.9%	8.1%	16.2%	6.7%	11.3%	6.6%	6.5%	6.6%
LFL	3.3%	1.9%	2.6%	4.9%	7.0%	6.0%	4.0%	3.0%	3.5%	3.0%	3.0%	3.0%
Stores	**1,030**	**1,051**	**1,051**	**1,026**	**1,126**	**1,126**	**1,146**	**1,166**	**1,166**	**1,186**	**1,206**	**1,206**
new (q/q)	-10	21	11	-25	100	75	20	20	40	20	20	40
new (y/y)	13	11	11	-4	75	75	120	40	40	40	40	40
% chng	1.3%	1.1%	1.1%	-0.4%	7.1%	7.1%	11.7%	3.6%	3.6%	3.5%	3.4%	3.4%
floor (k sqm)	721	736	736	718	788	788	802	816	816	830	844	844
avg, store size	*700*	*700*	*700*	*700*	*700*	*700*	*700*	*700*	*700*	*700*	*700*	*700*
Sales	**2,372**	**2,451**	**4,823**	**2,839**	**2,759**	**5,597**	**3,227**	**3,050**	**6,277**	**3,533**	**3,289**	**6,822**
chng.	18.9%	15.2%	17.0%	19.7%	12.5%	16.1%	13.7%	10.6%	12.1%	9.5%	7.8%	8.7%
LFL	**5.4%**	**5.2%**	**5.3%**	**11.5%**	**0.9%**	**6.3%**	**1.6%**	**5.4%**	**3.4%**	**4.2%**	**3.0%**	**3.6%**
Stores	**3,696**	**3,961**	**3,961**	**4,127**	**4,542**	**4,542**	**4,662**	**4,822**	**4,822**	**4,942**	**5,102**	**5,102**
chng.	13.9%	13.0%	13.0%	11.7%	14.7%	14.7%	13.0%	6.2%	6.2%	6.0%	5.8%	5.8%
new	450	457	457	431	581	581	535	280	280	280	280	280
EBITDA	**326**	**339**	**665**	**355**	**373**	**728**	**400**	**437**	**838**	**463**	**479**	**942**
chng	3%	12%	7%	9%	10%	10%	13%	17%	15%	16%	9%	12%
margin	13.7%	13.8%	13.8%	12.5%	13.5%	13.0%	12.4%	14.3%	13.3%	13.1%	14.6%	13.8%
Pepco	**234**	**268**	**502**	**274**	**277**	**551**	**302**	**338**	**640**	**358**	**373**	**731**
chng	13%	12%	12%	17%	3%	10%	10%	22%	16%	19%	10%	14%
margin	18.3%	18.7%	18.5%	15.9%	17.3%	16.6%	15.7%	18.7%	17.1%	16.7%	18.9%	17.8%
P/D	**95**	**86**	**181**	**79**	**97**	**176**	**98**	**99**	**198**	**105**	**106**	**211**
chng	-12%	46%	9%	-16%	12%	-3%	24%	3%	13%	7%	7%	7%
margin	8.7%	8.5%	8.6%	7.1%	8.3%	7.7%	7.6%	8.0%	7.8%	7.6%	8.0%	7.8%
other	-3	-15	-18	2	0	2	0	0	0	0	0	0
Adj. EBITDA	**347**	**384**	**731**	**377**	**373**	**750**	**400**	**437**	**838**	**463**	**479**	**942**
chng	7%	19%	13%	9%	-3%	3%	6%	17%	12%	16%	9%	12%
margin	14.6%	15.6%	15.2%	13.3%	13.5%	13.4%	12.4%	14.3%	13.3%	13.1%	14.6%	13.8%
Pepco	240	279	519	282	277	558	302	338	640	358	373	731
chng	11.5%	15.6%	13.7%	17.4%	-1.0%	7.5%	7.2%	22.3%	14.6%	18.7%	10.3%	14.2%
margin	18.7%	19.5%	19.1%	16.4%	17.3%	16.8%	15.7%	18.7%	17.1%	16.7%	18.9%	17.8%
P/D	106	108	214	98	97	195	98	99	198	105	106	211
chng	-1.9%	24.4%	9.8%	-7.2%	-10.7%	-8.9%	0.0%	2.8%	1.4%	6.6%	6.5%	6.6%
margin	9.7%	10.6%	10.2%	8.8%	8.3%	8.6%	7.6%	8.0%	7.8%	7.6%	8.0%	7.8%
Other	1	-4	-3	-3	0	-3	0	0	0	0	0	0
Adj. EBITDA (ex. IFRS16)	**224**	**246**	**470**	**236**	**217**	**452**	**240**	**271**	**512**	**287**	**297**	**584**
chng	8%	13%	11%	5%	-12%	-4%	2%	25%	13%	19%	9%	14%
margin	14.6%	15.6%	15.2%	13.3%	13.5%	13.4%	12.4%	14.3%	13.3%	13.1%	14.6%	13.8%

Source: Company data, Santander Brokerage Poland estimates

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Valuation

Fig. 5. Pepco: Valuation summary

PLN/shr	New	Previous	Change
DCF valuation	43.6	57.3	-24%
Multiple (SOTP) valuation	26.3	51.0	-48%
Equity Value (PLN/shr)	**31.5**	**52.9**	**-40%**
discount factor*	20%		
Target Price (PLN/shr)	**25.2**		

*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, * discount for share supply risk (entire stake of Steinhoff put up for sale)*

Fig. 6. Pepco: multiple valuation

EURmn	Multiple	EBITDA*	
Pepco			
	8.0x	433	We cut our target EV/EBITDA multiple for Pepco to 8.0x from the previous 12.0x NTM EBITDA (ex. IFRS16) mainly to reflect slower projected growth in coming years.
EV		3,463	
P/D			
	6.0x	24	P/D's EV calculation at EUR145mn is based on target EV/EBITDA multiple at 6.0x, decreased from 6.4x prev.
EV		145	
Total		**3,608**	
(-) net debt (cash)		316	
Equity Value (EURmn)		**3,292**	
EURPLN		4.6	
Equity Value (PLNmn)		**15,112**	
no. of shares		575	
Target Price (PLN)		**26.3**	

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

Fig. 7. Pepco: DCF valuation

PLNmn	2023E	2024E	2025E	2026E	2027E	2028E	TV
Revenue	**5,597**	**6,277**	**6,822**	**7,397**	**8,004**	**8,510**	
EBITDA (ex. IFRS16)	452	512	584	646	713	777	
EBIT	296	355	417	468	523	577	
tax	74	71	83	94	105	115	
NOPAT	**221**	**284**	**333**	**374**	**419**	**462**	
D&A	133	157	167	178	189	200	
WC	-124	-34	-30	-32	-35	-23	
CAPEX	-354	-264	-223	-183	-188	-191	
FCF	**-124**	**143**	**247**	**337**	**386**	**448**	**464**
WACC	11.4%			10.5%			10.5%
PV FCF 2023-28E	1,135						
Terminal growth	3.5%						
Terminal Value (TV)	6,608						
PV TV	3,627						
Total EV	**4,762**						
Net debt	316						
Equity Value	4,446						
Equity Value (Dec-24)	**5,464**						
EURPLN	4.6						
Equity Value (PLN)	**25,079**						
Number of shares (m)	575						
YE target price (PLN)	**43.6**						
DPS	0						
YE TP (ex-div, PLN)	**43.6**						

Source: Company data, Santander Brokerage Poland estimates

Fig. 8. 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. 9. Pepco: P&L forecast

EURmn	2020	2021	2022	2023E	2024E	2025E
Sales	**3,518**	**4,122**	**4,823**	**5,597**	**6,277**	**6,822**
chng.	3%	17%	17%	16%	12%	9%
Pepco	**1,738**	**2,166**	**2,714**	**3,317**	**3,739**	**4,118**
chng.	7%	25%	25%	22%	13%	10%
P/D	**1,780**	**1,956**	**2,109**	**2,280**	**2,538**	**2,705**
chng.	0%	10%	8%	8%	11%	7%
Gross profit	1,433	1,769	1,968	2,262	2,561	2,796
chng.	-1%	23%	11%	15%	13%	9%
margin	40.7%	42.9%	40.8%	40.4%	40.8%	41.0%
Opex	1,301	1,495	1,690	1,966	2,206	2,379
chng.	9%	15%	13%	16%	12%	8%
as % of sales	37.0%	36.3%	35.0%	35.1%	35.2%	34.9%
Profit on sales	132	274	278	296	355	417
chng.	-47%	108%	1%	6%	20%	17%
margin	3.8%	6.7%	5.8%	5.3%	5.7%	6.1%
other op. costs	12	21	0	1	0	0
EBIT	120	253	278	296	355	417
chng.	-53%	111%	10%	6%	20%	17%
margin	3.4%	6.1%	5.8%	5.3%	5.7%	6.1%
D&A	290	324	387	431	482	525
EBITDA	**423**	**599**	**665**	**727**	**838**	**942**
chng.	n.a.	42%	11%	9%	15%	12%
margin	12.0%	14.5%	13.8%	13.0%	13.3%	13.8%
Adj. EBITDA	**442**	**647**	**731**	**750**	**838**	**942**
chng.	33%	46%	13%	3%	12%	12%
margin	12.6%	15.7%	15.2%	13.4%	13.3%	13.8%
Pepco	299	457	519	558	640	731
chng.	n.a.	53%	14%	7%	15%	14%
margin	17.2%	21.1%	19.1%	16.8%	17.1%	17.8%
P/D	142	195	214	195	198	211
chng.	n.a.	37%	10%	-9%	1%	7%
margin	8.0%	10.0%	10.2%	8.6%	7.8%	7.8%
other	1	-5	-3	-3	0	0
Adj. EBITDA (ex. IFRS16)	**242**	**424**	**470**	**452**	**512**	**584**
chng.	n.a.	75%	11%	-4%	13%	14%
margin	6.9%	10.3%	9.8%	8.1%	8.2%	8.6%
Financial income	4	1	2	5	2	3
Financial costs	106	87	55	74	84	84
PBT	18	167	226	227	274	337
chng.	n.a.	846%	35%	0%	21%	23%
margin	0.5%	4.1%	4.7%	4.1%	4.4%	4.9%
tax	17	41	52	57	55	67
X/O	1	0	0	0	0	0
Net profit	**-1**	**125**	**174**	**170**	**219**	**269**
chng.	n.a.	n.a.	39%	-2%	29%	23%
margin	n.a.	3.0%	3.6%	3.0%	3.5%	3.9%
Adj. net profit	**15**	**164**	**227**	**189**	**219**	**269**
chng.	n.a.	983%	38%	-17%	16%	23%
margin	0.4%	4.0%	4.7%	3.4%	3.5%	3.9%
Adj. EPS	0.0	0.3	0.4	0.3	0.4	0.5
chng.		983%	38%	-17%	16%	23%

Source: Company data, Santander Brokerage Poland estimates

Fig. 10. Pepco Group: Balance sheet forecasts

EURmn	2020	2021	2022	2023E	2024E	2025E
Current assets	1,020	1,232	1,543	1,624	1,867	2,185
cash and equivalents	400	508	344	152	229	412
other short term investments	0	0	0	0	0	0
accounts receivable	49	61	75	87	98	106
inventories	567	597	959	1,220	1,375	1,501
prepaid expenses	4	66	165	165	165	165
Fixed assets	2,050	2,305	2,456	2,677	2,784	2,841
PPE	379	440	525	729	820	859
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**	**4,301**	**4,651**	**5,025**
Current liabilities	883	1,114	1,408	1,540	1,671	1,776
bank debt	10	71	105	88	88	88
accounts payable	611	744	928	1,077	1,208	1,313
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	1,315	1,534	1,803
share capital	6	6	6	6	6	6
capital reserves	748	832	965	1,139	1,309	1,528
net income	-1	125	174	170	219	269
Minority Interest	0	0	0	0	0	0
Total liabilities and equity	**3,070**	**3,537**	**3,999**	**4,301**	**4,651**	**5,025**
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	491	413	230
Net debt/EBITDA (ex. IFRS16)	1.3	0.3	0.7	1.1	0.8	0.4
Net debt/EBITDA	2.9	2.0	2.2	2.2	1.8	1.4

Source: Company data, Santander Brokerage Poland estimates

Fig. 11. Pepco Group: Cash flow statement forecasts

EURmn	2020	2021	2022	2023E	2024E	2025E
Cash flow from operations	**580**	**673**	**363**	**477**	**667**	**764**
Net profit	-1	125	174	170	219	269
Provisions	-12	-11	-10	0	0	0
Depreciation and amortisation	91	102	126	133	157	167
RoU amortization	200	222	260	298	326	358
Changes in WC, o/w	207	101	-220	-124	-34	-30
inventories	-51	-19	-384	-261	-154	-126
receivables	20	-21	-20	-12	-11	-9
payables	238	141	184	149	131	105
Other, net	94	133	33	0	0	0
Cash flow from investment	**-165**	**-154**	**-224**	**-354**	**-264**	**-223**
Additions to PPE and intangibles	-163	-151	-224	-354	-264	-223
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**	**-315**	**-326**	**-358**
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	-298	-326	-358
Net change in cash and equivalents	**153**	**108**	**-164**	**-192**	**77**	**183**
FCF	217	300	-121	-175	77	183
FCF (ex. growth) *	289	349	-23	46	185	240

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

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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.
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