Benefit Systems

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Entertainment, Poland

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Another earnings upgrade

Reiterating Outperform, TP up to PLN2700 from PLN2500

We expect Benefit Systems to deliver strong results in 4Q23E and we are increasing our earnings estimates by mid-single-digit for 2024-25E. Demand environment is robust as consumers continue to prioritise experiences over other discretionary spending. Strong growth in membership cards triggers investment in fixed assets, but even with higher capex we estimate Benefit Systems offers c. 5% FCF yield, which we expect to be distributed to shareholders. Inclusion in MSCI Small Cap appears to be in the cards, probably not yet in February but later this year, during subsequent index revisions. We reiterate our Outperform rating with the target price increased to PLN2,700 from PLN2,500.

4Q23 preview: another strong quarter. We forecast c. 35% sales growth on c. 20 y/y growth in number of sport cards and c. 15% growth in ARPU. Margins seasonally decline in 4Q on higher utilisation of sport cards but y/y we forecast c. 90% growth in EBIT to PN143mln. At the bottom line, we forecast PLN126mn (+96% y/y) supported by c. PN20mn FX gains.

Increasing estimates. Benefit Systems' guidance for FY 2023E assumes 18% EBIT margin. We now expect full year EBIT margin of 18.9%, implying EBIT of PLN523mn (+1% vs. previous). As consumers' financial condition across CEE remains sound and additionally as they keep prioritising experiences over other discretionary spend, we take a more upbeat view on 2024-25E: we have increased our EBIT and net profit by c. 4-5%. We forecast 2024E EBIT at PLN589mn (margin of 17.7%) and 2025E at PLN669mn (margin of 17.6%). Our key assumptions include new sport cards additions at 200k and 180k in 2024E and 2025E, respectively, and a mid to high single digit growth in ARPU (contract indexation should reflect declining inflation). Our earnings estimates exclude likely non-cash costs associated with the management incentive scheme, which in 2024 are likely to increase exponentially owing to the delivery of earnings target and more importantly - growth in Benefit Systems' share price. As part of 2021-25 management scheme, 125k new shares are likely to be issued at the price of PLN793/share (dividends adjusted). We expect 37.5k subscription warrants to be granted to Benefit Systems employees in 2024. Our back-of-the-envelope calculation (based on current stock price but without any discounting or BS model application) suggests Benefit could recognise cost of c. PLN55-60mn in 2024E. Given that we expect full delivery of the management incentive scheme targets in 2021-25, our EPS forecasts assume full dilution.

Valuation and risks. We set our target price at PLN2,700 (increased from PLN2,500) using DCF and peer comparison with 50/50 weightings. Benefit's stock is trading at 2024E with P/E of 16x, EV/EBITDA of 10x and FCF 5%. Major risks include the economic environment, especially the consumer macro. Company specific risks are largely linked to the execution of the expansion strategy.

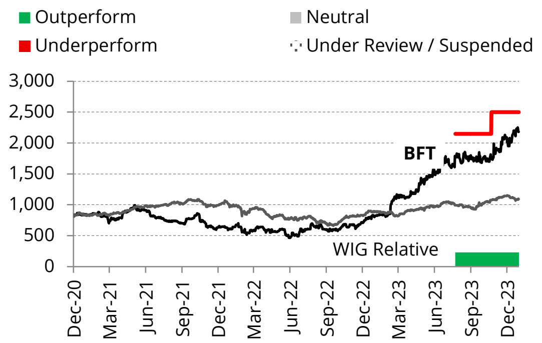
Benefit Systems: Financial summary and ratios (PLNmn)

Year to December	2020	2021	2022	2023E	2024E	2025E
Sales	1,033.7	954.9	1,909.1	2,767.9	3,328.6	3,804.9
EBITDA excl. IFRS16	67.1	71.2	298.5	610.0	686.9	783.6
EBIT	-3.4	-4.0	212.8	523.0	588.6	669.1
Net profit	-100.0	-25.1	138.1	422.8	435.9	495.3
P/E (x)	-14.9	-90.1	12.9	10.4	16.0	14.1
EV/ EBITDA excl. IFRS16 (x)	22.7	31.4	5.5	6.6	9.8	8.5
FCF Yield	6.6%	0.1%	6.7%	7.7%	4.4%	5.8%
Dividend Yield	0.0%	0.0%	0.0%	2.9%	5.5%	5.6%

Source: Company data, Santander Brokerage Poland estimates

Recommendation	**Outperform**
Target Price (Dec'24, PLN)	**2,700**
Price (PLN, 7 February 2024)	2,280
Market cap (PLNbn)	7.0
Free float	67%
Number of shares* (mn)	3.1
Previous report issued on Nov 30, 2023 with:	
Recommendation	*Outperform*
Target price (Dec'24, PLN)	*2,500*

**fully diluted*



The chart measures performance against the WIG index.

Company description

Benefit Systems offers membership sport cards giving access to numerous sports and leisure facilities. The company operates in CEE, Poland is its core country. Benefit Systems owns over 200 fitness clubs.

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Quarterly earnings review and forecasts

Fig. 1. Benefit Systems: Quarterly results and forecasts (PLNmn)

KPIs	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23	4Q23E	y/y	2023E
No of cards ('000)	1,257	1,371	1,444	1,618	1,422	1,771	1,800	1,812	1,919	*19%*	1,826
No of clubs	197	195	195	194	210	215	220	238	*23%*	221	210
Income statement (PLNmn)	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**2022**	**1Q23**	**2Q23**	**3Q23**	**4Q23E**	**y/y**	**2023E**
Revenues	401.8	459.6	485.4	562.3	1,909.1	625.3	697.5	693.9	751.2	*34%*	2,767.9
Gross profit	76.9	119.5	143.3	177.4	517.1	145.7	237.4	256.7	265.8	*50%*	905.7
EBIT	19.3	50.3	69.1	74.0	212.8	65.7	143.2	171.1	143.0	*93%*	523.0
Poland - sport cards	24.7	54.3	65.7	64.6	209.3	35.0	99.1	117.1	104.2	*61%*	355.5
Poland - fitness	-7.1	-9.6	-10.2	-0.3	-27.2	15.4	14.8	8.7	11.3	*NM*	50.2
Poland - other	1.0	0.0	-1.0	8.3	8.3	0.5	-3.5	-3.9	4.5	*-46%*	-2.5
Foreign - sport cards	2.1	6.1	17.7	9.3	35.3	11.1	30.7	47.4	21.2	*126%*	110.3
Foreign - fitness	-1.1	0.6	-2.2	-7.3	-9.9	5.3	6.3	3.1	1.8	*-125%*	16.5
Pre-tax profit	10.2	40.2	44.7	81.4	176.6	64.7	158.9	144.8	157.0	*93%*	525.4
Net profit	8.1	31.6	34.4	64.0	138.1	52.4	129.5	115.4	125.6	*96%*	422.8
EBITDA as reported	74.6	107.2	127.1	135.9	444.8	129.1	215.6	243.2	217.0	*60%*	804.9
EBITDA excl. IFRS 16	39.2	75.6	90.9	92.8	298.5	86.3	172.6	199.0	169.6	*83%*	610.0
Gross margin	19.1%	26.0%	29.5%	31.5%	27.1%	23.3%	34.0%	37.0%	35.4%		32.7%
EBIT margin	4.8%	11.0%	14.2%	13.2%	11.1%	10.5%	20.5%	24.7%	19.0%		18.9%
Cash flow (PLNmn)	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**2022**	**1Q23**	**2Q23**	**3Q23**			**2023E**
Operating CF less leases	31.3	44.3	69.5	129.2	274.3	131.8	114.0	184.4			591.9
Investing CF	-46.3	-38.4	-27.7	-42.7	-155.1	-39.6	-57.1	-28.2			-255.0
FCF pre dividends	-15.0	5.9	41.8	86.6	119.3	92.2	56.9	156.1			336.9
Dividends paid/ Buyback	0.0	-0.3	0.0	0.0	-0.3	0.0	-0.5	-120.8			-125.4
Net debt incl. leases	903.5	901.6	897.3	821.0	821.0	821.2	722.4	722.2			709.4
Net debt excl. leases	-7.8	-9.8	-49.9	-133.6	-133.6	-223.4	-277.7	-311.2			-345.2
Net debt to EBITDA excl. leases (x)	0.0	0.0	-0.1	-0.3	-0.3	-0.4	-0.5	-0.4			-0.4

Source: Company data, Santander Brokerage Poland estimates

Fig. 2. Benefit Systems: Earnings revisions (PLNmn)

	2023E			2024E			2025E		
	NEW	OLD	*Ch.*	NEW	OLD	*Ch.*	NEW	OLD	*Ch.*
Sales	**2,768**	2,780	0%	**3,329**	3,250	2%	**3,805**	3,719	2%
EBITDA	**805**	797	1%	**915**	881	4%	**1,042**	1,005	4%
EBITDA excl. IFRS 16	**610**	602	1%	**687**	658	4%	**784**	752	4%
EBIT	**523**	515	1%	**589**	563	5%	**669**	641	4%
Net profit	**423**	398	6%	**436**	414	5%	**495**	472	5%

Source: Company data, Santander Brokerage Poland estimates

Valuation

We have increased our target price to PLN2,700 from PLN2,500 due to higher earnings forecasts. Our target price is based on DCF and peer comparison with 50%/50% weightings.

Fig. 3. Benefit Systems: valuation summary

Method	Value	Weighting
DCF	3,240	50%
Peer comparison	2,141	50%
Target price (Dec'24)*	**2,700**	

*Source: Santander Brokerage Poland estimates *NOTE: Rounded to the nearest fifty*

DCF

We value Benefit Systems using DCF at PLN3,240/share. We use two-stage WACC: 11.0% for 2023-25E (based on CAPM with RFR of 6%, ERP of 6%, beta of 1.0x) and 10.0% for 2026E and afterwards (RFR of 5%, the parameters are unchanged). We use 80%/20% equity/debt target capital structure. We use terminal growth rate of 3%.

Fig. 4. Benefit Systems: DCF summary

	2023E	2024E	2025E	2026E	2027E	2028E	2029E	LT
Sales	2,768	3,329	3,805	4,266	4,757	5,307	5,924	6,617
EBIT	523	589	669	750	834	929	1,035	1,153
Tax rate	19%	20%	20%	20%	20%	20%	20%	20%
Tax on EBIT	98	118	134	150	167	186	207	231
NOPAT	425	471	535	600	668	743	828	923
D&A (on PPE and Intangibles)	113	126	145	162	181	202	225	251
Change in WC	53	36	31	30	32	36	40	45
Capex	255	290	266	256	285	318	355	397
FCF	336	344	444	536	595	662	738	822

Source: Santander Brokerage Poland estimates

Peer comparison

We value Benefit Systems using peer comparison at PLN2,141/share based on 2024-25E sector P/E and EV/EBITDA ratios. We use Polish discretionary consumption companies as a peer group. In the table below we also present ratios for international fitness operators, for illustrative purposes only.

Fig. 5. Benefit Systems: Peer comparison valuation summary

	2024E	2025E	Average
Sector P/E (x)	17.9	13.8	
Implied price (PLN)	2,550	2,240	**2,395**
Sector EV/EBITDA (x)	8.2	6.8	
Implied price (PLN)	1,929	1,844	**1,887**
Average			**2,141**

Source: Santander Brokerage Poland estimates

Fig. 6. Benefit Systems: Peer comparison (prices as of 7 February 2024)*

Company name	Curr	Price (local)	P/E (x) FY	FY+1	FY+2	EV/EBITDA** (x) FY	FY+1	FY+2	Current FY
Benefit Systems	**PLN**	**2,280**	**10.4**	**16.0**	**14.1**	**6.6**	**9.8**	**8.5**	**12/23 Y**
Polish discretionary consumption			**21.4**	**17.9**	**13.8**	**9.8**	**8.2**	**6.8**	
LPP	PLN	16,230	18.8	14.1	13.2	9.8	8.3	7.6	01/24 Y
CCC	PLN	58.46	NM	154.0	31.2	15.1	8.0	6.1	01/24 Y
Allegro	PLN	31.00	30.5	26.4	23.8	14.7	12.5	10.5	12/23 Y
Pepco	PLN	22.56	15.8	13.6	11.0	7.7	6.6	5.5	09/23 Y
Wirtualna Polska	PLN	120.80	24.0	17.9	13.8	9.4	8.2	6.8	12/23 Y
US fitness clubs			**29.8**	**21.7**	**16.5**	**8.4**	**7.6**	**6.8**	
Planet Fitness-	USD	69.34	31.3	27.7	24.0	17.7	16.0	14.5	12/23 Y
Life Time Group	USD	13.28	29.8	21.7	16.5	8.4	7.6	6.8	12/23 Y
Xponential Fit-	USD	10.44	27.8	8.7	6.8	7.8	6.0	5.2	12/23 Y

*Source: Bloomberg, Santander Brokerage Poland estimates NOTE: *international peers based on Bloomberg consensus estimates **EV/EBITDA ratios excluding the effect of IFRS16*

Fig. 7. Benefit Systems: Assumptions, Financials and Ratios

Key ratios	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
EPS (PLN)	33.5	40.8	37.4	-36.1	-8.8	47.1	138.2	142.5	161.9
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	41.0	124.4	128.3
BVPS (PLN)	76.7	200.9	219.8	189.1	211.8	247.8	334.9	353.1	386.7
No of shares (mn)	2.6	2.8	2.8	2.8	2.9	2.9	3.1	3.1	3.1
MCAP (PLNmn)	2,622	2,840	2,132	1,486	2,266	1,777	4,391	6,973	6,973
EV (excl. leases, PLNmn)	2,762	2,938	2,238	1,524	2,235	1,644	4,045	6,700	6,688
P/E (x)	29.8	24.8	20.2	-14.9	-90.1	12.9	10.4	16.0	14.1
P/BV (x)	13.0	5.0	3.4	2.8	3.8	2.4	4.3	6.5	5.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.9%	5.5%	5.6%
FCF yield	-1.2%	-4.6%	4.5%	6.6%	0.1%	6.7%	7.7%	4.4%	5.8%
EV/Sales (x)	2.9	2.4	1.5	1.5	2.3	0.9	1.5	2.0	1.8
EV/EBITDA (excl. leases, x)	17.8	16.7	9.7	22.7	31.4	5.5	6.6	9.8	8.5

KPIs	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
No of cards ('000)	919	1,118	1,355	1,030	898	1,422	1,826	2,025	2,205
Poland	816	931	1,061	730	634	1,051	1,351	1,475	1,575
Foreign	103	187	294	301	264	371	474	550	630
No of clubs	72	129	179	184	183	195	221	256	277
Poland	64	113	156	160	159	171	195	210	224
Foreign	7	16	23	25	24	24	26	46	53

Income statement (PLNmn)	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenues	964.8	1,208.8	1,527.4	1,033.7	954.9	1,909.1	2,767.9	3,328.6	3,804.9
COGS	699.1	870.7	1,119.2	815.2	774.0	1,392.0	1,862.2	2,289.1	2,621.2
Gross profit	265.7	338.0	408.2	218.5	180.9	517.1	905.7	1,039.4	1,183.7
SG&A	145.7	205.1	246.1	192.4	203.7	290.9	375.8	439.2	501.6
Other operating items, net	1.4	20.7	-6.6	-29.5	18.8	-13.5	-6.8	-11.6	-13.0
EBIT	121.4	153.6	155.5	-3.4	-4.0	212.8	523.0	588.6	669.1
Poland			181.2	-15.1	-11.3	189.4	402.8	454.4	508.2
Foreign			-17.0	5.1	5.3	25.4	126.9	134.2	161.0
Net financial costs	5.1	-3.9	12.5	87.2	13.1	36.2	-0.4	43.7	50.0
Pre-tax profit	116.3	157.4	143.0	-90.6	-17.1	176.6	525.4	544.9	619.1
Tax	29.6	41.2	36.0	8.1	6.7	37.5	98.9	109.0	123.8
Minorities	-1.4	1.5	1.7	1.3	1.3	1.0	2.7	0.0	0.0
Net profit	88.1	114.6	105.3	-100.0	-25.1	138.1	422.8	435.9	495.3
EBITDA as reported	155.5	197.9	357.9	207.8	205.1	444.8	804.9	914.8	1,042.0
EBITDA excl. IFRS 16	155.5	176.3	229.8	67.1	71.2	298.5	610.0	686.9	783.6
Gross margin	27.5%	28.0%	26.7%	21.1%	18.9%	27.1%	32.7%	31.2%	31.1%
EBIT margin	12.6%	12.7%	10.2%	-0.3%	-0.4%	11.1%	18.9%	17.7%	17.6%

Balance sheet (PLNmn)	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
PPE	196.9	270.8	378.6	333.7	327.3	294.4	436.1	599.6	721.4
Right of use assets	0.0	0.0	896.8	782.9	786.5	834.2	934.2	1,009.2	1,084.2
Goodwill	191.6	348.5	363.3	363.3	446.4	460.6	460.6	460.6	460.6
Intangibles	27.0	52.2	65.3	73.0	101.3	129.0	129.0	129.0	129.0
Other non-current assets	102.6	120.2	100.7	67.8	66.5	49.5	49.5	49.5	49.5
Cash	52.5	75.8	72.1	223.8	253.0	218.3	429.9	358.3	370.4
Other current assets	183.7	221.2	202.8	199.8	199.8	248.0	364.6	437.5	499.4
Total Assets	754.1	1,088.7	2,079.6	2,044.3	2,180.8	2,234.0	2,803.8	3,043.6	3,314.5
Equity	202.0	564.7	618.6	524.5	603.7	727.0	1,024.4	1,079.8	1,182.8
Minorities	17.8	2.2	1.7	-1.5	-2.1	-1.6	1.0	1.0	1.0
Short and Long term Debt	192.6	174.1	177.7	261.5	221.9	84.7	84.7	84.7	84.7
Lease liabilities	24.3	16.7	956.1	931.7	936.8	954.6	1,054.6	1,129.6	1,204.6
Other liabilities	317.3	330.9	325.6	328.1	420.4	469.3	639.2	748.5	841.4
Total Equity and Liabilities	754.1	1,088.7	2,079.6	2,044.3	2,180.8	2,234.0	2,803.9	3,043.7	3,314.5
Net debt incl. IFRS 16 leases	164.5	115.0	1,061.7	969.4	905.8	821.0	709.4	856.0	918.9
Net debt excl. IFRS 16 leases	140.2	98.3	105.6	37.7	-31.1	-133.6	-345.2	-273.5	-285.7
Net debt to EBITDA excl. leases (x)	0.9	0.6	0.5	0.6	-0.4	-0.4	-0.6	-0.4	-0.4

Cash flow (PLNmn)	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Operating CF less leases	129.4	131.4	247.5	132.2	128.4	274.3	591.9	598.9	670.8
Investing CF	-161.8	-263.0	-152.2	-34.2	-125.7	-155.1	-255.0	-290.0	-266.3
FCF pre dividends	-32.4	-131.6	95.3	98.0	2.7	119.3	336.9	308.9	404.5
Dividends paid/ Buyback	-43.2	-51.2	-57.6	-0.8	90.7	-0.3	-125.4	-380.5	-392.3

Source: Company data, Santander Brokerage Poland estimates

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In preparing this report Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.
The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.
The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.
The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The warranted equity method (WEV) is based on the formula P/BV = (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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