



Dom Maklerski BDM S.A.

## ENTER AIR

### ANALYTICAL REPORT - SUMMARY

We issue a **Accumulate** recommendation for Enter Air with a target price of **24,0 PLN/share**, which is **11% above the current market price** (the fall in the valuation is related to an increase in the risk-free rate and the restoration of comparative analysis in the final valuation). We positively assess the company's results for Q2'22, which in terms of gross result and EBITDA turned out to be significantly better than our expectations. The management board's outlook for 2H'22 and subsequent periods after the results conference was optimistic. Enter is constantly observing an over-demand for its services, and its low-cost structure is a significant advantage over foreign competition, and thanks to this, the carrier wins many tenders with a lower price and higher quality of services. Moreover, we are counting on record results for Q3'22. During this period, we expect more air operations than the best so far Q3'19 and better utilization of the fleet. We forecast PLN 275.8m in Q3'22 EBITDA IFRS 16 (+33.8% y/y).

#### Q2'22 results

The company's results for Q2'22 exceeded our expectations, which we received positively. The company's revenues in this period amounted to PLN 602.6m (+170.6%) and were in line with our expectations. The biggest positive surprise for us turned out to be the significantly lower cost of external services compared to our forecasts. This position includes, among others maintenance costs and some salaries (the company communicated during recent meetings with investors about the optimization of crew salaries, and the implication of which in our model improves the margin). Carrier's gross result in the reported period it amounted to PLN 68.7m (vs. -PLN 14.3m our expectations), and on the EBITDA level, the company generated PLN 112.5m (vs. PLN 27.8m BDM).

#### Q3'22 record results

Q3'22 brought a further improvement in demand (this is partially confirmed by readings published by Ryan Air; [link](#)), which significantly translated into an increase in the number of flights performed in this period (both y/y and vs the record-breaking 2019). In the summer season, the company used the entire available fleet of 25 aircraft (23 Boeing 737-800 aircraft and 2 737 MAX 8 aircraft) and two additional wet-lease machines, and the demand for its services exceeded the fleet's operational capabilities. We expect that in the discussed period, the utilization of the fleet was at a much better level, and the efficiency (number of hours flown per plane) exceeded even that of 2019. We estimate that in Q3'22 Enter Air generated PLN 1,153.4 million in revenues (+114.8% y/y). According to our calculations, the gross sales result in the last quarter amounted to PLN 233.4 million. At the level of IFRS 16 EBITDA, we forecast PLN 275.8m (+33.8% y/y).

#### Risk factors

Despite the lifting of pandemic restrictions in most countries, the potential next waves of COVID-19 and their consequences are still the main risk to our forecasts. In addition, the above-mentioned deteriorating macro environment and changes in fuel prices (passed on to the customer) may in subsequent periods have a negative impact on the demand for trips abroad and the reconstruction of tourist traffic. However, we believe that the still observed over-demand and the competitive advantage of the company's services (in particular the lower price) will allow it to effectively use its fleet in subsequent periods.

	2019	2020	2021	2022F	2023F	2024F	2025F
Revenues [mln PLN]	1	470,5	1 120,3	2 378,0	2 082,9	2 081,3	2 121,8
EBITDA MSSSF16[mln PLN]	341,7	23,9	208,8	380,3	380,4	389,6	407,4
EBIT MSSSF16 [mln PLN]	168,5	-150,5	-14,1	245,2	148,2	154,1	173,3
Gross income [mln PLN]	107,8	-188,0	-141,1	-142,5	72,4	84,4	107,4
Net income [mln PLN]	85,0	-154,1	-117,1	-140,8	58,6	68,4	87,0
P/BV	1,0	1,8	4,2	-	-	-	8,4
P/E	4,4	-	-	-	6,4	5,5	4,3
EV/EBITDA MSSSF16	4,1	67,8	8,5	4,7	4,7	4,3	4,3
EV/EBIT MSSSF16	8,3	-	-	7,3	12,1	10,8	10,1
DPS	0,7	0,0	0,0	0,0	0,0	0,0	0,0
DY	3,3%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme

## ACCUMULATE

(PREVIOUS: ACCUMULATE)

**TARGET PRICE 24,0 PLN**

26 OCTOBER 2022, 11:10 CET

Target price [PLN]	24,0
Price upside	11%
Cost of capital	8,5%
Price [PLN]	21,5
Market cap [mln PLN]	377,2
Shares mln. szt.]	17,5
Max. price 6M [PLN]	28,2
Min. price 6m [PLN]	20,5
Rate of return 3M	-2,3%
Rate of return 6M	-23,8%
Rate of return 9M	-25,9%
Shareholders (% of votes):	
ENT Investments Ltd	51,5%
NN PTE	10,7%
Generali OFE	9,7%
Investors TFI	6,9%
Others	21,2%

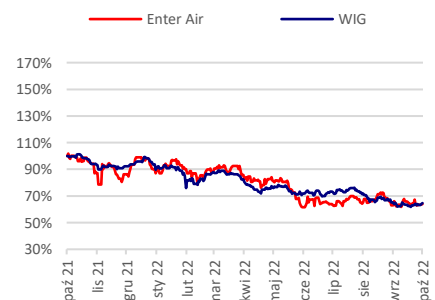
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**Valuation summary**

	Share	Valuation
DCF valuation	70%	24,7
Peer valuation	30%	22,1
<b>Target price [PLN]</b>		<b>24,0</b>

Source: BDM S.A.

**DCF valuation**

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Revenues [mln PLN]	2 378,0	2 082,9	2 081,3	2 121,8	2 217,2	2 268,7	2 317,8	2 418,6	2 527,7	2 588,6
EBIT [mln PLN]	163,5	148,2	154,1	173,3	141,7	162,4	159,6	205,9	179,4	208,2
Tax rate	20%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [mln PLN]	32,2	28,2	29,3	32,9	26,9	30,9	30,3	39,1	34,1	39,6
NOPLAT [mln PLN]	131,3	120,0	124,8	140,3	114,8	131,5	129,3	166,8	145,3	168,6
Amortization [mln PLN]	217,0	232,2	235,6	234,1	278,3	276,0	275,0	271,9	325,7	313,8
CAPEX [mln PLN]	-154,9	-165,7	-173,8	-398,4	-187,8	-193,4	-197,6	-379,9	-215,5	-225,9
Working capital movement [mln PLN]	-82,8	-12,3	0,0	-0,8	-1,8	-1,0	-0,9	-1,9	-2,0	-1,1
Purchase of investmen [mln PLN]	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
FCF [mln PLN]	110,7	174,1	186,6	-24,7	203,5	213,1	205,8	56,9	253,5	255,4
DFCF [mln PLN]	109,1	158,3	156,0	-19,0	143,2	137,0	120,4	30,2	122,1	111,2
Total DFCF [mln PLN]	1 068,5									
Terminal value [mln PLN]	1 654,0									
Discounted terminal value [mln PLN]	720,0									
Enterprise value [mln PLN]	1 788,6									
Net debt 2021 [mln PLN]	1 389,3									
Shares of Chair Airlines [mln PLN]	34,8									
<b>Equity value [mln PLN]</b>	<b>434,1</b>									
Number of shares [mln]	17,5									
<b>Value per share [PLN]</b>	<b>24,7</b>									

Terminal growth rate: 1,0%

**WACC calculation**

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Risk-free rate	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
Risk premium	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Beta	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2
Credit premium	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%
Cost of equity	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%
Contribution of equity	13,8%	10,8%	15,5%	19,3%	23,3%	28,1%	33,4%	37,3%	42,6%	47,4%
Cost of debt after tax	7,6%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%
Contribution of debt	86,2%	89,2%	84,5%	80,7%	76,7%	71,9%	66,6%	62,7%	57,4%	52,6%
<b>WACC</b>	<b>8,5%</b>	<b>8,4%</b>	<b>8,7%</b>	<b>8,9%</b>	<b>9,2%</b>	<b>9,5%</b>	<b>9,8%</b>	<b>10,0%</b>	<b>10,4%</b>	<b>10,7%</b>

Source: BDM S.A.

**Sensitivity analysis**

	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta			
	0,5%	1,0%	1,5%		0,5%	1,0%	1,5%		1,1	1,2	1,3	
beta	1,1	24,2	26,6	29,2	4,0%	26,7	29,2	32,1	4,0%	30,2	29,2	28,3
	1,2	22,5	24,7	27,2	5,0%	22,5	24,7	27,2	5,0%	25,8	24,7	23,8
	1,3	20,9	23,0	25,3	6,0%	18,8	20,7	22,9	6,0%	21,8	20,7	19,7

Source: BDM S.A.

**Peer valuation**

	EV/EBITDA		
	2022F	2023F	2024F
Ryanair	44,3	6,3	5,8
EasyJet	5,0	2,8	2,3
Wizz Air	-	20,2	4,9
TUI	4,7	2,9	2,3
Rainbow	4,9	4,8	4,1
<b>Median</b>	<b>4,9</b>	<b>4,8</b>	<b>4,1</b>
Enter Air	4,7	4,7	4,3
Premium/discount	95,7%	98,0%	105,3%
<b>Valuation [PLN/share]</b>	<b>26,1</b>	<b>23,5</b>	<b>16,7</b>
Year's contribution	33%	33%	33%
<b>Average valuation [PLN/share]</b>		<b>22,1</b>	
Multiple's contribution		100%	
<b>Value per share [PLN]</b>		<b>22,1</b>	

Source: BDM S.A., Bloomberg; \*BDM forecasts

**Main risks:** 1) COVID-19 and its consequences 2) Macroeconomic environment 3) Customer concentration 4) Market competition 5) Aircraft crash 6) Suspension of Boeing 737 MAX 8 7) Terrorist attacks and military conflicts 8) Natural disasters and epidemics 9) Changes in fuel prices 10) Seasonality of results 11) Interest rate risk

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**Ratings and price targets history:**

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
<b>Accumulate</b>	<b>24,0</b>	<b>Accumulate</b>	<b>25,3</b>	<b>26.10.2022*</b>	<b>11:10 CET</b>	<b>21,5</b>	<b>48 263</b>
Accumulate	25,3	Buy	41,6	11.07.2022*	08:00 CET	22,9	54 611
Buy**	41,6	Hold	41,8	07.10.2021*	07:00 CEST	32,5	71 789
Hold**	41,8	Buy	28,3	13.05.2021*	07:00 CEST	41,2	62 214
Buy**	28,3	Accumulate	37,1	22.10.2020*	07:00 CEST	20,2	47 912
Accumulate**	37,1	Buy	52,2	12.06.2020*	08:00 CEST	33,6	51 487
Buy**	52,2	Buy	48,4	11.12.2019*	10:40 CEST	44,4	55 530
Buy**	48,4	Accumulate	41,0	09.10.2019*	14:35 CEST	37,5	56 233
Accumulate**	41,0	---	---	26.07.2019*	13:57 CEST	36,2	60 151

\* The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme. \*\* the author of reports on Enter Air in the years 2019-2021 was Adrian Górniak

**Explanations of terminology:**

EBIT - earnings before interest and tax  
 EBITDA — earnings before interest, taxes, depreciation, and amortization  
 Net debt – interest bearing debt minus cash and equivalents  
 WACC - weighted average cost of capital  
 CAGR - cumulative average annual growth  
 EPS - earnings per share  
 DPS - dividend per share  
 CEPS - net profit plus depreciation per share  
 EV – market capitalization plus interest bearing debt minus cash and equivalents  
 EV/S – market capitalization / sales  
 EV/EBITDA – EV / sales  
 P/EBIT – market capitalization / EBIT  
 MC/S – market capitalization / sales  
 P/E – market capitalization / net profit  
 P/BV – market capitalization / book value  
 P/CE - market capitalization / net profit plus depreciation  
 ROE – net profit / equity  
 ROA - net income / assets  
 Gross margin - gross profit on sales / sales  
 EBITDA margin – EBITDA / sales  
 EBIT margin – EBIT / sales  
 Net margin – net profit / sales

**Explanation of ratings:**

Buy – we believe that the security will reach the target price in the recommended period, which significantly exceeds the current market price (at least + 15%);  
 Accumulate – we believe that the security will reach the target price in the recommended period, which exceeds the current market price (in the range of +5 to + 14.99%);  
 Hold – we believe that a security in the recommended period will fluctuate around the target price, which is close to the current market price (in the range from -4.99% to + 4.99%);  
 Reduce – we believe that the security will reach the target price in the recommended period, which is lower than the market price (range of decline from 5% to 14.99%);  
 Sell – we believe that a security in the recommended period will reach the target price, which is significantly lower than the market price (suggested erosion of the value exceeds 15%).  
 Target price – the theoretical price which, in our opinion, should reach a security in the recommended period; This price is the result of the company's value (eg based on DCF, comparative and other valuations), market conditions and the industry as well as other factors subjectively considered by the analyst.  
 Recommendations made by BDM are binding for 12 months from the issue date or until the target level is reached, unless they are updated during this period of time.

**The strengths and weaknesses of the valuation methods used in the report:**

DCF – the most popular and the most effective of the valuation methods - it is based on the discounting of future cash flows generated by the company. The disadvantage is the high sensitivity to changes in the basic financial parameters forecast in the model (interest rates, exchange rates, profits, residual value).  
 DDM – the method is based on discounting future cash flows from dividends. The advantage of the valuation is the inclusion of future financial results and cash flows from dividends. The main disadvantages are the high sensitivity to changes in the basic financial parameters forecasted in the model (capital cost, profits, residual value) and the risk of changing the dividend payment policy.  
 Comparative – the method is based on current and forecasted market multipliers of companies from the industry or related industries, which better than DCF shows the current market situation. The main disadvantages are the difficulty in choosing the right companies for comparison, the risk of ineffective valuation of companies compared at a given moment, as well as high volatility (along with price fluctuations).

Distribution of BDM's recommendations in 4Q'22*:		, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
numbers	%	numbers	%
Buy	4 50%	1 100%	
Accumulate	2 25%	0 0%	
Hold	1 13%	0 0%	
Reduce	0 0%	0 0%	
Sell	1 13%	0 0%	

\* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months and information on the numbers of issuers to which BDM has supplied services of investment firms set out in Sections A and B of Annex I to Directive 2014/65/EU is included in a cyclical "Monthly Report" or at [www.bdm.pl](http://www.bdm.pl)

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The report constitutes an investment research within the meaning of art. 36 §1 of Commission Delegated Regulation (EU) 2017/565.

The report has been prepared by Dom Maklerski BDM S.A. (hereinafter BDM S.A.) within the Exchange Analytical Coverage Support Programme (<https://www.gpw.pl/gpwpz>). BDM S.A. is a party to the „Agreement on the provision of analytical report services” concluded with the Warsaw Stock Exchange Company („GPW”), on the basis of which BDM provides services of analytical coverage of the Issuer for the term of the Agreement. Under the agreement BDM obtains remuneration from GPW. All materials prepared by BDM within the framework of co-operation are available at <https://www.bdm.pl/program-wsparcia-pokrycia-analitycznego-gpw>.

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- BDM has not been lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of financial instruments of the issuer;
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- The person affiliated with BDM who was involved in the preparation of recommendations declares that they respect internal regulations and are subject to organizational and technical solutions and information barriers established by BDM to eliminate any conflicts of interest concerning recommendations and to avoid them,
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\*BDM is a party to the “ANALYTICAL REPORT PREPARATION SERVICES AGREEMENT” concluded with the WSE.

According to the best knowledge of the party recommending upon the publication of the report there are no other connections between BDM and the company described in this report that the party preparing this report would know of. However, the investor should be aware that the list disclosing conflicts of interest is long and that in the future there may occur situations leading to conflicts of interest which have not been identified or disclosed at the moment of publication of the report concerned. Especially, the investor should assume that BDM may submit an offer for services to a company or other companies mentioned in this report.

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