



Dom Maklerski BDM S.A.

ENTER AIR

ANALYTICAL REPORT - SUMMARY

This year, the high season for the company started earlier, as evidenced by a significant increase in flight operations in May (approximately +25% y/y). In the second half of 2Q'23, three new Boeing 737 MAX 8 aircraft joined the carrier's fleet and Enter Air entered the most intensive period of the year with a fleet of 31 aircraft. According to our estimates, further improvement in demand for the company's services, combined with fleet expansion, has translated into a growth of around 30% y/y in the number of flights operated during 2Q'23. Throughout 2Q'23, we anticipate a progression of EBITDA MSSF 16 at approximately 27,2% y/y to PLN 143,1 million, along with a net profit of PLN 90,8 million (compared to a loss of PLN 31,0 million in 2Q'22). These projected results exceed our expectations from the previous recommendation. As a result, we are revising our assumptions upwards for the upcoming periods as well, increasing the number of flight operations by Enter Air in 2023 from 25% to 30%, which translates to record figures for the company in this period. For the entire year 2023, we anticipate revenues at the level of PLN 2,7 billion, gross sales profit of PLN 287,4 million, EBITDA of PLN 468,4 million and a net profit of PLN 186,7 million. We also point out on ENT's and TUI's plans to create a joint company offering aircraft leasing and charter services. We view this initiative positively, as it could potentially become a new source of revenue for the company in the future. Additionally, the decrease in the risk-free rate positively impacts the valuation. After updating our pricing model, we set the target price at PLN 59,8, which implies an upgrade from Accumulate to Buy.

This year, the high season for the company started earlier, as evidenced by a significant increase in flight operations in May (approximately +25% y/y). In the second half of 2Q'23, three new Boeing 737 MAX 8 aircraft joined the carrier's fleet and Enter Air entered the most intensive period of the year with a fleet of 31 aircraft (another aircraft of this type should appear in the coming weeks). According to our estimates, the continued improvement in demand for the company's services, combined with fleet expansion, has translated into a growth of around 30% y/y in the number of flights operated during the past quarter. Considering factors such as the decrease in aviation fuel prices and currencies relative to PLN, we estimate that Enter Air generated PLN 726,0 million in revenues (+20,5% y/y) in the discussed period. Throughout 2Q'23, we anticipate a progression of EBITDA MSSF 16 at approximately 27,2% y/y to PLN 143,1 million, along with a net profit of PLN 90,8 million (compared to a loss of PLN 31,0 million in 2Q'22). These projected results exceed our expectations from the previous recommendation and thus we are revising our assumptions upwards for the upcoming periods as well.

Taking the above into consideration, we are raising our expectations regarding the growth of the number of flight operations conducted by Enter Air in 2023 from 25% to 30%, resulting in record figures for the company during this period. For the entire year 2023, we anticipate revenues at the level of PLN 2,7 billion, gross profit of PLN 287,4 million from sales, EBITDA of PLN 468,4 million and a net profit of PLN 186,7 million.

We approach the forecast for fleet expansion in the coming years conservatively, assuming that in the 2024 season, the fleet will remain at the level of 32 aircraft (despite the return of 2 Boeing 737-800 aircraft at the end of 2023). We draw attention to the recent comments from Enter's management, indicating that to meet the current demand for its services, the company would need to have a fleet of about 40 aircraft. It was also suggested that if the demand continues to provide an opportunity for stability in the coming years, the company plans to further increase the expansion of its fleet. We would like to note that the potential for a stronger fleet expansion while maintaining strong demand may lead us to further revise our assumptions upwards.

We also point out on ENT's and TUI's plans to create a joint company offering aircraft leasing and charter services, with full operational capacity expected for the summer season of 2024. Currently, due to limited information regarding the new entity, we have not included it in our model. However, we view this initiative positively, as it could potentially become a new source of revenue for the company in the future.

Due to the restrictions imposed by the loan agreement with PFR, the company was unable to pay dividends for 2022. We assume that in 2024, Enter will repay the entire loan (approximately 135 million PLN) and distribute a record dividend at a level of DPS = 3.2 PLN (DY = 7,3%).

	2020	2021	2022F	2023F	2024F	2025F	2026F
Revenues [mln PLN]	470,5	1 120,3	2 255,8	2 677,1	2 267,5	2 349,7	2 469,8
EBITDA MSSF16 [mln PLN]	23,9	208,8	442,7	468,4	473,1	501,3	528,2
EBIT MSSF16 [mln PLN]	-150,5	-14,1	290,3	235,5	232,7	250,6	223,2
Gross income [mln PLN]	-188,0	-141,1	77,1	233,8	170,1	187,8	159,3
Net income [mln PLN]	-154,1	-117,1	72,3	186,7	137,8	152,1	129,0
P/BV	3,7	8,6	4,7	2,3	1,8	1,4	1,2
P/E	-	-	10,6	4,1	5,5	5,0	5,9
EV/EBITDA MSSF16	83,9	10,3	4,4	3,6	3,4	3,4	2,9
EV/EBIT MSSF16	-	-	6,7	7,2	7,0	6,8	7,0
DPS	0,0	0,0	0,0	0,0	3,2	1,2	1,3
DY	0,0%	0,0%	0,0%	0,0%	7,3%	2,7%	3,0%

This report has been prepared in compliance with Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 (on market abuse), Commission Delegated Regulation (EU) 2016/958 and Commission Delegated Regulation (EU) 2017/565. Detailed contents of legal notes is located on the last page of this report. The report has been prepared and made available for distribution by BDM. GPW shall be a copyright holder to this report from the date of its publication. The report can be published and made available without limitation by GPW through any mass communication media as decided by GPW.

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

BUY

(PREVIOUS: ACCUMULATE)

TARGET PRICE 59,8 PLN

29 AUGUST 2023, 08:30 CEST

Target price [PLN]	59,8
Price upside	37%
Cost of capital	8,3%
Price [PLN]	43,5
Market cap [mln PLN]	763,2
Shares mln. szt.]	17,5
Max. price 6M [PLN]	50,2
Min. price 6m [PLN]	33,2
Rate of return 3M	-10,9%
Rate of return 6M	18,9%
Rate of return 9M	60,5%
Shareholders (% of votes):	
ENT Investments Ltd	51,5%
NN OFE	10,7%
Generali OFE	9,7%
Others	28,1%

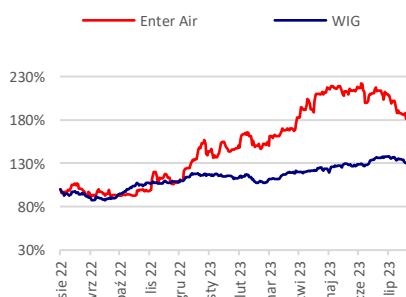
Krzysztof Tkocz

krzysztof.tkocz@bdm.com.pl

tel. (+48) 516 086 705

Dom Maklerski BDM S.A.

ul. 3-go Maja 23, 40-096 Katowice



Valuation summary

	Share	Valuation
DCF valuation	70%	61,1
Peer valuation	30%	56,7
Target price [PLN]		59,8

Source: BDM S.A.

DCF valuation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Revenues [mln PLN]	2 677,1	2 267,5	2 349,7	2 469,8	2 556,2	2 684,5	2 858,5	3 038,9	3 178,1	3 319,3
EBIT [mln PLN]	235,1	232,7	250,6	223,2	236,5	254,0	277,3	250,0	273,8	288,5
Tax rate	21%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [mln PLN]	48,5	44,2	47,6	42,4	44,9	48,3	52,7	47,5	52,0	54,8
NOPLAT [mln PLN]	186,6	188,5	203,0	180,8	191,5	205,7	224,6	202,5	221,8	233,7
Amortization [mln PLN]	233,3	240,4	250,7	304,9	309,2	314,4	323,3	387,4	388,1	398,1
CAPEX [mln PLN]	-199,9	-250,0	-453,8	-270,8	-281,0	-293,9	-485,4	-329,4	-347,1	-367,1
Working capital movement [mln PLN]	1,8	1,4	0,5	0,7	0,5	0,7	1,0	1,0	0,8	0,8
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]	221,7	180,3	0,4	215,6	220,3	226,9	63,5	261,5	263,5	265,5
DFCF [mln PLN]	220,2	164,7	0,3	165,5	154,3	144,5	36,7	136,8	124,5	113,1
Total DFCF [mln PLN]	1 260,7									
Terminal value [mln PLN]	2 238,2									
Discounted terminal value [mln PLN]	953,6									
Enterprise value [mln PLN]	2 214,2									
Net debt 2022 [mln PLN]	1 169,5									
Shares of Chair Airlines [mln PLN]	27,1									
Equity value [mln PLN]	1 071,8									
Number of shares [mln]	17,5									
Value per share [PLN]	61,1									

Terminal growth rate: 1,0%

WACC calculation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Risk-free rate	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%
Risk premium	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%
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	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%
Contribution of equity	30,0%	33,2%	35,5%	39,3%	43,2%	47,5%	49,1%	52,5%	55,1%	57,7%
Cost of debt after tax	5,6%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%
Contribution of debt	70,0%	66,8%	64,5%	60,7%	56,8%	52,5%	50,9%	47,5%	44,9%	42,3%
WACC	8,3%	8,7%	8,9%	9,3%	9,6%	10,0%	10,2%	10,5%	10,7%	10,9%

Source: BDM S.A.

Sensitivity analysis

beta	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		
	1,1	62,2	65,4	68,9		5,5%	65,9	69,3	73,1		5,5%	71,5	69,3
	1,2	58,2	61,1	64,3	6,5%	58,2	61,1	64,3	6,5%	63,2	61,1	59,1	
	1,3	54,5	57,1	60,0	7,5%	51,5	54,0	56,6	7,5%	56,0	54,0	52,1	

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2023P	2024P	2025P	2023P	2024P	2025P
Ryanair	12,9	10,1	7,9	7,4	5,6	4,0
EasyJet	8,5	7,5	5,9	2,9	2,6	2,3
Wizz Air	-	5,5	3,7	31,1	4,6	3,5
TUI	7,1	5,0	4,1	2,8	2,3	2,0
Rainbow	5,7	7,7	7,3	3,7	4,8	4,3
Mediana	7,8	7,5	5,9	3,7	4,6	3,5
Enter Air*	4,1	5,5	5,0	3,6	3,4	3,4
Premium/discount	-47,5%	-25,6%	-15,6%	-3,2%	-25,6%	-2,1%
Valuation [PLN/share]	62,3	58,5	51,6	46,7	75,3	45,6
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		57,5			55,9	
Multiple's contribution		50%			50%	
Value per share [PLN]		56,7				

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

Source: BDM S.A., Bloomberg; *adj. of the impact of exchange differences from the balance sheet valuation

RESEARCH DEPARTMENT:

Maciej Bobrowski
 Director
 tel. (032) 208 14 12
 e-mail: maciej.bobrowski@bdm.pl
[strategy, industry, media/entertainment, TMT](#)

Krzysztof Pado
 Deputy Director
 Investment Adviser
 tel. (032) 208 14 35
 e-mail: krzysztof.pado@bdm.pl
[oil&gas, construction, building materials, real estate](#)

Krzysztof Tkocz
 Analyst
 tel. (032) 208 14 38
 e-mail: krzysztof.tkocz@bdm.pl
[gaming](#)

Anna Tobiasz
 Junior analyst
 Investment Adviser
 tel. (032) 208 14 35
 e-mail: anna.tobiasz@bdm.pl

INSTITUTIONAL SALES DEPARTMENT:

Leszek Mackiewicz
 Director
 tel. (022) 62-20-848
 e-mail: leszek.mackiewicz@bdm.pl

Tomasz Ilczyszyn
 tel. (022) 62-20-854
 e-mail: tomasz.ilczyszyn@bdm.pl

Maciej Fink-Finowicki
 tel. (022) 62-20-855
 e-mail: maciej.fink-finowicki@bdm.pl

Piotr Komorowski
 tel. (022) 62-20-851
 e-mail: piotr.komorowski@bdm.pl

Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Buy	59,8	Accumulate	52,3	29.08.2023*	08:30 CEST	43,5	68 722
Accumulate	52,3	Accumulate	24,0	23.05.2023*	11:55 CEST	46,2	65 734
Accumulate	24,0	Accumulate	25,3	26.10.2022*	11:10 CET	21,5	48 263
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 3Q'23*:		, 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	57%	0	0%
Accumulate	2	29%	0	0%
Hold	0	0%	0	0%
Reduce	1	14%	0	0%
Sell	0	0%	0	0%

* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included at <https://www.bdm.pl/analizy-i-informacje/analizy/historia-rekomendacji>



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

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For the first time this report has been made available to the public on 29.08.2023 (08:30 CEST). Date of preparing the report is the date of making it accessible. Before the recommendation was made accessible, information included in it had been confidential.

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Each of the above-mentioned persons could carry out transaction relating to the financial instruments concerned prior to this publication. At the same time, however, the instruments concerned are entered in the restrictive list for employees of the Analysis Department immediately at the start of work on the report.

We have not identified significant conflicts of interest between BDM and persons associated with BDM and the financial instrument issuer. If a conflict of interest arises BDM shall manage it by applying the principles defined in the “Policy of management of conflicts of interest at the BDM S.A.”. We point out that as for 29.08.2023:

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- BDM is not a holder of net long or short positions exceeding the threshold of 0,5 % of the total issued share capital of the issuer,
- The person that participated in preparing recommendation is not a holder of net long or short positions exceeding the threshold of 0,5 % of the total issued share capital of the issuer,
- The issuer does not hold shares exceeding 5 % of the BDM issued share capital,
- BDM is not a market maker or liquidity provider in the financial instruments of the issuer,
- 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;
- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25th July 2005,
- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to section A and B od Annex I to the Directive 2014/65/EU of the European Parliament and of the Council (hereinafter the Directive 2014/65/EU),
- BDM is no a party to an agreement with the issuer relating to the production of the recommendation,
- There is other significant financial interest that BDM or its related affiliates have in relation to the issuer of financial instruments*
- There are no significant connections between BDM or its related affiliates and the issuer of financial instruments,
- The person affiliated with BDM who was involved in the preparation of recommendations did not receive or purchase the shares of the issuer, to whom the recommendation relates directly or indirectly, prior to public offering of such shares,
- 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,
- The person affiliated with BDM who was involved in the preparation of recommendations was not rewarded in any form by the issuer, to whom the recommendation relates directly or indirectly, or was not directly connected with any possible transactions concerning services defined in art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25th July 2005.

*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.

BDM is subject to supervision by the Polish Financial Supervision Commission.

This document is a summary of a full version of the report prepared in Polish. In case of any disputes the Polish version shall prevail.