



Dom Maklerski BDM S.A.

ENTER AIR

ANALYTICAL REPORT - SUMMARY

In our last recommendation, we approached the forecasts for 2024 and subsequent years cautiously, fearing that the observed demand might be short-term in nature, partly due to post-pandemic effects. However, current data indicate that the high demand for aviation services in Poland has a chance to persist in the medium term. Contributing factors include wage growth and the entry of the demographic cohort from the 80s, characterized by a strong inclination to travel. Taking this into account, we are revising our financial assumptions for Enter Air upward. Over the course of 2024, we expect the airline's number of flight operations to increase by approximately 13% y/y, which, combined with the anticipated margin improvement, should result in a record EBITDA level of 503,0 million PLN (+24% y/y). After a four-year hiatus, the company will resume paying dividends, offering 4,4 PLN per share, resulting in an attractive dividend yield of 7,1%. After updating the model, we set the target price at 77,5 PLN, which implies maintaining the Buy recommendation.

We are raising our expectations for the growth of the number of flight operations conducted by Enter Air in 2024 to 13% y/y, which should result in revenues of approximately 3,0 billion PLN. We anticipate that the lack of delays in the delivery of contracted aircraft and the first inspections of machines performed in-house will contribute to an improvement in the year-over-year margin, leading to a record EBITDA of 503,0 million PLN (+24% y/y) for the entire year 2024.

Current data suggests that high demand for aviation services in Poland is likely to be sustained in the medium term, primarily due to rising wages and the entry of the demographic boom from the 80s into the market, characterized by a strong propensity to travel. Consequently, we are raising our assumptions regarding fleet expansion in the coming years. We predict that in 2025 the company will have 34 aircraft (compared to 31 in 2024). As a result, we are revising our forecasts for the company's performance upward.

Due to the restrictions resulting from the loan agreement with PFR, the company was unable to share profits with shareholders for the past four years. However, in Q3'24, after repaying the mentioned obligation (around 70 million PLN remaining), Enter intends to compensate shareholders for this period by paying a record dividend (DPS = 4,4 PLN, DY = 7,1%).

The company is finalizing negotiations to obtain a hangar in Hungary, where it plans to perform 20% of its aircraft maintenance in-house by the end of this year. These actions should reduce the costs of outsourced services during the low season, thereby contributing to improved profitability.

Delays in the delivery of contracted aircraft remain a potential risk area. At the latest earnings conference on June 3, 2024, the company's management emphasized that the risk of needing to rent additional aircraft on a wet-lease basis is minimal. Three of the ordered aircraft are already registered and should be delivered to the company in the coming days. They were initially supposed to be delivered in May, but the delivery date was postponed due to refurbishment work. We remind that in Q3'23, delays forced the company to rent additional aircraft on a wet-lease basis, costing Enter Air approximately 35 million PLN (over 18% of the EBITDA achieved in that quarter). We expect that the absence of additional costs related to aircraft rentals this time will allow the carrier to achieve higher margins and improve its results.

	2021	2022	2023	2024F	2025F	2026F	2027F
Revenues [mln PLN]	1 120,3	2 255,8	2 625,9	3 031,8	3 318,6	3 554,7	3 802,6
EBITDA MSSF16[mln PLN]	208,2	442,7	405,2	503,0	552,2	592,3	640,5
EBIT MSSF16 [mln PLN]	-14,1	225,6	164,3	237,4	261,3	275,6	298,1
Gross income [mln PLN]	-141,1	77,1	240,5	157,6	198,9	208,3	225,9
Net income [mln PLN]	-117,1	72,3	196,4	124,4	161,1	168,7	182,9
P/BV	12,3	6,8	3,1	2,6	2,0	1,5	1,3
P/E	-	6,5	10,0	8,8	6,8	6,5	6,0
EV/EBITDA MSSF16	11,9	5,1	5,8	4,8	4,4	4,2	3,9
EV/EBIT MSSF16	-	10,0	14,3	10,2	9,4	9,0	8,4
DPS	0,0	0,0	0,0	4,4	1,1	1,3	1,3
DY	0,0%	0,0%	0,0%	7,1%	1,7%	2,1%	2,2%

BUY

(PREVIOUS: BUY)

TARGET PRICE 77,5 PLN

10 JUNE 2024, 13:30 CEST

Target price [PLN]	77,5
Price upside	24%
Cost of capital	8,9%
Price [PLN]	61,0
Market cap [mln PLN]	1 070
Shares mln. szt.]	17,5
Max. price 6M [PLN]	74,4
Min. price 6m [PLN]	47,5
Rate of return 3M	-14,9%
Rate of return 6M	29,0%
Rate of return 9M	35,1%
Shareholders (% of votes):	
ENT Investments Ltd	51,5%
NN OFE	10,7%
Generali OFE	7,6%
Others	30,2%

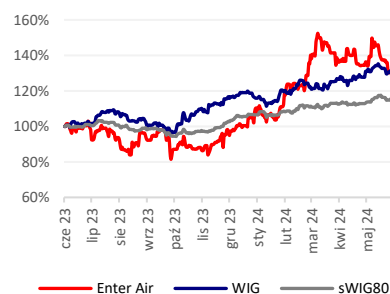
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Valuation summary

	Share	Valuation
DCF valuation	70%	83,7
Peer valuation	30%	63,1
Target price [PLN]		77,5

Source: BDM S.A.

DCF valuation

	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Revenues [mln PLN]	3 031,8	3 318,6	3 554,7	3 802,6	4 022,4	4 235,0	4 460,7	4 692,6	4 933,7	5 173,4
EBIT [mln PLN]	237,4	261,3	275,6	298,1	313,1	327,5	335,8	343,1	348,8	353,4
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [mln PLN]	45,1	49,7	52,4	56,6	59,5	62,2	63,8	65,2	66,3	67,2
NOPLAT [mln PLN]	192,3	211,7	223,3	241,4	253,6	265,3	272,0	277,9	282,5	286,3
Amortization [mln PLN]	265,6	290,9	316,7	342,4	368,2	394,0	419,8	445,6	471,4	497,3
CAPEX [mln PLN]	-285,8	-319,8	-348,6	-384,8	-415,7	-446,1	-473,0	-500,2	-527,4	-554,4
Working capital movement [mln PLN]	2,3	0,4	0,5	0,6	0,7	0,5	0,6	0,9	1,1	1,5
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]	174,5	183,2	191,8	199,6	206,8	213,6	219,4	224,3	227,7	230,7
DFCF [mln PLN]	169,5	163,1	156,3	148,5	140,3	132,1	123,4	114,7	105,8	97,4
Total DFCF [mln PLN]	1 351,1									
Terminal value [mln PLN]	3 137,5									
Discounted terminal value [mln PLN]	1 324,3									
Enterprise value [mln PLN]	2 675,4									
Net debt 2023 [mln PLN]	1 262,2									
Other financial assets [mln PLN]	55,7									
Equity value [mln PLN]	1 468,9									
Number of shares [mln]	17,5									
Value per share [PLN]	83,7									

Terminal growth rate: 1,0%

WACC calculation

	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Risk-free rate	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%
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	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%
Contribution of equity	32,3%	34,8%	36,7%	38,6%	40,2%	41,6%	42,8%	43,7%	44,6%	45,3%
Cost of debt after tax	5,8%	5,8%	5,8%	5,8%	5,8%	5,8%	5,8%	5,8%	5,8%	5,8%
Contribution of debt	67,7%	65,2%	63,3%	61,4%	59,8%	58,4%	57,2%	56,3%	55,4%	54,7%
WACC	8,9%	9,1%	9,3%	9,5%	9,6%	9,8%	9,9%	10,0%	10,1%	10,1%

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	84,1	88,8	94,0	5,5%	88,7	93,7	99,4	5,5%	96,2	93,7	91,3
1,2	79,5	83,7	88,5	6,5%	79,5	83,7	88,5	6,5%	86,2	83,7	81,4
1,3	75,1	79,0	83,4	7,5%	71,3	74,9	79,0	7,5%	77,4	74,9	72,6

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2024P	2025P	2026P	2024P	2025P	2026P
Ryanair	10,5	8,9	8,1	5,9	5,0	3,9
EasyJet	7,0	6,5	6,0	2,3	2,1	2,1
Wizz Air	7,4	4,8	4,5	5,8	4,3	4,0
TUI	6,7	5,7	5,1	2,6	2,3	2,0
Rainbow	10,3	9,9	9,2	7,1	6,5	5,9
Mediana	7,4	6,5	6,0	5,8	4,3	3,9
Enter Air*	7,8	6,8	6,5	4,8	4,4	4,2
Premium/discount	4,3%	3,9%	7,2%	-17,0%	2,8%	7,9%
Valuation [PLN/share]	59,7	60,0	58,1	90,5	58,5	51,9
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		59,3			67,0	
Multiple's contribution		50%			50%	
Value per share [PLN]		63,1				

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

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Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Buy	77,5	Buy	59,8	10.06.2024*	13:30 CEST	62,3	84 406
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 2Q'24*:		, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
numbers	%	numbers	%
Buy	9 60%	0 0%	0%
Accumulate	3 20%	0 0%	0%
Hold	3 20%	0 0%	0%
Reduce	0 0%	0 0%	0%
Sell	0 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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The prices of the financial instruments listed in the document have been taken from the real-time pricing as provided by Bloomberg. Data concerning financial instrument prices used in the report could be loaded to 24 hours before the moment of completing the report.

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