



Dom Maklerski BDM S.A.

ENTER AIR

ANALYTICAL REPORT - SUMMARY

We issue Buy recommendation for Enter Air with a target price of 48,4 PLN per share. Results of Q2'19 were above our expectations and we expect coming quarters will bring further growth (with crucial Q3'19). We don't underestimate company's business model, which relies on cooperation with the biggest tour-operators and stable dividend payments. We point out significant discount towards peers (higher multiples after Thomas Cook's bankruptcy) and favourable macro environment.

Company profile

Enter Air is the biggest charter airline in Poland, with a market share of nearly 25% (in whole market 4,3%). It cooperates with the biggest domestic (TUI, Rainbow, Itaka) and foreign tour-operators. The company's fleet currently consists of 23 airplanes – 21 Boeings B737-800 and 2 Boeings B737-8 MAX.

Valuation summary

We base our valuation on two methods: discounted cash flows model (70% contribution in the final valuation), which implies share price 43,9 PLN and peer valuation (30% share in the final valuation), which indicates target price 58,9 PLN. We set the target price 48,4 PLN.

Forecasts and multiples

We expect that in 3Q'19 the company reached 704 mln PLN of sales (+23% y/y), c.a. 153 mln PLN EBITDA MSSF 16 and 53 mln PLN of net profit. In '19 we forecast c.a 1,65 bln PLN of sales, 373 mln PLN EBITDA (EBITDA MSR 17 = 230 mln PLN) and 87 mln PLN of adjusted net income. In 2020 we estimate 1,85 bln PLN of sales, 402 mln PLN EBITDA and 123 mln PLN of net income. Currently, Enter Air trades at EV/EBITDA'19 MSSF 16 = 4,4x and P/E'19 = 7,5x.

Risk factors: I) Macro environment. II) High consumer concentration. III) Market competition. IV) Aircraft disasters. V) Terrorist attacks and military

	2015	2016	2017	2018	2019P	2020P	2021P	2022P
Revenues [mln PLN]	757	810	955	1 296	1 650	1 853	1 963	2 070
EBITDA MSSF 16 [mln PLN]	-	-	-	-	373	402	424	438
EBITDA MSR 17 [mln PLN]	76	97	90	159	230	257	276	289
EBIT MSSF 16 [mln PLN]	-	-	-	-	181	203	205	200
EBIT MSR 17 [mln PLN]	56	61	64	119	162	181	186	184
Net income [mln PLN]	34	46	58	66	87	123	121	111
Net debt MSSF 16 [mln PLN]	-	-	-	908	992	1 120	1 260	1 403
Net debt MSR 17 [mln PLN]	14	176	303	472	494	601	721	849
P/BV	3,9	3,0	2,5	2,1	1,9	1,5	1,3	1,1
P/E	19,5	14,2	11,3	9,9	7,5	5,3	5,5	5,9
EV/EBITDA MSSF 16	-	-	-	-	4,4	4,4	4,5	4,7
EV/EBITDA MSR 17	8,8	8,6	10,7	7,1	5,0	4,9	5,0	5,2
EV/EBIT MSSF 16	-	-	-	-	9,1	8,7	9,3	10,3
	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19P	Q4'19P
Revenues [mln PLN]	126	363	573	233	185	448	704	313
EBITDA MSSF 16 [mln PLN]	-	-	-	-	66	111	153	42
EBITDA MSR 17 [mln PLN]	6	55	89	9	42	73	104	12
EBIT MSSF 16 [mln PLN]	-	-	-	-	20	62	106	-6
EBIT MSR 17 [mln PLN]	-2	46	78	-4	26	54	87	-5
Net income [mln PLN]	-4	19	63	-12	-9	54	53	-10

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

BUY

(PREVIOUS: ACCUMULATE)

TARGET PRICE 48,4 PLN

09 OCTOBER 2019, 14:35 CEST

DCF valuation [PLN]	43,9
Peer valuation [PLN]	58,9
Target price [PLN]	48,4
Price upside/downside	29,0%
Cost of capital	10,0%
Price [PLN]	37,5
Market cap [mln PLN]	657,9
Shares [mln. szt.]	17,5
Max. price 6M [PLN]	40,2
Min. price 6m [PLN]	25,8
Rate of return 3M	+4,1%
Rate of return 6M	+42,6%
Rate of return 9M	+77,5%
Shareholders (% of votes):	
ENT Investments Ltd	52,5%
NN PTE	10,7%
Generali OFE	9,1%
Investors TFI	8,6%
Others	19,1%

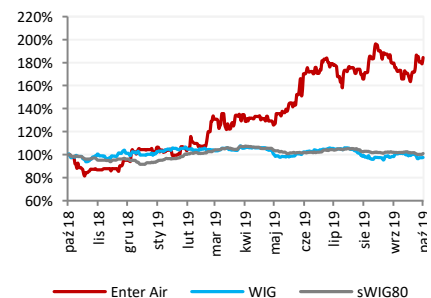
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Valuation summary

	Share	Valuation
DCF valuation	70%	43,9
Peer valuation	30%	58,9
Target price [PLN]		48,4

Source: BDM S.A.

DCF valuation

	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P
Revenues [mln PLN]	1 650,2	1 853,5	1 963,2	2 070,0	2 164,2	2 242,6	2 286,6	2 319,7	2 346,5	2 370,9
EBIT [mln PLN]	181,1	203,3	205,2	200,2	192,8	189,5	190,8	191,9	192,8	193,4
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [mln PLN]	34,9	38,6	39,0	38,0	36,6	36,0	36,3	36,5	36,6	36,7
NOPLAT [mln PLN]	146,2	164,7	166,2	162,2	156,1	153,5	154,6	155,5	156,1	156,6
Amortization, including: [mln PLN]	191,8	198,8	219,0	238,2	256,6	265,0	268,6	272,0	274,5	276,5
-right to use assets	123,5	123,5	129,0	133,7	137,7	140,8	143,0	144,6	145,6	146,0
CAPEX [mln PLN]	-254,3	-420,3	-434,2	-448,5	-465,0	-268,8	-275,6	-276,6	-276,8	-276,7
- lease payments	-142,4	-145,5	-147,9	-149,8	-150,3	-149,5	-149,4	-148,5	-147,2	-145,8
Working capital movement [mln PLN]	-9,1	2,6	-0,1	-0,5	-1,0	-1,6	-2,4	-2,7	-2,8	-2,9
Purchase of investment [mln PLN]	-32,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Cash flow from sold assets [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]	42,6	-54,3	-49,1	-48,5	-53,3	148,2	145,1	148,2	151,0	153,5
DFCF [mln PLN]	42,0	-50,1	-42,4	-39,3	-40,5	105,4	96,6	92,1	87,6	82,9
Total DCF [mln PLN]	334,3									
Terminal value [mln PLN]	2 449,9									
Discounted terminal value [mln PLN]	1 323,5									
Enterprise value [mln PLN]	1 657,8									
Net debt [mln PLN]	908,2									
Minorities [mln PLN]	0,0									
Shares of Chair Airlines [mln PLN]	32,0									
Dividend [mln PLN]	12,3									
Equity value [mln PLN]	769,3									
Number of shares [mln]	17,5									
Value per share [PLN]	43,9									

Terminal growth rate: 1,0%

WACC calculation

	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P
Risk-free rate	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%
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	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%
Contribution of equity	39,9%	41,6%	41,1%	40,4%	39,8%	42,1%	44,5%	46,9%	49,4%	52,0%
Cost of debt after tax	4,4%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
Contribution of debt	60,1%	58,4%	58,9%	59,6%	60,2%	57,9%	55,5%	53,1%	50,6%	48,0%
WACC	6,7%	6,8%	6,7%	6,7%	6,7%	6,8%	6,9%	7,1%	7,2%	7,3%

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	42,5	48,9	56,5	4,0%	49,4	56,8	65,7	4,0%	60,1	56,8	53,7
1,2	38,0	43,9	50,7	5,0%	38,0	43,9	50,7	5,0%	47,1	43,9	40,9
1,3	33,9	39,2	45,4	6,0%	28,6	33,3	38,7	6,0%	36,3	33,3	30,5

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2019	2020	2021	2019	2020	2021
Ryanair	14,3	11,6	10,5	7,6	6,7	5,8
EasyJet	12,8	12,0	10,4	5,3	5,2	4,7
Wizz Air	10,6	8,7	7,1	5,1	4,7	3,9
TUI	12,4	8,5	7,7	5,1	3,9	3,5
Rainbow	10,4	10,2	9,9	8,0	7,1	5,8
Mediana	12,4	10,2	9,9	5,3	5,2	4,7
Enter Air	7,5	5,3	5,5	4,4	4,4	4,5
Premia/dyskonto grupa	-39,1%	-47,6%	-44,8%	-15,8%	-15,3%	-3,7%
Wycena wg wskaźnika	61,6	71,6	67,9	55,1	55,8	41,7
Waga roku	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]	67,0			50,9		
Multiple's contribution	50%			50%		
Value per share [PLN]	58,9					

Source: BDM S.A., Bloomberg

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rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
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

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.
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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'19*:		, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months		
	numbers	%	numbers	%
Buy	2	100%	0	0%
Accumulate	0	0%	0	0%
Hold	0	0%	0	0%
Reduce	0	0%	0	0%
Sell	0	0%	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

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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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