

ENTER AIR

ANALYTICAL REPORT - SUMMARY

We issue Accumulate recommendation for Enter Air with a target price of 37,1 PLN per share. In our opinion, in short term share price should be supported by the decision of Polish government related to cancelling the international flights' ban from 16th June and solid financial results of Q1'20 (they will be published on 15th July). The main risk is the negative impact of COVID-19, which will affect company's business in '20. However, we hope that in '21 the economic environment will get better and the financial results will improve. We do not underestimate company's business model, which relies on cooperation with the biggest tour-operators and minimizing of fixed costs.

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 (80% contribution in the final valuation), which implies share price 35,3 PLN and peer valuation (20% share in the final valuation), which indicates target price 44,4 PLN. We set the target price 37,1 PLN.

Forecasts and multiples

We expect that in Q1'20 the company will reach 181 mln PLN of sales, c.a. 61 mln PLN EBITDA MSSF 16 and 36 mln PLN of net loss. In '20 we forecast c.a 495 mln PLN of sales, 36 mln PLN EBITDA (EBITDA MSR 17 = -103 mln PLN) and 163 mln PLN of net loss. In 2021 we estimate 1,36 bln PLN of sales, 336 mln PLN EBITDA and 84 mln PLN of net income. Currently, Enter Air trades at EV/EBITDA'21 MSSF 16 = 5,2x and P/E'20 = 7,0x.

Risk factors: I) COVID-19. II) Macro environment. III) High consumer concentration. IV) Market competition. V) Aircraft disasters. VI) Terrorist attacks and military conflicts. VII) Natural disasters and epidemics. VIII) Fluctuations of fuel price. IX) Seasonality of financial results.

	2015	2016	2017	2018	2019	2020P	2021P	2022P
Revenues [mln PLN]	757	810	955	1 296	1 615	495	1 361	1 572
EBITDA MSSF 16 [mln PLN]	-	-	-	-	342	36	336	374
EBITDA MSR 17 [mln PLN]	76	97	90	159	203	-103	194	227
EBIT MSSF 16 [mln PLN]	-	-	-	-	169	-151	145	171
EBIT MSR 17 [mln PLN]	56	61	64	119	156	-158	136	164
Net income [mln PLN]	34	46	58	66	85	-163	84	91
Net debt MSSF 16 [mln PLN]	-	-	-	1 017	1 017	1 096	1 145	1 316
Net debt MSR 17 [mln PLN]	14	176	303	472	580	672	712	876
P/BV	3,5	2,7	2,3	1,9	1,6	3,0	2,1	1,6
P/E	17,5	12,8	10,1	8,9	6,9	-	7,0	6,4
EV/EBITDA MSSF 16	-	-	-	-	4,7	47,3	5,2	5,1
EV/EBITDA MSR 17	7,9	7,9	9,9	6,7	5,8	-	6,7	6,5
EV/EBIT MSSF 16	-	-	-	-	9,5	-	12,0	11,1
	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20P	Q2'20P	Q3'20P	Q4'20P
Revenues [mln PLN]	185	448	711	271	181	10	142	163
EBITDA MSSF 16 [mln PLN]	66	111	200	-35	61	-41	-2	17
EBITDA MSR 17 [mln PLN]	42	73	157	-68	37	-79	-45	-15
EBIT MSSF 16 [mln PLN]	20	62	149	-62	15	-87	-48	-30
EBIT MSR 17 [mln PLN]	26	54	138	-62	23	-93	-59	-29
Net income [mln PLN]	-9	54	60	-19	-36	-41	-50	-36

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

ACCUMULATE

(PREVIOUS: BUY)

TARGET PRICE 37,1 PLN

12 JUNE 2020, 08:00 CEST

DCF valuation [PLN]	35,3
Peer valuation [PLN]	44,4
Target price [PLN]	37,1
Price upside/downside	10,5%
Cost of capital	10,0%
Price [PLN]	33,6
Market cap [mln PLN]	589,5
Shares [mln. szt.]	17,5
Max. price 6M [PLN]	53,8
Min. price 6m [PLN]	14,0
Rate of return 3M	+67,4%
Rate of return 6M	-27,4%
Rate of return 9M	-10,4%
Shareholders (% of votes):	
ENT Investments Ltd	52,5%
NN PTE	10,4%
Investors TFI	8,1%
Generali OFE	7,1%
Pozostali	21,9%

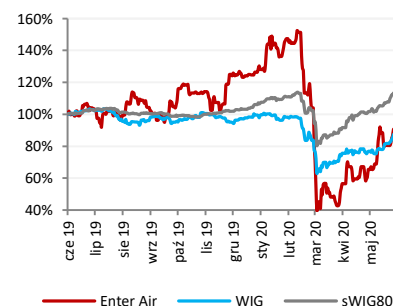
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Valuation summary

	Share	Valuation
DCF valuation	80%	35,3
Peer valuation	20%	44,4
Target price [PLN]		37,1

Source: BDM S.A.

DCF valuation

	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P
Revenues [mln PLN]	495,4	1 360,6	1 572,2	1 682,2	1 795,0	1 870,4	1 910,9	1 944,0	1 974,4	2 002,1
EBIT [mln PLN]	-150,7	144,5	171,5	184,0	196,7	205,5	208,7	210,7	212,1	212,6
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [mln PLN]	-28,6	27,5	32,6	35,0	37,4	39,0	39,7	40,0	40,3	40,4
NOPLAT [mln PLN]	-122,0	117,0	138,9	149,0	159,3	166,5	169,1	170,7	171,8	172,2
Amortization, including: [mln PLN]	186,3	191,1	202,0	206,2	210,1	213,0	215,2	216,7	216,8	216,6
-right to use assets	130,5	132,8	139,3	142,1	144,7	147,1	148,9	150,1	151,1	151,8
CAPEX [mln PLN]	-168,3	-329,6	-462,5	-476,8	-229,0	-229,0	-226,6	-224,8	-221,9	-218,2
- lease payments	-138,3	-141,2	-146,8	-150,1	-152,2	-152,7	-152,5	-153,3	-153,2	-152,5
Working capital movement [mln PLN]	-14,0	7,2	-0,2	-1,5	-1,8	-2,2	-2,5	-2,6	-2,7	-2,8
Purchase of investment [mln PLN]	0,0	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]	-118,1	-14,2	-121,8	-123,1	138,6	148,2	155,1	159,9	164,0	167,8
DFCF [mln PLN]	-114,3	-12,9	-104,2	-99,0	104,6	104,7	102,4	98,4	94,0	89,3
Total DCF [mln PLN]	263,0									
Terminal value [mln PLN]	2 566,2									
Discounted terminal value [mln PLN]	1 365,6									
Enterprise value [mln PLN]	1 628,6									
Net debt [mln PLN]	1 016,7									
Minorities [mln PLN]	0,0									
Shares of Chair Airlines [mln PLN]	7,6									
Dividend [mln PLN]	0,0									
Equity value [mln PLN]	619,5									
Number of shares [mln]	17,5									
Value per share [PLN]	35,3									

Terminal growth rate: 1,0%

WACC calculation

	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P
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	28,3%	33,5%	34,3%	34,9%	38,6%	42,5%	46,4%	50,2%	54,1%	57,9%
Cost of debt after tax	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
Contribution of debt	71,7%	66,5%	65,7%	65,1%	61,4%	57,5%	53,6%	49,8%	45,9%	42,1%
WACC	6,0%	6,3%	6,4%	6,4%	6,6%	6,8%	7,0%	7,2%	7,5%	7,7%

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	34,4	40,8	48,3	4,0%	41,9	49,4	58,2	4,0%	53,0	49,4	46,0
1,2	29,5	35,3	42,0	5,0%	29,5	35,3	42,0	5,0%	38,8	35,3	32,1
1,3	25,1	30,3	36,4	6,0%	19,4	23,9	29,2	6,0%	27,3	23,9	20,9

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2020	2021	2022	2020	2021	2022
Ryanair	-	12,8	9,5	4,2	7,5	5,6
EasyJet	-	19,1	8,5	22,4	6,2	4,6
Wizz Air	-	10,3	9,4	-	3,6	3,9
TUI	-	19,4	8,0	-	6,0	4,3
Rainbow	7,5	6,8	6,4	5,9	5,5	5,2
Median	-8,2	12,8	8,5	4,2	6,0	4,6
Enter Air	-	7,0	6,4	47,3	5,2	5,1
Premium/discount	-55,6%	-45,4%	-24,6%	-	-13,8%	11,7%
Valuation [PLN/share]	-	61,6	44,5	-	49,4	22,2
Year's contribution	0%	50%	50%	0%	50%	50%
Average valuation [PLN/share]	-	53,1	-	-	35,8	-
Multiple's contribution	-	50%	-	-	50%	-
Value per share [PLN]	-	44,4	-	-	-	-

Source: BDM S.A., Bloomberg

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Ratings and price targets history:

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

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'20*:		, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months		
	numbers	%	numbers	%
Buy	3	18%	2	67%
Accumulate	3	18%	0	0%
Hold	2	12%	0	0%
Reduce	7	41%	1	33%
Sell	2	12%	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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