



Dom Maklerski BDM S.A.

ENTER AIR

ANALYTICAL REPORT - SUMMARY

We issue a **Accumulate** recommendation for Enter Air with a target price of 25,3 PLN/share, which is 11% above the current market price. We expect that despite the increasingly severe macro environment (including inflation, fuel prices, loan installments), tourist traffic will recover. An important demand impulse for foreign trips is lifting of pandemic restrictions, which for about 2 years significantly hindered travel and discouraged potential tourists. In addition, we are counting on an improvement in the utilization of the fleet, which, together with the deferred demand, will translate into a higher number of flights to the seat compared to 2019. However, we forecast that due to higher costs, the company will not be able to achieve the best profit margin so far, and the company will end 2022. with an EBITDA of PLN 329.2 million.

Rebuilding the demand and improving the utilization of the fleet

The first half of this year was under a recovery in demand (this is partially confirmed by the readings published by Ryan Air; [link](#)), which significantly translated into an increase in the number of flights in this period (both y / y and vs 2019). Moreover in the pandemic, the company had a problem with the efficiency of the resources used, which was related to, inter alia, with the accumulation of flights during the weekends. Currently, the utilization of the fleet is at a much better level, flights are spread throughout the week, and the efficiency (number of hours flown per plane) will even exceed that of 2019. In Q2'22, we expect a similar number of air operations performed compared to Q2'19. We estimate that in the last quarter the company managed to generate PLN 587.2 million in revenues and approximately PLN 27,8 million in IFRS 16 EBITDA.

Further perspective of this year

In the subsequent periods, despite the increasingly difficult macro environment (including inflation, fuel prices, loan installments), we expect a continuation of the reconstruction of tourist traffic. An important demand impulse for foreign trips is the lifting of pandemic restrictions, which for approx. 2 years significantly hindered travel and discourage potential tourists. Bearing the above in mind, we estimate that this year the company will achieve PLN 2.15 billion in revenues and approx. PLN 329.2 million in IFRS 16 EBITDA.

The risks

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. Moreover, the aforementioned 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 would like to point out, that an important "cushion" of safety in the event of any of the above-mentioned threats materializing is the liquidity loan received by Enter Air from PFR in the amount of PLN 287 million (at a constant% rate).

... Including shortages of workers at European airports and strikes at airlines

Staff shortages and strikes at airlines are a significant threat to this year's results of aviation companies. Due to the limitations of airport capacity, many European carriers have reduced the number of planned connections. In our opinion, in the case of Enter Air, there is a small probability that the risk of canceling flights by the airline will materialize and will be limited only to delays (a few% on the scale of all flights). We would like to draw your attention to the agreement between air traffic controllers and PANSAs reached in recent days).

	2019	2020	2021	2022F	2023F	2024F	2025F
Revenues [mln PLN]	1 614,7	470,5	1 120,3	2 149,1	2 283,7	2 232,7	2 230,5
EBITDA MSSSF16 [mln PLN]	341,7	23,9	208,8	329,2	377,3	386,9	405,1
EBIT MSSSF16 [mln PLN]	168,5	-150,5	-14,1	194,1	147,2	152,3	171,2
Gross income [mln PLN]	107,8	-188,0	-141,1	5,7	69,5	81,2	103,5
Net income [mln PLN]	85,0	-154,1	-117,1	4,5	56,3	65,8	83,8
P/BV	1,1	1,9	4,5	4,3	2,7	1,9	1,3
P/E	4,7	-	-	90,0	7,1	6,1	4,8
EV/EBITDA MSSSF16	4,2	68,8	8,6	5,2	4,3	3,8	3,9
EV/EBIT MSSSF16	8,4	-	-	8,9	10,9	9,8	9,1
DPS	0,7	0,0	0,0	0,0	0,0	0,0	0,0
DY	3,1%	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: BUY)

TARGET PRICE 25,3 PLN

11 JULY 2022, 08:00 CET

Target price [PLN]	25,3
Price upside/downside	11%
Cost of capital	7,6%
Price [PLN]	22,9
Market cap [mln PLN]	401,8
Shares mln. szt.]	17,5
Max. price 6M [PLN]	30,0
Min. price 6m [PLN]	20,5
Rate of return 3M	-21,1%
Rate of return 6M	-30,6%
Rate of return 9M	-35,5%
Shareholders (% of votes):	
ENT Investments Ltd	51,5%
NN PTE	10,7%
Generali OFE	8,2%
Investors TFI	6,9%
Others	22,7%

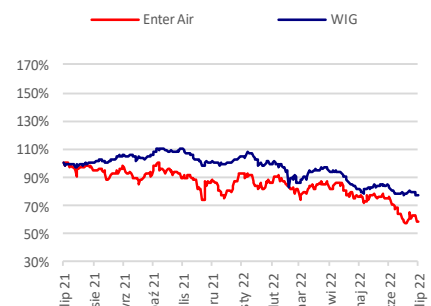
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Valuation summary

	Share	Valuation
DCF valuation	100%	25,3
Peer valuation	0%	30,9
Target price [PLN]		25,3

Source: BDM S.A.

DCF valuation

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Revenues [mln PLN]	2 149,1	2 283,7	2 232,7	2 230,5	2 298,4	2 335,4	2 388,2	2 497,3	2 610,0	2 672,8
EBIT [mln PLN]	112,3	147,2	152,3	171,2	139,2	158,3	153,2	198,1	176,2	206,1
Tax rate	21%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [mln PLN]	24,0	28,0	28,9	32,5	26,4	30,1	29,1	37,6	33,5	39,2
NOPLAT [mln PLN]	88,3	119,3	123,4	138,7	112,7	128,3	124,1	160,5	142,7	166,9
Amortization [mln PLN]	216,9	230,1	234,6	233,9	279,3	274,3	270,1	263,6	320,7	302,4
CAPEX [mln PLN]	-153,7	-174,1	-178,5	-394,0	-184,8	-188,7	-192,5	-374,4	-209,2	-213,7
Working capital movement [mln PLN]	-80,2	-1,5	0,6	0,0	-0,8	-0,4	-0,6	-1,2	-1,3	-0,7
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]	71,2	173,8	180,0	-21,4	206,4	213,4	201,1	48,4	253,0	254,9
DFCF [mln PLN]	68,8	155,3	148,6	-16,3	144,6	137,2	118,4	26,0	124,0	113,6
Total DFCF [mln PLN]	1 020,2									
Terminal value [mln PLN]	1 746,1									
Discounted terminal value [mln PLN]	777,9									
Enterprise value [mln PLN]	1 798,1									
Net debt 2021 [mln PLN]	1 389,3									
Shares of Chair Airlines [mln PLN]	35,2									
Equity value [mln PLN]	444,0									
Number of shares [mln]	17,5									
Value per share [PLN]	25,3									

Terminal growth rate: 3,0%

WACC calculation

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Risk-free rate	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%
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	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%
Contribution of equity	14,8%	18,6%	22,7%	25,4%	29,5%	33,8%	38,7%	41,7%	46,7%	51,0%
Cost of debt after tax	6,7%	6,9%	6,9%	6,9%	6,9%	6,9%	6,9%	6,9%	6,9%	6,9%
Contribution of debt	85,2%	81,4%	77,3%	74,6%	70,5%	66,2%	61,3%	58,3%	53,3%	49,0%
WACC	7,6%	8,0%	8,3%	8,4%	8,7%	9,0%	9,2%	9,4%	9,7%	10,0%

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	24,9	27,6	30,7	4,0%	28,1	31,1	34,5	4,0%	32,3	31,1	29,9
1,2	22,8	25,3	28,1	5,0%	22,8	25,3	28,1	5,0%	26,6	25,3	24,1
1,3	20,7	23,1	25,8	6,0%	18,0	20,2	22,6	6,0%	21,5	20,2	19,0

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2022F	2023F	2024F	2022F	2023F	2024F
Ryanair	-	11,7	10,6	54,0	6,6	5,9
EasyJet	555,1	9,6	6,9	4,7	3,0	2,8
Wizz Air	-	-	6,2	-	13,2	4,4
TUI	30,6	5,3	4,6	4,0	2,7	2,3
Rainbow	7,7	8,9	7,7	5,7	6,2	5,6
Median	30,6	9,2	6,9	5,2	6,2	4,4
Enter Air	90,0	7,1	6,1	5,2	4,3	3,8
Premium/discount	293,9%	77,2%	88,1%	100,7%	68,5%	87,6%
Valuation [PLN/share]	7,8	29,6	26,0	22,2	65,1	34,9
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]	21,1			40,7		
Multiple's contribution		50%			50%	
Value per share [PLN]	30,9					

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
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'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	0	0%	2	100%
Accumulate	1	100%	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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