



Dom Maklerski BDM S.A.

ENTER AIR

ANALYTICAL REPORT - SUMMARY

We issue Accumulate recommendation for Enter Air with a target price of 41,0 PLN per share. We forecast further growth of financial results in coming quarters and in 2020. We point out favourable macro environment (salary increase, fiscal impulse). We don't underestimate company's business model, which relies on cooperation with the biggest tour-operators, and stable dividend payments.

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 42,0 PLN and peer valuation (30% share in the final valuation), which indicates target price 38,6 PLN. We set the target price 41,0 PLN.

Forecasts and multiples

We expect that in 2Q'19 the company reached 454 mln PLN of sales (+25% y/y), c.a. 91 mln PLN EBITDA MSSF 16 and 24 mln PLN of net profit. In '19 we forecast c.a. 1,6 bln PLN of sales, 343 mln PLN EBITDA (EBITDA MSR 17 = 210 mln PLN) and 65 mln PLN of adjusted net income. In 2020 we estimate 1,79 bln PLN of sales, 372 mln PLN EBITDA and 99 mln PLN of net income. Currently, Enter Air trades at EV/EBITDA'19 MSSF 16 = 5,1x and P/E'19 = 9,8x.

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

	2015	2016	2017	2018	2019P	2020P	2021P	2022P
Revenues [mln PLN]	757	810	955	1 296	1 604	1 789	1 883	2 004
EBITDA MSSF 16 [mln PLN]	-	-	-	-	343	372	392	411
EBITDA MSR 17 [mln PLN]	76	97	90	159	210	237	256	272
EBIT MSSF 16 [mln PLN]	-	-	-	-	154	175	180	184
EBIT MSR 17 [mln PLN]	56	61	64	119	144	164	169	173
Net income [mln PLN]	34	46	58	66	65	99	100	99
Net debt MSSF 16 [mln PLN]	-	-	-	908	1 124	1 230	1 339	1 448
Net debt MSR 17 [mln PLN]	14	176	303	472	622	717	816	914
P/BV	3,7	2,9	2,4	2,0	1,7	1,4	1,2	1,0
P/E	18,8	13,8	10,9	9,6	9,8	6,4	6,4	6,4
EV/EBITDA MSSF 16	-	-	-	-	5,1	5,0	5,0	5,1
EV/EBITDA MSR 17	8,5	8,4	10,4	7,0	6,0	5,7	5,7	5,7
EV/EBIT MSSF 16	-	-	-	-	11,4	10,6	11,0	11,3
	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19P	3Q'19P	4Q'19P
Revenues [mln PLN]	126	363	573	233	185	454	669	296
EBITDA MSSF 16 [mln PLN]	-	-	-	-	66	91	147	39
EBITDA MSR 17 [mln PLN]	6	55	89	9	42	58	100	10
EBIT MSSF 16 [mln PLN]	-	-	-	-	20	44	99	-10
EBIT MSR 17 [mln PLN]	-2	46	78	-4	26	42	83	-7
Net income [mln PLN]	-4	19	63	-12	-9	24	69	-19

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

ACCUMULATE

(INITIAL REPORT)

TARGET PRICE 41,0 PLN

26 JULY 2019, 13:57 CEST

DCF valuation [PLN]	42,0
Peer valuation [PLN]	38,6
Target price [PLN]	41,0
Price upside/downside	13,2%
Cost of capital	10,0%
Price [PLN]	36,2
Market cap [mln PLN]	635,1
Shares [mln. szt.]	17,5
Max. price 6M [PLN]	37,7
Min. price 6m [PLN]	20,4
Rate of return 3M	+34,1%
Rate of return 6M	+77,5%
Rate of return 9M	+109,2%
Shareholders (% of votes):	
ENT Investments Ltd, w tym:	52,5%
NN PTE	10,3%
Investors TFI	8,7%
Generali OFE	10,1%
Others	18,4%

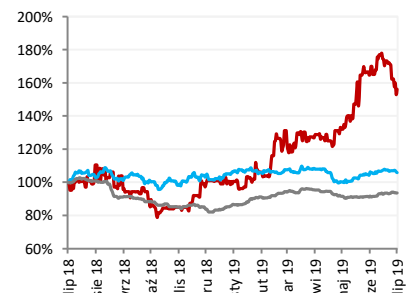
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Valuation summary

	Share	Valuation
DCF valuation	70%	42,0
Peer valuation	30%	38,6
Target price [PLN]		41,0

Source: BDM S.A.

DCF valuation

	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P
Revenues [mln PLN]	1 604,1	1 788,9	1 883,3	2 004,4	2 092,4	2 167,8	2 210,7	2 242,6	2 268,5	2 292,1
EBIT [mln PLN]	154,1	175,5	179,7	183,7	186,8	190,4	193,6	195,7	197,1	198,2
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [mln PLN]	29,6	33,3	34,2	34,9	35,5	36,2	36,8	37,2	37,4	37,7
NOPLAT [mln PLN]	124,5	142,1	145,6	148,8	151,3	154,3	156,8	158,5	159,7	160,5
Amortization, including: [mln PLN]	189,2	196,9	212,6	227,5	242,5	248,9	251,8	254,5	256,4	257,9
-right to use assets	123,2	123,2	126,1	128,6	131,3	133,3	134,7	135,7	136,3	136,4
CAPEX [mln PLN]	-287,4	-390,2	-398,4	-413,4	-429,1	-254,2	-256,4	-257,3	-257,5	-257,4
- lease payments	-133,0	-135,0	-136,4	-139,4	-139,7	-138,9	-138,8	-138,0	-136,8	-135,5
Working capital movement [mln PLN]	-10,2	2,2	-0,4	-0,1	-1,1	-1,5	-2,3	-2,6	-2,7	-2,8
Purchase of investment [mln PLN]	-7,6	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]	8,5	-49,0	-40,6	-37,2	-36,3	147,4	150,0	153,1	155,8	158,1
DFCF [mln PLN]	8,3	-44,7	-34,8	-29,9	-27,3	103,9	98,8	94,2	89,3	84,3
Total DFCF [mln PLN]	342,1									
Terminal value [mln PLN]	2 452,1									
Discounted terminal value [mln PLN]	1 307,3									
Enterprise value [mln PLN]	1 649,4									
Net debt [mln PLN]	908,2									
Minorities [mln PLN]	0,0									
Shares of Chair Airlines [mln PLN]	7,6									
Dividend [mln PLN]	12,3									
Equity value [mln PLN]	736,5									
Number of shares [mln]	17,5									
Value per share [PLN]	42,0									

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	36,5%	38,7%	39,0%	39,3%	39,5%	42,4%	45,4%	48,5%	51,6%	54,8%
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	63,5%	61,3%	61,0%	60,7%	60,5%	57,6%	54,6%	51,5%	48,4%	45,2%
WACC	6,5%	6,6%	6,6%	6,6%	6,6%	6,8%	7,0%	7,1%	7,3%	7,5%

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	40,9	47,1	54,5	4,0%	47,9	55,2	63,8	4,0%	58,6	55,2	52,0
1,2	36,3	42,0	48,6	5,0%	36,3	42,0	48,6	5,0%	45,3	42,0	39,0
1,3	32,1	37,2	43,2	6,0%	26,7	31,2	36,4	6,0%	34,3	31,2	28,4

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2019	2020	2021	2019	2020	2021
Ryanair	13,1	10,6	9,5	7,1	6,1	5,4
EasyJet	11,8	10,7	9,1	4,8	4,7	4,1
Wizz Air	10,4	8,7	7,2	5,0	4,3	4,0
TUI	11,1	6,8	6,2	4,7	3,5	3,2
Rainbow	11,6	10,1	9,4	7,0	5,8	5,1
Mediana	11,6	10,1	9,1	5,0	4,7	4,1
Enter Air	9,8	6,4	6,4	5,1	5,0	5,0
Premia/dyskonto grupa	-15,4%	-36,8%	-30,0%	2,1%	5,7%	22,4%
Wycena wg wskaźnika	42,8	57,2	51,7	34,1	30,5	15,6
Waga roku	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]	50,6			26,7		
Multiple's contribution		50%			50%	
Value per share [PLN]	38,6					

Source: BDM S.A., Bloomberg

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rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
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 3Q'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	1	25%	0	0%
Accumulate	2	50%	0	0%
Hold	0	0%	0	0%
Reduce	1	25%	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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