



Dom Maklerski BDM S.A.

ESOTIQ & HENDERSON

ANALYTICAL REPORT - SUMMARY

We are lowering our target price for the company's stock to PLN 29.6/share, while raising our recommendation from HOLD to BUY. The unfavorable market environment is contributing to a significant increase in operating costs and gross sales margin. On the other hand, increasing brand recognition, the development of online sales channels and the post-pandemic return to stationary shopping are positively reflected in sales revenues. Due to protracted discussions regarding the investment agreement for Vosedo and the lack of details, our valuation does not include this business.

The company began reporting monthly sales in the previous month with record-high revenues, which amounted to PLN 29.5 million in August'22 (+42% y/y). This means that in two months (July-August), sales amounted to PLN 55.2m, compared to PLN 55.5m in the whole of Q2'22. Assuming flat y/y revenues in September'22 (as communicated by the management board at the earnings conference), Esotiq generated more than PLN 70m in Q3'22 (quarterly revenues had never exceeded PLN 60m). This is a result of seasonal sales, which were slightly deeper this year due to elevated inventory levels. This caused a decline in gross sales margin, which was 55% in August'22 alone, so we are lowering our forecast in this regard and expect around 59% for the entire Q3'22.

An important factor in the company's growth is the expansion of online sales channels. Four online stores were refreshed in March'22, and a mobile application is planned to be launched around October'22. The company also emphasizes the good performance of the presence of Esotiq and Henderson on the German Zalando platform and plans to enter other German-speaking markets. In addition, it is also expanding its foreign stationary network. In Q2'22, a second showroom was opened in Slovakia. The closure of showrooms in Ukraine has reduced wholesale revenues, so we expect the company will continue to actively seek partners in other foreign markets in 2023. Talks are still underway with potential franchisees in the Arab Emirates, Kuwait and Saudi Arabia, and we expect to settle them in 2023.

The company has recently stepped up marketing efforts, with TV ads. The launch of a mobile application, an important sales channel in which the company has not been present to date, is also planned for Q4'22. We expect these activities to have a positive impact on brand recognition and subsequent period revenues.

If our assumptions are realized, the company trades at EV/EBITDA = 3.3x and P/E = 5.2x.

	2019	2020	2021	2022P	2023P	2024P
Revenues [PLNm]	179,9	173,7	205,9	237,3	261,1	283,7
EBIT [PLNm]	8,8	7,8	22,7	13,4	16,0	12,9
EBITDA [PLNm]	21,7	22,7	37,4	28,1	30,0	27,2
Net income [PLNm]	3,9	3,8	16,3	9,3	10,7	8,4
P/E	12,5	12,6	3,0	5,2	4,5	5,8
P/BV	0,9	0,9	0,8	0,9	0,8	0,7
EV/EBIT	11,2	11,8	2,6	6,9	5,7	6,9
EV/EBITDA	4,5	4,1	1,6	3,3	3,0	3,3
DPS	0,5	0,0	0,0	1,8	1,2	0,9
DY	2,2%	0,0%	0,0%	8,2%	5,5%	4,3%

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

BUY

(PREVIOUS: HOLD)

TARGET PRICE 29,6 PLN

07 OCTOBER 2022, 14:55 CEST

Target price [PLN]	29,6
Price upside/downside	36,9%
Cost of capital	12,48%
Price [PLN]	21,6
Market cap [PLNm]	48,2
No. of shares [mn]	2,2
Max. price 6M [PLN]	44,2
Min. price 6m [PLN]	20,6
Rate of return 3M	-21,0%
Rate of return 6M	-49,2%
Rate of return 9M	-60,0%
Shareholders (% of votes):	
Patronado Ltd.	40,54%
Esotiq & Henderson S. A. (own shares)	12,11%
Adam Skrzypek	4,33%
Marek Warzecha	2,55%
Pozostali	40,47%

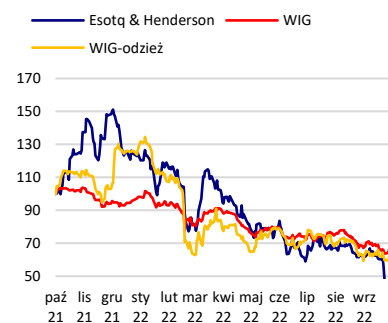
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Valuation summary

	Share	Valuation
DCF valuation	100%	29,6
Peer valuation	0%	35,7
Target price [PLN]		29,6

Source: BDM S.A.

DCF valuation

	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	2031P
Revenues [PLNm]	237,3	261,1	283,7	302,3	318,4	333,8	347,7	360,9	374,2	387,2
EBIT [PLNm]	13,4	16,0	12,9	14,8	16,1	16,8	17,0	17,0	17,0	17,0
Tax rate	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%
Tax on EBIT [PLNm]	2,6	3,0	2,5	2,8	3,1	3,2	3,2	3,2	3,2	3,2
NOPLAT [PLNm]	10,9	13,0	10,5	12,0	13,0	13,6	13,8	13,8	13,8	13,8
Amortization [PLNm]	14,7	14,0	14,2	14,6	14,8	15,1	15,4	15,6	15,8	16,0
CAPEX [PLNm]	-15,0	-16,3	-14,6	-14,8	-15,1	-15,4	-15,6	-15,8	-15,9	-16,0
Working capital movement [PLNm]	4,1	-3,9	-3,7	-3,0	-2,6	-2,5	-2,2	-2,1	-2,1	-2,1
FCF [PLNm]	14,6	6,8	6,5	8,8	10,1	10,8	11,3	11,5	11,6	11,6
DFCF [PLNm]	14,3	5,9	5,1	6,1	6,3	6,0	5,6	5,1	4,6	4,1
Total DFCF [PLNm]	63,1									
Terminal value [PLNm]	102,3									
Discounted terminal value [PLNm]	35,9									
Enterprise value [PLNm]	99,0									
Net debt 2021 [PLNm]*	38,8									
Equity value [PLNm]	66,1									
Number of shares [mn]	2,2									
Value per share [PLN]	29,6									

Terminal growth rate: 1,0%

WACC calculation

	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	2031P
Risk-free rate	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%
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	74,0%	76,0%	77,6%	80,1%	82,4%	84,5%	86,4%	88,2%	89,9%	91,5%
Cost of debt after tax	6,9%	6,9%	6,9%	6,9%	6,9%	6,9%	6,9%	6,9%	6,9%	6,9%
Contribution of debt	26,0%	24,0%	22,4%	19,9%	17,6%	15,5%	13,6%	11,8%	10,1%	8,5%
WACC	11,4%	11,5%	11,6%	11,8%	11,9%	12,1%	12,2%	12,3%	12,4%	12,5%

Source: BDM S.A.; *net debt adjusted for 270 thousand treasury shares

Sensitivity analysis

beta	Terminal growth rate				Risk premium	Terminal growth rate				Risk premium	Beta		
	0,0%	1,0%	2,0%	3,2		0,0%	1,0%	2,0%	3,1		1,1	1,2	1,3
1,1	29,6	31,2	33,2	33,2	4,0%	31,9	33,8	36,1	36,1	4,0%	35,4	33,8	32,3
1,2	28,1	29,6	31,3	31,3	5,0%	28,1	29,6	31,3	31,3	5,0%	31,2	29,6	28,0
1,3	26,8	28,0	29,6	29,6	6,0%	25,0	26,1	27,4	27,4	6,0%	27,7	26,1	24,6

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA			EV/EBIT		
	2022P	2023P	2024P	2022P	2023P	2024P	2022P	2023P	2024P
Firmy odzież/obuwie PL									
LPP	12,2	16,6	11,8	6,3	7,8	5,9	10,1	14,2	9,9
CCC			16,9	7,4	6,2	5,2	41,3	23,9	14,0
Zagraniczne									
VICTORIA'S SECRET	4,0	6,7	6,1	2,1	3,7	2,9	2,9	5,5	4,2
GAP	7,1		12,9	2,8	8,9	4,6	4,6		10,4
CHICO'S FAS	13,5	5,8	5,2	2,3	4,8	4,1	4,7	6,4	5,3
ABERCROMBIE & FITCH	2,8		12,1	0,1	4,2	3,3	0,2	15,2	7,5
AMERICAN EAGLE OUTFITTERS	4,3	15,1	10,2	1,8	5,5	4,2	2,2	11,2	7,3
Mediana	5,7	10,9	11,8	2,3	5,5	4,2	4,6	12,7	7,5
ESOTIQ	5,2	4,5	5,8	3,3	3,0	3,3	6,9	5,7	6,9
Premia/dyskonto grupa	-9%	-59%	-51%	45%	-45%	-22%	51%	-55%	-8%
Wycena wg wskaźnika [PLN]	23,8	52,3	44,0	8,8	55,1	32,6	7,6	71,5	25,1
Waga roku	33%	33%	33%	33%	33%	33%	33%	33%	33%
Wycena wg wskaźników [PLN]		40,0			32,2			34,7	
Waga wskaźnika		33%			33%			33%	
Wycena końcowa [PLN]	36,3								

Source: BDM S.A., Bloomberg

Main risks: 1) Unfavorable changes in the USDPLN exchange rate; 2) High inflation and decline in disposable wealth; 3) China's zero Covid policy and supply chain problems; 4) Prolonging war in Ukraine and escalating tensions between Russia and the West; 5) Risks of fixed network expansion; 6) E-commerce development; 7) Seasonality of results; 8) Market competition; 9) Risk of misguided collection; 10) Legislative changes

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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	29,6	Hold	37,0	07.10.2022*	14:55 CEST	21,6	47 158
Hold	37,0	Buy	57,1	18.05.2022*	17:30 CEST	37,4	56 293
Buy**	57,1	-	-	31.08.2021*	07:00 CEST	33,7	70 572

* 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 the report 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'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	3 60%	0 0%	
Accumulate	1 20%	1 50%	
Hold	0 0%	0 0%	
Reduce	0 0%	0 0%	
Sell	1 20%	1 50%	

* 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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- The person that participated in preparing recommendation is not a holder of net long or short positions exceeding the threshold of 0,5 % of the total issued share capital of the issuer,
- The issuer does not hold shares exceeding 5 % of the BDM issued share capital,
- BDM is not a market maker or liquidity provider in the financial instruments of the issuer,
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