



Dom Maklerski BDM S.A.

ESOTIQ & HENDERSON

ANALYTICAL REPORT - SUMMARY

We are raising our target price for shares of the company to PLN 32.8/share, while changing our recommendation from BUY to ACCUMULATE. We assume a slowdown in operating cost growth while maintaining gross sales margin above 63% in 2023. Due to Oponeo.pl's withdrawal from its investment in the Vosedo.com platform, we expect that it will be classified as one of the group's online stores and will support the online sales results.

In Q4'22, the company generated revenues by about 14% higher than a year earlier, with gross margin on sales lower by 4 p.p. With a higher y/y USD/PLN level, the margin decline is not surprising, but due to higher operating expenses, we estimate a loss in Q4'22 at the net. However, we see a positive outlook for 2023. We expect a significant slowdown in cost growth this year. On the other hand, the company has been successfully raise prices of goods without losing customers, which we believe will continue in subsequent quarters.

In December'22, Oponeo.pl withdrew from its joint investment in Vosedo.com. Esotiq decided to develop the multi-brand platform on its own. We expect it to be classified as one of the group's online stores and reported in the same way. Given the difficult period for promoting the new platform, we take a conservative approach to the results from it in the coming quarters, but in the long term, in our opinion, Vosedo will be a strong support in the development of the online segment.

We also take a conservative approach to the development of the stationary store network. In the coming years, we expect to open 6-7 new salons per year (in our last recommendation we assumed 10). We have lowered our assumptions mainly due to an increase in the cost of adapting premises. The company currently has to face an ongoing increase in operating costs, especially pressure on wage increases, so we expect that the effect may be a lower level of investments in more stationary stores.

Additional expenses, increasing general and administrative expenses, are expenditures on RFID technology research in order to create autonomous stores. This is a project that will last until end of 2023, we estimate that by the end of 2022 the company has incurred PLN 6.7 million in of costs associated with it and received about PLN 3 million in funding. The total cost of the project is expected to be PLN 11.2 million, and the subsidy will be PLN 6.7 million.

We emphasize that 2021 represents a high base thanks to a confluence of positive factors for the company (favorable exchange rate of the USD/PLN exchange rate, post-pandemic return to stationary purchases, lower costs of operations), however, we believe that the company has used this time and good results to strengthen its market position, increase its customer base and expand its sales functionality.

	2019	2020	2021	2022P	2023P	2024P
Revenues [PLNm]	179,9	173,7	205,9	240,6	265,7	287,5
EBIT [PLNm]	8,8	7,8	22,7	11,6	18,8	19,7
EBITDA [PLNm]	21,7	22,7	37,4	26,8	34,1	34,7
Net income [PLNm]	3,9	3,8	16,3	7,4	11,4	12,7
P/E	17,7	17,8	4,2	9,3	6,0	5,4
P/BV	1,3	1,2	1,1	1,2	1,0	0,9
EV/EBIT	13,5	14,5	3,5	10,4	6,3	5,7
EV/EBITDA	5,5	5,0	2,1	4,5	3,4	3,3
DPS	0,5	0,0	0,0	1,8	0,8	1,2
DY	1,6%	0,0%	0,0%	5,7%	2,6%	4,0%

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 32,8 PLN

14 FEBRUARY 2023, 14:20 CET

Target price [PLN]	32,8
Price upside/downside	6,9%
Cost of capital	12,6%
Price [PLN]	30,7
Market cap [PLNm]	68,6
No. of shares [mn]	2,2
Max. price 6M [PLN]	31,8
Min. price 6m [PLN]	19,6
Rate of return 3M	18,5%
Rate of return 6M	0,0%
Rate of return 9M	-21,1%
Shareholders (% of votes):	
Patronado Ltd.	40,54%
Esotiq & Henderson S. A. (own shares)	11,29%
Adam Skrzypek	4,55%
Marek Warzecha	2,55%
Pozostali	41,07%

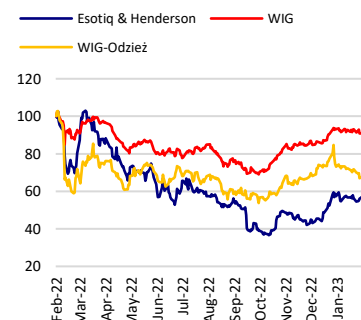
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Valuation summary

	Share	Valuation
DCF valuation	100%	32,8
Peer valuation	0%	64,1
Target price [PLN]		32,8

Source: BDM S.A.

DCF valuation

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Revenues [PLNm]	265,7	287,5	310,9	327,9	343,4	358,2	371,1	383,1	396,1	410,8
EBIT [PLNm]	18,8	19,7	20,1	20,4	21,5	22,7	23,8	24,7	25,6	26,8
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]	3,6	3,7	3,8	3,9	4,1	4,3	4,5	4,7	4,9	5,1
NOPLAT [PLNm]	15,2	15,9	16,3	16,6	17,4	18,4	19,3	20,0	20,8	21,7
Amortization [PLNm]	15,3	15,1	14,9	15,1	14,8	14,6	14,6	14,5	14,4	14,2
CAPEX [PLNm]	-13,9	-14,0	-14,1	-13,8	-13,8	-13,9	-13,9	-13,8	-13,6	-13,5
Working capital movement [PLNm]	-8,5	-6,1	-14,6	-4,2	-3,9	-3,7	-3,2	-3,0	-3,2	-3,6
FCF [PLNm]	8,1	10,9	2,6	13,7	14,6	15,4	16,7	17,7	18,3	18,7
DFCF [PLNm]	7,4	9,0	1,9	9,0	8,6	8,1	7,8	7,4	6,8	6,2
Total DFCF [PLNm]	72,1									
Terminal value [PLNm]	162,7									
Discounted terminal value [PLNm]	53,5									
Enterprise value [PLNm]	125,7									
Net debt 2022 [PLNm]*	52,4									
Equity value [PLNm]	73,3									
Number of shares [mn]	2,2									
Value per share [PLN]	32,8									

Terminal growth rate: 1,0%

WACC calculation

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Risk-free rate	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%
Risk premium	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%
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	13,9%	13,9%	13,9%	13,9%	13,9%	13,9%	13,9%	13,9%	13,9%	13,9%
Contribution of equity	63,7%	66,7%	67,7%	70,6%	73,4%	75,8%	78,1%	80,2%	82,0%	83,6%
Cost of debt after tax	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%
Contribution of debt	36,3%	33,3%	32,3%	29,4%	26,6%	24,2%	21,9%	19,8%	18,0%	16,4%
WACC	11,1%	11,3%	11,4%	11,6%	11,8%	12,0%	12,2%	12,4%	12,5%	12,6%

Source: BDM S.A.; *net debt adjusted for 252 thousand treasury shares

Sensitivity analysis

Beta	Terminal growth rate				Risk premium	Terminal growth rate				Risk premium	Beta			
	0,0%	1,0%	2,0%	Risk		0,0%	1,0%	2,0%	Risk		1,1	1,2	1,3	
1,1	33,4	35,8	38,7	5,5%	30,7	32,8	35,3	5,5%	30,9	32,8	35,3	30,1	32,8	35,8
1,2	30,7	32,8	35,3	6,5%	30,7	32,8	35,3	6,5%	30,9	32,8	35,3	30,1	32,8	35,8
1,3	28,2	30,1	32,3	7,5%	26,3	28,0	29,9	7,5%	30,9	28,0	25,3	28,0	25,3	25,3

Source: BDM S.A.

Peer valuation

	P/E		EV/EBITDA		EV/EBIT	
	2023P	2024P	2023P	2023P	2024P	2023P
LPP	17,3	15,9	9,3	7,4	17,1	13,2
CCC			8,9	7,2		34,5
VRG	9,7	8,5	4,8	4,4	8,6	7,9
VICTORIA'S SECRET	8,3	8,4	4,6	4,6	6,8	6,6
GAP		17,4	9,6	6,1		13,0
CHICO'S FAS	6,3	5,6	5,3	4,4	7,0	5,7
ABERCROMBIE & FITCH		18,6	4,5	3,6	11,4	7,4
AMERICAN EAGLE OUTFITTERS	16,1	12,9	7,2	6,4	13,1	11,1
Median	9,7	12,9	6,2	5,3	10,0	9,5
ESOTIQ & HENDERSON	6,0	5,4	3,4	3,3	6,3	5,7
Premium/discount	-38%	-58%	-45%	-39%	-37%	-39%
Valuation [PLN/share]	49,6	73,0	73,3	63,2	62,2	63,5
Year's contribution	50%	50%	50%	50%	50%	50%
Average valuation [PLN/share]		61,3		68,2		62,9
Multiple's contribution		33%		33%		33%
Value per share [PLN]	64,1					

Source: BDM S.A., Bloomberg

Main risks: 1) Unfavorable changes in the USDPLN exchange rate; 2) High inflation and decline in disposable wealth; 3) 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
Accumulate	32,8	Buy	29,6	14.02.2023*	14:20 CET	30,7	60 348
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 1Q'23*:		, 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	2 40%	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 is included at <https://www.bdm.pl/analizy-i-informacje/analizy/historia-rekomendacji>



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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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- BDM 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,
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- 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,
- BDM has not been lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of financial instruments of the issuer;
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