



Dom Maklerski BDM S.A.

ESOTIQ & HENDERSON

ANALYTICAL REPORT - SUMMARY

We raise our target price for the company's shares to PLN 39.2/share. As a result of the downward macroeconomic situation in 2022, the cost of doing business increased significantly, resulting in a considerable decline in earnings in the period. However, it should be noted that despite the significant increase in the USD exchange rate, the company maintained its gross profit margin on sales at a high level. This indicator continues to record satisfactory values, which is why we are raising our forecast for its level in the long term from 60,8% to 61,2%. This is the main reason for the significant increase in the target price. We expect that after the stabilization of SG&A costs and with further growth in revenues, the company has growth potential in the medium and long term.

At the same time, sales revenue forecasts have been raised. In 2022, the company made a number of investments in the online channel - primarily the opening of new, more transparent websites and the launch of a mobile application, resulting in high online sales growth. Entering the Zalando platform in Germany turned out to be a very good decision, so now the company is working on launching sales through this channel in Austria and Switzerland. In addition, there are plans to open stationary stores in the Serbian market, with the first stores expected to open in 2023. Marketing activities, especially the introduction of TV commercials, which contributed to an increase in the number of customers in 2H'22, also have a positive impact on sales.

The creation of the Vosedo multibrand platform, in our opinion, will not have a significant impact on the group's operations in the short term. Once the agreement with Oponeo.pl is terminated, it will be counted as one of the company's online stores, while visible support for online sales in our opinion will still have to wait.

In 2022, a serious problem for the company was the increase in SG&A costs. We expect the current year to bring a deceleration of these dynamics. Management costs will continue to be burdened by expenditures on the development of RFID technology - the first autonomous stationary salon is expected to be built by the end of the year. According to our estimates, in 2023, outlays for this project should oscillate around PLN 4.5 million, while we estimate the subsidy for this project at over PLN 3.5 million.

In line with management's announcements, we expect inventory levels to decline in 1H'23. Increased inventory due to problems in supply chains and the rise of Vosedo does not seem to be justified in the current situation.

For the first time, we include in the valuation a comparative valuation to Polish and foreign apparel companies, but due to differences in the in the structure of the assortment and scale of operations, we have assigned it a weight of 20%.

	2020	2021	2022	2023P	2024P	2025P
Revenues [PLNm]	173,7	205,9	241,8	271,2	295,8	320,6
EBIT [PLNm]	7,8	22,7	13,0	17,3	19,6	19,3
EBITDA [PLNm]	22,7	37,4	28,2	32,3	34,5	34,3
Net income [PLNm]	3,8	16,3	8,1	9,4	12,9	13,5
P/E	19,2	4,5	9,1	7,9	5,7	5,5
P/BV	1,3	1,2	1,3	1,2	1,0	0,9
EV/EBIT	15,1	3,8	9,2	6,5	5,6	5,5
EV/EBITDA	5,2	2,3	4,2	3,5	3,2	3,1
DPS	0,0	0,0	1,8	1,8	2,1	2,9
DY	0,0%	0,0%	5,3%	5,5%	6,4%	8,8%

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: ACCUMULATE)

TARGET PRICE 39.2 PLN

19 MAY 2023, 13:00 CEST

DCF valuation [PLN]	36,8
Peer valuation [PLN]	48,9
Target price [PLN]	39,2
Price upside/downside	18,9%
Cost of capital	12,6%
Price [PLN]	33,0
Market cap [PLNm]	73,7
No. of shares [mn]	2,2
Max. price 6M [PLN]	37,1
Min. price 6m [PLN]	22,5
Rate of return 3M	7,8%
Rate of return 6M	27,4%
Rate of return 9M	7,5%
Shareholders (% of votes):	
Patronado Ltd.	40,5%
Esotiq & Henderson S. A. (akcje własne)	11,4%
Adam Skrzypek	4,6%
Marek Warzecha	2,6%
Pozostali	41,0%

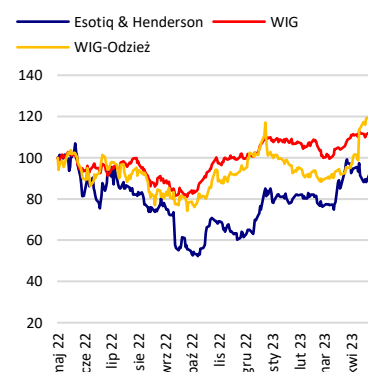
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Valuation summary

	Share	Valuation
DCF valuation	80%	36,8
Peer valuation	20%	48,9
Target price [PLN]		39,2

Source: BDM S.A.

DCF valuation

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Revenues [PLNm]	271,2	295,8	320,6	337,1	351,8	366,0	378,9	391,6	405,3	420,8
EBIT [PLNm]	17,3	19,6	19,3	18,7	19,4	20,3	21,1	21,7	22,3	23,2
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]	3,3	3,7	3,7	3,5	3,7	3,9	4,0	4,1	4,2	4,4
NOPLAT [PLNm]	14,0	15,8	15,6	15,1	15,8	16,5	17,1	17,5	18,1	18,8
Amortization [PLNm]	15,0	15,0	15,0	14,3	14,3	14,4	14,5	14,6	14,6	14,5
CAPEX [PLNm]	-14,2	-14,3	-14,4	-13,9	-14,1	-14,2	-14,2	-14,2	-14,1	-14,1
Working capital movement [PLNm]	-0,6	-6,4	-4,6	-3,1	-2,8	-2,7	-2,4	-2,4	-2,6	-2,9
FCF [PLNm]	14,3	10,1	11,6	12,4	13,3	14,0	14,9	15,5	15,9	16,2
DFCF [PLNm]	13,4	8,5	8,7	8,3	8,0	7,5	7,1	6,6	6,0	5,5
Total DFCF [PLNm]	79,7									
Terminal value [PLNm]	141,9									
Discounted terminal value [PLNm]	47,8									
Enterprise value [PLNm]	127,5									
Net debt 2022 [PLNm]*	45,3									
Equity value [PLNm]	82,3									
Number of shares [mn]	2,2									
Value per share [PLN]	36,8									

Terminal growth rate: 1,0%

WACC calculation

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Risk-free rate	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%
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	13,8%	13,8%	13,8%	13,8%	13,8%	13,8%	13,8%	13,8%	13,8%	13,8%
Contribution of equity	66,9%	69,1%	71,0%	73,2%	75,3%	77,3%	79,2%	81,0%	82,5%	83,9%
Cost of debt after tax	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%
Contribution of debt	33,1%	30,9%	29,0%	26,8%	24,7%	22,7%	20,8%	19,0%	17,5%	16,1%
WACC	11,2%	11,4%	11,6%	11,7%	11,9%	12,0%	12,2%	12,3%	12,4%	12,6%

Source: BDM S.A.; *net debt adjusted for 254 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	37,4	39,6	42,2	5,5%	39,7	42,1	45,0	5,5%	44,9	42,1	39,6		
1,2	34,9	36,8	39,1	6,5%	34,9	36,8	39,1	6,5%	39,6	36,8	34,4		
1,3	32,7	34,4	36,3	7,5%	30,9	32,4	34,2	7,5%	35,1	32,4	30,0		

Source: BDM S.A.

Peer valuation

	2023P	P/E 2024P	2025P	2023P	EV/EBITDA 2024P	2025P	2023P	EV/EBIT 2024P	2025P
LPP	21,9	18,2	13,7	11,2	8,4	6,9	20,6	14,3	11,3
CCC			23,2	9,8	6,5	5,1		19,7	13,0
VRG	7,9	6,9	6,1	4,0	3,6	3,3	7,0	6,3	5,5
VICTORIA'S SECRET	5,2	5,3	5,0	3,1	3,4	3,1	4,7	4,9	4,4
GAP	13,8	9,4	42,2	6,3	4,2	3,6		10,6	7,9
CHICO'S FAS	6,3	6,1	5,2	5,3	5,0	4,3	7,0	6,5	5,5
ABERCROMBIE & FITCH		16,6	12,8	3,0	3,3	2,7		6,5	5,0
AMERICAN EAGLE OUTFITTERS	14,9	11,7	10,7	6,3	4,3	3,7	11,5	7,4	6,2
Median	7,9	11,7	10,1	5,8	4,3	3,7	7,4	7,0	5,8
ESOTIQ & HENDERSON	9,1	7,9	5,7	4,2	3,5	3,2	9,2	6,5	5,6
Premium/discount	15%	-33%	-43%	-27%	-19%	-13%	25%	-7%	-4%
Valuation [PLN/share]	33,2	67,6	60,8	66,6	50,0	41,2	40,0	44,8	35,5
Year's contribution	33%	33%	33%	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		53,9			52,6			40,1	
Multiple's contribution		33%			33%			33%	
Value per share [PLN]	48,9								

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
Buy	39,2	Accumulate	32,8	18.05.2023*	13:15 CEST	33,0	64 469
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 2Q'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	6 60%	0	0%
Accumulate	1 10%	0	0%
Hold	3 30%	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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