



Dom Maklerski BDM S.A.

ESOTIQ & HENDERSON

ANALYTICAL REPORT - SUMMARY

We rate Esotiq & Henderson a BUY with a target price of PLN 57,1 per share. In our opinion the current valuation does not reflect the expected growth of financial results in the current year. Moreover, we hope for positive perception of Q2'21 results, which will be published at the end of September (we expect the significant growth of EBITDA Y/Y). We do not underestimate the attractive multiple valuation (EV/EBITDA IFRS 16 in 2021-22 is close to 3,9-3,7x) and the low net debt MSR 17, allowing the company to pay dividends during subsequent years.

Company profile

Esotiq is the domestic retailer, which runs shops with underwear. The company owns 2 brands Esotiq (for women) and Henderson (for men). The number of stores amounts 312 with the area close to 19,4 thousand sqm. The business model is based on on-site franchise and own stores, and on-line stores. The main market of the activity is Poland.

Valuation summary

We base our valuation on two methods: discounted cash flows model (100% contribution in the final valuation), which implies share price 57,1 PLN and peer valuation (0% share in the final valuation), which indicates target price 69,9 PLN. We set the target price 57,1 PLN.

Forecasts and multiples

The results of Q2'21 (publication on 28.09.2021) should bring a great improvement Y/Y. We expect the company reached 49 mln PLN of sales, c.a. 9 mln PLN EBITDA MSSF 16 and 3 mln PLN of net profit. In '21 we forecast c.a. 199 mln PLN of sales, 30 mln PLN EBITDA (EBITDA MSR 17 = 20 mln PLN) and 11 mln PLN of net profit. In 2022 we estimate 209 mln PLN of sales, 30 mln PLN EBITDA and 11 mln PLN of net income. Currently, Esotiq trades at EV/EBITDA'21 MSSF 16 = 3,9x and P/E'21 = 6,7x.

Risk factors: I) Currency risk. II) Stock transporting costs. III) COVID-19. IV) Unsuccessful store location. V) Migration from traditional to on-line stores. VI) Seasonality of financial results. VII) Market competition. VIII) Collection-related risk. IX) Legal changes (Sunday ban; turnover tax).

	2016	2017	2018	2019	2020	2021E	2022E	2023E
Revenues [PLNm]	141,1	156,5	155,0	179,9	173,7	198,7	208,7	216,2
EBITDA MSSF 16 [PLNm]	-	-	-	21,7	22,7	30,1	30,2	30,4
EBITDA MSR 17 [PLNm]	0,2	6,8	12,4	11,6	12,5	19,5	19,4	19,4
EBIT MSSF 16 [PLNm]	-	-	-	8,8	7,8	15,7	16,0	16,0
EBIT MSR 17 [PLNm]	-3,3	3,8	8,9	7,7	6,9	14,8	14,8	15,0
Net income [PLNm]	-4,3	6,6	5,8	3,9	3,8	11,3	11,2	11,4
Net debt MSSF 16 [PLNm]	-	-	-	51,4	46,8	42,5	35,3	29,9
Net debt MSR 17 [PLNm]	14,1	2,9	12,7	14,3	0,5	1,7	-6,7	-13,2
P/BV	1,5	1,7	1,7	1,5	1,4	1,2	1,0	0,9
P/E	-	11,4	12,9	19,4	19,6	6,7	6,7	6,6
EV/EBITDA MSSF 16	-	-	-	5,8	5,4	3,9	3,7	3,5
EV/EBITDA MSR 17	499,4	11,6	7,1	7,7	6,1	3,9	3,5	3,2
EV/EBIT MSSF 16	-	-	-	14,4	15,6	7,5	6,9	6,6
	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21E	Q3'21E	Q4'21E
Revenues [PLNm]	38,3	39,7	51,7	44,0	45,7	49,1	53,5	50,4
EBITDA MSSF 16 [PLNm]	1,9	7,1	8,3	5,5	6,8	8,5	7,9	6,8
EBITDA MSR 17 [PLNm]	-0,7	4,7	5,3	3,1	4,2	6,1	5,0	4,3
EBIT MSSF 16 [PLNm]	-1,7	3,4	4,4	1,7	3,0	4,5	4,5	3,6
EBIT MSR 17 [PLNm]	-1,9	3,7	3,7	1,5	3,2	4,8	3,7	3,1
Net income [PLNm]	-2,0	2,0	3,3	0,5	2,3	3,3	3,2	2,5

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

(INITIAL REPORT)

TARGET PRICE 57,1 PLN

31st AUGUST 2021, 07:00 CEST

DCF valuation [PLN]	57,1
Peer valuation [PLN]	69,9
Target price [PLN]	57,1
Price upside/downside	+69,4%
Cost of capital	9,5%
Price [PLN]	33,7
Market cap [PLNm]	75,3
No. of shares [mn]	2,2
Max. price 6M [PLN]	38,3
Min. price 6m [PLN]	18,0
Rate of return 3M	+35%
Rate of return 6M	+82%
Rate of return 9M	+141%
Shareholders (% of votes):	
Patronado Ltd.	56,0%
Adam Skrzypek	5,8%
Esotiq & Henderson (own shares)	10,5%
Others	27,7%

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This report has been prepared in compliance with Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 (on market abuse), Commission Delegated Regulation (EU) 2016/958 and Commission Delegated Regulation (EU) 2017/565. Detailed contents of legal notes is located on the last page of this report. The report has been prepared and made available for distribution by BDM. GPW shall be a copyright holder to this report from the date of its publication. The report can be published and made available without limitation by GPW through any mass communication media as decided by GPW.

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Valuation summary

	Share	Valuation
DCF valuation	100%	57,1
Peer valuation	0%	69,9
Target price [PLN]		57,1

Source: BDM S.A.

DCF valuation

	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Revenues [PLN mn]	198,7	208,7	216,2	220,9	224,5	227,7	230,6	233,3	235,9	238,5
EBIT [PLN mn]	15,7	16,0	16,0	16,4	16,5	16,5	16,5	16,5	16,5	16,5
Tax rate [%]	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [PLN mn]	3,0	3,0	3,0	3,1	3,1	3,1	3,1	3,1	3,1	3,1
NOPLAT [PLN mn]	12,7	12,9	13,0	13,3	13,4	13,4	13,4	13,3	13,3	13,3
Amortization, including: [PLN mn]	14,4	14,2	14,3	14,5	14,6	14,7	14,9	15,0	15,1	15,2
-right to use assets	9,6	9,6	9,9	10,2	10,4	10,6	10,7	10,8	10,9	11,0
CAPEX [PLN mn]	-12,3	-12,9	-13,4	-13,9	-14,3	-14,6	-14,9	-15,2	-15,5	-15,7
- lease payments	-10,5	-10,8	-11,0	-11,1	-11,1	-11,1	-11,1	-11,1	-11,1	-11,1
Working capital movement [PLN mn]	-9,3	-1,8	-1,4	-0,9	-0,7	-0,6	-0,5	-0,5	-0,5	-0,5
FCF [PLN mn]	5,5	12,4	12,5	13,0	13,0	12,9	12,8	12,6	12,5	12,4
DFCF [PLN mn]	5,3	11,2	10,5	10,1	9,4	8,6	7,9	7,2	6,6	6,1
Total DFCF [PLN mn]	82,9									
Terminal value [PLN mn]	162,3									
Discounted terminal value [PLN mn]	79,6									
Enterprise value [PLN mn]	162,5									
Net debt [PLN mn]	35,0									
Dividend [PLN mn]	0,0									
Equity value [PLN mn]	127,5									
Number of shares [mn]	2,2									
Value per share [PLN]	57,1									

Terminal growth rate: 0,0%

WACC calculation

	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Risk-free rate	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%
Risk premium	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Beta	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3
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	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%
Contribution of equity	66,4%	72,3%	73,1%	73,6%	73,8%	73,6%	73,5%	73,4%	73,3%	73,3%
Cost of debt after tax	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%
Contribution of debt	33,6%	27,7%	26,9%	26,4%	26,2%	26,4%	26,5%	26,6%	26,7%	26,7%
WACC	7,5%	7,9%	7,9%	8,0%	8,0%	8,0%	7,9%	7,9%	7,9%	7,9%

Source: BDM S.A.

Sensitivity analysis

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	-0,5%	0,0%	0,5%		-0,5%	0,0%	0,5%		1,2	1,3	1,4
1,2	58,0	60,6	63,5	4,0%	63,8	67,0	70,6	4,0%	68,9	67,0	65,2
1,3	54,8	57,1	59,7	5,0%	54,8	57,1	59,7	5,0%	58,8	57,1	55,5
1,4	51,9	53,9	56,2	6,0%	47,6	49,3	51,2	6,0%	50,9	49,3	48,0

Source: BDM S.A.

Peer valuation

	EV/EBITDA		
	2021F	2022F	2023F
LPP	21,7	11,7	9,8
CCC	13,0	9,7	7,6
VRG	8,5	5,5	5,1
Solar	3,6	2,9	2,8
Wojas	5,3	4,6	4,4
Median	8,5	5,5	5,1
ESOTIQ	3,9	3,7	3,5
Premium/discount	-54%	-34%	-32%
Valuation [PLN]	95,4	59,0	55,4
Year's contribution	33%	33%	33%
Value per share [PLN]		69,9	

Source: BDM S.A., Bloomberg

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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	57,1	---	---	31.08.2021*	07:00 CEST	33,7	70 527

* 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.
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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'21*:			, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
	numbers	%	numbers	%
Buy	7	88%	0	0%
Accumulate	1	13%	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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