



Dom Maklerski BDM S.A.

# ESOTIQ & HENDERSON

## ANALYTICAL REPORT - SUMMARY

We are lowering our buy rating on Esotiq & Henderson from Buy to Hold with a target price of PLN 37.0. We believe the current valuation takes into account the expected earnings decline this year. The Company will publish its Q1'22 earnings report at the end of May. After a strong recovery in stationary sales and a surge in online sales in 2021, we expect the period's results to be weaker than a year ago due to pressure on gross margins and rising rental and utility costs. However, the decisive drag on valuation is the increase in the risk-free rate from 3% to 6.5%. A potential opportunity for the company is the success of the Vosedo online store, but due to the delay and lack of details we are not including it in the valuation.

Since the beginning of 2022, the online stores have been particularly buoyant (the company has four platforms), which in March'22 got a new look and became more transparent for the customer. Work continues on the mobile app, which is expected to make online shopping more accessible and strengthen the Esotiq brand. We expect that thanks to the omnichannel sales model, the company's products will reach a wider audience. The Group is also investing in RFiD technology that would enable autonomous stores. We assume that the expenditures on this technology will be charged to management expenses, which will be mitigated by other operating income due to NCBiR's subsidizing of the project starting in Q2'22.

The war in Ukraine has thwarted the company's plans to expand in that country. Currently, 15 of its 22 stores operate there on a limited basis. Given its business model abroad, this situation will not have a significant impact on the company's results this year (in Q4'21 an impairment charge of ca. PLN 1.7m was recognized). Moreover, we expect that the inflow of Ukrainian women to Poland and the brand recognition among this group will have a positive impact on sales in Poland. Esotiq is also actively looking for alternative markets that could fill the space left by Ukraine. Talks with new partners in the Arab Emirates, Saudi Arabia and Kuwait are in progress. We expect the company to consistently increase its presence in foreign markets in the coming years.

In Q1'22 the Polish International Development Fund, owned by PFR, exercised its option to exit its investment in the subsidiary ESOTIQ Germany. The company bought a 49.5% stake in the subsidiary for EUR 1.6m (PLN 7.3m), which we view negatively. The German subsidiary has been responsible for the bulk of Esotiq's losses in recent years.

The outbreak of war, high inflation, unfavorable currency exchange rates, rising rents and salaries are a challenge for the retail business. As a result the above, we have lowered our forecasts for the full year 2022. We expect revenues to continue to grow to PLN 214.8m, while EBIT is expected to fall to PLN 10.3m (-55% y/y) and net profit to PLN 7.2m (-56% y/y).

If our assumptions are realized, the group is trading at EV/EBITDA of 4.4. We expect the company to return to regular dividend payments only in 2024.

	2019	2020	2021	2022P	2023P	2024P
Revenues [PLNm]	179,9	173,7	205,9	214,8	236,6	258,6
EBIT [PLNm]	8,8	7,8	22,7	10,3	13,9	13,7
EBITDA [PLNm]	21,7	22,7	37,4	24,5	28,0	27,9
Net income [PLNm]	3,9	3,8	16,3	7,2	10,0	9,9
P/E	21,6	21,7	5,1	11,7	8,4	8,5
P/BV	1,6	1,5	1,3	1,3	1,1	1,0
EV/EBIT	15,2	16,4	4,4	10,3	6,7	6,5
EV/EBITDA	6,2	5,6	2,7	4,3	3,4	3,2
DPS	0,5	0,0	0,0	0,0	0,0	0,9
DY	1,3%	0,0%	0,0%	0,0%	0,0%	2,4%

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

# HOLD

(PREVIOUS: BUY)

## TARGET PRICE 37,0 PLN

18 MAY 2022, 17:30 CEST

Target price [PLN]	37,0
Price upside/downside	-1,2%
Cost of capital	12,4%
Price [PLN]	37,4
Market cap [PLNm]	83,5
No. of shares [mn]	2,2
Max. price 6M [PLN]	72,4
Min. price 6m [PLN]	35,1
Rate of return 3M	-24,7%
Rate of return 6M	-36,6%
Rate of return 9M	11,0%
Shareholders (% of votes):	
Patronado Ltd.	56,0%
Esotiq & Henderson S. A. (own shares)	8,1%
Adam Skrzypek	5,8%
Marek Warzecha	1,8%
Pozostali	28,3%

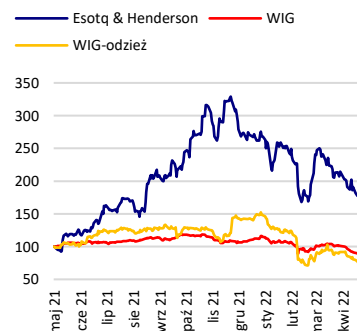
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**Valuation summary**

	Share	Valuation
DCF valuation	100%	37,0
Peer valuation	0%	36,3
<b>Target price [PLN]</b>		<b>37,0</b>

Source: BDM S.A.

**DCF valuation**

	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	2031P
Revenues [PLNm]	214,8	236,6	258,6	275,5	290,9	305,7	319,2	332,6	345,8	358,5
EBIT [PLNm]	10,3	13,9	13,7	15,6	17,2	18,3	19,2	19,9	20,5	20,8
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]	2,0	2,6	2,6	3,0	3,3	3,5	3,6	3,8	3,9	3,9
NOPLAT [PLNm]	8,3	11,3	11,1	12,6	13,9	14,9	15,5	16,2	16,6	16,8
Amortization [PLNm]	14,2	14,1	14,2	14,5	14,7	14,9	15,1	15,3	15,5	15,7
CAPEX [PLNm]	-13,9	-16,0	-14,3	-14,5	-14,8	-15,1	-15,3	-15,5	-15,7	-15,7
Working capital movement [PLNm]	4,7	-2,7	-3,8	-2,9	-2,6	-2,5	-2,3	-2,3	-2,3	-2,2
FCF [PLNm]	13,4	6,7	7,2	9,7	11,1	12,2	13,1	13,7	14,2	14,6
DFCF [PLNm]	12,6	5,6	5,5	6,6	6,8	6,6	6,3	5,9	5,5	5,0
Total DFCF [PLNm]	66,5									
Terminal value [PLNm]	160,0									
Discounted terminal value [PLNm]	54,8									
Enterprise value [PLNm]	121,2									
Net debt 2021 [PLNm]*	41,2									
<b>Equity value [PLNm]</b>	<b>82,6</b>									
Number of shares [mn]	2,2									
<b>Value per share [PLN]</b>	<b>37,0</b>									

Terminal growth rate: 3,0%

**WACC calculation**

	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	2031P
Risk-free rate	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%
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	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%
Contribution of equity	73,9%	75,3%	78,0%	82,5%	86,7%	90,9%	94,1%	97,1%	98,4%	98,6%
Cost of debt after tax	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%
Contribution of debt	26,1%	24,7%	22,0%	17,5%	13,3%	9,1%	5,9%	2,9%	1,6%	1,4%
<b>WACC</b>	<b>10,9%</b>	<b>11,0%</b>	<b>11,2%</b>	<b>11,4%</b>	<b>11,7%</b>	<b>11,9%</b>	<b>12,1%</b>	<b>12,3%</b>	<b>12,4%</b>	<b>12,4%</b>

Source: BDM S.A.; \*net debt adjusted for 263 thousand treasury shares and the acquisition value of 49.5% of ESOTIQ Germany (PLN 7.3 million)

**Sensitivity analysis**

beta	Terminal growth rate				Risk premium	Terminal growth rate				Risk premium	Beta		
	1,1	2,0%	3,0%	4,0%		2,0%	3,0%	4,0%	1,1		1,2	1,3	
1,1	36,9	39,8	43,5	49,0	4,0%	40,9	44,4	49,0	4,0%	47,4	44,4	41,7	
1,2	34,4	37,0	40,1	40,1	5,0%	34,4	37,0	40,1	5,0%	39,8	37,0	34,4	
1,3	32,1	34,4	37,1	33,4	6,0%	29,3	31,2	33,4	6,0%	33,9	31,2	28,7	

Source: BDM S.A.

**Peer valuation**

	P/E			EV/EBITDA			EV/EBIT		
	2022P	2023P	2024P	2022P	2023P	2024P	2022P	2023P	2024P
<b>Firmy odzież/obuwie PL</b>									
LPP	16,3	21,7	15,4	8,0	10,0	7,2	12,9	19,0	11,9
CCC		20,3	14,3	8,1	7,8	6,1	45,5	21,1	15,8
VRG	10,8	9,3	8,6	5,2	4,6	4,2	9,8	8,4	7,4
<b>Zagraniczne</b>									
VICTORIA'S SECRET	6,4	6,5	6,0	3,4	3,5	3,1	4,6	4,7	4,0
GAP	10,0	9,5	8,0	3,9	4,3	4,2	6,2	7,5	6,6
CHICO'S FAS	14,3	10,9	8,8	2,5	7,3	1,5	5,2	13,0	2,0
ABERCROMBIE & FITCH	6,0	8,8	8,1	1,9	3,6	2,8	2,7	5,6	4,4
AMERICAN EAGLE OUTFITTERS	5,5	5,5	4,6	2,5	2,3	1,7	3,1	3,0	2,1
<b>Mediana</b>	<b>10,0</b>	<b>9,4</b>	<b>8,4</b>	<b>3,6</b>	<b>4,5</b>	<b>3,6</b>	<b>5,7</b>	<b>7,9</b>	<b>5,5</b>
ESOTIQ	11,7	8,4	8,5	4,3	3,4	3,2	10,3	6,7	6,5
Premia/dyskonto grupa	16%	-11%	1%	18%	-25%	-11%	80%	-15%	19%
<b>Wycena wg wskaźnika [PLN]</b>	<b>32,2</b>	<b>41,9</b>	<b>36,9</b>	<b>30,1</b>	<b>51,5</b>	<b>42,6</b>	<b>16,3</b>	<b>44,7</b>	<b>31,0</b>
Waga roku	33%	33%	33%	33%	33%	33%	33%	33%	33%
<b>Wycena wg wskaźników [PLN]</b>		<b>37,0</b>			<b>41,4</b>			<b>30,7</b>	
Waga wskaźnika		33%			33%			33%	
<b>Wycena końcowa [PLN]</b>	<b>36,3</b>								

Source: BDM S.A., Bloomberg

**Main risks:** 1) Unfavorable changes in the USD/PLN exchange rate; 2) High inflation and decline in disposable wealth; 3) The protracted lock down in China and problems with supply chains and the formation of supply rates; 4) Escalating war between Russia and Ukraine; 5) Risk 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
<b>Hold</b>	<b>37,0</b>	<b>Buy</b>	<b>57,1</b>	<b>18.05.2022*</b>	<b>17:30 CEST</b>	<b>37,4</b>	<b>56 293</b>
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	2 67%	2 100%	
Accumulate	0 0%	0 0%	
Hold	1 33%	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](http://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.

The report has been prepared by Dom Maklerski BDM S.A. (hereinafter BDM S.A.) within the Exchange Analytical Coverage Support Programme (<https://www.gpw.pl/gpwp2>). BDM S.A. is a party to the „Agreement on the provision of analytical report services” concluded with the Warsaw Stock Exchange Company („GPW”), on the basis of which BDM provides services of analytical coverage of the Issuer for the term of the Agreement. Under the agreement BDM obtains remuneration from GPW. All materials prepared by BDM within the framework of co-operation are available at <https://www.bdm.pl/program-wsparcia-pokrycia-analitycznego-gpw>.

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For the first time this report has been made available to the public on 18.05.2022 (17:30 CEST). Date of preparing the report is the date of making it accessible. Before the recommendation was made accessible, information included in it had been confidential.

The prices of the financial instruments listed in the document have been taken from the real-time pricing as provided by Bloomberg. Data concerning financial instrument prices used in the report could be loaded to 24 hours before the moment of completing the report.

Detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included in a cyclical “Monthly Report”.

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According to BDM this report has been made with due diligence and reliability. However, BDM shall not be held liable for any damages incurred as a result of decisions made on the basis of information included in this report.

The report was not transferred to the issuer prior to its publication.

An analyst (analysts) preparing this document receives a fixed remuneration and the BDM Management Board has the right to grant them additional remuneration. Additional remuneration may indirectly depend on the results of other services offered by BDM, including investment banking services, but it shall not depend directly on financial results resulting from other services, including financial banking, which have been or could have been reached by BDM.

BDM is not obliged to take any actions which could cause financial instruments that are the subject of the valuation contained in this document to be valued by the market in accordance with the valuation contained in this document.

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Each of the above-mentioned persons could carry out transaction relating to the financial instruments concerned prior to this publication. At the same time, however, the instruments concerned are entered in the restrictive list for employees of the Analysis Department immediately at the start of work on the report.

We have not identified significant conflicts of interest between BDM and persons associated with BDM and the financial instrument issuer. If a conflict of interest arises BDM shall manage it by applying the principles defined in the “Policy of management of conflicts of interest at the BDM S.A.”. We point out that as for 18.05.2022:

- BDM states and assures that BDM is involved financially in financial instruments of the Issuer.
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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,
- 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;
- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25<sup>th</sup> July 2005,
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- There is no other significant financial interest that BDM or its related affiliates have in relation to the issuer of financial instruments,
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\*BDM is a party to the “ANALYTICAL REPORT PREPARATION SERVICES AGREEMENT” concluded with the WSE.

According to the best knowledge of the party recommending upon the publication of the report there are no other connections between BDM and the company described in this report that the party preparing this report would know of. However, the investor should be aware that the list disclosing conflicts of interest is long and that in the future there may occur situations leading to conflicts of interest which have not been identified or disclosed at the moment of publication of the report concerned. Especially, the investor should assume that BDM may submit an offer for services to a company or other companies mentioned in this report.

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