



Dom Maklerski BDM S.A.

EUROCASH

ANALYTICAL REPORT - SUMMARY

We raise our target price to 23,9 PLN/share and rate Accumulate. The results of Q3'19 were better than we expected in previous recommendation. The board stated its guidance concerning finalizing integration of retail segment in '19 and claimed the positive trends are maintained. The process of optimization in EC Distribution and high CPI should support results of '20 (we estimate growth of EBITDA adj. MSR 17 ca. 9% y/y). The board announced update of strategy in retail segment at the beginning of '20. On the other hand, results' growth may be slowed down by challenging labour market, loss of PKN Orlen contract, possibility of implementation of retail tax and change of excise tax.

Company profile

Eurocash is a leading wholesale distributor of fast moving consumer goods. It operates in wholesale food distribution (it possesses c.a. 26% market share; it operates through cash & carry and distribution) and in retail segment, in which it develops Delikatesy Centrum markets. In addition to this, the company conducts new projects e.g. Duży Ben and Kontigo.

Valuation summary

We base our valuation on two methods: discounted cash flows model (70% contribution in the final valuation), which implies share price 24,0 PLN and peer valuation (30% share in the final valuation), which indicates target price 23,8 PLN. We set the target price 23,9 PLN.

Forecasts and multiples

We expect that in Q4'19 the company will reach 6,1 bln PLN of sales, c.a. 251 mln PLN EBITDA MSSF 16 and 67 mln PLN of net profit. In '19 we forecast c.a. 24,7 bln PLN of sales, 807 mln PLN EBITDA (EBITDA adj. = 791 mln PLN) and 86 mln PLN of adjusted net income. In 2020 we estimate 25,8 bln PLN of sales, 786 mln PLN EBITDA and 110 mln PLN of net income. Currently, Eurocash trades at EV/EBITDA'19 MSSF 16 = 6,7x and P/E'19 = 36x.

Risk factors: I) Macro environment II) Increase of wages and lack of employees. III) Market competition (mainly because of the discounters). IV) Legal changes (Sunday ban; turnover tax). V) Potential acquisitions and their integration. VI) Seasonality of financial results. VII) Loss of PKN Orlen contract. VIII) Change of excise tax.

	2015	2016	2017	2018	2019P	2020P	2021P	2022P
Revenues [mln PLN]	20 318	21 206	20 849	22 833	24 655	25 754	26 932	28 118
EBITDA MSSF 16 [mln PLN]	-	-	-	-	807	786	822	851
EBITDA adj. MSSF 16 [mln PLN]	-	-	-	-	791	786	822	851
EBITDA MSR 17 [mln PLN]	476	440	246	419	423	441	473	500
EBITDA adj. MSR 17 [mln PLN]	476	440	361	371	406	441	473	500
EBIT MSSF 16 [mln PLN]	-	-	-	-	270	250	284	311
Net income adj. [mln PLN]	230	190	119	77	86	110	135	156
Net debt MSSF 16 [mln PLN]	-	-	-	2 192	2 209	2 214	2 203	2 178
Net debt MSR 17 [mln PLN]	175	324	370	382	433	420	389	346
P/BV	2,6	2,7	3,0	3,0	3,1	3,3	3,3	3,4
P/E adj.	13,4	16,2	26,0	39,9	35,7	28,1	22,9	19,8
EV/EBITDA MSSF 16	-	-	-	-	6,7	6,7	6,4	6,2
EV/EBITDA MSR 17	6,9	7,7	14,0	8,3	8,3	8,0	7,3	6,9
EV/EBIT MSSF 16	-	-	-	-	19,6	21,2	18,6	16,9
	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19P
Revenues [mln PLN]	5 000	5 775	6 256	5 801	5 483	6 438	6 673	6 061
EBITDA MSSF 16 [mln PLN]	-	-	-	-	121	216	219	251
EBITDA MSR 17 [mln PLN]	40	117	105	157	33	126	129	134
EBITDA adj. MSR 17 [mln PLN]	40	117	105	109	33	126	125	122
EBIT MSSF 16 [mln PLN]	-	-	-	-	-10	81	84	114
EBIT MSR 17 [mln PLN]	-7	68	52	102	-19	72	75	80
Net income [mln PLN]	-19	36	38	56	-40	47	25	67

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

ACCUMULATE

(PREVIOUS: HOLD)

TARGET PRICE 23,9 PLN

22 NOVEMBER 2019, 14:00 CEST

DCF valuation [PLN]	24,0
Peer valuation [PLN]	23,8
Target price [PLN]	23,9
Price upside/downside	+7,8%
Cost of capital	9,0%
Price [PLN]	22,2
Market cap [mln PLN]	3 086,6
Shares mln. szt.]	139,2
Max. price 6M [PLN]	24,2
Min. price 6m [PLN]	17,5
Rate of return 3M	+25,2%
Rate of return 6M	+11,2%
Rate of return 9M	+18,1%
Shareholders (% of votes):	
Luis Amaral	44,0%
Azvalor AM	9,8%
Others	46,2%

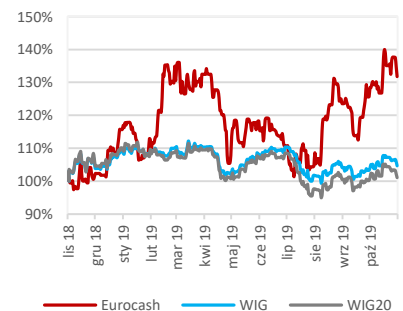
Adrian Górniak

adrian.gorniak@bdm.pl

tel. (0-32) 208-14-38

Dom Maklerski BDM S.A.

ul. 3-go Maja 23, 40-096 Katowice



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Valuation summary [PLN]

	Share	Valuation
DCF valuation	70%	24,0
Peer valuation	30%	23,8
Target price [PLN]		23,9

Source: BDM S.A.

DCF valuation

	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P
Revenues [mln PLN]	24 655,1	25 753,6	26 932,0	28 118,0	29 310,3	30 501,6	31 684,1	32 855,9	34 015,3	35 160,4
EBIT [mln PLN]	253,5	249,7	284,4	310,7	334,2	358,6	384,2	411,0	438,9	467,8
Tax rate	29%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [mln PLN]	74,0	47,4	54,0	59,0	63,5	68,1	73,0	78,1	83,4	88,9
NOPLAT [mln PLN]	179,5	202,2	230,3	251,6	270,7	290,5	311,2	332,9	355,5	378,9
Amortization, including: [mln PLN]	537,1	535,9	537,8	540,1	542,4	544,6	546,5	547,9	548,7	548,9
-right to use assets	322,7	326,0	329,6	332,9	336,0	338,8	341,3	343,6	345,6	347,4
CAPEX [mln PLN]	-591,1	-546,2	-552,1	-554,5	-556,2	-556,5	-555,9	-554,3	-551,8	-548,3
- lease payments	-384,4	-344,5	-349,2	-351,2	-352,9	-354,2	-355,3	-356,1	-356,8	-357,3
Working capital movement [mln PLN]	83,7	45,5	48,6	48,0	47,3	46,3	44,8	43,3	41,8	40,1
Purchase of investment [mln PLN]	-73,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Cash flow from sold assets [mln PLN]	10,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
FCF [mln PLN]	146,1	237,4	264,7	285,2	304,3	324,8	346,6	369,7	394,1	419,7
DFCF [mln PLN]	145,0	218,7	226,3	226,3	224,0	221,7	219,3	216,8	214,1	211,2
Total DFCF [mln PLN]	2 123,3									
Terminal value [mln PLN]	7 169,5									
Discounted terminal value [mln PLN]	3 607,7									
Enterprise value [mln PLN]	5 731,0									
Net debt [mln PLN]	2 192,1									
Dividend 2019 [mln PLN]	143,4									
Minorities [mln PLN]	61,4									
Equity value [mln PLN]	3 334,2									
Number of shares [mln]	139,2									
Value per share [PLN]	24,0									

Terminal growth rate: 2,0%

WACC calculation

	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P
Risk-free rate	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%
Risk premium	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Beta	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0
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	9,0%	9,0%	9,0%	9,0%	9,0%	9,0%	9,0%	9,0%	9,0%	9,0%
Contribution of equity	70,7%	71,3%	72,1%	72,9%	73,7%	74,5%	75,2%	75,9%	76,5%	77,2%
Cost of debt after tax	3,9%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
Contribution of debt	29,3%	28,7%	27,9%	27,1%	26,3%	25,5%	24,8%	24,1%	23,5%	22,8%
WACC	7,5%	7,7%	7,7%	7,8%	7,8%	7,8%	7,9%	7,9%	7,9%	8,0%

Source: BDM S.A.

Sensitivity analysis

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	0,9	1,0	1,1		0,9	1,0	1,1				
	1,5%	2,0%	2,5%	4,0%	1,5%	2,0%	2,5%	4,0%	0,9	1,0	1,1
	24,4	26,9	29,9	27,3	30,3	33,8	33,8	32,3	32,3	30,3	28,5
	21,8	24,0	26,5	21,8	24,0	26,5	26,5	5,0%	5,0%	25,8	24,0
	19,6	21,4	23,5	6,0%	17,5	19,1	21,0	6,0%	20,7	19,1	17,7

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2019	2020	2021	2019	2020	2021
Jeronimo Martins	23,5	19,7	17,9	9,7	8,2	7,5
BIM Birlesik	22,7	31,5	26,0	9,9	14,9	12,8
Dino	34,6	26,0	20,7	20,8	15,8	12,7
Lenta	14,9	10,0	9,1	5,7	5,0	4,7
Magnit	14,4	11,9	10,5	7,1	5,8	4,2
Pick'N'Pay	24,4	19,2	17,1	8,5	6,8	6,1
Shoprite Hld.	21,2	20,2	18,1	9,9	9,6	8,8
Spar Group	18,1	14,1	15,2	11,6	9,2	10,4
X5 Retail	17,3	14,2	12,5	6,5	5,6	5,1
Median	21,2	19,2	17,1	9,7	8,2	7,5
Eurocash	35,7	28,1	22,9	6,7	6,7	6,4
Premium/discount	68,0%	45,9%	33,7%	-30,9%	-17,2%	-13,9%
Valuation [PLN/share]	13,2	15,2	16,6	39,2	30,1	28,3
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		15,0			32,5	
Multiple's contribution		50%			50%	
Value per share [PLN]		23,8				

Source: BDM S.A., Bloomberg

RESEARCH DEPARTMENT:
Krystian Brymora

Director

tel. (032) 20-81-435

e-mail: krystian.brymora@bdm.pl

[strategy, chemicals, industry, energy](#)
Adrian Górniak

Analyst

tel. (032) 20-81-438

e-mail: adrian.gorniak@bdm.pl

[Real estate, retail, media](#)
Krzysztof Tkocz

Junior analyst

e-mail: krzysztof.tkocz@bdm.pl

tel. (032) 20-81-435

[Gaming](#)
INSTITUTIONAL SALES DEPARTMENT:
Leszek Mackiewicz

Director

tel. (022) 62-20-848

e-mail: leszek.mackiewicz@bdm.pl

Tomasz Ilczyszyn

tel. (022) 62-20-854

e-mail: tomasz.ilczyszyn@bdm.pl

Maciej Fink-Finowicki

tel. (022) 62-20-855

e-mail: maciej.fink-finowicki@bdm.pl

Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Accumulate	23,9	Hold	20,8	22.11.2019*	14:00 CEST	22,2	57 956
Hold	20,8	Reduce	18,1	03.09.2019*	14:00 CEST	20,2	56 247
Reduce	18,1	Reduce	17,9	22.07.2019*	11:15 CEST	19,4	60 851
Reduce	17,9	Hold	18,3	06.02.2019	10:55 CEST	19,4	61 147
Hold	18,3	Accumulate	22,5	07.12.2018	12:10 CEST	17,9	58 787
Accumulate	22,5	Accumulate	32,6	19.10.2018	13:50 CEST	20,9	56 561
Accumulate	32,6	Accumulate	38,2	12.12.2017	11:45 CEST	28,3	62 001
Accumulate	38,2	Reduce	38,0	16.08.2017	10:37 CEST	34,6	62 313
Reduce	38,0	---	---	10.08.2015	---	42,5	52 638

* 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.
 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 4Q'19*:		, 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	75%	0	0%
Accumulate	1	25%	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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For the first time this report has been made available to the public on 22.11.2019 (14:00 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.

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