



Dom Maklerski BDM S.A.

EUROCASH

ANALYTICAL REPORT - SUMMARY

We rate Buy and set our target price to 21,3 PLN/share. We hope the company will continue the growth of financial results in coming quarters. The integration in retail segment has already been finished and positive effects should be seen in EC Distribution/EC Alcohols. In case of accomplishment of our estimates, Eurocash would be traded at EV/EBITDA MSSF 16 = 6,1-5,8x in 2020-21. The COVID-19 will influence the Polish economy in a significant way, but in our opinion the FMCG distributors may present the best results from retail companies listed on WSE. The main issue will be to keep the continuity of supply chain (the board claimed that, till now, it is not a problem) and the accessibility of employees. We point out strong cash position (Net debt/EBITDA MSR 17 after Q4'19 = 1,3x).

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 22,2 PLN and peer valuation (30% share in the final valuation), which indicates target price 19,1 PLN. We set the target price 21,3 PLN.

Forecasts and multiplIs

We expect that in Q1'20 the company will reach 5,8 bln PLN of sales, c.a. 136 mln PLN EBITDA MSSF 16 and 43 mln PLN of net loss. In '20 we forecast c.a. 25,6 bln PLN of sales, 824 mln PLN EBITDA and 55 mln PLN of adjusted net income. In 2021 we estimate 26,8 bln PLN of sales, 854 mln PLN EBITDA and 81 mln PLN of net income. Currently, Eurocash trades at EV/EBITDA'20 MSSF 16 = 6,1x and P/E'19 = 47x.

Risk factors: I) COVID-19 II) Loss of sales in tobacco division. III) Macro environment. IV) Increase of wages and lack of employees. V) Market competition (mainly because of the discounters). VI) Legal changes (Sunday ban; turnover tax). VII) Potential acquisitions and their integration. VIII) Seasonality of financial results. IX) Loss of PKN Orlen contract. X) Change of excise tax.

	2015	2016	2017	2018	2019	2020P	2021P	2022P
Revenues [mln PLN]	20 318	21 206	20 849	22 833	24 852	25 649	26 764	27 995
EBITDA MSSF 16 [mln PLN]	-	-	-	-	794	824	854	876
EBITDA adj. MSSF 16 [mln PLN]	-	-	-	-	777	824	854	876
EBITDA MSR 17 [mln PLN]	476	440	246	419	430	432	473	495
EBITDA adj. MSR 17 [mln PLN]	476	440	361	371	413	432	473	495
EBIT MSSF 16 [mln PLN]	-	-	-	-	245	228	257	284
Net income adj. [mln PLN]	230	190	119	77	67	55	81	101
Net debt MSSF 16 [mln PLN]	-	-	-	-	2 348	2 424	2 418	2 410
Net debt MSR 17 [mln PLN]	175	324	370	382	523	505	480	455
P/BV	2,2	2,2	2,5	2,5	2,7	2,8	3,0	3,1
P/E adj.	11,2	13,5	21,7	33,3	38,2	46,7	31,8	25,4
EV/EBITDA MSSF 16	-	-	-	-	6,3	6,1	5,8	5,7
EV/EBITDA MSR 17	5,8	6,6	12,0	7,1	7,2	7,1	6,5	6,1
EV/EBIT MSSF 16	-	-	-	-	20,1	21,9	19,4	17,6
	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20P	Q2'20P	Q3'20P	Q4'20P
Revenues [mln PLN]	5 483	6 438	6 673	6 258	5 793	6 555	6 817	6 484
EBITDA MSSF 16 [mln PLN]	121	216	219	237	136	217	224	247
EBITDA MSR 17 [mln PLN]	33	126	129	141	39	118	125	150
EBITDA adj. MSR 17 [mln PLN]	33	126	125	129	39	118	125	150
EBIT MSSF 16 [mln PLN]	-10	81	84	88	-14	68	75	99
EBIT MSR 17 [mln PLN]	-19	72	75	80	-22	58	66	92
Net income [mln PLN]	-40	47	25	47	-43	23	27	48

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

BUY

(PREVIOUS: ACCUMULATE)

TARGET PRICE 21,3 PLN

3 APRIL 2020, 08:00 CEST

DCF valuation [PLN]	22,2
Peer valuation [PLN]	19,1
Target price [PLN]	21,3
Price upside/downside	15,1%
Cost of capital	9,0%
Price [PLN]	18,5
Market cap [mln PLN]	2 574,5
Shares mln. szt.]	139,2
Max. price 6M [PLN]	24,2
Min. price 6m [PLN]	15,5
Rate of return 3M	-13,1%
Rate of return 6M	-5,9%
Rate of return 9M	-7,5%
Shareholders (% of votes):	
Luis Amaral	44,0%
Azvalor AM	9,2%
Others	46,8%

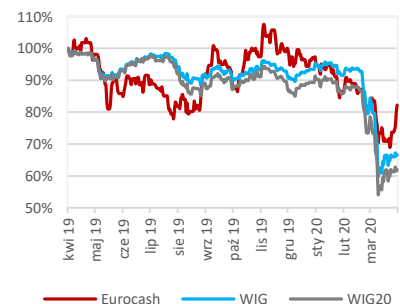
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Valuation summary [PLN]

	Share	Valuation
DCF valuation	70%	22,2
Peer valuation	30%	19,1
Target price [PLN]		21,3

Source: BDM S.A.

DCF valuation

	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P
Revenues [mln PLN]	25 649,0	26 763,5	27 995,5	29 211,1	30 407,3	31 580,1	32 731,2	33 861,7	34 972,2	36 065,5
EBIT [mln PLN]	228,0	257,3	283,5	306,9	331,0	356,2	382,4	409,5	437,6	466,5
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [mln PLN]	43,3	48,9	53,9	58,3	62,9	67,7	72,6	77,8	83,1	88,6
NOPLAT [mln PLN]	184,7	208,4	229,7	248,6	268,1	288,5	309,7	331,7	354,4	377,9
Amortization, including: [mln PLN]	596,4	596,3	592,9	590,9	589,7	588,9	588,1	587,9	587,9	588,0
-right to use assets	357,5	361,2	364,5	367,4	370,0	372,3	374,3	376,1	377,5	378,8
CAPEX [mln PLN]	-596,6	-585,3	-587,7	-589,1	-589,2	-588,3	-589,7	-590,3	-590,3	-589,6
- lease payments	-392,3	-380,2	-381,5	-382,7	-383,5	-384,1	-384,6	-385,0	-385,2	-385,3
Working capital movement [mln PLN]	110,5	53,4	47,4	45,6	43,7	41,6	39,6	37,7	35,9	34,2
Purchase of investment [mln PLN]	-128,6	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]	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
FCF [mln PLN]	166,5	272,7	282,3	296,0	312,3	330,7	347,7	366,9	387,9	410,5
DFCF [mln PLN]	157,6	239,9	230,6	224,5	219,9	216,0	210,7	206,1	201,9	197,9
Total DFCF [mln PLN]	2 105,3									
Terminal value [mln PLN]	7 059,9									
Discounted terminal value [mln PLN]	3 404,1									
Enterprise value [mln PLN]	5 509,4									
Net debt [mln PLN]	2 347,9									
Dividend 2019 [mln PLN]	0,0									
Minorities [mln PLN]	66,4									
Equity value [mln PLN]	3 095,0									
Number of shares [mln]	139,2									
Value per share [PLN]	22,2									

Terminal growth rate: 2,0%

WACC calculation

	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P
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	69,0%	69,8%	70,6%	71,4%	72,3%	73,2%	74,1%	75,0%	76,0%	77,0%
Cost of debt after tax	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
Contribution of debt	31,0%	30,2%	29,4%	28,6%	27,7%	26,8%	25,9%	25,0%	24,0%	23,0%
WACC	7,6%	7,6%	7,7%	7,7%	7,7%	7,8%	7,8%	7,9%	7,9%	8,0%

Source: BDM S.A.

Sensitivity analysis

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	1,5%	2,0%	2,5%		1,5%	2,0%	2,5%		0,9	1,0	1,1
0,9	22,7	25,1	27,9	4,0%	25,6	28,3	31,7	4,0%	30,2	28,3	26,7
1,0	20,2	22,2	24,6	5,0%	20,2	22,2	24,6	5,0%	23,9	22,2	20,8
1,1	18,0	19,8	21,8	6,0%	16,1	17,5	19,3	6,0%	19,0	17,5	16,2

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2020	2021	2022	2020	2021	2022
Jeronimo Martins	21,1	17,9	16,3	9,0	7,2	7,2
BIM Birlesik	21,5	28,9	24,0	8,9	12,5	11,1
Dino	29,2	20,7	16,5	17,4	12,6	10,0
Lenta	30,0	11,6	10,7	5,5	4,9	4,6
Magnit	17,0	16,1	15,5	4,2	4,3	4,6
Pick'N'Pay	20,1	21,2	19,4	7,3	7,5	7,0
Shoprite Hld.	20,0	23,3	22,2	7,6	8,1	8,2
Spar Group	14,8	14,3	13,3	10,2	9,7	9,0
X5 Retail	18,0	13,9	12,1	5,6	4,9	4,1
Median	20,1	17,9	16,3	7,6	7,5	7,2
Eurocash	46,7	31,8	25,4	6,1	5,8	5,7
Premium/discount	131,7%	77,9%	55,6%	-20,0%	-22,0%	-21,4%
Valuation [PLN/share]	8,0	10,4	11,9	27,5	28,6	28,2
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		10,1			28,1	
Multiple's contribution		50%			50%	
Value per share [PLN]		19,1				

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	21,3	Accumulate	23,9	03.04.2020*	08:00 CEST	18,5	41 220
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 Q2'20*:		, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months		
	numbers	%	numbers	%
Buy	1	100%	0	0%
Accumulate	0	0%	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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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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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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- 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 25th 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,
- There are no significant connections between BDM or its related affiliates and the issuer of financial instruments,
- The person affiliated with BDM who was involved in the preparation of recommendations did not receive or purchase the shares of the issuer, to whom the recommendation relates directly or indirectly, prior to public offering of such shares,
- The person affiliated with BDM who was involved in the preparation of recommendations declares that they respect internal regulations and are subject to organizational and technical solutions and information barriers established by BDM to eliminate any conflicts of interest concerning recommendations and to avoid them,
- The person affiliated with BDM who was involved in the preparation of recommendations was not rewarded in any form by the issuer, to whom the recommendation relates directly or indirectly, or was not directly connected with any possible transactions concerning services defined in art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25th July 2005.

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.

BDM is subject to supervision by the Polish Financial Supervision Commission.

This document is a summary of a full version of the report prepared in Polish. In case of any disputes the Polish version shall prevail.