



Dom Maklerski BDM S.A.

# EUROCASH

## ANALYTICAL REPORT - SUMMARY

In our opinion, coming quarters won't bring the significant change in financial results. We see the risks in retail segment (extending integration; delay in implementation of retail's strategy). Moreover, we are afraid of challenging labour market, loss of PKN Orlen contract and implementation of retail tax. We set our target price at 18,1 PLN and rate Reduce.

### 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 17,8 PLN and peer valuation (30% share in the final valuation), which indicates target price 18,8 PLN. We set the target price 18,1 PLN.

### Forecasts and multiples

We expect that in 2Q'19 the company reached 6,1 bln PLN of sales (+6% y/y), c.a. 210 mln PLN EBITDA MSSF 16 and 39 mln PLN of net profit. In '19 we forecast c.a. 23,7 bln PLN of sales, 762 mln PLN EBITDA (EBITDA adj. = 732 mln PLN) and 61 mln PLN of adjusted net income. In 2020 we estimate 24,7 bln PLN of sales, 763 mln PLN EBITDA and 94 mln PLN of net income. Currently, Eurocash trades at EV/EBITDA'19 MSSF 16 = 6,8x and P/E'19 = 44x.

**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.

	2015	2016	2017	2018	2019P	2020P	2021P	2022P
Revenues [mln PLN]	20 318	21 206	20 849	22 833	23 744	24 665	25 638	26 598
EBITDA MSSF 16 [mln PLN]	-	-	-	-	762	763	788	803
EBITDA adj. MSSF 16 [mln PLN]	-	-	-	-	732	763	788	803
EBITDA MSR 17 [mln PLN]	476	440	246	419	411	423	447	461
EBITDA adj. MSR 17 [mln PLN]	476	440	361	371	381	423	447	461
EBIT MSSF 16 [mln PLN]	-	-	-	-	237	237	263	277
Net income adj. [mln PLN]	230	190	119	77	61	94	114	124
Net debt MSSF 16 [mln PLN]	-	-	-	-	2 286	2 299	2 301	2 304
Net debt MSR 17 [mln PLN]	175	324	370	382	458	450	434	419
P/BV	2,3	2,3	2,6	2,6	2,7	2,9	3,0	3,0
P/E adj.	11,7	14,2	22,8	34,9	44,2	28,7	23,7	21,7
EV/EBITDA MSSF 16	-	-	-	-	6,8	6,6	6,3	6,2
EV/EBITDA MSR 17	6,0	6,9	12,5	7,4	7,7	7,5	7,0	6,8
EV/EBIT MSSF 16	-	-	-	-	21,0	21,1	19,0	18,1
	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19P	3Q'19P	4Q'19P
Revenues [mln PLN]	5 000	5 775	6 256	5 801	5 483	6 133	6 309	5 819
EBITDA MSSF 16 [mln PLN]	-	-	-	-	121	210	197	233
EBITDA MSR 17 [mln PLN]	40	117	105	157	33	123	110	145
EBITDA adj. MSR 17 [mln PLN]	40	117	105	109	33	123	110	115
EBIT MSSF 16 [mln PLN]	-	-	-	-	-10	79	66	102
EBIT MSR 17 [mln PLN]	-7	68	52	102	-19	71	57	93
Net income [mln PLN]	-19	36	38	56	-40	39	28	57

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

# REDUCE

(PREVIOUS: REDUCE)

## TARGET PRICE 18,1 PLN

22 JULY 2019, 11:15 CEST

DCF valuation [PLN]	17,8
Peer valuation [PLN]	18,8
<b>Target price [PLN]</b>	<b>18,1</b>
<b>Price upside/downside</b>	<b>-6,5%</b>
Cost of capital	9,0%
Price [PLN]	19,4
Market cap [mln PLN]	2 699,8
Shares mln. szt.]	139,2
Max. price 6M [PLN]	23,5
Min. price 6m [PLN]	18,2
Rate of return 3M	-15,9%
Rate of return 6M	-3,7%
Rate of return 9M	-10,7%
Shareholders (% of votes):	
Luis Amaral	44,0%
Azvalor AM	9,8%
Others	46,2%

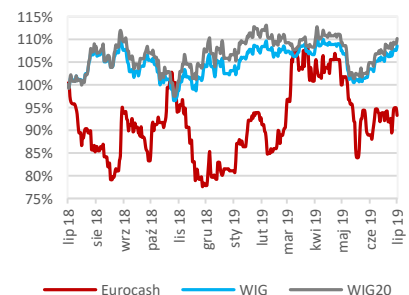
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**Valuation summary**

	Share	Valuation
DCF valuation	70%	17,8
Peer valuation	30%	18,8
<b>Target price [PLN]</b>		<b>18,1</b>

Source: BDM S.A.

**DCF valuation**

	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P
Revenues [mln PLN]	23 743,7	24 664,9	25 637,8	26 597,9	27 545,1	28 473,8	29 378,4	30 257,9	31 111,9	31 939,0
EBIT [mln PLN]	207,3	236,8	262,7	276,7	298,1	316,6	337,5	358,3	380,1	402,3
Tax rate	28%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [mln PLN]	57,2	45,0	49,9	52,6	56,6	60,2	64,1	68,1	72,2	76,4
NOPLAT [mln PLN]	150,1	191,8	212,8	224,1	241,5	256,4	273,4	290,2	307,9	325,9
Amortization, including: [mln PLN]	524,4	525,7	525,8	526,7	528,1	529,7	531,3	532,9	534,2	535,2
-right to use assets	315,4	318,9	322,2	325,2	328,0	330,4	332,6	334,4	336,1	337,4
CAPEX [mln PLN]	-538,1	-529,8	-533,7	-536,9	-539,6	-541,2	-542,0	-542,2	-541,6	-540,3
-lease payments	-350,4	-339,7	-341,3	-342,6	-343,9	-344,5	-345,0	-345,3	-345,4	-345,3
Working capital movement [mln PLN]	37,1	36,2	38,0	36,5	35,0	33,2	31,2	29,2	27,2	25,2
Purchase of investment [mln PLN]	0,0	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]	21,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
FCF [mln PLN]	195,2	223,9	242,9	250,3	264,9	278,2	294,0	310,2	327,7	345,9
DFCF [mln PLN]	189,0	201,5	203,0	194,3	190,9	186,1	182,4	178,5	174,9	171,1
Total DFCF [mln PLN]	1 871,7									
Terminal value [mln PLN]	6 075,5									
Discounted terminal value [mln PLN]	3 004,5									
Enterprise value [mln PLN]	4 876,2									
Net debt [mln PLN]	2 192,1									
Dividend 2019 [mln PLN]	139,6									
Minorities [mln PLN]	61,4									
<b>Equity value [mln PLN]</b>	<b>2 483,2</b>									
Number of shares [mln]	139,2									
<b>Value per share [PLN]</b>	<b>17,8</b>									

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	69,0%	69,6%	70,3%	71,0%	71,8%	72,5%	73,3%	74,1%	74,9%	75,7%
Cost of debt after tax	4,0%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
Contribution of debt	31,0%	30,4%	29,7%	29,0%	28,2%	27,5%	26,7%	25,9%	25,1%	24,3%
<b>WACC</b>	<b>7,4%</b>	<b>7,6%</b>	<b>7,7%</b>	<b>7,7%</b>	<b>7,7%</b>	<b>7,8%</b>	<b>7,8%</b>	<b>7,8%</b>	<b>7,9%</b>	<b>7,9%</b>

Source: BDM S.A.

**Sensitivity analysis**

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	0,9	1,5%	2,0%		2,5%	0,9	1,0		1,1		
1,0	18,2	20,3	22,8	4,0%	20,6	23,1	26,1	4,0%	24,7	23,1	21,6
1,1	16,1	17,8	20,0	5,0%	16,1	17,8	20,0	5,0%	19,3	17,8	16,5
1,1	14,2	15,7	17,5	6,0%	12,5	13,8	15,4	6,0%	15,1	13,8	12,6

Source: BDM S.A.

**Peer valuation**

	P/E			EV/EBITDA		
	2019	2020	2021	2019	2020	2021
Jeronimo Martins	20,4	19,5	17,7	8,6	8,3	7,6
BIM Birlesik	19,2	15,8	13,0	11,4	9,4	8,5
Dino	33,2	26,7	21,3	19,9	16,2	13,0
Lenta	6,7	8,4	7,3	5,1	5,2	4,6
Magnit	11,4	9,6	8,6	5,1	5,1	4,6
Massmart	14,5	12,5	10,0	4,7	4,4	3,7
Migros Ticaret	-	-	6,9	4,7	3,8	3,5
Pick'N'Pay	18,5	17,0	15,6	9,1	8,5	7,7
Shoprite Hld.	19,7	18,1	16,2	9,8	9,1	8,2
Spar Group	16,3	15,4	14,0	10,2	9,6	8,8
X5 Retail	15,4	13,9	12,4	6,1	5,7	5,3
<b>Median</b>	<b>17,4</b>	<b>15,6</b>	<b>13,0</b>	<b>8,6</b>	<b>8,3</b>	<b>7,6</b>
Eurocash	44,2	28,7	23,7	6,8	6,6	6,3
Premium/discount	153,8%	84,0%	83,2%	-20,8%	-20,8%	-16,4%
<b>Valuation [PLN/share]</b>	<b>7,6</b>	<b>10,5</b>	<b>10,6</b>	<b>28,8</b>	<b>28,8</b>	<b>26,5</b>
Year's contribution	33%	33%	33%	33%	33%	33%
<b>Average valuation [PLN/share]</b>		<b>9,6</b>			<b>28,0</b>	
Multiple's contribution		50%			50%	
<b>Value per share [PLN]</b>		<b>18,8</b>				

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
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.  
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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'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	1	33%	0	0%
Accumulate	1	33%	0	0%
Hold	0	0%	0	0%
Reduce	1	33%	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.

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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 22.07.2019:

- BDM states and assures that BDM is not involved financially in financial instruments of the Issuer.
- BDM 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 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,
- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to section A and B od Annex I to the Directive 2014/65/EU of the European Parliament and of the Council (hereinafter the Directive 2014/65/EU),
- BDM is not a party to an agreement with the issuer relating to the production of the recommendation,
- 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 25<sup>th</sup> 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.**