



Dom Maklerski BDM S.A.

SELENA FM

ANALYTICAL REPORT - SUMMARY

After a good Q1'22, the company's earnings momentum slightly slowed in the following quarter. The company started to feel pressure on sales volumes, but the price growth offsets this effect at the revenue level. Management's outlook for H2'22 is cautious but assumes that the company's results will not deteriorate y/y. We expect that the company may start to benefit from the decline in raw material pressures and that its sensitivity to energy costs is relatively low. At the same time, Selena FM still has a significant sales position in the Russian market, which raises risk that is difficult to quantify (we see a significant reduction in exposure to this area in the future as a potential upside to our valuation). The company is valued according to our forecasts at EV/EBITDA'22=4.3x (4.0x after adjusting for loans to the main shareholder). For the last 5 years, these levels are slightly below the average. We set a target price of PLN 22.0, implying an Accumulate recommendation (previously Buy with a target price of PLN 30.0).

Q2'22 revenue has been higher than our expectations, at the same time the company reported a fairly low gross margin on sales. EBITDA was slightly below our forecasts. The net result was supported by positive foreign exchange differences. Good results were recorded in the segment of Eastern Europe and Asia. The strong positive trend was maintained by the North and South America area. The Polish market was weak with only a 3% increase in sales. Noteworthy is the significant decline in EBITDA profitability in the EU segment (with good sales in other EU markets). Net debt is at the highest level in the company's history (PLN 257m, of which PLN 58m finances loans to entities related to the main shareholder). We expect a seasonal decline in working capital requirements in 2H'22.

In an interview at the end of September, Selena FM's CEO confirmed that he sees a drop in demand (exposure to the cubic-construction market) and pressure on volumes and margins in H2'22, but no slump in Q3'22. The CEO expects the results not to be worse y/y. The company wants to increase its presence in Western markets (including the US) and fight for market share in Poland. We evaluate these activities as a consequence of the need to develop production capacity (in Poland or Asia) previously intended for the Russian market. Sales of subsidiaries from the "Eastern Europe" area (Russia and Ukraine) in H1'22 amounted to PLN 115m (similarly to the previous year). The constantly significant (though declining) exposure to the Russian market raises risks that are difficult to quantify in our opinion (e.g. restrictions on intra-group transfers). We note that the company's main European competitors are still present in Russia (with Henkel, for example, having announced divestments), Selena FM's current market capitalization is PLN 442m (PLN 419m after deducting treasury shares). Net debt at the end of Q2'22 was PLN 257m (PLN 199m after adjusting for loans). EBITDA for the last four quarters amounted to ca. PLN 143m. The company is therefore valued at the current adjusted EV/EBITDA=4.3x. The level is relatively low, but the discount to the average for the last five years is insignificant at this point of time (4.7x for the annually averaged net debt adjusted for loans).

	2019	2020	2021	2022P	2023P	2024P
Sales [PLN m]	1 326,5	1 384,7	1 728,4	1 917,9	1 918,0	1 964,8
Gross profit [PLN m]	397,5	468,1	479,7	568,0	563,4	580,5
SG&A costs [PLN m]	324,9	342,8	396,3	463,5	466,4	477,8
Profit on sales [PLN m]	72,7	125,3	83,4	104,5	97,0	102,8
Other operating activity net [PLN m]	-9,1	1,9	9,3	-10,0	-7,5	-7,5
EBITDA [PLN m]	101,8	165,7	136,8	140,4	135,6	141,0
EBIT [PLN m]	63,6	127,2	92,7	94,5	89,5	95,3
Profit before tax [PLN m]	56,9	95,3	88,4	95,7	79,2	82,3
Net profit [PLN m]	39,5	76,2	102,7	77,2	63,1	65,5
P/BV*	1,0	0,8	0,7	0,6	0,6	0,5
P/E*	11,2	5,8	4,1	5,4	6,6	6,4
EV/EBITDA*	5,1	2,9	4,1	4,3	3,8	3,4
EV/EBIT*	8,1	3,7	6,0	6,4	5,8	5,0

* adjusted for own shares

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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ACCUMULATE

(PREVIOUS: BUY)

TARGET PRICE 22,0 PLN

5th OCTOBER 2022, 14:45 CEST

DCF valuation [PLN]	20,8
Peer valuation [PLN]	27,2
Target price [PLN]	22,0
Price upside/downside	14,0%
Cost of capital	14,5%
Price [PLN]	19,35
Market cap [PLNm]	441,8
No. of shares [mn]	22,8
Max. price 6M [PLN]	23,6
Min. price 6m [PLN]	18,6
Rate of return 3M	-15,1%
Rate of return 6M	-18,0%
Rate of return 9M	-19,4%
Shareholders (% of votes):	
Domarecki Krzysztof	78,0%
Own shares	5,2%
Pozostali	16,8%

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Valuation summary

	Share	Valuation
DCF valuation	80%	20,8
Peer valuation:	20%	27,2
- Polish producers of building materials	100%	27,2
- foreign producers of construction chemicals	0%	35,8
Target price [PLN]		22,0

Source: Dom Maklerski BDM S.A.

DCF valuation

	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	2031P
Revenues [PLN m]	1 917,9	1 918,0	1 964,8	1 989,9	2 014,5	2 031,3	2 049,0	2 067,0	2 084,1	2 103,4
EBIT [PLN m]	94,5	89,5	95,3	96,3	97,4	97,7	98,1	98,5	98,8	99,3
Tax rate	19,1%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%
Tax on EBIT [PLN m]	18,0	17,9	19,1	19,3	19,5	19,5	19,6	19,7	19,8	19,9
NOPLAT [PLN m]	76,4	71,6	76,2	77,0	77,9	78,2	78,5	78,8	79,0	79,4
Amortization [PLN m]	45,9	46,1	45,8	45,6	45,6	45,7	45,8	45,9	46,0	46,1
CAPEX [PLN m]	-39,1	-44,6	-44,8	-44,9	-45,1	-45,2	-45,4	-45,5	-45,7	-45,8
Working capital movement [PLN m]	-107,7	-10,2	-13,6	-7,5	-7,0	-5,0	-5,0	-5,3	-5,2	-5,1
Purchase of investments [PLN m]	-10,2	58,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	74,7
FCF [PLN m]	-34,6	121,2	63,6	70,3	71,4	73,7	73,9	73,9	74,1	25,3
DFCF [PLN m]	-37,9	117,4	54,3	52,7	47,1	42,6	37,4	32,7	28,7	25,3
Total DFCF [PLN m]	400,3									
Terminal value [PLN m]	556,3									
Discounted terminal value [PLN m]	188,2									
Enterprise value [PLN m]	588,5									
Net debt 2021 [PLN m]	138,9									
Minority interests [PLN m]	1,0									
Equity value [PLN m]	449,5									
Number of shares [m]	21,6									
Value per share [PLN]	20,8									

Terminal growth rate: +1,0%

WACC calculation

	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	2031P
Risk-free rate	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%
Risk premium	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Beta	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5
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	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%
Contribution of equity	77,7%	82,1%	87,2%	90,0%	91,9%	93,6%	95,3%	97,0%	98,5%	100,0%
Cost of debt after tax	6,9%	6,8%	6,8%	6,8%	6,8%	6,8%	6,8%	6,8%	6,8%	6,8%
Contribution of debt	22,3%	17,9%	12,8%	10,0%	8,1%	6,4%	4,7%	3,0%	1,5%	0,0%
WACC	12,8%	13,1%	13,5%	13,7%	13,9%	14,0%	14,1%	14,3%	14,4%	14,5%

Source: Dom Maklerski BDM S.A.

DCF - sensitivity analysis

	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta			
	0,00%	1,00%	2,00%		0,00%	1,00%	2,00%		1,4	1,5	1,6	
beta	1,4	20,9	21,7	22,6	4%	22,8	23,7	24,8	4%	24,6	23,7	22,9
	1,5	20,1	20,8	21,6	5%	20,1	20,8	21,6	5%	21,7	20,8	19,9
	1,6	19,3	19,9	20,6	6%	17,9	18,4	19,0	6%	19,3	18,4	17,6

Source: Dom Maklerski BDM S.A.

Peer valuation - Polish producers of building materials

	P/E			EV/EBITDA		
	2022F	2023F	2024F	2022F	2023F	2024F
Ferro	8,6	7,9	7,1	6,6	5,5	4,6
Decora	5,9	6,2	6,1	5,0	4,8	4,6
Śnieżka	8,6	7,9	7,1	6,6	5,5	4,6
Median	8,6	7,9	7,1	6,6	5,5	4,6
Selena FM	5,4	6,6	6,4	4,3	3,7	3,3
Premium/discount	-37,2%	-16,1%	-9,6%	-34,9%	-32,9%	-28,8%
Valuation [PLN/share]	30,8	23,1	21,4	34,3	30,7	28,0
Year's contribution	20%	40%	40%	20%	40%	40%
Average valuation [PLN/share]	23,9			30,4		
Multiple's contribution	50%			50%		
Value per share [PLN]	27,2					

Source: Dom Maklerski BDM S.A. BDM forecasts

Peer valuation - foreign producers of construction chemicals

	P/E			EV/EBITDA		
	2022F	2023F	2024F	2022F	2023F	2024F
H.B. Fuller	13,9	12,6	11,3	9,1	8,1	7,3
Henkel	17,1	15,3	13,1	9,5	8,4	7,6
Saint Gobain	6,0	6,6	5,9	3,8	3,8	3,4
Sika	25,0	21,3	18,3	16,7	14,4	12,4
Sto	9,1	11,0	10,1	4,2	4,3	4,1
Uzin Utz	12,1	11,8	10,7	7,3	6,4	5,7
Median	12,1	11,8	10,7	7,3	6,4	5,7
Selena FM	5,4	6,6	6,4	4,3	3,7	3,3
Premium/discount	-55,0%	-43,7%	-40,3%	-41,1%	-42,1%	-42,5%
Valuation [PLN/share]	43,0	34,4	32,4	38,8	36,2	35,2
Year's contribution	20%	40%	40%	20%	40%	40%
Average valuation [PLN/share]	35,3			36,3		
Multiple's contribution	50%			50%		
Value per share [PLN]	35,8					

Source: Dom Maklerski BDM S.A., Bloomberg

Main risks:

- high exposure to Eastern European markets
- risks related to the macroeconomic situation, the economic situation in the construction industry and seasonality of revenues;
- high prices of strategic raw materials: MDI and polyols and problems with their availability;
- strong competition (in the markets where the company operates there is competition in the form of large, international companies offering a wide range of products);
- risk related to M&A transactions;
- exchange rate risk (mainly euro and EM currencies)
- transactions with related entities (in 2015, the purchase of bonds of a subsidiary from the main owner for PLN 60 million - repaid in 2020, and in 2020-2022 - PLN 58m loans);
- low free float and trading liquidity.

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Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Accumulate	22,0	Buy	30,0	05.10.2022	14:45 CEST	19,35	47 830
Buy	30,0	Buy	44,3	27.06.2022*	07:00 CEST	22,20	53 014
Buy	44,3	---	---	07.09.2021*	17:30 CEST	28,00	71 799
Buy	16,5	Buy	14,4	31.05.2019	09:20 CEST	11,50	57 187
Buy	14,4	Sell	15,4	25.02.2019	09:35 CEST	9,45	60 454
Sell	15,4	Buy	21,3	11.09.2017	11:55 CEST	19,7	64 990
Buy	21,3	Buy	18,8	15.07.2016	08:49 CEST	17,05	45 246
Buy	18,8	Hold	22,3	15.02.2016		15,0	43 849
Hold	22,3	Buy	26,4	06.07.2015		20,3	52 467
Buy	26,4	Suspended	-	16.02.2015		18,3	52 561
Suspended	-	Accumulate	19,3	09.08.2012		5,83	41 254
Accumulate	19,3	Hold	20,5	13.06.2011		16,51	49 121
Hold	20,5	Reduce	17,0	06.04.2011		19,64	50 248
Reduce	17,0	Accumulate	17,0	10.12.2010		18,45	47 398
Accumulate	17,0	Buy	14,3	07.04.2010		15,1	43 500
Buy	14,3	Buy	18,7	15.10.2009		11,5	37 300
Buy	18,7	---	---	30.07.2008		14,5	42 416

* 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 reports on Selena in 2008-2019 was Krzysztof Pado

-- the author of the reports on Selena in 2021-06'2022 was Krystian Brymora

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 4Q'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	1	50%	2	100%
Accumulate	1	50%	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 investor should assume that BDM employees or proxies or shareholders may hold long or short positions in the issuer’s shares or other financial instruments related to the issuer’s shares; this particularly concerns the situation of holding not more than 5% of the capital, and they may also carry out transactions on them as proxies.

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 05.10.2022:

- BDM states and assures that BDM is 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 25th 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 of 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 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.

*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.

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.