



Dom Maklerski BDM S.A.

## SELENA FM

### ANALYTICAL REPORT - SUMMARY

Selena FM reported very good results in Q3'22. The decrease in raw material pressures allowed the gross sales margin to improve. At the revenue level, the Eastern Europe and Asia segment contributed strongly to the result. In the Polish market, the company is experiencing pressure on sales volumes, but price increases offset this effect at the revenue level. On the fundamental risk side, Selena FM still has a significant sales position in the Russian market (we see a significant reduction in exposure to this area in the future as a potential upside to our valuation). The company is valued at EV/EBITDA'22=3.4x (3.1x after adjusting for loans to the main shareholder) according to our forecasts. These levels are already clearly below the average for the last 5 years. Better-than-expected Q3'22 results and the lower commodity price levels assumed in the model have a positive impact on our valuation of the company. Our current price target is PLN 28.8, which implies an upgrade to Buy.

The company's Q3'22 results were clearly above our expectations due to a very strong result (both revenue and EBITDA) in the Eastern Europe and Asia segment. The company mainly increased revenues from Asian companies (+48% y/y), but Eastern Europe also posted a 28% y/y increase. The positive trend continued in North and South America. Good sales in Q3'22 continued in the rest of the EU (with a decline in profitability). The Polish market was weak with only a 1% increase in sales, which, with significant inflation in the construction chemicals category, implies a clear decline in volumes. Net debt (PLN 162m, of which PLN 54m finances loans to entities related to the main shareholder) clearly fell thanks to strong operating cash flows.

The company did not hold an earnings conference after Q3'22. Only in a press release did the CEO reiterate that the company is seeing a decline in demand and pressure on volumes and margins. The company wants to increase its presence in western markets (including the US and Western Europe). We view these activities as being derived from the need to develop production capacity (in Poland or Asia) previously intended for the Russian market. The constantly significant exposure to the Russian market (companies located in Eastern Europe, i.e. Ukraine and Russia, accounted for 15% of the group's sales in Q1-3'22) raises risks that are difficult to quantify in our opinion. We note that the company's main European competitors are still present in Russia (with Henkel, for example, having announced divestments),

The company also maintains its interest in acquisitions (entities with a recognisable brand and access to the market). The management also emphasised the high importance of working capital reduction measures. ).

Selena FM's current market capitalization is PLN 505m (PLN 478m after deducting treasury shares). Net debt at the end of Q3'22 was PLN 162m (PLN 108m after adjusting for loans). EBITDA for the last four quarters amounted to ca. PLN 174m. The company is therefore valued at current adjusted EV/EBITDA=3.4x. The level is relatively low, and the discount to the average for the last five years (4.5x for annually averaged net debt adjusted for loans) has become noticeably larger than a quarter ago.

|                                      | 2019    | 2020    | 2021    | 2022P   | 2023P   | 2024P   |
|--------------------------------------|---------|---------|---------|---------|---------|---------|
| Sales [PLN m]                        | 1 326,5 | 1 384,7 | 1 728,4 | 1 971,4 | 1 925,4 | 1 963,2 |
| Gross profit [PLN m]                 | 397,5   | 468,1   | 479,7   | 603,2   | 585,2   | 599,6   |
| SG&A costs [PLN m]                   | 324,9   | 342,8   | 396,3   | 456,6   | 459,5   | 469,0   |
| Profit on sales [PLN m]              | 72,7    | 125,3   | 83,4    | 146,6   | 125,7   | 130,6   |
| 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   | 182,9   | 165,2   | 169,6   |
| EBIT [PLN m]                         | 63,6    | 127,2   | 92,7    | 136,6   | 118,2   | 123,1   |
| Profit before tax [PLN m]            | 56,9    | 95,3    | 88,4    | 132,0   | 107,4   | 110,5   |
| Net profit [PLN m]                   | 39,5    | 76,2    | 102,7   | 104,6   | 85,6    | 88,1    |
| P/BV*                                | 1,1     | 1,0     | 0,8     | 0,7     | 0,6     | 0,6     |
| P/E*                                 | 12,8    | 6,6     | 4,7     | 4,6     | 5,6     | 5,4     |
| EV/EBITDA*                           | 5,7     | 3,2     | 4,5     | 3,4     | 3,4     | 3,0     |
| EV/EBIT*                             | 9,1     | 4,2     | 6,7     | 4,5     | 4,8     | 4,2     |

\* 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.

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

## BUY

(PREVIOUS: ACCUMULATE)

### TARGET PRICE 28,8 PLN

25th NOVEMBER 2022, 12:15 CEST

|                            |              |
|----------------------------|--------------|
| DCF valuation [PLN]        | 25,6         |
| Peer valuation [PLN]       | 41,6         |
| Target price [PLN]         | <b>28,8</b>  |
| Price upside/downside      | <b>30,2%</b> |
| Cost of capital            | 16,8%        |
| Price [PLN]                | 22,10        |
| Market cap [PLNm]          | 504,6        |
| No. of shares [mn]         | 22,8         |
| Max. price 6M [PLN]        | 23,2         |
| Min. price 6m [PLN]        | 18,4         |
| Rate of return 3M          | 7,8%         |
| Rate of return 6M          | 4,7%         |
| Rate of return 9M          | 1,4%         |
| Shareholders (% of votes): |              |
| Domarecki Krzysztof        | 78,0%        |
| Own shares                 | 5,2%         |
| Pozostali                  | 16,8%        |

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**Valuation summary**

|   | Share      | Valuation   |
|---|------------|-------------|
| <b>DCF valuation</b>                          | <b>80%</b> | <b>25,6</b> |
| <b>Peer valuation:</b>                        | <b>20%</b> | <b>41,6</b> |
| - Polish producers of building materials      | 100%       | 41,6        |
| - foreign producers of construction chemicals | 0%         | 61,0        |
| <b>Target price [PLN]</b>                     |            | <b>28,8</b> |

Source: Dom Maklerski BDM S.A.

**DCF valuation**

|                                   | 2022P        | 2023P   | 2024P   | 2025P   | 2026P   | 2027P   | 2028P   | 2029P   | 2030P   | 2031P   |
|-----------------------------------|--------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Revenues [PLN m]                  | 1 971,4      | 1 925,4 | 1 963,2 | 1 988,8 | 2 013,2 | 2 030,6 | 2 048,5 | 2 066,8 | 2 084,6 | 2 104,3 |
| EBIT [PLN m]                      | 136,6        | 118,2   | 123,1   | 118,1   | 116,9   | 118,1   | 126,2   | 126,7   | 122,1   | 118,7   |
| Tax rate                          | 20,5%        | 20,0%   | 20,0%   | 20,0%   | 20,0%   | 20,0%   | 20,0%   | 20,0%   | 20,0%   | 20,0%   |
| Tax on EBIT [PLN m]               | 28,0         | 23,6    | 24,6    | 23,6    | 23,4    | 23,6    | 25,2    | 25,3    | 24,4    | 23,7    |
| NOPLAT [PLN m]                    | 108,6        | 94,5    | 98,5    | 94,5    | 93,5    | 94,5    | 101,0   | 101,4   | 97,7    | 95,0    |
| Amortization [PLN m]              | 46,3         | 47,0    | 46,5    | 46,4    | 46,3    | 46,4    | 46,5    | 46,6    | 46,7    | 46,9    |
| CAPEX [PLN m]                     | -39,1        | -44,6   | -45,7   | -45,9   | -46,2   | -46,4   | -46,7   | -46,9   | -47,2   | -47,4   |
| Working capital movement [PLN m]  | -95,7        | -5,3    | -16,0   | -7,2    | -6,7    | -4,9    | -4,9    | -5,1    | -5,1    | -5,0    |
| Purchase of investments [PLN m]   | -11,2        | 0,0     | 0,0     | 54,0    | 0,0     | 0,0     | 0,0     | 0,0     | 0,0     | 89,5    |
| FCF [PLN m]                       | 9,1          | 91,6    | 83,4    | 141,7   | 87,0    | 89,6    | 95,9    | 96,0    | 92,3    | 26,5    |
| DFCF [PLN m]                      | 10,2         | 90,0    | 71,0    | 104,2   | 55,2    | 48,9    | 45,0    | 38,7    | 31,9    | 26,5    |
| Total DFCF [PLN m]                | 521,5        |         |         |         |         |         |         |         |         |         |
| Terminal value [PLN m]            | 577,3        |         |         |         |         |         |         |         |         |         |
| Discounted terminal value [PLN m] | 170,8        |         |         |         |         |         |         |         |         |         |
| Enterprise value [PLN m]          | 692,3        |         |         |         |         |         |         |         |         |         |
| Net debt 2021 [PLN m]             | 138,9        |         |         |         |         |         |         |         |         |         |
| Minority interests [PLN m]        | 1,0          |         |         |         |         |         |         |         |         |         |
| <b>Equity value [PLN m]</b>       | <b>553,4</b> |         |         |         |         |         |         |         |         |         |
| Number of shares [m]              | 21,6         |         |         |         |         |         |         |         |         |         |
| <b>Value per share [PLN]</b>      | <b>25,6</b>  |         |         |         |         |         |         |         |         |         |

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           | 6,5%         | 6,5%         | 6,5%         | 6,5%         | 6,5%         | 6,5%         | 6,5%         | 6,5%         | 6,5%         | 6,5%         |
| 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         | 16,8%        | 16,8%        | 16,8%        | 16,8%        | 16,8%        | 16,8%        | 16,8%        | 16,8%        | 16,8%        | 16,8%        |
| Contribution of equity | 77,7%        | 82,1%        | 87,2%        | 90,3%        | 92,1%        | 93,8%        | 95,5%        | 97,1%        | 98,6%        | 100,0%       |
| Cost of debt after tax | 6,8%         | 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%        | 9,7%         | 7,9%         | 6,2%         | 4,5%         | 2,9%         | 1,4%         | 0,0%         |
| <b>WACC</b>            | <b>14,5%</b> | <b>15,0%</b> | <b>15,5%</b> | <b>15,8%</b> | <b>16,0%</b> | <b>16,1%</b> | <b>16,3%</b> | <b>16,5%</b> | <b>16,6%</b> | <b>16,8%</b> |

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  |      |
| <b>beta</b> | 1,4                  | 26,0  | 26,7  | 27,4         | 6,0%                 | 26,2  | 26,8  | 27,5         | 6,0% | 27,9 | 26,8 | 25,8 |
|             | 1,5                  | 25,0  | 25,6  | 26,2         | 6,5%                 | 25,0  | 25,6  | 26,2         | 6,5% | 26,7 | 25,6 | 24,6 |
|             | 1,6                  | 24,1  | 24,6  | 25,1         | 7,0%                 | 23,9  | 24,4  | 25,0         | 7,0% | 25,5 | 24,4 | 23,4 |

Source: Dom Maklerski BDM S.A.

**Peer valuation - Polish producers of building materials**

|                                      | P/E         |             |             | EV/EBITDA   |             |             |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                      | 2022F       | 2023F       | 2024F       | 2022F       | 2023F       | 2024F       |
| Ferro                                | 8,8         | 10,2        | 8,8         | 6,8         | 6,4         | 5,4         |
| Decora                               | 7,6         | 8,1         | 7,2         | 5,7         | 5,5         | 5,0         |
| Śnieżka                              | 20,5        | 16,1        | 12,7        | 9,9         | 8,9         | 7,8         |
| <b>Median</b>                        | <b>8,8</b>  | <b>10,2</b> | <b>8,8</b>  | <b>6,8</b>  | <b>6,4</b>  | <b>5,4</b>  |
| Selena FM                            | 4,6         | 5,6         | 5,4         | 3,4         | 3,4         | 3,0         |
| Premium/discount                     | -48,0%      | -45,1%      | -38,0%      | -50,3%      | -46,1%      | -43,9%      |
| <b>Valuation [PLN/share]</b>         | <b>42,5</b> | <b>40,2</b> | <b>35,6</b> | <b>51,0</b> | <b>44,6</b> | <b>40,8</b> |
| Year's contribution                  | 20%         | 40%         | 40%         | 20%         | 40%         | 40%         |
| <b>Average valuation [PLN/share]</b> | <b>38,8</b> |             |             | <b>44,3</b> |             |             |
| Multiple's contribution              |             |             |             | 50%         |             |             |
| <b>Value per share [PLN]</b>         | <b>41,6</b> |             |             |             |             |             |

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                          | 18,3        | 16,7        | 15,0        | 10,9        | 9,9         | 9,1         |
| Henkel                               | 18,2        | 16,9        | 14,5        | 9,8         | 9,2         | 8,3         |
| Saint Gobain                         | 7,3         | 8,1         | 7,4         | 4,4         | 4,5         | 4,0         |
| Sika                                 | 31,8        | 29,2        | 24,3        | 19,8        | 19,1        | 15,8        |
| Sto                                  | 13,7        | 12,3        | 11,2        | 5,5         | 5,2         | 4,5         |
| Uzin Utz                             | 11,1        | 17,1        | 12,5        | 6,3         | 7,4         | 6,2         |
| <b>Median</b>                        | <b>16,0</b> | <b>16,8</b> | <b>13,5</b> | <b>8,1</b>  | <b>8,3</b>  | <b>7,2</b>  |
| Selena FM                            | 4,6         | 5,6         | 5,4         | 3,4         | 3,4         | 3,0         |
| Premium/discount                     | -71,3%      | -66,7%      | -59,7%      | -58,0%      | -58,6%      | -57,9%      |
| <b>Valuation [PLN/share]</b>         | <b>77,1</b> | <b>66,3</b> | <b>54,9</b> | <b>61,6</b> | <b>59,2</b> | <b>55,0</b> |
| Year's contribution                  | 20%         | 40%         | 40%         | 20%         | 40%         | 40%         |
| <b>Average valuation [PLN/share]</b> | <b>63,9</b> |             |             | <b>58,0</b> |             |             |
| Multiple's contribution              |             |             |             | 50%         |             |             |
| <b>Value per share [PLN]</b>         | <b>61,0</b> |             |             |             |             |             |

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           |
|------------|--------------|-------------------|-----------------------|--------------------|--------------------|--------------|---------------|
| <b>Buy</b> | <b>28,8</b>  | <b>Accumulate</b> | <b>22,0</b>           | <b>25.11.2022*</b> | <b>12:15 CEST</b>  | <b>22,10</b> | <b>56 028</b> |
| 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 and from 10' 2022 is 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.  
 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'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  | 8       | 62% | 1   | 100% |
| Accumulate                                       | 2       | 15% | 0   | 0%   |
| Hold   | 2       | 15% | 0   | 0%   |
| Reduce   | 0       | 0%  | 0   | 0%   |
| Sell   | 1       | 8%  | 0   | 0%   |

\* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included at <https://www.bdm.pl/analizy-i-informacje/analizy/historia-rekomendacji>



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