



Dom Maklerski BDM S.A.

SELENA FM

ANALYTICAL REPORT - SUMMARY

Selena FM reported better y/y reported results for Q4'22. However, these were supported by the settlement with Bank Millennium. Adjusted profitability was below our assumptions. On the earnings conference call, management signalled weaker demand in the construction industry. So far, falling volumes have been covered up by price increases, but this effect will now be less noticeable. We assume, however, that lower raw material prices should have a positive impact on profitability over time. We emphasise that we have already assumed in previous recommendations that the 2022 results will be difficult to repeat. On the positive side, we note the strong improvement in the company's cash position and the announcement of a record dividend for 2022 (DPS=1.40 PLN), which may signal a qualitative change in the company's policy in this regard. 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'23=3.8x according to our forecasts (3.4x after adjusting for loans to the main shareholder). We leave our target price at PLN 28.8, which, given the stock's rise in recent months (22% since our last recommendation), implies a downgrade to Accumulate (from Buy).

The reported Q4'22 results were above our expectations on EBITDA and net profit, but this was mainly driven by a PLN 15m gain on the settlement with Bank Millennium. Revenues (+6% y/y) were in line with our forecasts, while profit on sales was noticeably weaker (the effect of both a lower-than-expected gross margin and higher SG&A cost pressure). On the other hand, the drop in net debt to PLN 34m (of which PLN 52m finances loans to entities related to the main shareholder) was a positive surprise.

For the full year 2022, the company generated record results (PLN 1.96bn revenue, PLN 199m EBITDA and PLN 112m net profit). We emphasise that we had already assumed in previous recommendations that these would be difficult to repeat in subsequent years. During the earnings conference call, the Management Board hinted at a deteriorating market environment since Q4'22, especially in Poland. 1H'23 could be marked by revenue pressure. The company wants to react flexibly to raw material prices and competitors' actions (price pressure in a falling market). In 2023, we expect EBITDA to decline by 24% y/y. We assume a return to an upward trajectory in 2024.

The still sizable escrow for the Russian market raises risks that are difficult to quantify in our view. We note that the company's main European competitors are still present in Russia. The company maintains its interest in acquisitions (entities with a recognisable brand and access to the market). At the same time, the company's strategy regarding investments in the RES area remains unclear to us.

	2020	2021	2022	2023F	2024F	2025F
Sales [PLN m]	1 384,7	1 728,4	1 963,3	1 880,3	1 928,4	2 004,7
Gross profit [PLN m]	468,1	479,7	590,7	570,5	589,7	610,6
SG&A costs [PLN m]	342,8	396,3	452,9	459,5	471,7	490,9
Profit on sales [PLN m]	125,3	83,4	137,8	111,1	118,0	119,7
Other operating activity net [PLN m]	1,9	9,3	15,8	-7,5	-7,5	-7,5
EBITDA [PLN m]	165,7	136,8	199,2	151,2	159,9	163,2
EBIT [PLN m]	127,2	92,7	153,6	103,6	110,5	112,2
Profit before tax [PLN m]	95,3	88,4	134,2	91,3	102,9	105,6
Net profit [PLN m]	76,2	102,7	112,1	72,6	81,9	84,1
P/BV*	1,2	1,0	0,8	0,8	0,7	0,7
P/E*	8,1	5,7	5,2	8,0	7,1	7,0
EV/EBITDA*	3,9	5,3	3,1	3,8	3,5	3,0
EV/EBIT*	5,1	7,8	4,0	5,5	5,1	4,4

* adjusted for own shares

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

ACCUMULATE

(PREVIOUS: BUY)

TARGET PRICE 28,8 PLN

8th MAY 2023, 11:35 CEST

DCF valuation [PLN]	24,4
Peer valuation [PLN]	46,4
Target price [PLN]	28,8
Price upside/downside	6,8%
Cost of capital	15,8%
Price [PLN]	27,00
Market cap [PLNm]	616,5
No. of shares [mn]	22,8
Max. price 6M [PLN]	27,3
Min. price 6m [PLN]	19,0
Rate of return 3M	0,0%
Rate of return 6M	40,6%
Rate of return 9M	21,6%
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%	24,4
Peer valuation:	20%	46,4
- Polish producers of building materials	100%	46,4
- foreign producers of construction chemicals	0%	49,0
Target price [PLN]		28,8

Source: Dom Maklerski BDM S.A.

DCF valuation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Revenues [PLN m]	1 880,3	1 928,4	2 004,7	2 027,2	2 043,7	2 061,3	2 079,6	2 097,8	2 116,5	2 138,4
EBIT [PLN m]	103,6	110,5	112,2	109,9	107,9	112,2	115,3	112,8	109,9	110,2
Tax rate	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%
Tax on EBIT [PLN m]	20,7	22,1	22,4	22,0	21,6	22,4	23,1	22,6	22,0	22,0
NOPLAT [PLN m]	82,8	88,4	89,8	87,9	86,3	89,8	92,2	90,3	87,9	88,2
Amortization [PLN m]	47,7	49,5	51,0	52,3	53,4	54,4	55,4	56,2	57,1	57,9
CAPEX [PLN m]	-54,5	-55,9	-56,4	-57,0	-57,6	-58,2	-58,9	-59,5	-60,2	-61,0
Working capital movement [PLN m]	10,4	-30,4	-37,4	-4,8	-3,5	-3,6	-3,6	-3,8	-3,6	-4,1
Purchase of investments [PLN m]	0,0	0,0	52,0	0,0	0,0	0,0	0,0	0,0	0,0	81,0
FCF [PLN m]	86,4	51,6	99,0	78,5	78,6	82,5	85,1	83,1	81,1	20,3
DFCF [PLN m]	79,1	41,1	68,5	47,1	40,9	37,1	33,1	27,9	23,5	20,3
Total DFCF [PLN m]	418,7									
Terminal value [PLN m]	575,8									
Discounted terminal value [PLN m]	144,2									
Enterprise value [PLN m]	562,9									
Net debt 2022 [PLN m]	34,2									
Minority interests [PLN m]	3,2									
Equity value [PLN m]	528,7									
Number of shares [m]	21,6									
Value per share [PLN]	24,4									

Terminal growth rate: +1,0%

WACC calculation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Risk-free rate	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%
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	15,8%	15,8%	15,8%	15,8%	15,8%	15,8%	15,8%	15,8%	15,8%	15,8%
Contribution of equity	86,9%	90,5%	93,7%	95,6%	97,3%	99,0%	100,0%	100,0%	100,0%	100,0%
Cost of debt after tax	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%
Contribution of debt	13,1%	9,5%	6,3%	4,4%	2,7%	1,0%	0,0%	0,0%	0,0%	0,0%
WACC	14,5%	14,8%	15,1%	15,3%	15,5%	15,7%	15,8%	15,8%	15,8%	15,8%

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	25,0	25,5	26,2		6,0%	25,2	25,7	26,4		6,0%	26,9	25,7	24,7
	1,5	23,9	24,4	25,0		6,5%	23,9	24,4	25,0		6,5%	25,5	24,4	23,4
	1,6	23,0	23,4	23,9		7,0%	22,8	23,3	23,7		7,0%	24,4	23,3	22,3

Source: Dom Maklerski BDM S.A.

Peer valuation - Polish producers of building materials

	P/E			EV/EBITDA		
	2023F	2024F	2025F	2023F	2024F	2025F
Ferro	11,7	11,7	11,0	7,1	6,6	6,4
Decora	9,3	8,2	7,7	6,5	5,8	5,5
Śnieżka	19,8	15,0	11,5	10,0	8,7	7,3
Median	11,7	11,7	11,0	7,1	6,6	6,4
Selena FM	8,0	7,1	7,0	3,8	3,5	3,0
Premium/discount	-31,1%	-39,1%	-36,9%	-46,8%	-46,6%	-52,5%
Valuation [PLN/share]	39,2	44,3	42,8	50,3	49,6	52,4
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]	42,1			50,8		
Multiple's contribution		50%		50%		
Value per share [PLN]	46,4					

Source: Dom Maklerski BDM S.A. BDM forecasts

Peer valuation - foreign producers of construction chemicals

	P/E			EV/EBITDA		
	2023F	2024F	2025F	2023F	2024F	2025F
H.B. Fuller	12,8	12,0	11,4	7,8	7,4	7,1
Henkel	19,1	16,9	15,4	10,3	9,3	8,7
Saint Gobain	9,1	8,5	7,8	5,0	4,6	4,2
Sika	30,2	24,9	22,1	19,5	16,2	14,3
Sto	13,4	12,9	12,3	5,9	5,4	5,1
Uzin Utz	13,3	12,1	11,5	6,8	6,2	5,9
Median	13,4	12,5	11,9	7,3	6,8	6,5
Selena FM	8,0	7,1	7,0	3,8	3,5	3,0
Premium/discount	-39,9%	-42,8%	-41,5%	-48,0%	-48,4%	-53,3%
Valuation [PLN/share]	44,9	47,2	46,2	51,4	51,2	53,3
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]	46,1			52,0		
Multiple's contribution		50%		50%		
Value per share [PLN]	49,0					

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 (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	28,8	Buy	28,8	08.05.2023*	11:35 CEST	27,00	63 055
Buy	28,8	Accumulate	22,0	25.11.2022*	12:15 CEST	22,10	56 028
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.
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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.
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Distribution of BDM's recommendations in 2Q'23*:			, 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	50%	0	0%
Accumulate	1	17%	0	0%
Hold	2	33%	0	0%
Reduce	0	0%	0	0%
Sell	0	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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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 08.05.2023 (11:35 CET). 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.

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 a holder of net long or short positions exceeding the threshold of 0,5 % of the total issued share capital of the issuer,
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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,
- 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.