



Dom Maklerski BDM S.A.

SELENA FM

ANALYTICAL REPORT - SUMMARY

We are resuming our recommendation for Selena from the BUY recommendation with a target price of PLN 44.3 per share that is 58% above the current market price. The company is one of the world's four largest producers of assembly foam for construction with an established position on the promising Polish and Eastern European markets (mainly Russia). Unexpectedly, the construction materials industry turned out to be a beneficiary of the pandemic and the renovation boom in the environment of limited availability of services. In the case of demand, there are still no clear signs of weakening, and the record number of started housing construction bodes well for the company's sales in 2023. On the other hand, the prices of strategic raw materials stabilized after a sharp increase in H1'21, which may indicate a lowest profitability in Q2'21.

Selena is a producer and distributor of construction chemicals with sales to nearly 100 countries around the world and a dominant share of the Polish / Russian market (nearly 50% share in revenues). The company has been operating since 1992 and has been listed on the Warsaw Stock Exchange since 2008.

The company is ready for the next M&A. In 2008-2013, the company's development was based on acquisitions, and Selena doubled revenues in 3 years from its debut, exceeding 1 billion turnover in 2011. The following years revealed the problems of the acquired entities and brought order to the Capital Group. The 2017-2018 period was a challenge for expensive raw materials, and the 2020-2021 housing boom and the achievement of another milestone of PLN 1.5 billion in revenues. After the record results in 2020, debt reduction and high-generation FCF, the company is preparing for further acquisitions, with a potential budget of as much as EUR 100 million. Currently, the goal is to be companies with significant brands and shares in the local market. According to the management board, the first transaction may take place in 2022.

Record-breaking 2020 difficult to repeat, but ... The record-breaking results in 2020 were caused not only by the excellent construction market after the lockdown period in April-May '20, but above all by cheap petroleum-derived raw materials (including MDI, polyols). As a result, the company generated a gross margin of nearly 34%, almost achieving its strategic goal of 35%. The company entered 2021 with drastic increases in raw materials and periodic problems with their availability, which will affect the results of Q2'21 and the following quarters. Hence, we expect the gross margin to fall to around 29%, ie to the profitability levels that the company generated in the years of expensive raw materials.

... sales are positively surprised, and the high generation FCF gives great comfort. In 2019-2020, the company generated approx. PLN 190 million in free cash flow, i.e. nearly 30% of the current capitalization, which allowed the company to reduce net debt from approx. 1.5x EBITDA to practically net cash at the end of 2020 (taking into account the loan to Elis).

Housing is currently the most attractive segment of the construction industry. In 2020, a record 221 thousand sq m of apartments was delivered in Poland, and Q2'21 brought a record quarter in terms of commenced construction projects (nearly 81,000 new investments). This should significantly translate into the company's revenues in the next 1-2 years.

Among the potential risks... we point to high prices of strategic raw materials and periodic problems with their availability, the downturn in the construction industry after the pandemic, strong international competition or M&A transactions, which investors are always very cautious about.

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

(RENEWAL REPORT)

TARGET PRICE 44,3 PLN

7th SEPTEMBER 2021, 17:30 CEST

DCF valuation [PLN]	42,9
Peer valuation [PLN]	45,7
Target price [PLN]	44,3
Price upside/downside	58,2%
Cost of capital	8,00%
Price [PLN]	28,0
Market cap [PLNm]	639,4
No. of shares [mn]	22,8
Max. price 6M [PLN]	28,4
Min. price 6m [PLN]	20,5
Rate of return 3M	20,2%
Rate of return 6M	52,6%
Rate of return 9M	66,7%
Shareholders (% of votes):	
Syrius Investments S.a.r.l	81,3%
TFI Quercus	5,0%
Others	13,7%

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	2018	2019	2020	2021F	2022F	2023F
Revenues [PLNm]	1 228,0	1 326,5	1 384,7	1 637,3	1 530,6	1 612,7
EBITDA adj. [PLNm]	95,5	106,7	160,9	137,1	114,5	142,4
EBITDA [PLNm]	80,3	101,8	165,7	139,2	114,5	142,4
EBIT [PLNm]	52,3	63,6	127,2	98,0	71,6	94,5
Net income [PLNm]	26,6	39,5	76,2	67,0	47,2	68,8
P/BV [x]	1,5	1,4	1,2	1,1	1,0	0,9
P/E [x]	24,0	16,2	8,4	9,5	13,5	9,3
EV/EBITDA [x]	9,5	7,0	4,1	4,5	4,9	3,8
EV/EBIT [x]	14,5	11,2	5,3	6,3	7,9	5,7
DPS in the period [PLN]	0,3	0,3	0,0	0,0	0,6	0,8
DY [%]	1,1%	1,1%	0,0%	0,0%	2,1%	3,0%

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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Valuation summary

	Share	Valuation
DCF valuation	50%	42,9
Peer valuation	50%	45,7
Target price [PLN]		44,3

Source: BDM S.A.

DCF valuation

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues [PLNm]	1 637,3	1 530,6	1 612,7	1 663,0	1 693,7	1 725,1	1 757,2	1 790,0	1 823,7	1 858,1
EBIT [PLNm]	98,0	71,6	94,5	98,7	102,6	107,6	121,8	120,2	124,0	125,0
Tax rate [%]	25,9%	28,0%	28,0%	28,0%	28,0%	28,0%	28,0%	28,0%	28,0%	28,0%
Tax on EBIT [PLNm]	25,4	20,0	26,5	27,6	28,7	30,1	34,1	33,7	34,7	35,0
NOPLAT [PLNm]	72,6	51,5	68,1	71,1	73,9	77,5	87,7	86,6	89,3	90,0
Amortization [PLNm]	41,7	42,9	47,9	49,1	49,2	50,2	51,0	51,7	52,4	52,3
CAPEX [PLNm]	-35,8	-60,0	-60,0	-50,0	-50,0	-60,0	-50,0	-60,0	-52,0	-52,0
Working capital movement [PLNm]	-28,7	-0,7	-14,5	-19,9	-5,6	-5,7	-5,9	-6,0	-6,2	-6,3
FCF [PLNm]	49,8	33,8	41,5	50,3	67,5	61,9	82,8	72,2	83,5	84,0
DFCF [PLNm]	48,7	30,6	34,8	39,1	48,6	41,2	51,0	41,2	44,2	41,1
Total DFCF [PLNm]	420,5									
Terminal value [PLNm]	1 207,9									
Discounted terminal value [PLNm]	591,3									
Enterprise value [PLNm]	1 011,9									
Net debt* [PLNm]	32,2									
Minorities [PLNm]	0,9									
Equity value [PLNm]	978,8									
Number of shares [m]	22,8									
Value per share [PLN]	42,9									

Terminal growth rate: +1,0%

WACC calculation

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Risk-free rate	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%
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	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
Contribution of equity	89,5%	96,9%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Cost of debt after tax	3,3%	3,2%	3,2%	3,2%	3,2%	3,2%	3,2%	3,2%	3,2%	3,2%
Contribution of debt	10,5%	3,1%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
WACC	7,5%	7,9%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%

Source: BDM S.A. * - without PLN 40 million loan to ELIS CONSULTING (company related to the main shareholder) – repayment in January 2022.

Sensitivity analysis

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	-2,0%	-1,0%	0,0%		-2,0%	-1,0%	0,0%		0,9	1,0	1,1
0,9	42,4	46,5	52,1	4,00%	45,8	50,7	57,7	4,00%	54,7	50,7	47,3
1,0	39,4	42,9	47,5	5,00%	39,4	42,9	47,5	5,00%	46,5	42,9	39,7
1,1	36,8	39,7	43,5	6,00%	34,5	37,0	40,2	6,00%	40,3	37,0	34,1

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA			EV/EBIT		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Polish producers of building materials (median)	11,8	10,6	10,5	9,0	7,9	7,9	11,4	11,6	10,9
Ferro	8,3	10,0	9,2	9,0	7,4	7,3	9,9	8,2	8,2
Śnieżka	13,7	13,5	12,9	9,0	8,4	8,0	12,2	11,8	10,9
Kęty	12,9	14,1	14,1	9,0	9,6	10,4	11,1	12,2	13,5
Forte	12,1	11,2	11,8	7,9	7,4	7,8	11,7	11,5	10,8
Pekabex	11,5	9,7	8,8	10,9	9,3	8,4	19,5	14,8	12,8
Rawiplug	8,1	9,3	8,5	5,1	5,4	5,0	6,7	7,3	6,7
Foreign producers of construction chemicals (median)	18,5	15,7	14,5	10,4	9,2	8,6	14,3	12,4	11,3
Henkel	17,2	15,7	14,8	10,0	9,0	8,4	12,8	11,4	10,6
Akzo Nobel	22,5	19,8	17,8	13,1	11,8	10,8	16,8	14,9	13,6
Uzin Utz	13,5	15,5	14,1	7,3	7,9	7,1	9,7	11,0	10,0
RPM	19,7	20,5	17,7	13,4	13,6	12,1	16,0	16,3	14,3
HB Fuller	18,6	15,7	14,3	10,9	9,5	8,7	15,8	13,5	12,0
Sika	44,4	37,8	33,5	27,5	23,8	21,0	34,2	29,1	25,3
Sto SE & Co	18,3	15,0	13,9	8,1	6,8	6,0	12,0	9,5	8,5
Saint Gobain	12,3	11,8	11,1	6,4	5,9	5,5	9,0	8,3	7,6
Median (all companies)	13,6	14,6	14,0	9,0	8,7	8,2	12,1	11,6	10,9
SELENA FM	9,5	13,5	9,3	4,5	4,9	3,8	6,3	7,9	5,7
Premium/discount	-30%	-7%	-33%	-51%	-43%	-54%	-48%	-32%	-47%
Valuation [PLN/share]	39,8	30,1	42,1	55,8	46,9	55,4	52,7	39,7	49,2
Year's contribution	33%	33%	33%	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		37,3			52,7			47,2	
Multiple's contribution		33%			33%			33%	
Value per share [PLN]		45,7							

Source: BDM S.A., Bloomberg, according to prices from 07/09/2021.

Main risks: 1) High prices of strategic raw materials: MDI and polyols and problems with their availability (due to raw materials, we expect a decrease in the gross margin on sales by approx. 4 pp. to the level of 29%, i.e. the value from the periods of high prices in 2017-2018); 2) Risk related to the macroeconomic situation, economic situation in construction and seasonality of revenues (weakening of demand due to high prices of building materials); 3) Strong competition (the markets in which the company operates are fierce in the form of large international companies offering a wide range of products); 4) Instability of Eastern European and Asian markets (a significant part of sales in Eastern European markets, which are unstable and not transparent); 5) Risk related to M&A transactions (in recent years the company was famous for takeover transactions, which were coldly received by investors, and the management board announced further transactions); 6) Exchange rate risk (due to operations in many geographically diversified markets there is a risk of changes in the exchange rates of local currencies versus EUR - high EUR / PLN and low EUR / RUB favor); 7) Transactions with related entities (in 2015, the purchase of bonds of a subsidiary from the main owner for PLN 60 million - repaid, and in 2020 - PLN 40 million of loans); 8) low free float and trading fluidity.

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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	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
Kupuj**	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.

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'21*:			, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
	numbers	%	numbers	%
Buy	9	90%	3	100%
Accumulate	1	10%	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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For the first time this report has been made available to the public on 07.09.2021 (17:30 CEST). 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.

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An analyst (analysts) preparing this document receives a fixed remuneration and the BDM Management Board has the right to grant them additional remuneration. Additional remuneration may indirectly depend on the results of other services offered by BDM, including investment banking services, but it shall not depend directly on financial results resulting from other services, including financial banking, which have been or could have been reached by BDM.

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.

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 07.09.2021:

- 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 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 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 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.