



Dom Maklerski BDM S.A.

# EUROCASH

## ANALYTICAL REPORT - SUMMARY

In previous months the Eurocash' stock price stabilized into the level of 13-14 PLN/share. We hold our positive view and set our target price to 25,2 PLN/share (recommendation: Buy). The results of Q1'21 should be neutral y/y, but we hope the coming quarters will bring the growth of financial results. The company finished integration in retail segment and announced opening 80 stores of Delikatesy Centrum and acquiring Arhelan (c.a. 500 mln PLN of sales). We assume the wholesale segment will recover sales lost in 2020 due to COVID-19. We point out the management board suggested the company may pay the dividend (we estimate DPS'21 = 0,8 PLN, current dividend yield = 6%). In our opinion, the main risks are the impact of COVID-19 and UOKiK proceeding.

### 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 28,4 PLN and peer valuation (30% share in the final valuation), which indicates target price 17,9 PLN. We set the target price 25,2 PLN.

### Forecasts and multiples

We expect that in Q1'21 the company will reach 5,8 bln PLN of sales, c.a. 124 mln PLN EBITDA MSSF 16 and 43 mln PLN of net loss. In '21 we forecast c.a. 26,1 bln PLN of sales, 820 mln PLN EBITDA and 92 mln PLN of adjusted net income. In 2022 we estimate 27,8 bln PLN of sales, 864 mln PLN EBITDA and 136 mln PLN of net income. Currently, Eurocash trades at EV/EBITDA'21 MSSF 16 = 5,6x and P/E'21 = 21x.

**Risk factors:** I) COVID-19 II) UOKiK proceeding III) Loss of sales in tobacco division. IV) Macro environment. V) Increase of wages and lack of employees. VI) Market competition (mainly because of the discounters). VII) Legal changes (Sunday ban; turnover tax). VIII) Potential acquisitions and their integration. IX) Seasonality of financial results. X) Loss of PKN Orlen contract. XI) Change of excise tax.

**Notice:** We changed risk-free rate in DCF model from 4% to 3%.

	2016	2017	2018	2019	2020	2021E	2022E	2023E
Revenues [mln PLN]	21 206	20 849	22 833	24 852	25 411	26 147	27 808	29 131
EBITDA MSSF 16 [mln PLN]	-	-	-	794	804	820	864	884
EBITDA adj. MSSF 16 [mln PLN]	-	-	-	777	804	820	864	884
EBITDA MSR 17 [mln PLN]	353	69	151	430	428	438	472	505
EBITDA adj. MSR 17 [mln PLN]	353	183	103	413	428	438	472	505
EBIT MSSF 16 [mln PLN]	-	-	-	245	250	256	287	311
Net income adj. [mln PLN]	190	119	77	67	68	92	136	164
Net debt MSSF 16 [mln PLN]	-	-	-	2 348	2 616	2 632	2 555	2 475
Net debt MSR 17 [mln PLN]	324	370	382	523	736	731	631	540
P/BV	1,7	1,9	1,9	2,0	1,9	2,0	2,0	1,9
P/E adj.	10,2	16,4	25,2	28,9	28,6	21,1	14,4	11,9
EV/EBITDA MSSF 16	-	-	-	5,5	5,7	5,6	5,2	5,0
EV/EBITDA MSR 17	6,4	33,7	15,4	5,7	6,3	6,1	5,5	4,9
EV/EBIT MSSF 16	-	-	-	17,6	18,2	17,9	15,7	14,2
	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21E	Q2'21E	Q3'21E	Q4'21E
Revenues [mln PLN]	5 919	6 196	7 006	6 290	5 769	6 664	7 093	6 621
EBITDA MSSF 16 [mln PLN]	126	210	225	242	124	236	233	227
EBITDA MSR 17 [mln PLN]	34	117	132	146	28	141	137	131
EBITDA adj. MSR 17 [mln PLN]	34	117	132	146	28	141	137	131
EBIT MSSF 16 [mln PLN]	-10	72	88	101	-17	95	92	86
EBIT MSR 17 [mln PLN]	-26	58	73	87	-30	83	80	74
Net income [mln PLN]	-62	42	34	55	-43	48	46	41

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: BUY)

## TARGET PRICE 25,2 PLN

23 MARCH 2021, 07:00 CEST

DCF valuation [PLN]	28,4
Peer valuation [PLN]	17,9
<b>Target price [PLN]</b>	<b>25,2</b>
<b>Price upside/downside</b>	<b>80,4%</b>
Cost of capital	8,0%
Price [PLN]	14,0
Market cap [mln PLN]	1 946,9
Shares mln. szt.]	139,2
Max. price 6M [PLN]	15,0
Min. price 6m [PLN]	11,5
Rate of return 3M	-1,6%
Rate of return 6M	-6,2%
Rate of return 9M	-26,2%
Shareholders (% of votes):	
Luis Amaral	44,0%
Others	56,0%

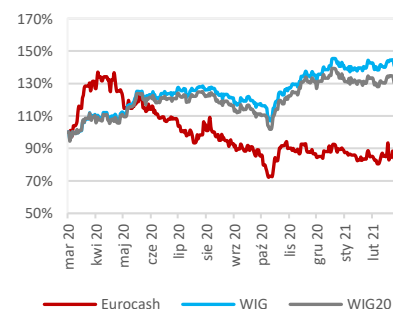
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**Valuation summary [PLN]**

	Share	Valuation
DCF valuation	70%	28,4
Peer valuation	30%	17,9
<b>Target price [PLN]</b>		<b>25,2</b>

Source: BDM S.A.

**DCF valuation**

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues [mln PLN]	26 147,4	27 808,4	29 131,2	30 237,7	31 321,4	32 381,7	33 417,9	34 428,2	35 414,8	36 376,3
EBIT [mln PLN]	255,6	287,2	311,0	337,8	359,6	382,4	406,1	432,4	458,7	485,6
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [mln PLN]	48,6	54,6	59,1	64,2	68,3	72,6	77,2	82,1	87,2	92,3
NOPLAT [mln PLN]	207,1	232,6	251,9	273,6	291,3	309,7	328,9	350,2	371,6	393,3
Amortization, including: [mln PLN]	564,3	576,7	573,3	571,4	570,2	569,4	568,7	567,9	566,8	565,4
-right to use assets	332,9	337,2	339,1	340,7	342,1	343,1	343,8	344,3	344,5	344,6
CAPEX [mln PLN]	-588,7	-605,8	-596,9	-596,6	-595,4	-593,5	-590,7	-587,2	-583,0	-578,8
- lease payments	-381,6	-391,9	-379,6	-377,9	-376,1	-374,2	-372,1	-369,9	-367,6	-366,0
Working capital movement [mln PLN]	102,5	64,2	48,8	38,9	37,3	35,7	34,1	32,5	30,9	29,4
Purchase of investment [mln PLN]	-102,4	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]	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
FCF [mln PLN]	182,6	267,7	277,0	287,3	303,4	321,4	341,0	363,3	386,2	409,3
DFCF [mln PLN]	173,8	239,0	231,8	225,2	222,6	220,7	219,0	218,2	216,7	214,5
Total DFCF [mln PLN]	2 181,4									
Terminal value [mln PLN]	8 490,9									
Discounted terminal value [mln PLN]	4 449,1									
Enterprise value [mln PLN]	6 630,6									
Net debt [mln PLN]	2 615,8									
Dividend 2021 [mln PLN]	0,0									
Minorities [mln PLN]	67,7									
<b>Equity value [mln PLN]</b>	<b>3 947,1</b>									
Number of shares [mln]	139,2									
<b>Value per share [PLN]</b>	<b>28,4</b>									

Terminal growth rate: 2,0%

**WACC calculation**

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Risk-free rate	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%
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	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
Contribution of equity	66,9%	68,5%	69,9%	71,2%	72,5%	73,8%	75,1%	76,3%	77,6%	78,8%
Cost of debt after tax	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%
Contribution of debt	33,1%	31,5%	30,1%	28,8%	27,5%	26,2%	24,9%	23,7%	22,4%	21,2%
<b>WACC</b>	<b>6,6%</b>	<b>6,6%</b>	<b>6,7%</b>	<b>6,7%</b>	<b>6,8%</b>	<b>6,9%</b>	<b>6,9%</b>	<b>7,0%</b>	<b>7,0%</b>	<b>7,1%</b>

Source: BDM S.A.

**Sensitivity analysis**

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	0,9	1,0	1,1		0,9	1,0	1,1				
	1,5%	2,0%	2,5%	4,0%	1,5%	2,0%	2,5%	4,0%	0,9	1,0	1,1
	28,9	32,5	37,0	33,0	37,4	43,0	40,7	37,4	34,7	34,7	34,7
	25,4	28,4	32,0	5,0%	25,4	28,4	32,0	5,0%	31,1	28,4	26,1
	22,3	24,8	27,9	6,0%	19,6	21,7	24,3	6,0%	24,0	21,7	19,8

Source: BDM S.A.

**Peer valuation**

	P/E			EV/EBITDA		
	2021	2022	2023	2021	2022	2023
Jeronimo Martins	30,9	23,7	18,6	19,1	14,9	12,1
BIM Birlisik	19,7	17,3	15,6	6,3	5,5	5,5
Dino	16,6	13,8	11,3	8,5	6,8	6,1
Lenta	8,7	8,5	6,7	4,4	4,2	3,9
Magnit	12,8	12,2	11,0	4,6	4,2	4,7
Pick'N'Pay	22,6	17,2	15,3	7,2	6,6	6,2
Shoprite Hld.	19,9	18,1	16,7	8,2	7,6	7,1
Spar Group	14,6	13,4	12,4	8,8	8,1	7,5
XS Retail	14,7	12,3	13,9	5,4	5,0	5,4
<b>Median</b>	<b>16,6</b>	<b>13,8</b>	<b>13,9</b>	<b>7,2</b>	<b>6,6</b>	<b>6,1</b>
Eurocash	21,1	14,4	11,9	5,6	5,2	5,0
Premium/discount	27,2%	3,7%	-14,7%	-22,8%	-20,6%	-17,4%
<b>Valuation [PLN/share]</b>	<b>11,0</b>	<b>13,5</b>	<b>16,4</b>	<b>23,7</b>	<b>22,4</b>	<b>20,7</b>
Year's contribution	33%	33%	33%	33%	33%	33%
<b>Average valuation [PLN/share]</b>		<b>13,6</b>			<b>22,3</b>	
Multiple's contribution		50%			50%	
<b>Value per share [PLN]</b>		<b>17,9</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
<b>Buy</b>	<b>25,2</b>	<b>Buy</b>	<b>20,1</b>	<b>23.03.2021*</b>	<b>07:00 CEST</b>	<b>14,0</b>	<b>57 789</b>
Buy	20,1	Accumulate	21,0	07.09.2020*	07:00 CEST	15,2	50 522
Accumulate	21,0	Buy	21,3	03.06.2020*	08:00 CEST	18,5	48 879
Buy	21,3	Accumulate	23,9	03.04.2020*	08:00 CEST	18,5	41 220
Accumulate	23,9	Hold	20,8	22.11.2019*	14:00 CEST	22,2	57 956
Hold	20,8	Reduce	18,1	03.09.2019*	14:00 CEST	20,2	56 247
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 Q1'21*:		, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
numbers	%	numbers	%
Buy	8 80%	0 0%	0%
Accumulate	0 0%	0 0%	0%
Hold	0 0%	0 0%	0%
Reduce	1 10%	0 0%	0%
Sell	1 10%	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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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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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 22.03.2021:

- 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.**