



Dom Maklerski BDM S.A.

SELENA FM

ANALYTICAL REPORT - SUMMARY

Selena has met our forecasts from the last recommendation, and in Q1'22 it positively surprised by successfully implementing further product price increases. Nonetheless, the war in Ukraine, the high exposure to the Russian market, and recessionary fears have made us more cautious about Selena's prospects for H2'22 and 2023. At a much higher cost of capital, we are lowering our valuation to PLN 30.0/share, but given the low valuation at a discount to our peer group and the long-term prospects for thermal upgrades and development of the offer in the new renewable energy sector, we are reiterating a BUY rating.

Realization of 2021 forecasts "on point". Our approach to both 2021 and 2022 results in our last recommendation in September 2021 was very conservative (appropriate) in the face of large increases in raw material costs. This approach gave room for positive surprises in 2022 with strong demand for construction materials and strong geographic diversification observed...were it not for the war in Ukraine and the economic isolation of Russia.

Strong results in Q1'22, with Q2'22 likely to be better. The Company positively surprised with Q1'22 results by reporting stronger sales and margin growth, driven by a sharp increase in prices. The same factors will be responsible for much better results in Q2'22.

2022 similar, but another year under pressure. We estimate that the company has located about 20% of its sales in Russia. As a result, we are lowering our FY2022-2023 guidance with a risk of further downward revisions. However, with Q1'22 and probably Q2'22 quite successful, we have raised our full-year 2022 EBITDA guidance by 16%. In 2023, with sales down by -10% y/y, we expect adj. EBITDA to fall by nearly -20% y/y.

Potential recession seen with delay and limited impact. The European building materials sector lost -25% (YTD) in 2022 and the sell-off of companies intensified in June on recession fears. Kingspan reported that demand for building materials has deteriorated over the past two months, with order intake down significantly y/y, but still above 2019 levels. The share price lost -15% that day. So far, companies in the sector have reported that they do not see an actual decline in demand, only concerns.

It is estimated that about 40% of demand for building materials is generated by the renovation (RMI) area. In the case of construction chemicals/Selena, this share can reach 50%. Thus, the observed decline in housing starts (-27% y/y in 1Q'22) will have a limited (20% of demand is new housing) and delayed (at least a year) impact on the company's results.

"Renovation wave". Alongside the decarbonization of the energy and transport sectors, the renovation of buildings in the EU is one of the key priorities of the European Green Deal. According to the EC, buildings account for about 40% of EU energy consumption, yet only 1% of buildings undergo annual energy efficiency renovations. The EC aims to at least double renovation rates over the next ten years. In June'21, the EC approves conclusions on the renovation wave, and in February'22, Poland adopted a "Long Term Renovation Strategy for Buildings" (DSRB). According to the DSRB strategy, approximately 7.5 million thermal upgrades are planned by 2050. The company's products (e.g. PUR foams necessary to replace windows) are in line with these trends.

New activities of the company in the area of RES strengthened by RePowerEu. In January 2022, the company expanded its offer in the RES sector by establishing its subsidiaries Selena ESG ([LINK](#), construction of PV installations on roofs of industrial buildings) and Selena Green Investments ([LINK](#), financing of RES projects). The financial effects are expected to be visible in 2024-2025. The activity in this area may result in rerating low valuation ratios. The global leader in the area of ESG and focus on energy efficiency in the building materials industry is Switzerland's Sika with a valuation of 19x EBITDA'22.

	2019	2020	2021	2022F	2023F	2024F
Revenues [PLNm]	1 326,5	1 384,7	1 728,4	1 830,9	1 645,8	1 717,2
EBITDA adj. [PLNm]	106,7	160,9	126,6	139,6	113,0	126,3
EBITDA [PLNm]	101,8	165,7	136,2	133,3	113,0	126,3
EBIT [PLNm]	63,6	127,2	92,7	88,6	63,1	75,4
Net income [PLNm]	39,5	76,2	102,7	59,2	42,0	54,9
P/BV [x]	1,1	1,0	0,8	0,8	0,8	0,7
P/E [x]	12,8	6,6	4,9	8,6	12,1	9,2
EV/EBITDA [x]	5,7	3,3	4,7	4,4	4,3	3,7
EV/EBIT [x]	9,1	4,2	7,0	6,6	7,7	6,1
DPS in the period [PLN]	0,3	0,0	0,0	0,0	1,0	1,1
DY [%]	1,4%	0,0%	0,0%	0,0%	4,7%	5,0%

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 30,0 PLN

27th JUNE 2022, 07:00 CEST

DCF valuation [PLN]	29,2
Peer valuation [PLN]	30,9
Target price [PLN]	30,0
Price upside/downside	35,3%
Cost of capital	12,00%
Price [PLN]	22,2
Market cap [PLNm]	506,9
No. of shares [mn]	22,8
Max. price 6M [PLN]	25,2
Min. price 6m [PLN]	19,3
Rate of return 3M	0,5%
Rate of return 6M	-7,5%
Rate of return 9M	-10,8%
Shareholders (% of votes):	
Syrius Investments S.a.r.l	81,3%
Own shares	4,5%
Others	14,2%

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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.

Valuation summary

	Share	Valuation
DCF valuation	50%	29,2
Peer valuation	50%	30,9
Target price [PLN]		30,0

Source: BDM S.A.

DCF valuation

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenues [PLNm]	1 830,9	1 645,8	1 717,2	1 749,1	1 784,4	1 820,6	1 857,7	1 895,6	1 934,5	1 974,3
EBIT [PLNm]	88,6	63,1	75,4	100,6	119,3	137,6	149,1	153,4	154,8	156,3
Tax rate [%]	22,3%	28,0%	28,0%	28,0%	28,0%	28,0%	28,0%	28,0%	28,0%	28,0%
Tax on EBIT [PLNm]	19,7	17,7	21,1	28,2	33,4	38,5	41,8	43,0	43,4	43,8
NOPLAT [PLNm]	68,9	45,4	54,3	72,4	85,9	99,1	107,4	110,5	111,5	112,5
Amortization [PLNm]	44,7	50,0	50,9	50,7	51,5	52,1	52,6	53,3	53,4	53,4
CAPEX [PLNm]	-38,4	-60,0	-50,0	-50,0	-60,0	-50,0	-60,0	-53,5	-53,5	-53,5
Working capital movement [PLNm]	4,1	37,0	-6,6	-6,2	-6,9	-7,1	-7,2	-7,4	-7,6	-7,8
FCF [PLNm]	79,3	72,4	48,6	66,9	70,4	94,1	92,7	102,9	103,7	104,6
DFCF [PLNm]	75,1	61,4	36,7	45,2	42,5	50,7	44,6	44,2	39,8	35,8
Total DCF [PLNm]	475,8									
Terminal value [PLNm]	961,6									
Discounted terminal value [PLNm]	329,1									
Enterprise value [PLNm]	804,9									
Net debt* [PLNm]	138,3									
Minorities [PLNm]	1,0									
Equity value [PLNm]	665,7									
Number of shares [m]	22,8									
Value per share [PLN]	29,2									

Terminal growth rate: +1,0%

WACC calculation

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Risk-free rate	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%
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	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%
Contribution of equity	86,9%	94,6%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Cost of debt after tax	6,6%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%
Contribution of debt	13,1%	5,4%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
WACC	11,3%	11,7%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%

Source: BDM S.A. * - without PLN 55,4 million loan to ELIS CONSULTING (company related to the main shareholder) – repayment in January 2023.

Sensitivity analysis

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	0,0%	1,0%	2,0%		0,0%	1,0%	2,0%		0,9	1,0	1,1
0,9	29,4	30,9	32,7	4,00%	31,1	32,8	34,9	4,00%	34,5	32,8	31,3
1,0	27,8	29,2	30,8	5,00%	27,8	29,2	30,8	5,00%	30,9	29,2	27,6
1,1	26,4	27,6	29,0	6,00%	25,0	26,1	27,3	6,00%	27,9	26,1	24,5

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA			EV/EBIT		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Polish producers of building materials (median)	7,8	9,9	6,6	6,4	6,4	4,8	8,8	8,6	6,5
Ferro	6,8	6,1	5,8	5,2	4,7	4,4	6,0	5,4	5,1
Śnieżka	19,1	15,0	12,9	10,5	8,8	7,8	17,4	13,4	11,4
Kęty	8,8	9,2	8,9	7,0	7,0	6,7	8,4	8,6	8,2
Forte	6,5	11,0	6,3	6,5	7,2	4,7	9,3	10,7	6,1
Pekabex	10,6	10,6	7,0	6,4	5,9	5,0	9,5	8,6	6,8
Rawiplug	4,6	4,4	3,9	3,7	3,3	3,0	4,7	4,3	3,9
Foreign producers of construction chemicals (median)	14,3	12,4	10,8	9,3	8,0	7,3	12,8	10,6	9,5
Henkel	17,3	15,0	13,1	9,7	8,4	7,5	14,0	11,7	10,1
Akzo Nobel	14,4	11,5	10,3	9,4	7,8	7,2	12,5	9,9	8,9
Uzin Utz	14,2	12,2	10,4	7,0	5,9	5,3	10,3	8,6	7,7
RPM	22,2	18,5	16,4	14,9	12,6	11,5	18,2	15,0	13,4
HB Fuller	14,3	12,5	11,2	9,2	8,2	7,6	13,1	11,3	10,1
Sika	27,6	22,4	19,7	19,4	15,3	13,4	24,0	18,7	16,2
Sto SE & Co	12,9	11,7	9,8	5,2	4,7	3,8	8,2	7,3	5,7
Saint Gobain	7,6	7,2	6,6	4,4	4,0	3,6	6,1	5,6	4,9
Median (all companies)	13,5	11,6	10,1	7,0	7,1	6,0	9,9	9,3	7,9
SELENA FM	8,6	12,1	9,2	4,4	4,3	3,7	6,6	7,7	6,1
Premium/discount	-37%	4%	-8%	-37%	-39%	-39%	-33%	-17%	-23%
Valuation [PLN/share]	35,1	21,3	24,2	37,3	35,8	35,2	34,9	26,5	28,1
Year's contribution	33%	33%	33%	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		26,9			36,1			29,8	
Multiple's contribution		33%			33%			33%	
Value per share [PLN]									30,9

Source: BDM S.A., Bloomberg, according to prices from 27/06/2022.

Main risks: 1) High exposure to Eastern European markets and the war in Ukraine potentially resulting in the abandonment of the Russian market; 2) Risks related to the macroeconomic situation, the economic situation in the construction industry and seasonality of revenues (weakening of demand due to potential recession and high prices of construction materials); 3) High prices of strategic raw materials: MDI and polyols and problems with their availability (due to raw materials the gross margin decreased in 2021 by approx. 5 p.p. to the level of 28%, i.e. the value from the periods of high prices in 2017-2018); 4) Strong competition (in the markets where the company operates there is strong competition in the form of large, international companies offering a wide range of products); 5) Risk related to M&A transactions (the company in the past years was famous for acquisition transactions, which were coolly 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 in 2020, and in 2020-2021 - PLN 55m loans); 8) 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
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
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.
 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 2Q'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	6	75%	2	100%
Accumulate	0	0%	0	0%
Hold	2	25%	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.

The report has been prepared by Dom Maklerski BDM S.A. (hereinafter BDM S.A.) within the Exchange Analytical Coverage Support Programme (<https://www.gpw.pl/gpwpa>). BDM S.A. is a party to the „Agreement on the provision of analytical report services” concluded with the Warsaw Stock Exchange Company („GPW”), on the basis of which BDM provides services of analytical coverage of the Issuer for the term of the Agreement. Under the agreement BDM obtains remuneration from GPW. All materials prepared by BDM within the framework of co-operation are available at <https://www.bdm.pl/program-wsparcia-pokrycia-analitycznego-gpw>

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An investor should be aware that each investment decision in the capital market is subject to numerous risks that finally can result in a financial loss suffered by him. The return rate on individual investments can fluctuate depending on various factors beyond the control of the investor. Therefore, a customer who makes a single investment decision should not only check currency and correctness of individual assumptions made by the analyst in the report but also to have an independent assessment and own analysis (also based on scenarios other than the ones presented in the report) taking into consideration the level of acceptable risk. When deciding on activity on the capital market the investor should take into consideration the fact that the investment portfolio structure (diversification of investment through possessing more than one financial instrument) can reduce risk exposure to an individual instrument bringing a negative rate of return in a given period. At the same time, however, it can lead to limitation of a positive rate of return the investor could achieve in the case of a single financial instrument in a given time period. The investor should be aware that the investment portfolio structure and any investment strategy for the stock market do not guarantee the achievement of a positive rate of return and do not protect him against final loss.

For the first time this report has been made available to the public on 27.06.2022 (07:00 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.

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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- 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 not a party to an agreement with the issuer relating to the production of the recommendation,
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- 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,
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*BDM is a party to the “ANALYTICAL REPORT PREPARATION SERVICES AGREEMENT” concluded with the WSE.

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