

## TIM

Valuation range: PLN 748-824mn

### Caution, slowdown

We expect the deteriorating economic situation (including, in particular, continued cost pressure and the weakness of the construction market) to slow TIM's strong double-digit growth in recent years. As a result, we are downgrading our forecasts for 2022-25. Revenue this year is expected to grow by 15% y/y (in the previous report, we assumed a 21% growth) to PLN 1.5bn, while EBITDA should increase by 9% (previously 12%) to PLN 157m. We assume a 2021-24 revenue CAGR of 10% (down 5p.p. versus the previous forecast).

#### Downturn already evident in the construction sector

The signs of economic slowdown are gradually becoming evident in the residential, industrial and commercial construction segments. According to Statistics Poland, even though the number of issued building permits remains at a record high, the number of new construction projects in the sector is gradually falling due to growing investment financing costs (low availability of mortgages in the case of residential properties and debt financing for other construction projects) and the expected economic downturn. The decline in construction output may affect TIM's results in two ways: reduced demand next year coupled with a decelerating pace of commodity price growth will translate into lower revenue growth (expected at 6% y/y in 2023) while, together with cost pressure, it will also reduce margins (we assume a 2.7pp decline in EBIT margin in 2023 to 6.1%). No positive impulses in TIM's operating market are expected until after 2023.

#### Decelerating inflation is a risk to margins

For retailers, a rising price environment is an opportunity to increase margins which, to some extent, was the source of TIM's record results in recent quarters. Given the economic downturn, we expect price dynamics to decelerate with resulting margin cuts.

#### More 3LP warehouses next year

Due to the postponement of 3LP's IPO, investments related to its development have been (for the time being) financed with the Group's earnings and debt. The company has launched new warehouses with a total area of about 42,000sqm this year and their commercialisation is underway. The launch of further warehouses in Zgierz and Słubice as well as automation at the new warehouse in Siechnice are planned for 2023. With the expansion of 3LP, we are assuming rapid growth in this business segment.

The above investments are not expected to have an adverse effect on the Group's dividend policy.

Based on the DCF model, we estimate the company's (FY) valuation in the range of PLN 748-824 mn.

	2020	2021	2022F	2023F	2024F
Revenues	1,064.9	1,314.3	1,516.7	1,607.7	1,768.5
EBITDA	73.8	144.6	156.9	127.0	149.4
EBIT	51.6	121.6	133.7	98.2	112.9
Net profit	37.1	91.8	96.3	69.0	79.3
P/E	10.8	9.1	6.7	9.3	8.1
FCF			76.4	65.7	63.4
CAPEX	28.6	4.8	11.0	13.0	14.0

Source: Company, PKO Securities

#### Key data

Stock price (PLN)	28.10
Valuation (PLN/share)	33.7-37.1
Number of shares	22.2
Market Cap (PLN mn)	624
Free float	56%
EV 2021 (USD mn)	596
Net debt 2021 (USD mn)	-27.7
Bloomberg	TIM PW Equity
ISIN	PLTIM0000016

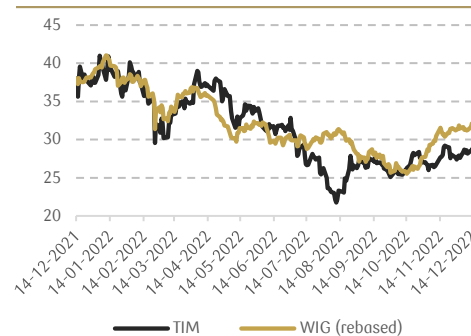
#### ESG Rating

ESG	7.5
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#### Major shareholders

Krzysztof Folta i Ewa Folta	23%
Krzysztof Wieczorkowski	14%
NN OFE	7%
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#### Price chart



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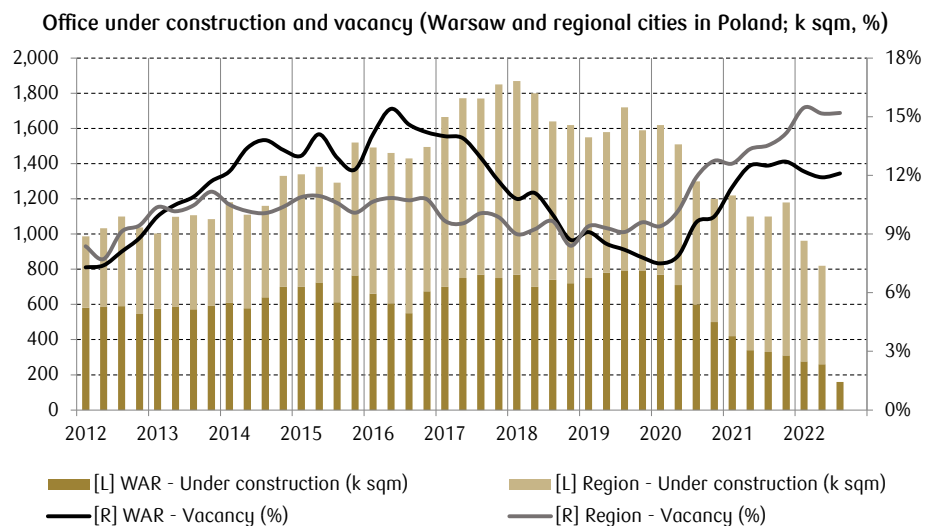
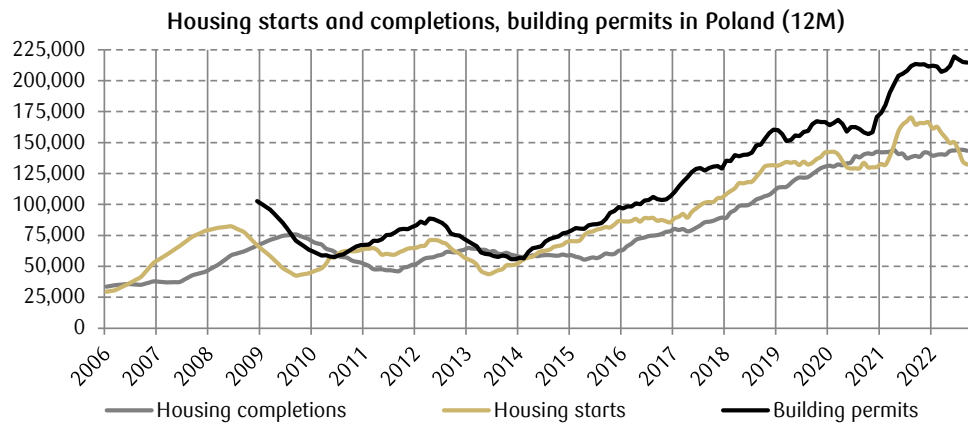
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## Assumptions

### Construction sector

In our opinion, the situation in the construction sector is the most significant factor affecting TIM SA's performance. The exceptionally favourable economic situation in this sector in recent years has allowed TIM to achieve record results. However, this is now gradually deteriorating.

Despite the record-high number of building permits issued (according to Statistics Poland, in September 2022 building permits for over 214,000 apartments/homes (+1% y/y) had been issued on a 12-month basis), the number of new construction projects in the sector is declining as a result of growing investment financing costs (poor availability of mortgages in the case of residential real estate and debt financing for other construction projects) as well as the expected economic slowdown (according to Statistics Poland data for September 2022, construction had started on 132,000 apartments/homes (-20% y/y!) on a 12-month basis).



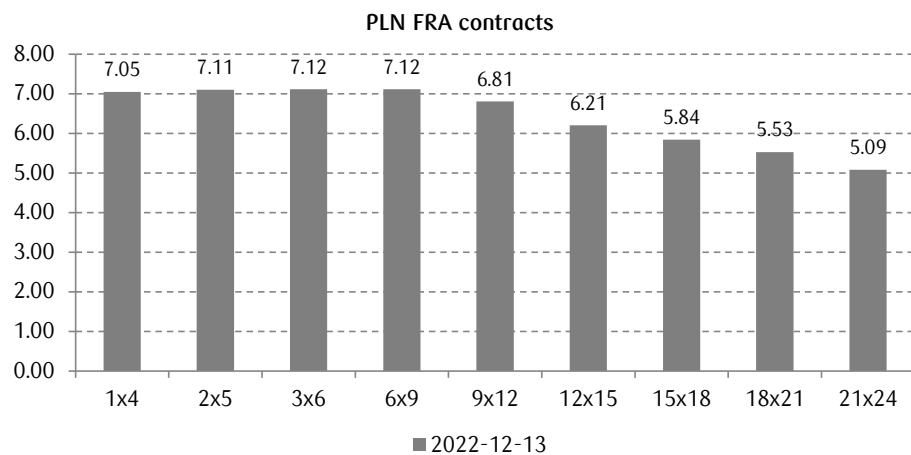
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We expect the decline in construction output may affect TIM's results in two ways. Reduced demand next year coupled with decelerating commodity prices will translate into slower revenue dynamics (expected at 6% y/y in 2023) on the one hand and, together with cost pressure, it will reduce margins (we assume a 2.7pp decline in EBIT margin in 2023 to 6.1%) on the other. No positive impulses in TIM's operating market are expected until after 2023.

### Interest rates

A cooling-down of the construction sector is one of the consequences of a series of interest rate hikes by the Monetary Policy Council (which raised the reference rate from 0.1% as recently as September 2021 to 6.75% today).

In light of FRA values however, the market is pricing in a slow decline in interest rates from approximately the second half of next year.



Source: PKO BP Securities, Bloomberg

In our view, reduced interest rates will provide a positive investment impulse (we note, for example, the gap between the number of permits and actual construction starts in the housing market alone and we assume a similar situation in other construction market segments). However, there will be a delay in the demand for electrical products connected with these “unblocked” investments to become visible so we forecast a positive impact only after 2023.

### Other

We expect that additional factors affecting demand for TIM's products in the years covered by the forecasts to include:

- Decelerating inflation; for retailers, the environment of rising prices is an opportunity to increase margins which, to some extent, was largely the source of TIM's record results in recent quarters. Given the economic downturn, we expect price dynamics to decelerate with resulting margin cuts.

## TIM

### DCF model

- Unlocking National Recovery Plan funds. Among other things, funds from the EU Recovery Fund will support investments in energy and digitisation.
- Increased demand for construction (including electrical engineering) materials from Ukraine (we expect that demand may be strong enough to affect product prices in our region, which we believe could have a positive impact on TIM's margins).

## TIM

## DCF model

Our valuation is based on the DCF model, which consists of two phases. In the first phase (2022F-2025F), we have forecast in detail all the key parameters required for the company valuation, including in particular the value of revenue, capital expenditure, cost level, leasing, and balance sheet items.

The second phase will start in 2024F. In it, we have assumed a free cash flow growth rate at a level of 1.5% to 2.5% per year. We have applied a WACC-based discount rate in the range from 12% to 13.2%. The risk-free rate for PLN has been adopted at 2.5%. Beta has been assumed at 1.2x. We have adopted the equity risk premium at 6%. We have discounted all free cash flows for the company as at 31 December 2022 and deducted the forecast net debt. Our valuation has been adjusted by the expected dilution from current and future incentive programs.

Our DCF valuation indicates 12-month forward valuation range between PLN 748-824mn.

DCF model						
mIn PLN	2022F	2023F	2024F	2025F	2025<	
EBIT	133.7	98.2	112.9	140.0	142.8	
Tax rate	19%	19%	19%	19%	19%	
<b>NOPLAT</b>	<b>108.3</b>	<b>79.5</b>	<b>91.4</b>	<b>113.4</b>	<b>115.7</b>	
CAPEX (bez leasingu)	-11.0	-13.0	-14.0	-13.5	-13.5	
D&A	23.3	28.8	36.5	38.5	38.5	
Leasing	-22.8	-27.6	-32.6	-38.4	-39.4	
Changes in WC	-21.4	-2.1	-17.9	-26.8	-16.0	
<b>FCF</b>	<b>76.36</b>	<b>65.67</b>	<b>63.43</b>	<b>73.15</b>	<b>85.20</b>	
WACC	12.6%	12.6%	12.6%	12.6%		
Discount ratio	0.00	0.89	0.79	0.70		
DFCF	0.00	58.32	50.03	51.24		
Growth in phase II		1.50%	1.75%	<b>2.00%</b>	2.25%	2.50%
	13.2%	715	728	742	756	771
	12.9%	734	748	762	778	794
WACC	<b>12.6%</b>	754	769	<b>784</b>	800	817
	12.3%	775	790	807	824	842
	12.0%	797	814	831	850	869
<b>Valuation range (PLN mn)</b>	<b>748-824</b>					

Source: PKO Securities

## TIM

### Peer comparison

Additionally, we have presented a comparative valuation, taking into consideration companies from the e-commerce sector. The comparative valuation indicates that, upon assuming the forecasts of PKO BP Securities, TIM is traded at a discount on P/E and EV/EBITDA.

#### Peers: multiples

Company	P/E			EV/EBITDA			Dividend yield (%)
	2022F	2023F	2024F	2022F	2023F	2024F	
AB	5.0	4.6	5.0	4.3	4.0	4.4	-
Grainger	19.1	18.4	16.7	12.9	12.5	11.6	1.3
Intercars	8.2	7.5	6.9	6.7	6.1	5.8	-
Neuca	17.7	19.1	15.6	9.1	9.4	8.4	-
Oponeo	15.4	12.7	10.5	8.2	8.6	7.1	-
<b>MEDIAN</b>	<b>15.4</b>	<b>12.7</b>	<b>10.5</b>	<b>8.2</b>	<b>8.6</b>	<b>7.1</b>	<b>1.3</b>
<b>TIM (PKO BP Securities)</b>	<b>6.7</b>	<b>9.3</b>	<b>8.1</b>	<b>3.9</b>	<b>4.8</b>	<b>4.0</b>	<b>8.8</b>
<b>Premium/discount to PKO BP Securities forecast</b>	<b>-57%</b>	<b>-26%</b>	<b>-23%</b>	<b>-52%</b>	<b>-44%</b>	<b>-43%</b>	<b>574%</b>

Source: based on Bloomberg consensus, PKO BP Securities

#### TIM: Summary of comparative valuation

	2022F	2023F	2024F	Average 2022-2024F
TIM net profit forecast (PLNm)	96.3	69.0	79.3	
TIM EBITDA forecast (PLNm)	156.9	127.0	149.4	
Peer companies: P/E median	15.4	12.7	10.5	
<b>TIM Valuation (PLNm)</b>	<b>1,485.4</b>	<b>873.3</b>	<b>833.6</b>	<b>1,064.1</b>
Peer companies: EV/EBITDA median	8.2	8.6	7.1	
<b>TIM Valuation (PLNm)</b>	<b>1,322.0</b>	<b>1,126.6</b>	<b>1,103.8</b>	<b>1,184.1</b>

Source: Bloomberg, PKO Securities

## TIM

<b>Profit and loss account</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Revenues	830.3	890.0	1,064.9	1,314.3	1,516.7	1,607.7	1,768.5	1,998.4
Costs:	-812.6	-857.3	-1,012.6	-1,195.0	-1,383.0	-1,509.0	-1,655.1	-1,857.9
D&A	-11.2	-20.5	-22.1	-23.0	-23.3	-28.8	-36.5	-38.5
Materials and energy	-10.3	-14.6	-20.8	-24.0	-28.7	-32.0	-36.1	-39.7
External services	-60.5	-55.0	-67.3	-79.0	-96.4	-111.6	-127.1	-143.7
Taxes and fees	-1.0	-1.1	-0.9	-0.8	-1.2	-1.3	-1.4	-1.6
Employment cost	-49.5	-53.9	-63.8	-75.9	-88.1	-91.3	-97.9	-106.3
Other	-11.0	-10.7	-12.7	-9.2	-9.1	-9.6	-10.2	-10.9
Cost of goods sold	-669.1	-701.6	-825.1	-983.1	-1,136.2	-1,234.4	-1,346.0	-1,517.2
<b>Gross profit on sales</b>	<b>17.7</b>	<b>32.7</b>	<b>52.2</b>	<b>119.4</b>	<b>133.7</b>	<b>98.7</b>	<b>113.4</b>	<b>140.5</b>
<b>EBITDA</b>	<b>31.1</b>	<b>53.0</b>	<b>73.8</b>	<b>144.6</b>	<b>156.9</b>	<b>127.0</b>	<b>149.4</b>	<b>178.4</b>
Other operating result	2.2	-0.2	-0.6	2.2	-0.1	-0.5	-0.5	-0.5
<b>EBIT</b>	<b>19.9</b>	<b>32.5</b>	<b>51.6</b>	<b>121.6</b>	<b>133.7</b>	<b>98.2</b>	<b>112.9</b>	<b>140.0</b>
Financial result	-1.1	-7.3	-7.1	-5.9	-13.6	-13.0	-15.0	-15.0
<b>Pre-tax profit</b>	<b>18.7</b>	<b>25.2</b>	<b>44.6</b>	<b>115.6</b>	<b>120.1</b>	<b>85.2</b>	<b>97.9</b>	<b>125.0</b>
Income tax	-3.6	-5.7	-7.4	-23.9	-23.7	-16.2	-18.6	-23.7
<b>Net Profit (loss)</b>	<b>15.1</b>	<b>19.6</b>	<b>37.1</b>	<b>91.8</b>	<b>96.3</b>	<b>69.0</b>	<b>79.3</b>	<b>101.2</b>

## TIM

<b>Balance Sheet</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Fixed assets	116.2	185.1	171.2	154.0	196.7	260.9	268.4	273.4
Intangible assets	16.0	15.0	5.6	4.4	9.6	14.6	18.1	19.6
Tangible assets	70.5	141.8	141.9	128.9	166.4	225.6	229.6	233.2
Investments	12.5	12.1	11.7	10.5	10.5	10.5	10.5	10.5
Other long-term assets	17.2	16.2	12.0	10.2	10.2	10.2	10.2	10.2
<b>Current assets</b>	<b>247.5</b>	<b>283.4</b>	<b>295.8</b>	<b>382.6</b>	<b>454.9</b>	<b>489.5</b>	<b>539.4</b>	<b>613.7</b>
Inventories	102.0	96.8	103.3	140.4	159.3	168.8	185.7	209.8
Receivables	138.1	166.3	180.0	230.7	266.3	282.2	310.5	350.8
Other long-term assets	5.2	2.9	1.4	1.7	1.7	1.7	1.7	1.7
Cash and cash equivalents	2.2	17.4	11.1	9.7	27.7	36.7	41.5	51.3
<b>Total Assets</b>	<b>370.0</b>	<b>468.5</b>	<b>467.1</b>	<b>536.5</b>	<b>651.6</b>	<b>750.3</b>	<b>807.7</b>	<b>887.1</b>
<b>Equity capital</b>	<b>155.4</b>	<b>152.7</b>	<b>163.1</b>	<b>211.6</b>	<b>241.2</b>	<b>251.0</b>	<b>284.6</b>	<b>335.2</b>
<b>Liabilities</b>	<b>214.6</b>	<b>315.8</b>	<b>303.9</b>	<b>324.9</b>	<b>410.3</b>	<b>499.3</b>	<b>523.1</b>	<b>552.0</b>
<b>Long-term liabilities</b>	<b>36.1</b>	<b>102.7</b>	<b>87.9</b>	<b>80.3</b>	<b>127.5</b>	<b>187.9</b>	<b>183.4</b>	<b>172.9</b>
Leasing	25.3	91.6	77.8	69.0	116.2	176.6	172.1	161.6
Other	10.8	11.2	10.1	11.3	11.3	11.3	11.3	11.3
<b>Short-term liabilities</b>	<b>178.5</b>	<b>213.1</b>	<b>216.0</b>	<b>244.6</b>	<b>282.8</b>	<b>311.4</b>	<b>339.7</b>	<b>379.1</b>
Trade liabilities and other	157.2	181.8	182.2	224.2	257.2	280.7	307.8	345.6
Leasing	7.3	16.0	14.3	13.9	15.0	19.5	19.5	19.5
Other	14.0	15.2	19.5	6.5	10.6	11.3	12.4	14.0
<b>Total Equity &amp; Liabilities</b>	<b>370.0</b>	<b>468.5</b>	<b>467.1</b>	<b>536.5</b>	<b>651.6</b>	<b>750.3</b>	<b>807.7</b>	<b>887.1</b>
<b>Cash flow</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Operating cash flow	27.2	54.1	38.8	67.1	116.5	109.4	114.0	129.5
Investment cash flow	-7.1	0.9	22.9	0.6	51.0	67.0	6.0	6.5
Financial cash flow	-31.4	-39.8	-68.0	-69.1	-79.3	-86.9	-78.2	-89.1
<b>Other</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
DPS	1.00	0.80	1.20	2.20	2.55	2.67	2.05	2.29
Net debt	-2.2	-17.4	-11.1	-9.7	-27.7	-36.7	-41.5	-51.3

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#### Explanation of the specialist terminology used

min (max) 52 weeks: minimum (maximum) of the market share price during the previous 52 weeks

Capitalisation: product of the share market price and the number of shares

EV: sum of the company's capitalisation and net debt

free float (%): share of the total number of shares decreased by 5% stakes held by one shareholder and own shares held by the company in the total number of shares

Average trading/month: average trading per month calculated as total trading value over previous 12 months divided by 12

ROE: rate of return on equity

ROA: rate of return on assets

EBIT: operating profit

EBITDA: operating profit + depreciation and amortization

EPS: earnings per share

ESG: a non-financial measure used for evaluating companies on how advanced they are with sustainability. It consists of environmental, social, and governance factors. The more sustainable business, the higher the PKO Securities ranking (score scale: 1-10).

DPS: dividend per 1 share

CEPS: sum of net profit and depreciation and amortization per 1 share

P/E: quotient of share market price and EPS

P/BV: quotient of share market price and book value of one share

EV/EBITDA: quotient of capitalisation increased by the company's net debt and EBITDA

Gross sales margin: relation of gross sales profit to net sales proceeds

EBITDA margin: relation of the sum of operating profit and depreciation to net sales proceeds

EBIT margin: relation of operating profit to net sales proceeds

Net profitability: relation of net profit to net sales proceeds

#### Valuation methods applied

A PKO BP Securities valuation is based on at least two out of four valuation methods: DCF (discounted cash flow model), ratio analysis method (comparing the values of basic market ratios with similar ratios of other companies representing a given sector), sum of the parts of assets method (SOTP) and discounted dividends model. A disadvantage of the DCF and the discounted dividends model is their high sensitivity to adopted assumptions, including, in particular, those pertaining to determining the residual value. Furthermore, the discounted dividends model cannot be applied to the valuation of companies without a determined dividend policy. The advantages of both these methods include their independence from current market valuations of peer companies. On the other hand, the advantage of the ratio analysis is the fact that it is based on a measurable market valuation of a given sector. Its disadvantage lies in the risk that at any given time, the market might not value peer companies correctly. The sum of the parts method (SOTP) consists in summing up the values of various assets of the company, calculated using one of the above methods.

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PKO BP Securities has the following connections with the Issuer:

Issuer:	Reservation
TIM	1: NO, 2: NO, 3: YES, 4: YES, 5: YES, 6: NO

#### Explanations:

- During the previous 12 months, PKO BP Securities was party to agreements on offering financial instruments issued by the Issuer or connected with assessing financial instruments issued by the Issuer. During the previous 12 months, PKO BP Securities was a member of a consortium offering financial instruments issued by the Issuer.
- PKO BP Securities purchases and sells financial instruments issued by the Issuer in its own name, in order to perform service or investment underwriting agreements.
- PKO BP Securities has the role of market animator for the Issuer's financial instruments under the terms stipulated in the Regulations of the Warsaw Stock Exchange.
- PKO BP Securities has the role of the Issuer's animator for the Issuer's financial instruments under the terms stipulated in the Regulations of the Warsaw Stock Exchange.
- PKO BP Securities and PKO Bank Polski, whose organisational unit is PKO BP Securities, are parties to an agreement on drafting analysis with the Issuer.
- The Issuer holds shares of PKO Bank Polski, whose organisational unit is PKO BP Securities, in a total number constituting at least 5% of share capital.

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#### Disclosures

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This Analysis has been drafted subject to due diligence to the best knowledge of the Recommending Entity; there exist no other connections between PKO BP Securities and the analyst drafting this Analysis on one part and the Issuer on the other.

The time and date stipulated on the front page of the report are the time and date of completing the process of drafting the Analysis.

The date of the first distribution of the Recommendation is identical with the date stipulated on the front page. The time of the first distribution is 8:00.

Whenever this Analysis quotes a price for the financial instrument, it will be understood as the closing price from the last trading day.