TIM SA – coronavirus is not terrible

Investing in TIM shares gives a very good exposure to the trading market e-commerce, both in the direct version (commercial segment of the TIM capital group) and indirect (through the 3LP logistics company serving customers from the e-commerce sector). In the era of the coronavirus pandemic, the on-line channel is the solution preferred by customers, which translates into TIM's above-average sales growth dynamics and helps to increase market share. We have valued the commercial and logistics segment separately, and the designated current value of the company (PLN 17.1 / share) is over 50% the potential of the price increase.

Growing sales with a high share of the on-line channel

Sales data for 5 months show a dynamic increase in revenues, despite the deterioration of the macroeconomic environment (coronavirus). The company is certainly favored by a modern trading model and an on-line approach, which in the current situation is a solution desired by customers.

We expect margins to improve in the coming quarters

Good sales results in 5 months of this year. in our opinion, they allow us to be more optimistic about calculating bonuses and thus the margin in the coming quarters has a chance to return to the levels assumed by us (i.e. 17.5% in 2020). The change of approach should already be observed in the Q2 / 2020 results.

Financial costs higher due to exchange rate losses

The impact of the coronavirus pandemic and the actions of Polish state authorities (government such as and NBP) on the level of exchange rates may be at least medium-term. Therefore, we changed our views on the level of the exchange rate at the end of this year, which increased the forecast financial costs by approx. PLN 3m due to negative exchange rate differences (at the consolidated level). As a result, the projected net profit decreased.

Working capital under control

We do not expect significant expenditure on working capital throughout 2020, the increase will be commensurate with the increase in sales. Although the company reports shortening the payment deadlines due to changes in regulations, it has also managed to shorten the payment deadlines and the work on reducing the inventory is still ongoing.

Risks for forecasts and valuations

The slowdown in the construction industry in May, interpreted as the first signal of a slowdown in connection with the coronavirus, poses a risk of a reduction in the growth dynamics in the coming months also at TIM.

We estimated the value of TIM shares on the basis of the following methods: DCF (total for the entire group: PLN 16) and comparative (separately for commercial: PLN 15.4 and logistics: PLN 2.7), which, after weighing the above valuations, allowed me to calculate the current value at PLN 17.1.

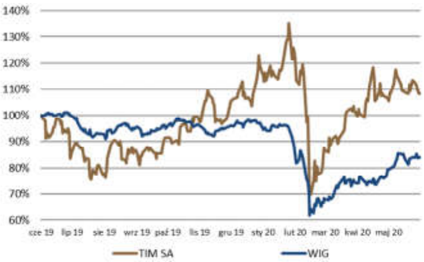
(PLNm)	2017	2018	2019	2020F	2021F	2022F
Revenues	719.2	830.3	890.0	948.6	996.8	1 025.3
EBITDA	7.3	31.1	53.0	53.4	53.2	56.0
Net profit	-3.7	11.9	19.6	18.7	22.3	26.3
EPS	-0.17	0.54	0.88	0.84	1.00	1.19
DPS	0.00	1.00	0.80	0.80	0.78	0.80
P/E (x)	na	20.3	12.4	13.0	10.9	9.2
EV/EBITDA (x)	34.0	8.8	6.3	5.6	5.3	4.8

Source: TIM, Noble Securities, earnings adjusted for on-offs

The preparation of report was finalized on 26/06/2020 at 5:30 p.m.. The first publication took place on 26/06/2020 at 5:35 p.m..

NOBLE SECURITIES
DOM MAKLERSKI

Current price	10.9 PLN
Valuation	17.1 PLN
Upside/downside	56%
Market cap.	242 PLNm
Free float	45%
Avg. Vol. 6M	34 116



Source: Bloomberg, Noble Securities

COMPANY PROFILE

Leader on the wholesale distribution of electrical installation materials in Poland, with an exposure to the logistics market in the e-commerce industry.

SHAREHOLDERS

K. Folta with wife	23.14%
K. Wieczorkowski	13.51%
Rockbridge TFI	11,65%
NN OFE	7.05%
Others	44.64%

Source: TIM, Noble Securities

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VALUATION

We calculated the value of one share of TIM SA as the average of the comparative valuation and DCF, with a weight of 50% each. On this basis, **we determined the current value of the shares at PLN 17.1**. With the comparative approach, we valued the commercial and logistics business separately (in both cases using the ratio analysis), and the sum of the obtained values contributed to the total value. When selecting the group of companies for the comparative analysis, in the case of the commercial segment we chose domestic companies (operating in the wholesale and / or e-commerce segment) and foreign companies (distribution of products from the electrical engineering segment), and in the case of the logistics segment, due to the lack of equivalents on the WSE, we chose foreign entities.

Valuation summary	Weight	Per share (PLN)
DCF	50%	16.0
Peers	50%	18.1
- trading/commercial business		15.4
- logistics segment		2.7
Average valuation		**17.1**
Current price		10.9
Upside/downside		56%

Source: Noble Securities

DCF VALUATION

Assumptions:

- Based on consolidated financial data,
- FCF discounted on the current date,
- Net debt as at 31/12/2019 in the amount of PLN 92 million,
- Growth rate (g) 0%,
- Equity ratio 80%,
- Risk free rate 2% (no change), market premium 7.14% (no change), beta 1.0 (no change).

DCF VALUATION

DCF	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Revenues	949	997	1 025	1 049	1 074	1 100	1 126	1 153	1 181	1 209
NOPAT	25	25	28	29	30	31	31	32	32	33
Depreciation and amortization	22	22	21	20	21	22	23	24	24	25
Change in WC	-5	-4	-2	-2	-2	-2	-2	-2	-2	-2
CAPEX	-7	-6	-14	-13	-12	-13	-13	-15	-16	-15
FCFF	36	37	33	35	37	38	39	39	38	40
WACC	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**
Discount factor	0.96	0.89	0.83	0.77	0.71	0.66	0.61	0.57	0.52	0.49
DFCFF	34.2	33.2	27.0	26.5	26.5	24.9	23.5	22.2	19.9	19.5

Sum of DFCFF to 2028	258
Growth rate (g)	0%
Residual value 2028	391
Discounted Residual value	190
Enterprise Value (EV)	448
Net debt 31/12/2018	92
Minorities	0
Equity value	356
Shares (ths.)	22.2
Equity Value per share	16.0

Sensitivity analysis					
	Growth rate (g)				
	-2%	-1%	0%	1%	2%
WACC – 1.0%	16.1	17.2	18.7	20.7	23.4
WACC – 0.5%	15.1	16.1	17.3	18.9	21.1
WACC	14.2	15.0	16.0	17.4	19.2
WACC + 0.5%	13.3	14.1	14.9	16.1	17.6
WACC + 1.0%	12.6	13.2	14.0	14.9	16.2

Source: Noble Securities

Below we present WACC calculation:

WACC	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Risk free rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Market risk premium	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**
Effective tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Cost of debt	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Cost of debt after tax bracket	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
Net debt/EV	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
WACC	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**7.9%**

Source: Noble Securities

PEERS VALUATION

Trading segment	MCAP (PLNm)	P/E (x)			EV/EBITDA (x)		
		2019	2020F	2021F	2019	2020F	2021F
W.W.Grainger	62 392	20.4	17.2	15.2	13.0	11.2	10.0
Electrocomponents	14 725	18.6	24.9	18.9	12.4	14.8	12.0
Rexel	13 627	13.9	9.8	8.3	8.0	7.0	6.7
Intercars	2 848	19.7	11.2	10.1	9.1	8.5	8.0
Eurocash	2 469	28.7	21.1	20.0	6.3	6.9	6.9
Neuca	2 096	16.6	16.1	NA	11.0	10.4	9.7
Solar	1 132	10.9	9.0	8.1	5.7	5.3	5.0
Median		**18.6**	**16.1**	**12.7**	**8.6**	**8.5**	**8.0**
TIM's implied fair value (trading segment)		19.4	16.4	13.3	14.6	13.8	13.6
TIM's implied fair value (trading segment)				**15.4**			

Source: Bloomberg, Noble Securities, data on 26.06.2020 at 5:00 p.m.

Biznes logistyczny	MCAP (PLNm)	P/E (x)			EV/EBITDA (x)		
		2019	2020F	2021F	2019	2020F	2021F
DSV	109 070				18.2	14.5	13.6
XPO Logistics	26 449				9.5	7.2	6.4
Cia de Distribucion Integral	9 688				2.0	1.9	1.8
Kerry Logistics	9 231				7.0	6.5	5.9
ID Logistics Group	4 562				6.9	5.8	5.3
Wincanton	1 106				5.5	5.5	4.1
Self Storage	862				16.2	13.7	10.8
Mediana					**7.0**	**6.5**	**5.9**
TIM's implied fair value (trading segment)					2.1	2.9	3.3
TIM's implied fair value (trading segment)				**2.7**			

Source: Bloomberg, Noble Securities, data on 26.06.2020 at 5:00 p.m.

FINANCIAL RESULTS AND FORECAST

TIM SA (PLNm)	2017	2018	2019	2020F	2021F	2022F
Revenues	**655.7**	**751.5**	**798.4**	**838.3**	**880.3**	**902.3**
Gross profit from sales	106.1	131.0	149.1	153.8	156.1	159.6
Gross margin	*15.5%*	*16.7%*	*17.8%*	*17.5%*	*16.9%*	*16.9%*
Operating costs	105.4	116.3	119.7	125.4	129.8	132.5
% of revenues	*16.1%*	*15.5%*	*15.0%*	*15.0%*	*14.8%*	*14.7%*
Net profit from sales	0.7	14.8	29.4	28.4	26.2	27.1
Other operating revenues and costs	0.6	-1.9	0.2	0.0	0.0	0.0
EBIT	1.3	12.9	29.6	28.4	26.2	27.1
EBITDA	**4.9**	**17.2**	**35.8**	**34.7**	**32.5**	**33.3**
Financial income and costs	-0.2	-0.4	-0.4	0.3	1.7	1.8
Reported net profit	0.7	10.2	22.7	23.2	22.6	23.4
Repeatable net profit	**0.7**	**12.6**	**22.7**	**23.2**	**22.6**	**23.4**
Depreciation and amortization	3.6	4.3	6.3	6.3	6.3	6.3
CAPEX	-3.8	-1.6	-7.0	-6.0	-5.0	-6.3
CF from current operations	12.5	19.7	37.3	26.7	26.0	28.1
Dividend	0.0	22.2	17.8	0.0	17.8	17.3
Net debt	**-12.7**	**-1.3**	**-6.3**	**-27.0**	**-30.2**	**-34.8**

Rotopino (PLNm)	2017	2018	2019	2020F	2021F	2022F
Revenues	**56.6**	**60.8**	**64.1**	**70.6**	**72.3**	**74.1**
Gross profit from sales	9.5	11.4	11.9	13.1	13.4	13.8
Gross margin	*16.9%*	*18.7%*	*18.6%*	*18.6%*	*18.6%*	*18.6%*
Operating costs	9.5	10.8	11.9	13.1	13.4	13.8
% of revenues	*16.8%*	*17.7%*	*18.6%*	*18.6%*	*18.6%*	*18.6%*
Net profit from sales	**0.0**	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**

3LP (PLNm)	2017	2018	2019	2020F	2021F	2022F
Total revenues	60.2	74.2	86.6	100.0	110.0	120.0
External revenues	**4.1**	**14.4**	**26.1**	**39.7**	**44.2**	**48.9**
EBIT	-7.0	1.1	1.9	3.3	4.6	7.8
EBITDA	**-0.7**	**7.6**	**16.1**	**18.7**	**20.7**	**22.7**

Source: TIM (2017-2019), Noble Securities (2020-2022), forecasts for years 2020-22 with IFRS16 (unless otherwise noted)

Profit and loss account (PLNm)	2017	2018	2019	2020F	2021F	2022F
Revenues from sales	**719.2**	**830.3**	**890.0**	**948.6**	**996.8**	**1 025.3**
Gross profit from sales	123.6	161.1	188.5	206.6	213.7	222.3
SG&A costs	126.3	143.5	155.8	175.0	182.9	187.4
Net profit from sales	-2.7	17.7	32.7	31.7	30.8	34.9
Other operating revenues and expenses	-0.5	2.2	-0.2	0.0	0.0	0.0
EBIT	**-3.2**	**19.9**	**32.5**	**31.7**	**30.8**	**34.9**
Financial income and costs	-1.1	-1.1	-7.3	-8.6	-3.3	-2.4
Profit before tax	-4.3	18.7	25.2	23.0	27.5	32.5
Income tax	-0.4	3.6	5.7	4.4	5.2	6.2
Reported net profit	-3.7	15.1	19.6	18.7	22.3	26.3
Repeatable net profit	**-3.7**	**11.9**	**19.6**	**18.7**	**22.3**	**26.3**
Depreciation and amortization	10.4	11.2	20.5	21.7	22.4	21.1
EBITDA	**7.3**	**31.1**	**53.0**	**53.4**	**53.2**	**56.0**

Source: TIM (2017-2019), Noble Securities (2020-2022), forecasts for years 2020-22 with IFRS16 (unless otherwise noted)

Balance Sheet (PLNm)	2017	2018	2019	2020F	2021F	2022F
Assets	**366.4**	**370.0**	**468.5**	**485.2**	**485.5**	**486.1**
Non-current assets	**110.9**	**116.2**	**185.1**	**170.3**	**153.9**	**146.9**
Tangible and Intangible assets	91.9	100.7	170.6	155.9	139.5	132.5
Subsidiaries goodwill	5.9	5.9	5.7	5.7	5.7	5.7
Other long-term assets	13.1	9.7	8.8	8.8	8.8	8.8
Current Assets	**255.5**	**253.8**	**283.4**	**314.8**	**331.6**	**339.2**
Inventories	98.2	102.0	96.8	103.2	108.4	111.5
Trade receivables	142.7	142.1	168.0	179.1	188.1	193.5
Cash and cash equivalents	13.5	2.2	17.4	31.4	33.9	33.0
Other current assets	1.1	7.5	1.2	1.2	1.2	1.2
Liabilities	**366.4**	**370.0**	**468.5**	**485.2**	**485.5**	**486.1**
Equity	**164.7**	**155.4**	**152.7**	**176.9**	**181.4**	**190.5**
Long-term liabilities	**23.3**	**36.1**	**102.7**	**85.3**	**70.5**	**59.5**
Loans, borrowings and other financial liabilities	12.7	25.3	91.6	74.1	59.3	48.3
Other	10.6	10.8	11.2	11.2	11.2	11.2
Current liabilities	**173.8**	**178.5**	**213.1**	**223.0**	**233.6**	**236.1**
Loans, borrowings and other financial liabilities	5.3	8.1	17.7	14.8	14.8	11.0
Accounts payable	157.6	157.2	181.8	193.8	203.7	209.5
Other	10.8	13.2	13.6	14.5	15.2	15.7

Source: TIM (2017-2019), Noble Securities (2020-2022), forecasts for years 2020-22 with IFRS16 (unless otherwise noted)

Cash Flow Statement (PLNm)	2017	2018	2019	2020F	2021F	2022F
Net profit	-3.7	15.1	19.6	18.7	22.3	26.3
Depreciation and amortization	10.4	11.2	20.5	21.7	22.4	21.1
Change in working capital	8.2	-1.2	4.3	-4.6	-3.8	-2.2
CF from current operations	**13.8**	**27.2**	**54.1**	**35.8**	**40.9**	**45.2**
CAPEX	-10.5	-29.3	-18.0	-7.0	-6.0	-14.1
Capital investments	0.0	6.8	0.0	0.0	0.0	0.0
Divestments and other	1.4	15.4	18.9	0.0	0.0	0.0
Purchase of debt securities	0.0	0.0	0.0	-13.1	-1.5	1.4
CF from investing activities	**-9.1**	**-7.1**	**0.9**	**-20.1**	**-7.5**	**-12.7**
Increase of share capital	0.0	0.0	0.0	0.0	0.0	0.0
Change in financial liabilities	0.0	0.0	-77.6	-20.4	-14.8	-14.8
Dividends and other payments due to equity holders	0.0	-22.2	-17.8	0.0	-17.8	-17.3
CF from financial activities	**0.4**	**-31.4**	**-117.4**	**-20.4**	**-32.5**	**-32.0**
CF for the period	**5.1**	**-11.3**	**-62.4**	**-4.7**	**0.9**	**0.6**
Cash at the beginning of the period	8.4	13.5	2.2	17.4	12.8	13.7
Cash at the end of the period	13.5	2.2	17.4	12.8	13.7	14.3

Source: TIM (2017-2019), Noble Securities (2020-2022), forecasts for years 2020-22 with IFRS16 (unless otherwise noted)

Selected indicators	2017	2018	2019	2020F	2021F	2022F
EBITDA margin	1.0%	3.7%	6.0%	5.6%	5.3%	5.5%
EBIT margin	-0.4%	2.4%	3.7%	3.3%	3.1%	3.4%
Net profit margin	-1%	2%	2%	2%	2%	3%
Net debt (without IFRS16)	4.5	31.2	14.1	-20.2	-37.4	-51.3
Net debt			91.8	57.4	40.2	26.4
Net debt /EBITDA	0.6	1.0	0.3	-0.4	-0.7	-0.9
Number of shares issued	22.2	22.2	22.2	22.2	22.2	22.2
Dividend per share	0.0	1.0	0.8	0.8	0.8	0.8
P/BV	1.5	1.6	1.6	1.4	1.3	1.3

Source: TIM (2017-2019), Noble Securities (2020-2022), forecasts for years 2020-22 with IFRS16 (unless otherwise noted)

Annual growth rates	2017	2018	2019	2020F	2021F	2022F
Revenues	8%	15%	7%	7%	5%	3%
EBITDA	-37%	328%	71%	1%	0%	5%
EBIT	nd	nd	64%	-3%	-3%	13%
Net profit	nd	nd	30%	-5%	19%	18%
Repeatable net profit	nd	nd	64%	-5%	19%	18%

Source: TIM (2017-2019), Noble Securities (2020-2022), forecasts for years 2020-22 with IFRS16 (unless otherwise noted)

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FINAL REMARKS

Analyst preparing the Report: Michał Sztabler
Date and time of completion of the Report: 26/06/2020 at 5:30 p.m. Date and time of the first dissemination of the Report: 26/06/2020 at 5:35 p.m.

NS is subject to the supervision of the Polish Financial Supervision Authority.

Last recommendation on TIM SA		
Recommendation / update	na	na
Publication date	16.06.2019	31.01.2020
Price at publication	9.8	11.4
Price target	14.1	17.3
WIG at publication	52 344.83	56 923.36

All recommendation distributed by NS in last 12 months:

Company	Direction	Price target	Price at publication	Current price	Difference to price target	Date of publication (1)	Date of validation (2)	Prepared by (3)
Aplisens	NA	15.8	9.8	10,1	56%	02.06.2020	9M	Michał Sztabler
LW Bogdanka	REDUCE	18.3	21.0	23.5	-22%	30.04.2020	9M	Michał Sztabler
Bioton	NA	6.4	3.9	5.0	28%	29.04.2020	9M	Krzysztof Radojewski
Dino Polska	SELL	138.8	188.9	204.4	-32%	23.04.2020	9M	Dariusz Dadej
Eurocash	HOLD	23.0	21.9	18.5	24%	23.04.2020	9M	Dariusz Dadej
MCI Capital	NA	21.9	8.3	12.7	73%	12.03.2020	24M	Kamil Jędrej
TIM	NA	17.3	11.4	11.4	52%	31.01.2020	24M	Michał Sztabler
PKP Cargo	BUY	30.6	20.9	15.4	99%	07.01.2020	9M	Michał Sztabler
Aplisens	NA	17.3	10.5	10.1	71%	03.01.2020	9M	Michał Sztabler
Forte	HOLD	29.5	30.9	21.1	40%	20.12.2019	9M	Dariusz Dadej
Amica	ACCUMULATE	165.2	138.0	127.0	30%	13.12.2019	9M	Michał Sztabler
11 bit studios	BUY	479.2	388.0	586.0	-18%	11.12.2019	9M	Kamil Jędrej
Apator	ACCUMULATE	24.4	21.4	20.6	18%	28.11.2019	9M	Michał Sztabler
Dino Polska	HOLD	129.0	134.2			25.11.2019	9M	Dariusz Dadej
CD Projekt	HOLD	232.3	243.0	409.0	-43%	15.10.2019	9M	Kamil Jędrej
Bogdanka	REDUCE	31.6	35.2			04.10.2019	9M	Michał Sztabler
Dino Polska	REDUCE	140.2	156.3			16.09.2019	9M	K. Radojewski. D. Dadej
Amrest Holdings	BUY	54.9	43.2	26.1	110%	16.09.2019	9M	K. Radojewski, D. Dadej
Eurocash	ACCUMULATE	27.0	22.7			11.09.2019	9M	K. Radojewski, D. Dadej
Bioton	NA	7.5	5.3			26.07.2019	24M	K. Radojewski, K. Jędrej

(1) Date of publication is simultaneously date of first publication, (2) recommendation is valid for a period of 9 months, unless it is previously updated

(3) Job position: Krzysztof Radojewski – Senior Equity Analyst, Michał Sztabler – Equity Analyst, Dariusz Dadej - Equity Analyst, Kamil Jędrej – Equity Analyst, Maciej Kietliński – Junior Equity Analyst.

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