

TIM SA – taking advantage of market opportunities

Investing in TIM shares gives a very good exposure to the trading market e-commerce, both directly (TIM SA) and indirectly (through the 3LP logistics company serving customers from the e-commerce sector). TIM is already slightly associated with the construction industry, and more and more strongly with the development of on-line sales channels. In addition, we hope to take advantage of market opportunities, which will improve the profitability of the trading business. With this in mind, we raised our financial expectations and, as a result, also the company's valuation. We have separately valued the commercial and logistics segment, and the company's current value (PLN39.55/share) is 40% the potential to increase the rate.

Favorable market conditions

The high growth dynamics in the retail segment in Q1/2021 and the optimistic forecasts for the development of the e-commerce industry prompted us to increase the revenue forecast in the medium term. We believe that the increase in sales of TIM SA in 2021 will more than cover the loss resulting from the exclusion of Rotopino from consolidation.

Taking advantage of market opportunities

Dynamically growing prices of raw materials and problems with the availability of selected groups of goods on the market will contribute to increasing the company's profitability, as TIM made a decision in advance to increase warehouse inventories in preparation for possible market turmoil.

Development of the logistics segment

Very good prospects for the development of the logistics business require the expansion of 3LP's warehouse potential. The Management Board decided to increase the warehouse space by 1/3, which will allow to maintain the revenue growth rate in this area of activity in the horizon of several years.

Dividend Policy

The new dividend policy provides for allocating min. PLN1.00/share per year in 2021-23. Our forecasts show that in the years when this policy is in force, the dividend will amount to approx. PLN1.50/share, while maintaining a safe balance sheet and financing the Group's development.

Increase in capital demand

Higher expenditure on working capital in TIM SA, investment expenditure on a new warehouse in 3LP and the announced dividend policy will require an increase in the available financial resources. In our forecasts, net debt will increase rapidly in 2021-22, and then gradually decline (net cash at the end of 2025). We do not assume any issue of shares or further divestments.

Our valuation is equally based on DCF (PLN41.3/share) and peers valuation (separately for trading segment PLN27.4/share and logistics PLN10.4/share) and indicates present fair price at PLN39.55/share.

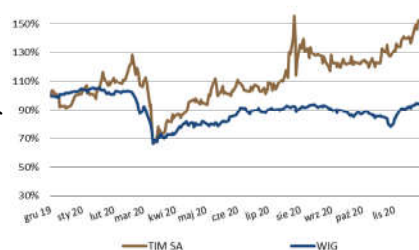
(PLNm)	2018	2019F	2020	2021F	2022F	2023F
Revenues	830.3	890.0	1 064.9	1 092.1	1 196.4	1 306.4
EBITDA	31.1	53.0	80.5	88.5	83.6	91.7
Net profit	11.9	19.6	31.7	45.4	43.3	44.8
EPS	0.54	0.88	1.43	2.05	1.95	2.02
DPS	1.00	0.80	2.20	1.37	1.29	1.40
P/E (x)	52.9	32.2	19.9	13.9	14.5	14.0
EV/EBITDA (x)	21.3	13.6	8.8	8.0	8.7	7.6

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

The preparation of report was finalized on 5/05/2021 at 8:45 a.m.. The first publication took place on 5/05/2021 at 9:00 a.m..

**NOBLE
SECURITIES**
DOM MAKLECKI

Current price	28.35 PLN
Valuation	39.55 PLN
Upside/downside	40%
Market cap.	629 PLNm
Free float	63%
Avg. Vol. 6M	44 362



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	23.42%
K. Wiczorkowski	13.51%
NN OFE	7.05%
Others	39.80%

Source: TIM, Noble Securities

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VALUATION

We calculated the value of one TIM SA share as the average of the comparative valuation and DCF, with a weight of 50% each. On this basis, **we have determined the current value of the shares at PLN39.55**. 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 decided on domestic companies (operating in the wholesale and / or e-commerce segment) and foreign companies (distribution of products from the electrical engineering segment), while in the case of the logistics segment, Due to the lack of equivalents on the WSE, we chose foreign entities.

The increase in the valuation compared to our previous report results both from an increase in financial forecasts (after very good results for 2020, which we assume are not a one-off event) and from higher stock exchange ratios of comparable companies. Changes to the forecasts are described later in the report. The average for the market indicators for calculating the value of the commercial business increased by approx. 15%, and for the logistics business by approx. 45% compared to December '20 (the date of publication of the previous report on TIM), and we changed the scope of data included in valuation (previously indicators for 2020-22, now 2021-23).

Valuation summary	Weight	Per share (PLN)	Previous (PLN)	Change
DCF	50%	41,3	26,4	57%
Peers	50%	37,8	28,1	34%
- trading/commercial business		27,4	20,9	31%
- logistics segment		10,4	7,2	44%
Average valuation		39,6	27,3	45%
Current price		28,4		
Upside/downside		40%		

Source: Noble Securities

DCF VALUATION

Assumptions:

- Based on consolidated financial data,
- FCF discounted on the current date,
- Net debt on 31/12/2020 calculated at 81m PLN,
- Growth rate (g) 0%,
- Equity ratio 80%,
- Risk free rate 1.55% (previous 1.3%), market premium 5.54% (previous 6.5%), beta 1.0 (no change). The adjustment of parameters of the model translated into an increase in the valuation by approx. PLN2.00/share. The remaining part of the increase (approx. PLN13.00/share) resulted from changes in the perception of the company's prospects.

DCF VALUATION

DCF	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Revenues	1 092	1 196	1 306	1 369	1 459	1 548	1 603	1 661	1 721	1 783
NOPAT	52	48	50	53	56	59	61	63	65	68
Depreciation and amortization	23	24	29	26	26	26	26	22	11	12
Change in WC	-36	5	-10	-6	-9	-8	-5	-5	-6	-6
CAPEX	-6	-56	-6	-6	-6	-6	-6	-6	-6	-6
FCFF	34	21	63	67	67	71	76	74	65	67
WACC	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%
Discount factor	0,96	0,90	0,85	0,80	0,76	0,71	0,67	0,63	0,60	0,56
DFCFF	32,2	18,8	53,6	53,6	50,8	50,7	50,7	46,9	38,6	37,8
Sum of DFCFF to 2030	434									
Growth rate (g)	0%									
Residual value 2030	1 004									
Discounted Residual value	563									
Enterprise Value (EV)	997									
Net debt 31/12/2020	81									
Minorities	0									
Equity value	916									
Shares (ths.)	22,2									
Equity Value per share	41,3									

Sensitivity analysis					
	Growth rate (g)				
	-2%	-1%	0%	1%	2%
WACC - 1,0%	40,4	44,4	50,1	58,5	72,2
WACC - 0,5%	37,3	40,7	45,3	51,9	62,0
WACC	34,7	37,5	41,3	46,5	54,2
WACC + 0,5%	32,3	34,7	37,8	42,1	48,1
WACC + 1,0%	30,2	32,3	34,9	38,4	43,2

Source: Noble Securities

Below we present WACC calculation:

WACC	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Risk free rate	1.55%	1.55%	1.55%	1.55%	1.55%	1.55%	1.55%	1.55%	1.55%	1.55%
Market risk premium	5.54%	5.54%	5.54%	5.54%	5.54%	5.54%	5.54%	5.54%	5.54%	5.54%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%
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	3.05%	3.05%	3.05%	3.05%	3.05%	3.05%	3.05%	3.05%	3.05%	3.05%
Cost of debt after tax bracket	2.44%	2.44%	2.44%	2.44%	2.44%	2.44%	2.44%	2.44%	2.44%	2.44%
Net debt/EV	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
WACC	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%

Source: Noble Securities

PEERS VALUATION

Trading segment	Market cap. (PLNm)	P/E (x)			EV/EBITDA (x)		
		2018	2019F	2020F	2018	2019F	2020F
W.W.Grainger	83 562	22,8	20,0	18,1	14,6	13,1	12,0
Electrocomponents	26 480	35,4	27,2	23,7	22,0	16,9	15,0
Rexel	23 471	13,9	11,9	10,4	8,1	7,6	6,7
Eurocash	2 079	23,4	17,9	18,7	5,8	5,6	6,6
Intercars	4 463	13,0	12,5	11,1	9,5	9,1	8,4
Solar	2 594	12,1	11,3	10,6	5,9	5,7	5,4
Neuca	3 176	19,9	18,3	17,0	12,3	11,2	10,4
Oponeo	736	19,8	18,5	16,7	10,9	9,9	9,1
Median		19,9	18,1	16,9	10,2	9,5	8,7
TIM's implied fair value (trading segment)		27,6	31,6	26,8	23,6	22,0	20,8
TIM's implied fair value (trading segment)				27,4			

Source: Bloomberg, Noble Securities, data on 5.05.2021 at 8:00 a.m.

Logistics segment	Market cap. (PLNm)	P/E (x)			EV/EBITDA (x)		
		2018	2019F	2020F	2018	2019F	2020F
DSV	194 640				21,2	19,7	18,3
XPO Logistics	57 661				11,3	10,3	9,8
Kerry Logistics	20 418				10,4	10,0	9,7
ID Logistics Group	6 190				7,2	6,6	6,4
Wincanton	2 795				6,2	5,8	5,3
Self Storage	906				13,4	11,2	bd
Median					10,8	10,2	9,7
TIM's implied fair value (logistics segment)					7,0	11,2	9,4
TIM's implied fair value (logistics segment)				10,4			

Source: Bloomberg, Noble Securities, data on 5.05.2021 at 8:00 a.m.

FINANCIAL RESULTS AND FORECAST

TIM SA (PLNm)	2018	2019	2020	2021F	2022F	2023F
Revenues	751.5	798.4	935.7	1026.2	1123.0	1217.0
Gross profit from sales	131.0	149.1	178.0	203.6	213.5	231.4
<i>Gross margin</i>	<i>16.7%</i>	<i>17.8%</i>	<i>18.7%</i>	<i>19.5%</i>	<i>18.7%</i>	<i>18.7%</i>
Operating costs	116.3	119.7	138.5	155.1	168.1	181.6
<i>% of revenues</i>	<i>15.5%</i>	<i>15.0%</i>	<i>14.8%</i>	<i>15.1%</i>	<i>15.0%</i>	<i>14.9%</i>
Net profit from sales	14.8	29.4	39.5	48.5	45.5	49.8
Other operating revenues and costs	-1.9	0.2	5.9	0.0	0.0	0.0
EBIT	12.9	29.6	45.4	48.5	45.5	49.8
EBITDA	17.2	35.8	51.5	54.6	51.6	55.9
Financial income and costs	-0.4	-0.4	-0.4	-0.7	-1.9	-0.3
Reported net profit	10.2	22.7	36.0	38.7	35.3	40.1
Repeatable net profit	12.6	22.7	30.8	38.7	35.3	40.1
Depreciation and amortization	4.3	6.3	6.1	6.1	6.1	6.1
CAPEX	-1.6	-5.1	-8.0	-3.0	-3.0	-3.0
CF from current operations	19.7	37.3	13.3	20.4	60.6	37.5
Dividend	22.2	17.8	26.6	33.3	30.4	28.7
Net debt	-1.3	-6.3	1.0	16.9	-7.1	-9.7
Rotopino (PLNm)	2018	2019	2020	2021F	2022F	2023F
Revenues	60.8	64.1	86.7	out of consolidation		
Net profit from sales	0.1	0.5	2.6	out of consolidation		
3LP (PLNm)	2018	2019	2020	2021F	2022F	2023F
Total revenues	74.2	86.6	114.7	145.0	150.0	167.3
External revenues	14.4	26.1	40.7	65.9	73.5	89.4
EBIT	1.1	2.4	6.1	13.9	14.4	13.0
EBITDA	7.6	16.1	21.7	30.9	32.0	35.8

Source: TIM (2018-2020), Noble Securities (2021-2023)

Profit and loss account (PLNm)	2018	2019	2020	2021F	2022F	2023F
Revenues from sales	830.3	890.0	1 064.9	1 092.1	1 196.4	1 306.4
Gross profit from sales	161.1	188.5	239.7	269.5	287.0	320.8
SG&A costs	143.5	155.8	187.5	207.1	227.2	258.0
Net profit from sales	17.7	32.7	52.2	62.4	59.9	62.8
Other operating revenues and expenses	2.2	-0.2	6.1	0.0	0.0	0.0
EBIT	19.9	32.5	58.3	62.4	59.9	62.8
Financial income and costs	-1.1	-7.3	-13.8	-6.3	-6.4	-7.5
Profit before tax	18.7	25.2	44.6	59.1	53.4	55.3
Income tax	3.6	5.7	7.4	11.2	10.1	10.5
Reported net profit	15.1	19.6	37.1	47.8	43.3	44.8
Repeatable net profit	11.9	19.6	31.7	45.4	43.3	44.8
Depreciation and amortization	11.2	20.5	22.1	23.1	23.7	28.9
EBITDA	31.1	53.0	80.5	88.5	83.6	91.7

Source: TIM (2018-2020), Noble Securities (2021-2023)

Balance Sheet (PLNm)	2018	2019	2020	2021F	2022F	2023F
Assets	370.0	468.5	467.1	486.0	533.5	542.4
Non-current assets	116.2	185.1	171.2	154.1	186.4	163.5
Tangible and Intangible assets	100.7	170.6	160.9	143.8	176.1	153.2
Subsidiaries goodwill	5.9	5.7	0.0	0.0	0.0	0.0
Other long-term assets	9.7	8.8	10.3	10.3	10.3	10.3
Current Assets	253.8	283.4	295.8	331.9	347.1	378.9
Inventories	102.0	96.8	103.3	134.6	131.1	143.2
Trade receivables	142.1	168.0	180.1	184.7	202.4	221.0
Cash and cash equivalents	2.2	17.4	11.1	11.3	12.3	13.5
Other current assets	7.5	1.2	1.3	1.3	1.3	1.3
Liabilities	370.0	468.5	467.1	486.0	533.5	542.4
Equity	155.4	152.7	163.1	180.4	193.2	209.3
Long-term liabilities	36.1	102.7	87.9	75.1	67.0	58.8
Loans, borrowings and other financial liabilities	25.3	91.6	77.8	65.0	56.9	48.8
Other	10.8	11.2	10.1	10.1	10.1	10.1
Current liabilities	178.5	213.1	216.0	230.5	273.3	274.2
Loans, borrowings and other financial liabilities	8.1	17.7	14.3	28.7	52.2	32.8
Accounts payable	157.2	181.8	182.2	186.9	204.7	223.5
Other	13.2	13.6	19.5	15.0	16.4	17.9

Source: TIM (2018-2020), Noble Securities (2021-2023)

Cash Flow Statement (PLNm)	2018	2019	2020	2021F	2022F	2023F
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Net profit	15.1	19.6	37.1	47.8	43.3	44.8
Depreciation and amortization	11.2	20.5	22.1	23.1	23.7	28.9
Change in working capital	-1.2	4.3	-12.3	-35.9	5.2	-10.3
CF from current operations	27.2	54.1	38.8	35.1	72.2	63.4
CAPEX	-29.3	-18.0	-22.9	-6.0	-56.0	-6.0
Capital investments	6.8	0.0	-35.0	0.0	0.0	0.0
Divestments and other	15.4	18.9	80.8	0.0	0.0	0.0
Purchase of debt securities	0.0	0.0	0.0	0.0	0.0	0.0
CF from investing activities	-7.1	0.9	22.9	-6.0	-56.0	-6.0
Increase of share capital	0.0	0.0	0.0	0.0	0.0	0.0
Change in financial liabilities	0.0	-77.6	0.0	1.6	15.4	-27.5
Dividends and other payments due to equity holders	-22.2	-17.8	-26.6	-33.3	-30.4	-28.7
CF from financial activities	-31.4	-117.4	-68.0	-31.7	-15.1	-56.2
CF for the period	-11.3	-62.4	-6.3	-2.6	1.1	1.1
Cash at the beginning of the period	13.5	2.2	17.4	11.1	8.5	9.6
Cash at the end of the period	2.2	17.4	11.1	8.5	9.6	10.7

Source: TIM (2018-2020), Noble Securities (2021-2023)

Selected indicators	2018	2019	2020	2021F	2022F	2023F
EBITDA margin	3.7%	6.0%	7.6%	8.1%	7.0%	7.0%
EBIT margin	2.4%	3.7%	5.5%	5.7%	5.0%	4.8%
Net profit margin	2%	2%	3%	4%	4%	3%
Net debt	31.2	91.8	81.0	82.4	96.7	68.1
Net debt /EBITDA	1.0	1.7	1.0	0.9	1.2	0.7
Number of shares issued	22.2	22.2	22.2	22.2	22.2	22.2
Dividend per share	1.0	0.8	2.2	1.4	1.3	1.4
P/BV	4.1	4.1	3.9	3.5	3.3	3.0

Source: TIM (2018-2020), Noble Securities (2021-2023)

Annual growth rates	2018	2019	2020	2021F	2022F	2023F
Revenues	15%	7%	20%	3%	10%	9%
EBITDA	328%	71%	52%	10%	-6%	10%
EBIT	nd	64%	79%	12%	-8%	5%
Net profit	nd	30%	90%	29%	-10%	4%
Repeatable net profit	nd	64%	62%	43%	-5%	4%

Source: TIM (2018-2020), Noble Securities (2021-2023)

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FINAL REMARKS

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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)
Bioton	BUY	8.0	5.6	5.35	50%	20.04.2021	24M	Krzysztof Radojewski
LW Bogdanka	HOLD	23.2	23.9	23.30	-1%	19.04.2021	9M	Michał Sztabler
CD Projekt	REDUCE	172.2	183.0	168.92	2%	08.04.2021	9M	Maciej Kietliński
Forte	ACCUMULETE	55.0	52.0	51.80	6%	31.03.2021	9M	Dariusz Dadej
Amica	BUY	219.3	144.2	154.60	42%	29.03.2021	9M	Michał Sztabler
Ryvu Therapeutics	BUY	66.2	53.0	50.00	32%	26.03.2021	9M	Krzysztof Radojewski
Artifex Mundi	HOLD	12.8	12.5	16.85	-24%	01.03.2021	9M	Maciej Kietliński
Celon Pharma	BUY	59.6	45.8	46.25	29%	17.02.2021	9M	Krzysztof Radojewski
Ten Square Games	BUY	687.9	529.0	417.00	65%	11.02.2021	9M	Maciej Kietliński
Wielton	BUY	10.6	8.1	10.70	-1%	05.02.2021	9M	Michał Sztabler
11 bit studios	REDUCE	422.5	476.0	527.00	-20%	11.01.2021	9M	Maciej Kietliński
CD Projekt	BUY	388.5	296.0			16.12.2020	9M	Maciej Kietliński
LW Bogdanka	REDUCE	16.4	18.8	23.30	-30%	11.12.2020	9M	Michał Sztabler
Krynicki Recykling	na	15.2	8.1	18.50	-18%	11.12.2020	24M	Dariusz Dadej
MCI Capital	na	30.4	15.0	18.40	65%	11.12.2020	24M	Krzysztof Radojewski
Aplisens	na	18.0	11.2	11.10	62%	11.12.2020	9M	Michał Sztabler
Tauron PE	BUY	2.9	2.1	3.35	-13%	03.12.2020	9M	Michał Sztabler
TIM	BUY	27.3	16.2	28.35	-4%	04.12.2020	24M	Michał Sztabler
Eurocash	BUY	18.0	13.8	14.27	26%	02.12.2020	9M	Dariusz Dadej
Dino Polska	SELL	211.1	253.6	244.90	-14%	02.12.2020	9M	Dariusz Dadej
Apator	BUY	28.9	22.3	24.30	19%	27.11.2020	9M	Michał Sztabler
Bioton	BUY	7.3	4.4			06.11.2020	24M	Krzysztof Radojewski
Forte	BUY	48.3	34.5			05.11.2020	9M	Dariusz Dadej
CD Projekt	BUY	415.0	346.0			03.11.2020	9M	Maciej Kietliński
PKP Cargo	SUSPENDED		9.9			22.10.2020	9M	Michał Sztabler
Amica	BUY	177.1	133.4			14.10.2020	9M	Michał Sztabler
Ten Square Games	SELL	477.1	535.0			04.09.2020	9M	Maciej Kietliński
Krynicki Recykling	na	11.8	7.8			31.08.2020	24M	Dariusz Dadej
Wielton	BUY	5.5	4.5			29.07.2020	9M	Michał Sztabler
Eurocash	BUY	21.5	16.1			24.07.2020	9M	Dariusz Dadej
Bioton	na	6.8	4.6			24.07.2020	24M	Krzysztof Radojewski
MCI Capital	na	24.9	12.1			31.06.2020	24M	Krzysztof Radojewski
TIM	na	17.1	10.9			26.06.2020	24M	Michał Sztabler
Aplisens	na	15.8	9.8			02.06.2020	9M	Michał Sztabler

(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

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