

TIM SA

The company shares give an attractive exposure to both retail and e-commerce sectors. After restructuring, TIM entered a growth phase and improved results at each level. As we predicted, adopted low-cost business model and active management of product offer has increased the competitiveness and has boosted profitability. We separately valued the trading and logistics segment, and the estimated present value of the company (PLN 17.3/share) gives over 50% of upside potential for the stock.

Better results of TIM SA in 2019 are the reason for higher forecasts

We assess the consolidated results of TIM for the first three quarters of 2019 as very good. The commercial business is doing much better (first and foremost TIM SA), We pay attention primarily to the clear improvement in the margin on sales of goods. The high level of performance of the forecasts prompted us to revise our expectations for both 2019 and the following years.

Dividend potential

TIM created a dividend fund in which after the management board's decision regarding the payment of an advance dividend for 2019 (PLN 0.80) there should be approx. PLN 33 million (approx. PLN 1.5 / share). Given the operating flows forecast by us and the slowdown in investment expenditure, TIM has the financial potential to maintain high profit payments in subsequent years. We expect dividend from 2019 profit at a level not lower than last year, which would mean an additional payment of at least 0.20 PLN / share this year.

Insider is buying

We would like to draw your attention to systematically appearing information on increasing involvement in shares by persons associated with the Company's Management Board. From the beginning of 2019, the insiders bought a total of 191,000. shares (0.9% of capital) at PLN 7.5-11 per share. The last information of this type appeared in mid-January (over 20,000, at a price of around PLN 11 per share).

Risks for forecasts and valuation

Among the main risks we see for our forecasts are: the slowdown of the upward trend in the construction industry, the return of the price war among distributors (as a result we see drop in margins and problems with receivables), and acquisition of external clients in logistics (3LP) at slower rate.

Our valuation is equally based on DCF (PLN15.3/share) and peers valuation (separately for trading segment PLN15.1/share and logistics PLN4.1/share) and indicates present fair price at PLN17.3 /share.

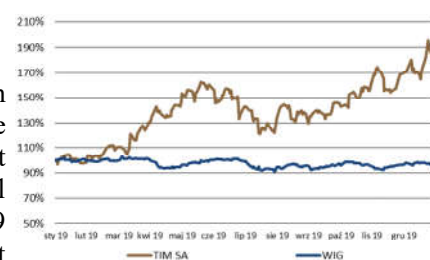
PLNm	2017	2018	2019F	2020F	2021F	2022F
Revenues	719.2	830.3	887.9	958.1	1 011.6	1 045.4
EBITDA	7.3	31.1	51.1	54.5	54.2	57.5
Net profit	-3.7	11.9	20.8	22.0	22.3	26.8
EPS	-0.17	0.54	0.94	0.99	1.00	1.21
DPS	0.00	1.00	1.00	0.75	0.70	0.74
P/E (x)	nd	21.3	12.2	11.5	11.4	9.5
EV/EBITDA (x)	35.5	9.2	7.0	6.0	5.8	5.2

Source: TIM, Noble Securities, earnings adjusted for on-offs, forecasts for 2019-22 with IFRS 16

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**NOBLE
SECURITIES**
DOM MAKLECKI

Current price	11.4 PLN
Valuation	17.3 PLN
Upside/downside	51%
Market cap.	253 PLNm
Free float	45%
Avg. Vol. 6M	16 683



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%

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VALUATION

We calculated the value of one share of TIM SA as the average of the peers valuation and DCF. **On this basis, we estimated the current value of the shares at PLN 17.3.** In the peers analysis, we separately priced the trading business and logistic business using peers multiples and calculated sum of the parts. When selecting a peer group, in the case of the commercial segment, we opted for domestic companies (operating in the wholesale and / or e-commerce segment) as well as foreign distributors of electrical engineering products, while in the case of the logistics segment, due to the lack of counterparts on the WSE, we have chosen foreign stocks.

Valuation summary	Weight	Per share (PLN)
DCF	50%	15.3
Peers	50%	19.2
- trading/commercial business		15.1
- logistics segment		4.1
Average valuation		17.3
Current price		11.4
Upside/downside		51%

Source: Noble Securities

DCF VALUATION

Assumptions:

- Based on consolidated financial data,
- FCF discounted on the current date,
- Net debt on 31/12/2019 calculated at 103m PLN (the Noble Securities' prediction),
- Growth rate (g) 0%,
- Equity ratio 80%,
- Risk free rate 2.0% (vs 3.5% previously), market premium 7.14 (vs 6% previously), beta 1.0.

DCF VALUATION

DCF	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P
Revenues	958	1 012	1 045	1 070	1 095	1 120	1 147	1 174	1 201	1 229
NOPAT	26	25	29	31	31	32	32	33	34	34
Depreciation and amortization	22	22	21	20	21	22	23	24	24	25
Change in WC	-6	-5	-3	-2	-2	-2	-2	-2	-2	-3
CAPEX	-7	-6	-14	-13	-12	-13	-13	-15	-16	-15
FCFF	35	37	33	36	38	39	39	40	39	41
WACC	7,9%	7,9%	7,9%	7,9%	7,9%	7,9%	7,9%	7,9%	7,9%	7,9%
Discount factor	0,93	0,87	0,80	0,74	0,69	0,64	0,59	0,55	0,51	0,47
DFCFF	32,4	32,1	26,6	26,4	26,3	24,7	23,4	22,0	19,8	19,4
Sum of DFCFF to 2028	253									
Growth rate (g)	0%									
Residual value 2028	403									
Discounted Residual value	190									
Enterprise Value (EV)	443									
Net debt 31/12/2018	103									
Minorities	0									
Equity value	341									
Shares (ths.)	22,2									
Equity Value per share	15,3									

	Sensitivity analysis				
	Growth rate (g)				
	-2%	-1%	0%	1%	2%
WACC - 1,0%	15,5	16,6	18,1	20,0	22,8
WACC - 0,5%	14,4	15,4	16,6	18,2	20,4
WACC	13,5	14,3	15,3	16,7	18,5
WACC + 0,5%	12,6	13,3	14,2	15,3	16,8
WACC + 1,0%	11,8	12,4	13,2	14,2	15,4

Source: Noble Securities

Below we present WACC calculation:

WACC	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P
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%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Cost of debt	3,5%	3,5%	3,5%	3,5%	3,5%	3,5%	3,5%	3,5%	3,5%	3,5%
Cost of debt after tax bracket	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%
Net debt/EV	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
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	Market cap. (PLNm)	P/E (x)			EV/EBITDA (x)		
		2019P	2020P	2022P	2019P	2020P	2022P
W.W.Grainger	63 211	17,3	16,3	15,1	11,1	10,7	10,2
Electrocomponents	15 089	18,6	17,6	16,4	12,9	11,8	11,1
Rexel	14 131	9,6	8,9	8,3	7,0	6,7	6,4
Eurocash	2 707	31,0	24,5	21,9	12,1	10,6	9,2
Intercars	3 358	13,9	12,4	11,3	9,9	9,4	8,6
Solar	1 361	20,7	10,0	9,5	6,4	5,8	5,6
Neuca	1 811	15,3	13,7	12,6	11,5	10,5	9,6
Oponeo	341	17,5	20,4	18,8	12,1	12,1	10,3
AB	405	6,9	6,4	6,1	6,2	5,9	5,7
Median		17,3	13,7	12,6	11,1	10,5	9,2
TIM's implied fair value (trading segment)		17,9	13,9	12,0	16,9	16,4	13,5
TIM's implied fair value (trading segment)					15,1		

Source: Bloomberg, Noble Securities, data on 31.01.2020 at 7:45 a.m.

Logistics segment	Market cap. (PLNm)	P/E (x)			EV/EBITDA (x)		
		2019P	2020P	2022P	2019P	2020P	2022P
DSV	99 126				18,9	14,9	13,1
XPO Logistics	31 821				9,3	8,7	8,1
Cia de Distribucion Integral	11 556				4,0	3,7	3,6
Kerry Logistics	10 939				8,4	7,6	7,0
ID Logistics Group	4 285				11,1	9,4	8,1
Wincanton	1 868				7,7	7,5	7,3
Self Storage	1 055				20,9	16,1	13,6
Median					9,3	8,7	8,1
TIM's implied fair value (logistics segment)					2,7	4,3	5,1
TIM's implied fair value (logistics segment)					4,1		

Source: Bloomberg, Noble Securities, data on 31.01.2020 at 7:45 a.m.

TIM SA (PLNm)	2017	2018	2019F	2020F	2021F	2022F
Revenues	655,7	751,5	794,7	834,5	876,2	898,1
Gross profit from sales	106,1	131,0	146,4	152,1	154,1	157,9
<i>Gross margin</i>	<i>15,5%</i>	<i>16,7%</i>	<i>17,7%</i>	<i>17,5%</i>	<i>16,8%</i>	<i>16,8%</i>
Operating costs	105,4	116,3	117,9	124,0	128,3	130,9
<i>% of revenues</i>	<i>16,1%</i>	<i>15,5%</i>	<i>14,8%</i>	<i>14,9%</i>	<i>14,6%</i>	<i>14,6%</i>
Net profit from sales	0,7	14,8	28,5	28,1	25,7	26,9
Other operating revenues and costs	0,6	-1,9	0,0	0,0	0,0	0,0
EBIT	1,3	12,9	28,5	28,1	25,7	26,9
EBITDA	4,9	17,2	34,9	34,5	32,1	33,3
Financial income and costs	-0,2	-0,4	-0,2	-0,3	0,4	0,4
Reported net profit	0,7	10,2	22,9	22,6	21,1	22,2
Repeatable net profit	0,7	12,6	22,9	22,6	21,1	22,2
Depreciation and amortization	3,6	4,3	6,4	6,4	6,4	6,4
CAPEX	-3,8	-1,6	-7,0	-6,0	-5,0	-6,4
CF from current operations	12,5	19,7	23,5	25,5	23,9	26,6
Dividend	0,0	22,2	17,8	4,4	16,6	15,6
Net debt	-12,7	-1,3	12,3	-2,7	-4,9	-9,5
Rotopino (PLNm)	2017	2018	2019F	2020F	2021F	2022F
Revenues	56,6	60,8	66,9	73,6	75,4	77,3
Gross profit from sales	9,5	11,4	12,5	13,7	14,1	14,4
<i>Gross margin</i>	<i>16,9%</i>	<i>18,7%</i>	<i>18,7%</i>	<i>18,7%</i>	<i>18,7%</i>	<i>18,7%</i>
Operating costs	9,5	10,8	12,5	13,7	14,1	14,4
<i>% of revenues</i>	<i>16,8%</i>	<i>17,7%</i>	<i>18,7%</i>	<i>18,7%</i>	<i>18,7%</i>	<i>18,7%</i>
Net profit from sales	0,0	0,6	0,0	0,0	0,0	0,0
3LP (PLNm)	2017	2018	2019F	2020F	2021F	2022F
Total revenues	60,2	74,2	82,0	100,0	110,0	120,0
External revenues	4,1	14,4	26,2	50,0	60,0	70,0
EBIT	-7,0	1,1	2,5	4,6	6,1	9,5
EBITDA	-0,7	7,6	16,2	20,0	22,1	24,2

Source: TIM (2017-2018), Noble Securities (2019-2022), forecasts for years 2019-22 with IFRS16 (unless otherwise noted)

Profit and loss account (PLNm)	2017	2018	2019F	2020F	2021F	2022F
Revenues from sales	719,2	830,3	887,9	958,1	1 011,6	1 045,4
Gross profit from sales	123,6	161,1	185,2	215,9	228,1	242,3
SG&A costs	126,3	143,5	154,1	183,1	196,3	205,9
Net profit from sales	-2,7	17,7	31,1	32,7	31,8	36,4
Other operating revenues and expenses	-0,5	2,2	0,0	0,0	0,0	0,0
EBIT	-3,2	19,9	31,1	32,7	31,8	36,4
Financial income and costs	-1,1	-1,1	-5,4	-5,6	-4,3	-3,4
Profit before tax	-4,3	18,7	25,7	27,1	27,5	33,0
Income tax	-0,4	3,6	4,9	5,2	5,2	6,3
Reported net profit	-3,7	15,1	20,8	22,0	22,3	26,8
Repeatable net profit	-3,7	11,9	20,8	22,0	22,3	26,8
Depreciation and amortization	10,4	11,2	20,1	21,7	22,4	21,1
EBITDA	7,3	31,1	51,1	54,5	54,2	57,5

Source: TIM (2017-2018), Noble Securities (2019-2022), forecasts for years 2019-22 with IFRS16 (unless otherwise noted)

Balance Sheet (PLNm)	2017	2018	2019F	2020F	2021F	2022F
Assets	366,4	370,0	451,2	464,1	466,4	470,0
Non-current assets	110,9	116,2	186,7	171,9	155,5	148,5
Tangible and Intangible assets	91,9	100,7	171,1	156,4	140,0	133,0
Subsidiaries goodwill	5,9	5,9	5,9	5,9	5,9	5,9
Other long-term assets	13,1	9,7	9,7	9,7	9,7	9,7
Current Assets	255,5	253,8	264,6	292,2	310,8	321,5
Inventories	98,2	102,0	109,0	117,6	124,2	128,4
Trade receivables	142,7	142,1	152,0	164,0	173,2	179,0
Cash and cash equivalents	13,5	2,2	2,3	9,3	12,2	12,9
Other current assets	1,1	7,5	1,2	1,2	1,2	1,2
Liabilities	366,4	370,0	451,2	464,1	466,4	470,0
Equity	164,7	155,4	153,3	170,8	176,5	187,6
Long-term liabilities	23,3	36,1	96,6	82,2	67,8	57,1
Loans, borrowings and other financial liabilities	12,7	25,3	85,8	71,4	56,9	46,3
Other	10,6	10,8	10,8	10,8	10,8	10,8
Current liabilities	173,8	178,5	201,3	211,1	222,1	225,3
Loans, borrowings and other financial liabilities	5,3	8,1	19,0	14,4	14,4	10,7
Accounts payable	157,6	157,2	168,1	181,4	191,6	198,0
Other	10,8	13,2	14,1	15,3	16,1	16,7

Source: TIM (2017-2018), Noble Securities (2019-2022), forecasts for years 2019-22 with IFRS16 (unless otherwise noted)

Cash Flow Statement (PLNm)	2017	2018	2019F	2020F	2021F	2022F
Net profit	-3,7	15,1	20,8	22,0	22,3	26,8
Depreciation and amortization	10,4	11,2	20,1	21,7	22,4	21,1
Change in working capital	8,2	-1,2	-5,1	-6,2	-4,8	-3,0
CF from current operations	13,8	27,2	35,8	37,5	39,9	44,9
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	6,3	0,0	0,0	0,0
Purchase of debt securities	0,0	0,0	0,0	-6,8	-2,7	-0,7
CF from investing activities	-9,1	-7,1	-11,7	-13,8	-8,7	-14,8
Increase of share capital	0,0	0,0	0,0	0,0	0,0	0,0
Change in financial liabilities	0,0	15,4	-6,2	-19,0	-14,4	-14,4
Dividends and other payments due to equity holders	0,0	-22,2	-17,8	-4,4	-16,6	-15,6
CF from financial activities	0,4	-31,4	-23,9	-23,5	-31,1	-30,0
CF for the period	5,1	-11,3	0,1	0,2	0,1	0,1
Cash at the beginning of the period	8,4	13,5	2,2	2,3	2,5	2,6
Cash at the end of the period	13,5	2,2	2,3	2,5	2,6	2,7

Source: TIM (2017-2018), Noble Securities (2019-2022), forecasts for years 2019-22 with IFRS16 (unless otherwise noted)

Selected indicators	2017	2018	2019F	2020F	2021F	2022F
EBITDA margin	1,0%	3,7%	5,8%	5,7%	5,4%	5,5%
EBIT margin	-0,4%	2,4%	3,5%	3,4%	3,1%	3,5%
Net profit margin	-1%	2%	2%	2%	2%	3%
Net debt (without IFRS16)	4,5	31,2	24,9	-1,2	-18,5	-33,6
Net debt			102,5	76,5	59,2	44,0
Net debt /EBITDA	0,6	1,0	0,5	0,0	-0,3	-0,6
Number of shares issued	22,2	22,2	22,2	22,2	22,2	22,2
Dividend per share	0,0	1,0	1,0	0,8	0,7	0,7
P/BV	1,6	1,7	1,7	1,5	1,5	1,4

Source: TIM (2017-2018), Noble Securities (2019-2022), forecasts for years 2019-22 with IFRS16 (unless otherwise noted)

Annual growth rates	2017	2018	2019F	2020F	2021F	2022F
Revenues	8%	15%	7%	8%	6%	3%
EBITDA	-37%	328%	65%	7%	-1%	6%
EBIT	nd	nd	56%	5%	-3%	14%
Net profit	nd	nd	38%	6%	1%	20%
Repeatable net profit	nd	nd	75%	6%	1%	20%

Source: TIM (2017-2018), Noble Securities (2019-2022), forecasts for years 2019-22 with IFRS16 (unless otherwise noted)

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The DCF (eng. *discounted cash flow*) method - is considered the methodologically most appropriate valuation technique and consists in discounting financial flows generated by the rated entity. Strengths of this method include taking into account all cash flows that flow in and out of the company and the cost of money over time. The disadvantages of the DCF valuation method are: a large number of assumptions and parameters that need to be estimated and the sensitivity of valuation to changes in these factors. A variation of this method is the discounted dividend method.

Comparative method - is based on a comparison of valuation multipliers of companies in the industry in which the rated entity operates. This method very well reflects the current state of the market, requires fewer assumptions and is simpler to apply (relatively high availability of indicators for compared entities). Its disadvantages include high volatility related to price fluctuations and stock exchange indices (in the case of comparison to listed companies), subjectivism in the selection of a group of comparable companies and simplification of the company image leading to the omission of some important parameters (eg growth rate, corporate governance, non-operational assets, differences in accounting standards).

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FINAL REMARKS

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Last recommendation on TIM SA	
Recommendation / update	na
Publication date	16.06.2019
Price at publication	9,8
Price target	14,1
WIG at publication	52 344,83

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)
PKP Cargo	Buy	30,6	20,9	18,3	67%	07.01.2020	9M	Michał Sztabler
Aplisens	na	17,3	10,5	10,0	73%	03.01.2020	na	Michał Sztabler
Forte	Hold	29,5	30,9	31,4	-6%	20.12.2019	9M	Dariusz Dadej
Amica	Accumulate	165,2	138,0	143,0	16%	13.12.2019	9M	Michał Sztabler
11 bit studios	Buy	479,2	388,0	428,5	12%	11.12.2019	9M	Kamil Jędrej
Apator	Accumulate	24,4	21,4	20,7	18%	28.11.2019	9M	Michał Sztabler
Dino Polska	Hold	129,0	134,2	159,0	-19%	25.11.2019	9M	Dariusz Dadej
CD Projekt	Hold	232,3	243,0	277,9	-16%	15.10.2019	9M	Kamil Jędrej
Bogdanka	Reduce	31,6	35,2	30,0	5%	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	48,2	14%	16.09.2019	9M	K. Radojewski, D. Dadej
Eurocash	Accumulate	27,0	22,7	19,3	40%	11.09.2019	9M	K. Radojewski, D. Dadej
Bioton	na	7,5	5,3	3,7	101%	26.07.2019	24M	K. Radojewski, K. Jędrej
MCI Capital	na	26,5	7,3	10,8	147%	28.06.2019	24M	K. Radojewski, K. Jędrej
TIM	na	14,1	9,8	11,4	24%	17.06.2019	24M	Michał Sztabler
11 bit studios	Accumulate	464,7	395,0			06.06.2019	9M	Kamil Jędrej
Amrest Holdings	Buy	52,1	37,5			21.05.2019	9M	Krzysztof Radojewski
Dino Polska	Hold	111,0	112,7			20.05.2019	9M	Krzysztof Radojewski
Budimex	Hold	143,5	145,0			28.03.2019	suspended	Krzysztof Radojewski
Eurocash	Accumulate	26,8	22,4			15.03.2019	9M	Krzysztof Radojewski

(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 - Equity Analyst (finished work in NS with effect from 31.10.2019), Michał Sztabler - Equity Analyst, Kamil Jędrej - Equity Analyst, Dariusz Dadej - Equity Analyst

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