

TIM

Valuation range: PLN 910-1004mn

Mission: Possible

The current economic situation, in particular high inflation and an over-heating construction sector, combined with the growth/client acquisition strategy is reflected in the company's performance and will allow the group to achieve record results for another year in a row. We expect revenue to grow 21% to PLN 1.6bn in 2022 (CAGR 2021-24: 15%) and EBITDA 12% y/y to PLN 162m (CAGR 2021-24: 6%).

Growing prices support margins but the crisis is a risk

The company has recently been operating in an environment of rising prices supporting not only revenue but also margins (EBIT margin at 3.7% in 2019, 4.8% in 2022 and 9.3% in 2021). However, we expect the coming years may feature a slowdown. The S&P Global PMI Poland Industrial Sector* index came in at 48.5 in May, the lowest value in almost two years. On the other hand, the construction sector is continuing to report strong data as, according to Statistics Poland (GUS), construction output rose by 9.3% y/y in April with growth dynamics exceeding 20% in January, February and March. As demand for the group's products comes at a later stage of the construction process, we expect sector demand to remain strong for at least a few more quarters. In 2022-24, we expect revenue growth to average 15% per year with a gradual decline in EBIT margin to 6.6%, which is still high.

An ambitious but not impossible strategy

Published in mid-May, TIM's strategy assumes that the company's revenue will exceed PLN 3bn and EBITDA will reach >PLN 250m by 2026. TIM's 2016-2021 revenue CAGR was 15% while the current strategy implies a 2021-2026 revenue CAGR at a minimum of 18%. At EBITDA level, TIM expects a margin of at least 8.3% (vs. 6.9% in 2020 and 11% in 2021). The above assumptions seem ambitious to us in view of the expected slowdown though not impossible to achieve.

Large investments in 3LP without negative impact on dividend policy

As 3LP's IPO has been postponed, investments related to developing this company will, for the time being, be financed with the group's earnings and debt. We do not expect these investments to upset TIM's dividend policy.

Based on our DCF model, we estimate the company's 12M valuation at PLN 910-1004mn.

	2020	2021	2022F	2023F	2024F
Revenues	1,064.9	1,314.3	1,590.3	1,765.2	2,012.3
EBITDA	73.8	144.6	161.7	148.5	173.9
EBIT	51.6	121.6	137.7	115.6	132.9
Net profit	37.1	91.8	104.5	86.8	100.9
P/E	10.8	9.1	6.7	8.1	8.2
FCF			26.0	44.6	75.6
CAPEX	9.6	6.9	56.9	42.5	17.7

Source: Company, PKO Securities

Key data

Stock price (PLN)	31.65
Number of shares	22.2
Market Cap (PLN mn)	703
Free float	56%
Free float (PLN mn)	393
EV 2021 (USD mn)	693
Net debt 2021 (USD mn)	-9.7
Bloomberg	TIM PW Equity
ISIN	PLTIM0000016

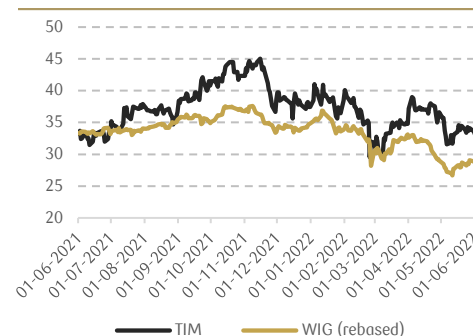
ESG Rating

ESG	7.2
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Major shareholders

Krzysztof Folta i Ewa Folta	23%
Krzysztof Wieczorkowski	14%
NN OFE	7%
-	-

Price chart



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*index illustrating the condition of the industry. This is calculated based on five sub-indexes: new orders, production, employment, delivery time and inventory of purchased items. An index value above 50 points indicates an increase in industrial activity and below this threshold it shows a decrease.

TIM

DCF model

Our valuation is based on the DCF model, which consists of two phases. In the first phase (2022F-2024F), 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% to 2% per year. We have applied a WACC-based discount rate in the range from 9.7% to 10.5%. The risk-free rate for PLN has been adopted at 4.0%. Beta has been assumed at 1.3x. We have adopted the equity risk premium at 5.5%. We have discounted all free cash flows for the company as at 31 December 2021 and deducted the forecast net debt. Our valuation has been adjusted by the expected dilution from current and future incentive programs (dilution is estimated at 7.2%).

Our DCF valuation indicates 12-month forward valuation range between PLN 910-1004mn.

DCF model						
mln PLN	2021	2022F	2023F	2024F	2024<	
EBIT	121.6	137.7	115.6	132.9	134.9	
Tax rate	19%	19%	19%	19%	19%	
NOPLAT	98.5	111.6	93.6	107.6	109.3	
CAPEX	6.9	56.9	42.5	17.7	17.7	
D&A	19.5	24.4	32.9	41.0	41.0	
Leasing	-20.0	-23.4	-26.9	-28.8	-29.8	
Changes in WC	-45.8	-29.6	-12.5	-26.7	-15.0	
FCF	45.27	26.00	44.59	75.56	87.83	
WACC	10.9%	10.9%	10.4%	10.1%		
Discount ratio	0.00	0.90	0.82	0.74		
DFCF	0.00	23.45	36.41	56.05		
Growth in phase II		1.00%	1.25%	1.50%	1.75%	2.00%
	10.5%	869	891	915	939	966
	10.3%	886	910	934	960	987
WACC	10.1%	904	929	954	981	1,010
	9.9%	923	948	975	1,004	1,034
	9.7%	943	969	997	1,027	1,059
Valuation range (PLN mn)	910-1004					

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	5.7	5.4	5.5	5.2	4.9	5.0	2.0
Grainger	18.8	17.0	15.6	12.7	11.8	10.9	1.4
Intercars	8.0	7.4	6.7	6.5	6.1	5.8	0.3
Neuca	19.2	16.4	14.8	11.5	10.5	9.8	1.5
Oponeo	13.3	12.6	12.0	8.5	8.1	7.7	2.8
MEDIAN	13.3	12.6	12.0	8.5	8.1	7.7	1.5
TIM (PKO BP Securities)	6.7	8.1	8.2	4.2	4.9	4.3	7.0
Premium/discount to PKO BP Securities forecast	-49%	-36%	-31%	-50%	-39%	-44%	360%

Source: based on Bloomberg consensus, PKO BP Securities

TIM: Summary of comparative valuation

	2022F	2023F	2024F	Average 2022-2024F
TIM net profit forecast (PLNm)	104.5	86.8	100.9	
TIM EBITDA forecast (PLNm)	161.7	148.5	173.9	
Peer companies: P/E median	13.3	12.6	12.0	
TIM Valuation (PLNm)	1,388.1	1,097.4	1,205.6	1,230.3
Peer companies: EV/EBITDA median	8.5	8.1	7.7	
TIM Valuation (PLNm)	1,385.4	1,218.5	1,351.1	1,318.3

Source: Bloomberg, PKO Securities

TIM

Profit and loss account	2018	2019	2020	2021	2022F	2023F	2024F
Revenues	830.3	890.0	1,064.9	1,314.3	1,590.3	1,765.2	2,012.3
Costs:	-812.6	-857.3	-1,012.6	-1,195.0	-1,452.4	-1,649.1	-1,878.9
D&A	-11.2	-20.5	-22.1	-23.0	-23.9	-32.9	-41.0
Materials and energy	-10.3	-14.6	-20.8	-24.0	-30.8	-35.4	-40.7
External services	-60.5	-55.0	-67.3	-79.0	-95.1	-109.3	-125.7
Taxes and fees	-1.0	-1.1	-0.9	-0.8	-0.9	-1.0	-1.1
Employment cost	-49.5	-53.9	-63.8	-75.9	-91.6	-90.1	-97.9
Other	-11.0	-10.7	-12.7	-9.2	-9.4	-10.1	-10.9
Cost of goods sold	-669.1	-701.6	-825.1	-983.1	-1,200.7	-1,370.4	-1,561.6
Gross profit on sales	17.7	32.7	52.2	119.4	137.9	116.1	133.4
EBITDA	31.1	53.0	73.8	144.6	161.7	148.5	173.9
Other operating result	2.2	-0.2	-0.6	2.2	-0.1	-0.5	-0.5
EBIT	19.9	32.5	51.6	121.6	137.7	115.6	132.9
Financial result	-1.1	-7.3	-7.1	-5.9	-8.2	-8.4	-8.4
Pre-tax profit	18.7	25.2	44.6	115.6	129.5	107.2	124.5
Income tax	-3.6	-5.7	-7.4	-23.9	-25.0	-20.4	-23.7
Net Profit (loss)	15.1	19.6	37.1	91.8	104.5	86.8	100.9

TIM

Balance Sheet	2018	2019	2020	2021	2022F	2023F	2024F
Fixed assets	116.2	185.1	171.2	154.0	200.5	224.2	214.8
Intangible assets	16.0	15.0	5.6	4.4	15.4	23.4	23.4
Tangible assets	70.5	141.8	141.9	128.9	164.5	180.1	170.8
Investments	12.5	12.1	11.7	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
Current assets	247.5	283.4	295.8	382.6	468.6	501.0	571.0
Inventories	102.0	96.8	103.3	140.4	169.9	188.5	214.9
Receivables	138.1	166.3	180.0	230.7	279.2	309.9	353.3
Other long-term assets	5.2	2.9	1.4	1.7	1.7	1.7	1.7
Cash and cash equivalents	2.2	17.4	11.1	9.7	17.8	0.9	1.0
Total Assets	370.0	468.5	467.1	536.5	669.1	725.2	785.7
Equity capital	155.4	152.7	163.1	211.6	276.7	265.4	270.6
Liabilities	214.6	315.8	303.9	324.9	392.4	459.8	515.1
Long-term liabilities	36.1	102.7	87.9	80.3	78.9	74.0	67.2
Loans and borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Leasing	25.3	91.6	77.8	69.0	67.6	62.7	55.9
Other	10.8	11.2	10.1	11.3	11.3	11.3	11.3
Short-term liabilities	178.5	213.1	216.0	244.6	313.5	385.8	447.9
Loans and borrowings	0.0	0.0	0.0	0.0	0.0	32.5	47.3
Trade liabilities and other	157.2	181.8	182.2	224.2	272.5	309.5	352.6
Leasing	7.3	16.0	14.3	13.9	13.9	13.9	13.9
Other	14.0	15.2	19.5	6.5	27.0	30.0	34.2
Total Equity & Liabilities	370.0	468.5	467.1	536.5	669.1	725.2	785.7
Cash flow	2018	2019	2020	2021	2022F	2023F	2024F
Operating cash flow	27.2	54.1	38.8	67.1	127.8	118.6	127.8
Investment cash flow	-7.1	0.9	22.9	0.6	-56.9	-42.5	-17.7
Financial cash flow	-31.4	-39.8	-68.0	-69.1	-80.4	-57.8	-68.5
Other	2018	2019	2020	2021	2022F	2023F	2024F
DPS	1.00	0.80	1.20	2.20	2.57	2.85	2.46
Net debt	-2.2	-17.4	-11.1	-9.7	-17.8	31.6	46.3

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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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TIM	3, 4, 5

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