

Selena FM

#3Q23 Forecast. We expect revenues to decline by around 9% y/y, a similar dynamic to 2Q23. Currently, the global housing market, where the company's products are mainly sold, is witnessing a decline in the number of new housing starts (in Poland, the 12m average shows a recovery from the bottom) as well as in the number of flats put into use, which is related to the current interest rate cycle. We expect gross margin to be 32% (+1pp q/q), the margin expansion is mainly due to the dilution of fixed costs with higher sales, on the raw materials side we see a positive trend (declines in silicones started at the end of last year and in MDI at the beginning of this year), but weak demand requires price adjustments to competitors' actions, which limits the room for margin expansion in the short term. The decline in prices for chemical additives and their improved availability is influenced by (1) lower ocean freight rates, (2) falling energy prices, (3) the collapse of the housing market in China and (4) weak demand in Europe. In addition, the strengthening of the PLN against the USD is having a positive impact on material purchase prices.

#Acquisitions. The final purchase price for the 90.1% stake in the Portuguese company Imperialum was set at EUR 10.8m (PLN 48m). We estimate the company's annual revenues to be around 100m PLN and EBITDA to be 11m PLN. We consolidate Imperialum's results in our forecasts from 4Q23 (c. PLN 23 mn sales).

#Market environment. According to PSB, construction materials prices fell in September for the first time in several years (-0.9%). For construction chemicals, the price increase was 5% y/y, compared to an increase of 11% y/y, indicating a significant slowdown in price growth last month.

PLNm	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	y/y	q/q
Revenues	493,1	447,6	421,6	499,2	569,0	473,5	412,2	452,5	516,0	-9%	14%
EBITDA	47,8	19,2	36,8	38,8	79,4	44,2	9,9	38,6	59,5	-25%	54%
EBIT	36,5	8,0	25,8	27,2	67,6	33,1	0,4	28,7	49,8	-26%	73%
Net profit	31,1	31,8	25,0	23,4	46,4	17,3	-5,1	11,9	35,7	-23%	200%
P/E12M trailing	9,7	6,8	6,3	6,8	5,5	6,2	8,5	6,2	11,6		
EV/EBITDA 12M trailing	5,4	5,7	5,7	5,7	4,5	3,4	4,4	3,4	6,0		
revenues growth y./y.	14%	28%	21%	14%	15%	6%	-2%	-9%	-9%		
EBITDA margin	9,7%	4,3%	8,7%	7,8%	14,0%	9,3%	2,4%	8,5%	11,5%		
EBIT margin	7,4%	1,8%	6,1%	5,4%	11,9%	7,0%	0,1%	6,4%	9,6%		
Net profit margin	6,3%	7,1%	5,9%	4,7%	8,2%	3,6%	-	2,6%	6,9%		

Buy

(Previous: Buy; 40,4 PLN)

Target Price: 42,5 PLN

Current Price: 30,4 PLN

Upside: 40%

3Q'23 Earnings

17.11.2023

FACT SHEET

Ticker	SEL		
Sector	Building chemicals		
Sector	30,4		
52W range (PLN)	18 / 26,4		
Shares outstanding (m)	22,8		
Market Cap (PLNm)	694		
S&P Global ESG Scores	-		
3M Avg. Vol. (PLNm)	0,02		
Price perf.	1M	3M	1Y
	-5,2%	-14,8%	-22,1%

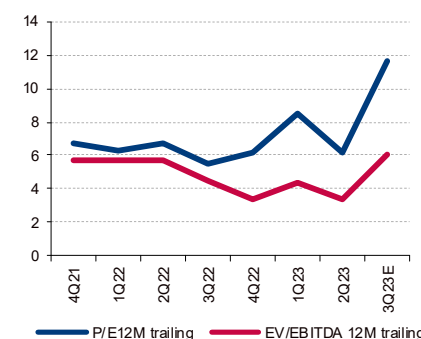
RECOMMENDATIONS

Buy

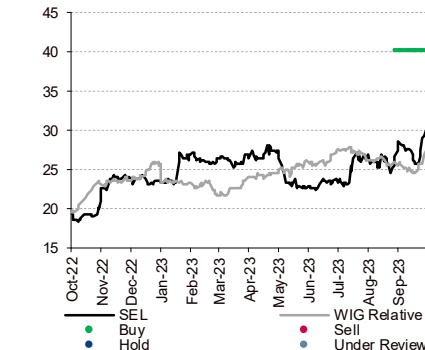
Date 14.09.2023

Valuation 40,4

P/E 12M vs EV/EBITDA 12M



RELATIVE SHARE PRICE VS WIG INDEX



PLNm	2020	2021	2022	2023E	2024E	2025E
Revenues	1 384,7	1 728,4	1 963,3	1 846,7	1 984,6	2 080,6
EBITDA	165,7	136,8	199,2	128,5	149,5	173,8
EBIT	127,2	92,7	153,6	87,9	102,3	125,7
Net profit	76,2	102,7	112,1	44,7	67,5	95,3
EPS (PLN)	3,34	4,5	4,9	2,0	3,0	4,2
DPS (PLN)	0,0	0,0	0,0	1,3	0,5	1,0
P/E (x)	9,1	6,8	6,2	15,5	10,3	7,3
EV/EBITDA (x)	4,3	5,7	3,4	5,9	4,9	3,9
P/BV (x)	1,3	1,2	1,0	1,0	0,9	0,8
DY (%)	0,0%	0,0%	0,0%	4,4%	1,6%	3,3%

Quarterly update 3Q'23

Poland | Equity Research

Valuation	Current		Previous		Change
DCF	42,5	100%	40,4	100%	5%
Multiples	46,0	0%	41,7	0%	10%

PLNm	2023E			2024E			2025E		
	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.
Revenues	1847	1890	-2%	1985	1954	2%	2081	2050	1%
EBITDA	129	121	6%	150	145	3%	174	170	3%
EBIT	88	81	9%	102	98	5%	126	121	4%
Net profit	45	48	-7%	67	66	3%	95	93	2%
P/E (x)	15,5	14,4		10,3	10,6		7,3	7,5	
EV/EBITDA (x)	5,9	6,3		4,9	5,0		3,9	4,0	
P/BV (x)	1,0			1,0			0,9		
DY (%)	4,4%			1,6%			3,3%		

Multiples	2021	2022	2023E	2024E	2025E	
P/E (x)	6,8	6,2	15,5	10,3	7,3	
adj. P/E (x)	7,3	7,0	15,2	10,3	7,3	
P/BV (x)	1,2	1,0	1,0	0,9	0,8	
EV/EBITDA (x)		5,7	3,4	5,9	4,9	3,9
adj. EV/EBITDA (x)		6,1	3,7	5,9	4,9	3,9
EV/Sales (x)		0,4	0,3	0,4	0,4	0,3
FCF Yield (%)		-8,1%	22,8%	-6,6%	8,2%	12,7%
DY (%)		0,0%	0,0%	4,4%	1,6%	3,3%

KPIs	2021	2022	2023E	2024E	2025E
EPS (PLN)	4,5	4,9	2,0	3,0	4,2
adj. EPS (PLN)	4,2	4,4	2,0	3,0	4,2
DPS (PLN)	0,0	0,0	1,3	0,5	1,0
BVPS (PLN)	26,3	31,3	31,0	33,5	36,7

Operational ratios	2021	2022	2023E	2024E	2025E
Gross margin (%)	27,8%	30,1%	30,0%	30,4%	31,0%
adj. EBITDA margin (%)	7,4%	9,3%	7,0%	7,5%	8,4%
EBIT margin (%)	5,4%	7,8%	4,8%	5,2%	6,0%
Net profit adj. margin (%)	5,5%	5,1%	2,5%	3,4%	4,6%

ROE (%)	18,3%	17,0%	6,3%	9,2%	11,9%
ROA (%)	10,1%	9,8%	3,8%	5,7%	7,7%
CAPEX/Sales (%)	1,9%	1,9%	5,6%	3,0%	2,3%
CAPEX/D&A (x)	0,7	0,8	2,6	1,3	1,0
Net debt/Equity (x)	0,1	0,0	0,1	0,0	0,0
Net debt/EBITDA (x)	0,6	-0,1	0,5	0,2	-0,1

Cash conversion cycle (days)	68	67	62	60	60
Inventory turnover (days)	50	50	39	38	38
Receivables turnover (days)	59	54	54	52	52
Payables turnover (days)	41	38	31	30	30

Income Statement (PLNm)	2020	2021	2022	2023E	2024E	2025E
Revenues	1 385	1 728	1 963	1 847	1 985	2 081
COGS	917	1 249	1 373	1 292	1 381	1 436
Gross Profit	468	480	591	554	604	645
Selling costs	229	270	308	313	332	343
G&A costs	114	126	145	152	170	176
Profit on sales	125	83	138	89	102	126
Other operating items, net	2	9	16	-1	0	0
EBITDA	166	137	199	129	150	174
adj. EBITDA	164	127	183	130	150	174
D&A	39	44	46	41	47	48
EBIT	127	93	154	88	102	126
Net financial costs	-33	-7	-22	-38	-15	-7
EBT	95	88	134	51	87	119
Income tax	-19	14	-22	-5	-17	-24
Minority interest	0	0	0	1	2	0
Net profit	76	103	112	45	67	95
adj. net profit	75	95	99	46	67	95

Balance Sheet (PLNm)	2020	2021	2022	2023E	2024E	2025E
Non-current Assets	373	368	407	474	487	487
Current Assets	553	740	764	697	725	775
Inventories	193	280	262	258	268	281
Receivables	252	305	276	272	283	296
Cash and cash equivalents	68	96	158	92	99	123
Assets	926	1 109	1 171	1 171	1 212	1 262
Equity	523	601	715	709	765	837
Minority Interests	1	1	3	4	6	6
Non-current Liabilities	47	80	86	69	59	47
Long-term borrowings	33	66	72	57	48	36
Current Liabilities	355	426	367	390	382	371
Short-term borrowings	54	112	62	101	84	64
Payables	187	198	208	205	213	223
Equity and Liabilities	926	1 109	1 171	1 171	1 212	1 262

Cash Flow Statement (PLNm)	2020	2021	2022	2023E	2024E	2025E
Cash flow from operating activities	112	-30	190	54	119	134
Changes in working capital	-13	-130	57	5	-13	-16
D&A	39	44	46	41	47	48
Cash flow from investing activities	-73	-36	-38	-99	-60	-48
CAPEX	-33	-33	-37	-104	-60	-48
Cash flow from financing activities	-70	49	-91	-24	-53	-62
Dividend/Buy-back	0	0	0	-30	-11	-23
Net change in cash	-31	-17	61	-69	7	24
Cash opening balance	99	68	51	112	32	39
Cash closing balance	68	51	112	44	39	62

Valuation

#DCF

DCF VALUATION (PLNm)	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues	1963	1847	1985	2081	2166	2236	2306	2376	2441	2506	2571
Y/Y	14%	-6%	7%	5%	4%	3%	3%	3%	3%	3%	3%
EBITDA	154	129	150	174	180	184	187	191	193	195	197
EBITDA margin	7,8%	7,0%	7,5%	8,4%	8,3%	8,2%	8,1%	8,0%	7,9%	7,8%	7,7%
EBIT	154	88	102	126	132	136	139	143	145	147	149
EBIT margin	7,8%	4,8%	5,2%	6,0%	6,1%	6,1%	6,0%	6,0%	5,9%	5,9%	5,8%
NOPLAT	124	71	83	102	107	110	113	115	117	119	121
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
D&A		41	47	48	48	48	48	48	48	48	48
CAPEX		-104	-60	-48	-48	-48	-48	-48	-48	-48	-48
Changes in working capital		5	-13	-16	-14	-12	-12	-12	-11	-11	-11
FCF		13	57	86	92	98	101	104	106	108	110
D/(E+D)		18,2%	14,8%	10,7%	9,9%	9,2%	8,7%	8,2%	7,7%	7,3%	7,0%
Beta leverage		1,2	1,1	1,1	1,1	1,1	1,1	1,1	1,1	1,1	1,1
Cost of debt after tax		6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%
Cost of equity		13,1%	12,8%	12,6%	12,5%	12,5%	12,5%	12,4%	12,4%	12,4%	12,4%
WACC		11,8%	11,8%	11,9%	11,9%	11,9%	11,9%	11,9%	11,9%	11,9%	11,9%
Discount ratio		0,89	0,80	0,71	0,64	0,57	0,51	0,46	0,41	0,36	0,33
Cum. DFCF		451									
Residual growth rate		1,5%									
Discounted Residual Value		346									
Enterprise Value		797									
Net debt (-)		-24									
Dividend (-)		32									
Minority Interests (-)*		11									
Equity Value (1.1.2023)		777									
Equity Value (23.10.2023)		860									
Shares outstanding (m)		22,8									
Equity Value per share (23.10.2023)		37,7									
12M Target Price (PLN)		42,5									
Curr. share price		30,0									
Upside / (downside)		41,7%									

Source: Trigon DM, * including 10% minority interests worth PLN 5.3m based on the transaction price

Assumptions for the DCF model:

- market premium 6%
- rfr 6%
- unleveraged beta 6%
- residual growth rate 1.5%

#Multiples

Company	MC (mUSD)	EV/EBITDA 2023E	EV/EBITDA 2024E	EV/EBITDA 2025E	P/E 2023E	P/E 2024E	P/E 2025E	EV/EBIT 2023E	EV/EBIT 2024E	EV/EBIT 2025E
Selena	161	5,8	4,8	3,8	15,3	10,2	7,2	8,5	7,0	5,3
Building materials - Poland		7,2	7,2	6,9	10,5	8,6	9,4	8,5	8,9	8,5
Grupa Kęty	1515	9,0	8,5	8,3	12,8	12,7	12,1	11,6	11,0	10,7
Śnieżka	236	-	-	-	-	-	-	-	-	-
Ferro	147	7,2	5,9	5,5	10,5	7,4	6,8	8,5	6,8	6,3
Pekabex	122	5,5	-	-	8,9	8,6	-	5,5	-	-
Rawiplug	100	-	-	-	-	-	-	-	-	-
Building materials - Global		8,6	7,8	6,5	16,6	13,4	11,8	11,5	10,5	9,4
3M	48056	7,4	7,2	6,5	9,7	9,3	8,6	9,5	9,2	8,2
Sika	39333	19,3	15,9	14,1	31,6	24,9	22,0	25,0	20,1	17,5
Saint Gobain	26626	4,7	4,3	4,0	8,1	7,7	7,2	6,5	5,9	5,3
Henkel	28656	9,0	8,2	7,5	16,6	14,9	13,6	11,5	10,4	9,4
Kingspan	12019	11,9	11,1	9,9	17,2	16,5	14,9	14,7	13,9	12,1
Akzo Nobel	11462	10,6	9,1	8,2	16,6	13,2	11,8	14,2	11,6	10,3
RPM	12163	12,6	12,1	11,2	18,9	18,1	16,4	14,8	14,2	13,2
Rockwool	4632	5,8	5,8	5,4	12,0	12,3	11,3	8,8	8,9	8,2
Sto SE	891	3,7	3,6	3,1	10,2	10,3	9,3	5,8	5,6	4,8
Steico	350	8,6	7,8	6,5	19,1	15,8	11,9	16,7	14,3	11,2
Uzin UTZ	218	5,9	6,5	5,9	10,8	13,4	11,6	9,2	10,5	9,1
Partial valuation		945	1 088	1 193	604	740	1 012	815	958	1 150
Weight of the year		33%	33%	33%	33%	33%	33%	33%	33%	33%
Partial valuation			1075			785			974	
Indicator weight			50%			50%			0%	
Multiple valuation		930,2								
No of shares		22,83								
Current valuation per share		40,7								
TP 12M		46,0								
			min PLN	2023P	2024P	2025P				
Przychód	1847	1985	2081							
EBITDA	129	150	174							
EBIT	88	102	126							
Z. netto	45	67	95							
D. netto	66	33	-23							

Source: Bloomberg, Trigon DM

Risk Factors

- **Exchange rates.** Production realised in Poland represents approximately 45% of total sales, while the market share of sales in the Polish market is <30%. The ratio of raw material consumption costs to realised revenues is approximately 50% and purchases are mainly made in EUR and USD. However, a significant proportion of foreign currency costs overlap with realised revenues, and high exchange rate volatility makes it difficult to implement an optimal purchasing strategy.
- **Competitive pressures.** In the past, weak market conditions have led to increased competitive and pricing pressure from some players, resulting in reduced margins in the industry. In addition, more aggressive pricing by competitors may lead to a redistribution of market shares among individual players.
- **Raw material prices.** The market for raw material suppliers is highly consolidated and the company is therefore a market price taker. Our strategy of multi-sourcing, i.e. sourcing from a number of different sources depending on local market prices, allows us to optimise our purchasing structure to a large extent in terms of the margins we can achieve.
- **Situation in the construction market.** The company's sales are mainly focused on the housing and volume construction markets. High interest rates are leading to a reduction in the volume of new housing purchases and a reduction in the realisation of cubature investments, as investors find it difficult to access finance. In turn, high inflation limits the purchasing power of consumers, who postpone home improvements.
- **Risk of unsuccessful M&A.** The company's strategy is based on the implementation of mergers and acquisitions of companies with a similar business profile (foams, adhesives, sealants) in markets where the company's presence is negligible and on market shares in the area of complementary product offerings (e.g. glass wool). There is a risk that the acquired businesses will not meet the Board's performance expectations.

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Gross profit margin - a ratio of gross profit to net revenue
EBITDA margin - a ratio of sum of operating profit and depreciation/amortisation to net revenue
EBIT margin - a ratio of operating profit to net revenue
net margin - a ratio of net profit to net revenue

EPS - earnings per share
DPS - dividends per share
P/E - a ratio of market price to earnings per share
P/BV - a ratio of market price to book value per share
EV/EBITDA - a company's EV to EBITDA ratio
EV - sum of a company's current capitalisation and net debt
DY - dividend yield, dividend paid to share price ratio

RFR - risk-free rate
WACC - weighted average cost of capital

Recommendations of the Brokerage House

BUY - we expect that the rate of return on an investment will be at least 10%
NEUTRAL - we expect the price of an investment to be relatively stable, optionally it will increase no greater than 10%
SELL - we expect that an investment will make a loss greater than 0%
Recommendation prepared by: Grzegorz Kujawski, Maciej Marciniowski, David Sharma, Dominik Niszcz, Michał Kozak, Kacper Koproń, Katarzyna Kosiorek, Łukasz Rudnik, Piotr Rychlicki, Piotr Chodyra

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