Selena FM

Buy

(Previous: Buy; 46.2 PLN)

Target Price: 46,4 PLN

Current Price: 32.7 PLN

Upside: 42%

1Q24 Earnings

29.05.2024

#1Q24 forecast. We assume revenues of PLN 408m, down ca. 1% y/y. We include PLN 25mn of quarterly Imperalum sales in construction chemicals revenue. According to the PSB, construction chemicals prices fell by ca. 1% y/y in Jan-Feb'24. The situation on the construction materials market remains difficult, although production of the main categories presented by the CSO shows ytd growth. We also note an improvement in construction in selected markets where the Company is present - in 4Q23, building permits in Italy increased by 15.8% y/y and in Spain by 44% (LINK), while the beginning of the year shows an increase in construction output in these countries (LINK). We assume a 2pp y/y increase in gross margin to 31%, the margin improvement is supported by the relatively cheap stock of MDI and other chemical raw materials (MDI prices in Europe amounted to c. EUR 2278/t in 4Q23, i.e. -20% q/q), while we note that benzene prices (MDI raw material) are now c. 28% higher relative to average December prices, and polypropylene prices (polyols raw material) are 16% higher.

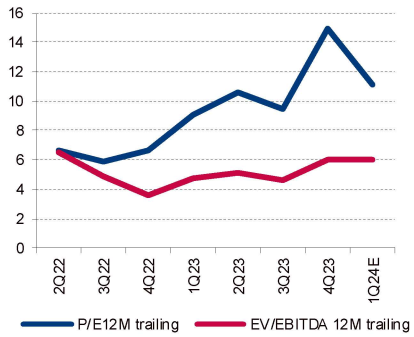
#Valuation. We reiterate our BUY recommendation and raise our target price to PLN 46.4/share. Our cumulative EBITDA forecast for 2024-2026 has been raised by 6% and our net profit forecast by 4%.

#Cross-read market. Huntsman's results in the polyurethanes (MDI) segment for 4Q23 indicated a significant decline in raw material prices, with the average realised price falling by 15% y/y and the segment's EBITDA margin at 1.5% (vs. 6.5% in 2023), a similar trend was observed at Covestro, where the Performance Materials (TDI, MDI) segment recorded EBITDA margins of 1%, with the average price falling by 22% y/y. The EU's climate policy aimed at reducing the carbon footprint of buildings (EU EPBD), will significantly support Selena Group's sales in the coming years.

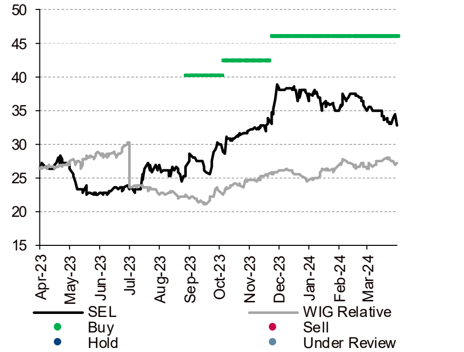
FACT SHEET			
Ticker			SEL
Sector			Building chemicals
Sector			32.7
52W range (PLN)			22,2 / 39,9
Shares outstanding (m)			22.8
Market Cap (PLNm)			747
S&P Global ESG Scores			-
3M Avg. Vol. (PLNm)			0.04
	1M	**3M**	**1Y**
Price perf.	-4.9%	-8.6%	32.6%

RECOMMENDATIONS	Date	Valuation
Buy	11.12.2023	46.2
Buy	23.10.2023	42.5
Buy	14.09.2023	40.4

P/E 12M vs EV/EBITDA 12M



RELATIVE SHARE PRICE vs WIG



PLNm	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	y/y	q/q
Revenues	421.6	499.2	569.0	473.5	412.2	452.5	491.6	422.1	407.5	-1%	-3%
EBITDA	36.8	38.8	79.4	44.2	9.9	38.6	80.7	19.3	29.8	199%	55%
EBIT	25.8	27.2	67.6	33.1	0.4	28.7	70.5	8.4	18.1	4239%	114%
Net profit	25.0	23.4	46.4	17.3	-5.1	11.9	54.9	-11.6	11.7	-	-
P/E12M trailing	6.8	6.7	5.9	6.7	9.1	10.6	9.5	14.9	11.2		
EV/EBITDA 12M trailing	6.0	6.6	4.8	3.6	4.7	5.1	4.7	6.0	6.0		
revenues growth y/y	21%	14%	15%	6%	-2%	-9%	-14%	-11%	-1%		
EBITDA margin	8.7%	7.8%	14.0%	9.3%	2.4%	8.5%	16.4%	4.6%	7.3%		
EBIT margin	6.1%	5.4%	11.9%	7.0%	0.1%	6.4%	14.3%	2.0%	4.4%		
Net profit margin	5.9%	4.7%	8.2%	3.6%	-	2.6%	11.2%	-	2.9%		

PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	1,728.4	1,963.3	1,778.4	1,841.5	1,957.5	2,052.5
EBITDA	136.8	199.2	148.5	168.8	179.1	189.9
EBIT	92.7	153.6	108.1	121.4	130.9	140.3
Net profit	102.7	112.1	50.1	81.3	94.8	104.0
EPS (PLN)	4.50	4.9	2.2	3.6	4.2	4.6
DPS (PLN)	0.0	0.0	1.3	0.7	1.0	1.2
P/E (x)	7.3	6.7	14.9	9.2	7.9	7.2
EV/EBITDA (x)	6.1	3.6	6.0	5.3	4.7	4.2
P/BV (x)	1.2	1.0	1.1	1.0	0.9	0.8
DY (%)	0.0%	0.0%	4.1%	2.1%	3.1%	3.7%

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Quarterly update 1Q24

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INDUSTRIALS

Valuation	Current		Previous		Change
DCF	46.4	100%	46.2	100%	0%
Multiples	51.1	0%	58.9	0%	-13%

	2024E			2025E			2026E		
PLNm	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.
Revenues	1842	1853	-1%	1958	1949	0%	2053	2034	1%
EBITDA	169	163	4%	179	172	4%	190	173	10%
EBIT	121	118	3%	131	127	3%	140	127	11%
Net profit	81	82	-1%	95	92	3%	104	94	11%
P/E (x)	9.2	9.1		7.9	8.1		7.2	7.9	
EV/EBITDA (x)	5.3	5.4		4.7	4.9		4.2	4.6	
P/BV (x)	1.1			1.0			0.9		
DY (%)	2.1%			3.1%			3.7%		

Multiples	2022	2023	2024E	2025E	2026E
P/E (x)	6.7	14.9	9.2	7.9	7.2
adj. P/E (x)	7.5	21.0	9.2	7.9	7.2
P/BV (x)	1.0	1.1	1.0	0.9	0.8
EV/EBITDA (x)	3.6	6.0	5.3	4.7	4.2
adj. EV/EBITDA (x)	3.9	6.9	5.3	4.7	4.2
EV/Sales (x)	0.4	0.5	0.5	0.4	0.4
FCF Yield (%)	21.1%	2.8%	5.3%	9.3%	12.1%
DY (%)	0.0%	4.1%	2.1%	3.1%	3.7%

KPIs	2022	2023	2024E	2025E	2026E
EPS (PLN)	4.9	2.2	3.6	4.2	4.6
adj. EPS (PLN)	4.4	1.6	3.6	4.2	4.6
DPS (PLN)	0.0	1.3	0.7	1.0	1.2
BVPS (PLN)	31.3	30.6	33.4	36.6	39.9

Operational ratios	2022	2023	2024E	2025E	2026E
Gross margin (%)	30.1%	30.9%	31.6%	31.5%	31.5%
adj. EBITDA margin (%)	9.3%	7.3%	9.2%	9.1%	9.3%
EBIT margin (%)	7.8%	6.1%	6.6%	6.7%	6.8%
Net profit adj. margin (%)	5.1%	2.0%	4.4%	4.8%	5.1%
ROE (%)	17.0%	7.1%	11.1%	11.9%	11.9%
ROA (%)	9.8%	4.1%	6.2%	6.9%	7.2%
CAPEX/Sales (%)	1.9%	3.3%	3.3%	3.1%	2.7%
CAPEX/D&A (x)	0.8	1.4	1.3	1.2	1.1
Net debt/Equity (x)	0.0	0.2	0.2	0.1	0.0
Net debt/EBITDA (x)	-0.1	1.0	0.8	0.6	0.2
Cash conversion cycle (days)	67	62	63	63	63
Inventory turnover (days)	50	48	37	37	37
Receivables turnover (days)	54	59	60	60	60
Payables turnover (days)	38	44	34	34	34

Income Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
Revenues	**1,728**	**1,963**	**1,778**	**1,842**	**1,958**	**2,053**
COGS	1,249	1,373	1,228	1,259	1,341	1,406
Gross Profit	**480**	**591**	**550**	**582**	**617**	**647**
Selling costs	270	308	307	303	323	339
G&A costs	126	145	153	158	163	168
Profit on sales	83	138	90	121	131	140
Other operating items, net	9	16	18	0	0	0
EBITDA	**137**	**199**	**149**	**169**	**179**	**190**
adj. EBITDA	**127**	**183**	**130**	**169**	**179**	**190**
D&A	44	46	40	47	48	50
EBIT	**93**	**154**	**108**	**121**	**131**	**140**
Net financial costs	-7	-22	-50	-23	-15	-13
EBT	**88**	**134**	**55**	**103**	**120**	**131**
Income tax	14	-22	-5	-21	-24	-26
Minority interest	0	0	0	1	1	1
Net profit	**103**	**112**	**50**	**81**	**95**	**104**
adj. net profit	**95**	**99**	**36**	**81**	**95**	**104**

Balance Sheet (PLNm)	2021	2022	2023	2024E	2025E	2026E
Non-current Assets	**368**	**407**	**597**	**610**	**622**	**627**
Current Assets	**740**	**764**	**689**	**744**	**786**	**870**
Inventories	280	262	203	246	262	275
Receivables	305	276	298	303	322	338
Cash and cash equivalents	96	158	86	92	100	155
Assets	**1,109**	**1,171**	**1,286**	**1,353**	**1,407**	**1,497**
Equity	**601**	**715**	**698**	**763**	**835**	**912**
Minority Interests	**1**	**3**	**3**	**4**	**5**	**6**
Non-current Liabilities	**80**	**86**	**107**	**106**	**94**	**94**
Long-term borrowings	66	72	87	86	74	74
Current Liabilities	**426**	**367**	**478**	**480**	**473**	**485**
Short-term borrowings	112	62	149	147	126	126
Payables	198	208	224	228	243	254
Equity and Liabilities	**1,109**	**1,171**	**1,286**	**1,353**	**1,407**	**1,497**

Cash Flow Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
Cash flow from operating activities	**-30**	**190**	**84**	**107**	**139**	**151**
Changes in working capital	-130	57	54	-45	-20	-17
D&A	44	46	40	47	48	50
Cash flow from investing activities	**-36**	**-38**	**-117**	**-60**	**-60**	**-55**
CAPEX	-33	-37	-58	-60	-60	-55
Cash flow from financing activities	**49**	**-91**	**7**	**-41**	**-71**	**-40**
Dividend/Buy-back	0	0	-30	-16	-23	-27
Net change in cash	-17	61	-26	6	7	56
Cash opening balance	113	96	158	132	82	89
Cash closing balance	96	158	132	138	89	145

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Valuation

#DCF

DCF VALUATION (PLNm)	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenues	1778	1842	1958	2053	2123	2193	2253	2309	2365	2421	2473
Y/Y	*-9%*	*4%*	*6%*	*5%*	*3%*	*3%*	*3%*	*2%*	*2%*	*2%*	*2%*
EBITDA	149	169	179	190	196	199	203	206	208	211	212
EBITDA margin	*8.4%*	*9.2%*	*9.1%*	*9.3%*	*9.2%*	*9.1%*	*9.0%*	*8.9%*	*8.8%*	*8.7%*	*8.6%*
EBIT	108	121	131	140	146	149	153	155	158	161	162
EBIT margin	*6.1%*	*6.6%*	*6.7%*	*6.8%*	*6.9%*	*6.8%*	*6.8%*	*6.7%*	*6.7%*	*6.6%*	*6.6%*
NOPLAT	**88**	**98**	**106**	**114**	**118**	**121**	**124**	**126**	**128**	**130**	**131**
Tax rate	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*
D&A	40	47	48	50	50	50	50	50	50	50	50
CAPEX		-60	-60	-55	-50	-50	-50	-50	-50	-50	-50
Changes in working capital		-45	-20	-17	-12	-12	-11	-10	-10	-10	-9
FCF		**41**	**74**	**92**	**106**	**109**	**113**	**116**	**118**	**120**	**122**
D/(E+D)		23.4%	19.3%	18.0%	16.9%	15.9%	15.0%	14.2%	13.5%	12.8%	12.2%
Beta leverage		1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.1	1.1	1.1
Cost of debt after tax		5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%
Cost of equity		13.0%	12.7%	12.6%	12.5%	12.4%	12.4%	12.3%	12.3%	12.2%	12.2%
WACC		11.3%	11.3%	11.3%	11.3%	11.3%	11.4%	11.4%	11.4%	11.4%	11.4%
Discount ratio		0.90	0.81	0.73	0.65	0.59	0.53	0.47	0.42	0.38	0.34

Cum. DFCF	**548**
Residual growth rate	1.5%
Discounted Residual Value	**428**
Enterprise Value	**975**
Ned debt (-)	61
Dividend (-)	0
Minority Interests (-)*	8
Equity Value (1.1.2024)	**906**
Equity Value (22.4.2024)	**941**
Shares outstanding (m)	22.8
Equity Value per share (22.4.2024)	41.2
12M Target Price (PLN)	**46.4**
Curr. share price	32.0
Upside / (downside)	**45.0%**

		WACC				
		10.3%	10.8%	11.3%	11.8%	12.3%
	0.0%	48.4	45.7	43.2	41.0	38.9
	0.5%	49.6	46.8	44.2	41.8	39.7
	1.0%	51.0	48.0	45.2	42.7	40.5
g	1.5%	52.6	49.3	46.4	43.7	41.4
	2.0%	54.3	50.8	47.7	44.9	42.3
	2.5%	56.2	52.5	49.1	46.1	43.4
	3.0%	58.4	54.3	50.7	47.5	44.6

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

DCF model assumption:

- Market premium 6%
- Risk free rate 5,5%
- Unleverage beta 1x
- Residual growth rate 1,5%

#Multiple

	P/E			EV/EBITDA			EV/EBIT		
Company	**2024E**	**2025E**	**2026E**	**2024E**	**2025E**	**2026E**	**2024E**	**2025E**	**2026E**
Selena	9.3	8.0	7.3	5.3	4.8	4.2	7.4	6.6	5.7
Median	**12.3**	**11.5**	**10.0**	**7.8**	**7.1**	**5.8**	**10.8**	**9.5**	**8.4**
premium / (discount)	-24%	-31%	-27%	-31%	-32%	-27%	-31%	-31%	-32%
Materiały budowlane - Polska	**9.0**	**8.4**	**6.4**	**7.1**	**6.4**	**4.4**	**9.0**	**7.5**	**6.4**
Grupa Kęty	13.4	12.3	11.5	9.5	8.6	8.2	11.9	10.7	10.0
Snieżka	10.9	10.3	---	7.3	6.6	---	9.4	8.5	---
Ferro	9.0	8.4	---	7.1	6.4	---	8.3	7.5	---
Pekabex	8.1	7.0	6.4	5.1	4.7	4.0	6.4	5.9	4.9
Rawlplug	8.0	6.4	5.4	5.8	4.9	4.4	9.0	7.2	6.4
Materiały budowlane - zagrani	**15.5**	**14.6**	**13.7**	**8.5**	**7.7**	**7.2**	**12.6**	**11.5**	**10.5**
3M	10.4	10.2	9.9	7.2	7.0	6.7	9.3	8.9	8.5
Sika	32.7	28.8	25.7	20.0	17.8	16.1	25.7	22.4	20.0
Saint-Gobain	11.5	10.6	9.9	6.3	5.7	5.2	8.5	7.7	6.9
Henkel	15.3	14.6	13.8	8.5	7.8	7.2	11.0	10.0	9.1
Kingspan	22.4	20.6	19.1	14.2	12.5	11.0	17.8	15.8	14.3
Akzo Nobel	15.5	13.7	12.3	9.8	9.0	8.3	12.7	11.5	10.5
RPM	20.7	18.6	17.9	13.5	12.5	11.6	15.8	14.5	13.4
Rockwool	17.1	15.9	14.7	8.3	7.7	7.2	12.6	11.6	10.7
Sto SE	12.0	10.4	---	4.2	3.5	---	6.5	5.3	5.8
Steico	22.3	16.8	13.6	8.8	7.6	6.3	17.3	13.8	10.5
Uzin UTZ	11.4	10.2	9.4	5.7	5.3	4.9	8.7	7.8	7.2
Partial year valuation	**999**	**1,091**	**1,043**	**1,170**	**1,170**	**1,061**	**1,170**	**1,139**	**1,137**
Year weight	33%	33%	33%	33%	33%	33%	33%	33%	33%
Partial multiple valuation	**1,045**			**1,134**			**1,148**		
Multiple weight	50%			50%			0%		

Current valuation (PLNm)	**1,089**
No. Shares	22.8
Current valuation per share	46.7
12mth TP	**51.1**

Source: Bloomberg, Trigon DM

Risk factors:

(1) 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.
(2) 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.
(3) 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.
(4) 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.
(5) 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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EUROMONEY AWARDS FOR EXCELLENCE POLAND 2023 BEST INVESTMENT BANK

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Glossary of professional terms:
capitalisation – market price multiplied by the number of a company's shares
free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company
min/max 52 wks – lowest/highest share price over the previous 52 weeks
average turnover – average volume of share trading over the previous month

EBIT – operating profit
EBITDA – operating profit before depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
CAPEX – sum of investment expenditures on fixed assets
OCF – cash generated through a company's operating activities
FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets
ROA – rate of return on assets
ROE – rate of return on equity
ROIC – rate of return on invested capital
NWC – net working capital
cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services
gross profit margin – ratio of gross profit to net revenue
EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – ratio of operating profit to net revenue
net margin – ratio of net profit to net revenue
EPS – earnings per share
DPS – dividend per share
P/E – ratio of market price to earnings per share
P/BV – ratio of market price to book value per share
EV/EBITDA – ratio of a company's EV to EBITDA
EV – sum of a company's current capitalisation and net debt
DY – dividend yield, ratio of dividends paid to share price
RFR – risk free rate
WACC – weighted average cost of capital

Recommendations of the Brokerage House
Issuer – SELENA FM S.A.
BUY – we expect the total return on an investment to reach at least 10%
HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 10%
SELL – we expect negative total return on an investment of more than -0%

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The Brokerage House may update its recommendations at any time, depending on the prevailing market conditions or the judgement of persons who produced a given recommendation.
Short-term recommendations (particularly those designated as speculative) may be valid for shorter periods of time. Short-term recommendations designated as speculative involve a higher investment risk.
Document prepared by: Łukasz Rudnik

Valuation methods used
SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.
- Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.
- Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.

Risk-adjusted net present value method (rNPV)
- Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.
- Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.

Discounted residual income method (DRI)
- Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.
- Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.

Discounted dividend model (DDM)
- Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.
- Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.

Net asset value method (NAV)
- Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.
- Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.

Target multiple method
- Advantages: the method can be applied to any company.
- Disadvantages: it involves a high degree of subjectivity.

Replacement value method – it assesses the value of a company based on the costs of replacing its assets.
- Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.
- Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.

Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.
- Advantages: the method can capture the lowest threshold of a company's value.
- Disadvantages: it may be hard to capture the value of a company's intangibles.

: 2024-04-25 7:00
Date and time when it was first disseminated: 2024-04-25 8:00

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