

Selena FM

#2Q24 forecast. We assume revenue of PLN 468m, up ca. 3% y/y. In construction chemicals revenue, we include PLN 20mn quarterly sales of Imperialum (consolidated from 1 Sep'23; PLN 75mn revenue and PLN 5.7mn net profit for the whole of '24), which is gradually benefiting from cross-selling. Looking at the data on building permits issued/delivered space, we expect the Spanish and Polish markets to perform relatively well ([LINK](#)). Despite the fact that most countries have already been allocated NIP funds, thermal modernisation programmes are not yet launched, which we believe could be influenced by this year's electoral calendar (June's European parliamentary elections). We expect a significant increase in demand for construction chemicals in 2025 (~10% y/y), which should also be supported by the EU EPBD.

#Commodity prices and margins. Benzene (BNG: POLIBERO; an intermediate for MDI) and propylene (BNG: POLIPRNW; an intermediate for polyols) prices in 2Q24 were USD/t 1172 (flat q/q, +130 USD/t vs 4Q23, current spot USD/t 1050) and USD/t 1062 (-30 USD/t q/q, +185 USD/t vs 4Q23, current spot USD/t 990), respectively. MDI prices are holding steady (EUR 2255/t) after a decline in Oct/Nov'23. Gradually, the market is seeing more price pressure, but its magnitude is relatively small and, in our view, it will affect GM's downside only in 3Q24 (y/y), while in 2Q24 we assume GM's downside of 33% (favourable raw material prices, not much price pressure, good product mix - sales of higher-margin foams). At the net level, results should be negatively impacted by unrealised exchange rate differences (especially KZT/PLN).

#Implications of sea freight price increases. We note the increase in ocean freight prices, the average spot freight price on the Shanghai-Rotterdam route (BNG: WCIDSHRO), was USD 4631/40ft in 2Q24 (+12% q/q and +280% vs 4Q23), while current prices are USD 7300/40ft. In Selena Group, the cost of importing raw materials/semi-finished products/products from China itself is relatively small, purchases of raw materials are made on the basis of price arbitrage in individual markets, however, it may cause an impact on the market situation both on the side of customers (DIY channel), who import simpler, lower-margin finished products sold under private labels from China, and competitors, who import production raw materials from China. The scale of the turmoil at the moment is difficult to estimate.

#Cross-read market. Huntsman's polyurethanes (MDI) results for 1Q24 indicated continued low raw material prices, even though the EBITDA margin increased from 1.5% in 4Q243 to 4.2% in 1Q24. Sales volumes were 9% higher y/y, implying a 14% y/y decrease in average price. A similar trend was recorded by Covestro - Performance Materials segment (TDI, MDI) - volumes+17% y/y, price -21% y/y. However, the rebound in demand was mainly due to an increase in demand from other industries (footwear, furniture industry).

#JV from Masterplast. The investment in the glass wool plant (EUR 47.5m) is progressing according to plan. By the end of this year, it is planned to close the mechanical part of the plant, the assembly of which started at the beginning of July. Commissioning of the line will take place at the beginning of 2025, and we expect the plant to reach its target technical and quality parameters in 2Q25.

#Strategia. The continued slowdown in the construction industry should have a positive impact on the M&A market. Selena Group is interested in acquisitions of entities with revenues of min. EUR 20m, which provide opportunities to enter new product categories (e.g. thermal insulation materials) and to acquire new sales geographies.

#Valuation. We reiterate our BUY recommendation and raise our target price to PLN 49/share. Our cumulative EBITDA forecast for 2024-2026 has been raised by 4% and our net profit forecast by 3%.

PLNm	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24E	y/y	q/q
Revenues	499.2	569.0	473.5	412.2	452.5	491.6	422.1	400.3	468.1	3%	17%
EBITDA	38.8	79.4	44.2	9.9	38.6	80.7	19.3	38.1	51.0	32%	34%
EBIT	27.2	67.6	33.1	0.4	28.7	70.5	8.4	27.5	40.2	40%	46%
Net profit	23.4	46.4	17.3	-5.1	11.9	54.9	-11.6	19.1	21.1	77%	10%
P/E12M trailing	7.0	6.2	6.9	6.9	11.0	9.9	15.5	15.5	9.3		
EV/EBITDA 12M trailing	6.8	5.0	3.8	3.8	5.3	4.8	6.3	6.3	5.8		
revenues growth y/y	14%	15%	6%	-2%	-9%	-14%	-11%	-3%	3%		
EBITDA margin	7.8%	14.0%	9.3%	2.4%	8.5%	16.4%	4.6%	9.5%	10.9%		
EBIT margin	5.4%	11.9%	7.0%	0.1%	6.4%	14.3%	2.0%	6.9%	8.6%		
Net profit margin	4.7%	8.2%	3.6%	-	2.6%	11.2%	-	4.8%	4.5%		

Buy

(Previous: Buy; 46.4 PLN)

Target Price: 49 PLN

Current Price: 34.1 PLN

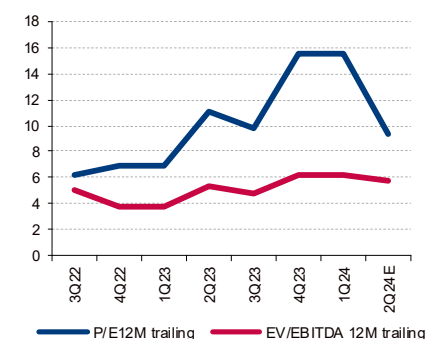
Upside: 44%

2Q24 Earnings

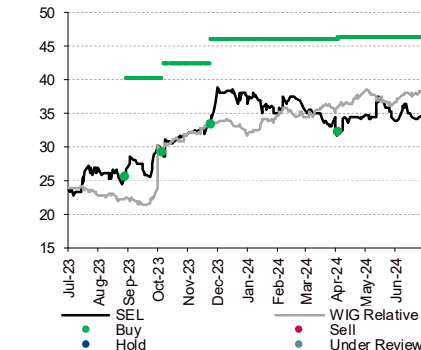
13.09.2024

FACT SHEET	RECOMMENDATIONS	Date	Valuation
Ticker	SEL	Buy	19.04.2024 46.4
Sector	Building chemicals	Buy	11.12.2023 46.2
Sector	34.1	Buy	23.10.2023 42.5
52W range (PLN)	22.6 / 39.9	Buy	14.09.2023 40.4
Shares outstanding (m)	22.8		
Market Cap (PLNm)	779		
S&P Global ESG Scores	---		
3M Avg. Vol. (PLNm)	0.08		
Price perf.	1M 3M 1Y		
	-0.9% 2.8% 41.2%		

P/E 12M vs EV/EBITDA 12M



RELATIVE SHARE PRICE vs WIG



PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	1,728.4	1,963.3	1,778.4	1,821.0	1,991.0	2,087.0
EBITDA	136.8	199.2	148.5	172.2	187.0	197.5
EBIT	92.7	153.6	108.1	129.1	142.1	151.9
Net profit	102.7	112.1	50.1	80.4	94.0	110.5
EPS (PLN)	4.50	4.9	2.2	3.5	4.1	4.8
DPS (PLN)	0.0	0.0	1.3	1.5	1.2	1.2
P/E (x)	7.6	6.9	15.5	9.7	8.3	7.0
EV/EBITDA (x)	6.3	3.8	6.3	5.6	5.0	4.4
P/BV (x)	1.3	1.1	1.1	1.0	1.0	0.9
DY (%)	0.0%	0.0%	3.9%	4.4%	3.5%	3.5%

Quarterly update 2Q24

Poland | Equity Research

Valuation	Current		Previous		Change
DCF	49.0	100%	46.4	100%	6%
Multiples	59.0	0%	51.1	0%	15%

PLNm	2024E			2025E			2026E		
	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.
Revenues	1821	1842	-1%	1991	1958	2%	2087	2053	2%
EBITDA	172	169	2%	187	179	4%	198	190	4%
EBIT	129	121	6%	142	131	9%	152	140	8%
Net profit	80	81	-1%	94	95	-1%	111	104	6%
P/E (x)	9.7	9.6		8.3	8.2		7.0	7.5	
EV/EBITDA (x)	5.6	5.7		5.0	5.2		4.4	4.6	
P/BV (x)	1.1			1.0			1.0		
DY (%)	4.4%			3.5%			3.5%		

Multiples	2022	2023	2024E	2025E	2026E
P/E (x)	6.9	15.5	9.7	8.3	7.0
adj. P/E (x)	7.8	21.9	9.6	8.3	7.0
P/BV (x)	1.1	1.1	1.0	1.0	0.9
EV/EBITDA (x)	3.8	6.3	5.6	5.0	4.4
adj. EV/EBITDA (x)	4.1	7.1	5.5	5.0	4.4
EV/Sales (x)	0.4	0.5	0.5	0.5	0.4
FCF Yield (%)	20.2%	2.7%	4.8%	8.0%	11.6%
DY (%)	0.0%	3.9%	4.4%	3.5%	3.5%

KPIs	2022	2023	2024E	2025E	2026E
EPS (PLN)	4.9	2.2	3.5	4.1	4.8
adj. EPS (PLN)	4.4	1.6	3.5	4.1	4.8
DPS (PLN)	0.0	1.3	1.5	1.2	1.2
BVPS (PLN)	31.3	30.6	32.5	35.5	39.1

Operational ratios	2022	2023	2024E	2025E	2026E
Gross margin (%)	30.1%	30.9%	32.6%	32.1%	32.0%
adj. EBITDA margin (%)	9.3%	7.3%	9.5%	9.4%	9.5%
EBIT margin (%)	7.8%	6.1%	7.1%	7.1%	7.3%
Net profit adj. margin (%)	5.1%	2.0%	4.4%	4.7%	5.3%

ROE (%)	17.0%	7.1%	11.2%	12.1%	13.0%
ROA (%)	9.8%	4.1%	6.0%	6.6%	7.5%
CAPEX/Sales (%)	1.9%	3.3%	4.4%	3.0%	2.6%
CAPEX/D&A (x)	0.8	1.4	1.9	1.3	1.2
Net debt/Equity (x)	0.0	0.2	0.2	0.2	0.1
Net debt/EBITDA (x)	-0.1	1.0	1.0	0.8	0.5

Cash conversion cycle (days)	67	62	64	64	64
Inventory turnover (days)	50	48	38	38	38
Receivables turnover (days)	54	59	62	61	61
Payables turnover (days)	38	44	35	35	35

Income Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
Revenues	1,728	1,963	1,778	1,821	1,991	2,087
COGS	1,249	1,373	1,228	1,228	1,351	1,419
Gross Profit	480	591	550	593	640	668
Selling costs	270	308	307	311	341	355
G&A costs	126	145	153	152	157	161
Profit on sales	83	138	90	130	142	152
Other operating items, net	9	16	18	-1	0	0
EBITDA	137	199	149	172	187	198
adj. EBITDA	127	183	130	173	187	198
D&A	44	46	40	43	45	46
EBIT	93	154	108	129	142	152
Net financial costs	-7	-22	-50	-31	-22	-16
EBT	88	134	55	102	120	139
Income tax	14	-22	-5	-21	-24	-28
Minority interest	0	0	0	1	2	1
Net profit	103	112	50	80	94	111
adj. net profit	95	99	36	81	94	111

Balance Sheet (PLNm)	2021	2022	2023	2024E	2025E	2026E
Non-current Assets	368	407	597	633	648	657
Current Assets	740	764	689	750	808	842
Inventories	280	262	203	250	272	285
Receivables	305	276	298	308	335	351
Cash and cash equivalents	96	158	86	91	100	104
Assets	1,109	1,171	1,286	1,383	1,456	1,499
Equity	601	715	698	743	810	893
Minority Interests	1	3	3	4	6	7
Non-current Liabilities	80	86	107	102	97	81
Long-term borrowings	66	72	87	83	78	61
Current Liabilities	426	367	478	534	543	518
Short-term borrowings	112	62	149	187	176	139
Payables	198	208	224	232	252	264
Equity and Liabilities	1,109	1,171	1,286	1,383	1,456	1,499

Cash Flow Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
Cash flow from operating activities	-30	190	84	126	134	157
Changes in working capital	-130	57	54	-49	-29	-17
D&A	44	46	40	43	45	46
Cash flow from investing activities	-36	-38	-117	-88	-60	-55
CAPEX	-33	-37	-58	-80	-60	-55
Cash flow from financing activities	49	-91	7	-34	-66	-97
Dividend/Buy-back	0	0	-30	-34	-27	-27
Net change in cash	-17	61	-26	3	9	5
Cash opening balance	113	96	158	132	79	88
Cash closing balance	96	158	132	135	88	93

Valuation

#DCF

DCF VALUATION (PLNm)	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenues	1778	1821	1991	2087	2157	2227	2287	2343	2399	2455	2507
Y/Y	-9%	2%	9%	5%	3%	3%	3%	2%	2%	2%	2%
EBITDA	149	172	187	198	204	210	214	218	221	224	226
EBITDA margin	8.4%	9.5%	9.4%	9.5%	9.5%	9.4%	9.4%	9.3%	9.2%	9.1%	9.0%
EBIT	108	129	142	152	158	163	167	170	173	176	178
EBIT margin	6.1%	7.1%	7.1%	7.3%	7.3%	7.3%	7.3%	7.3%	7.2%	7.2%	7.1%
NOPLAT	88	105	115	123	128	132	135	138	140	142	144
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
D&A	40	43	45	46	47	47	47	48	48	48	48
CAPEX		-80	-60	-55	-50	-50	-50	-50	-50	-50	-48
Changes in working capital		-49	-29	-17	-12	-12	-11	-10	-10	-10	-9
FCF		18	71	97	112	117	122	125	128	130	135
D/(E+D)		26.6%	23.8%	18.3%	17.0%	15.8%	14.8%	13.9%	13.1%	12.4%	11.8%
Beta leverage		1.3	1.3	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		13.3%	13.0%	12.6%	12.5%	12.4%	12.3%	12.3%	12.2%	12.2%	12.2%
WACC		11.2%	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		559									
Residual growth rate		1.5%									
Discounted Residual Value		471									
Enterprise Value		1030									
Ned debt (-)		61									
Dividend (-)		34									
Minority Interests (-)*		8									
Equity Value (1.1.2024)		926									
Equity Value (18.7.2024)		992									
Shares outstanding (m)		22.8									
Equity Value per share (18.7.2024)		43.5									
12M Target Price (PLN)		49.0									
Curr. share price		33.6									
Upside / (downside)		45.8%									

Source: Trigon DM

DCF model assumption:

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

#Multiple

Company	P/E			EV/EBITDA			EV/EBIT		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Selena	10.1	8.7	7.4	5.8	5.2	4.6	7.7	6.8	6.0
Median	14.8	13.1	11.5	8.5	7.6	6.9	11.7	9.8	8.8
premium / (discount)	-31%	-34%	-36%	-32%	-32%	-33%	-34%	-31%	-31%
Materiały budowlane - Polska	13.4	11.3	9.8	7.8	6.7	5.8	11.4	8.6	7.2
Grupa Keży	12.8	11.6	10.8	9.6	8.5	8.0	11.9	10.5	9.7
Snieżka	13.9	11.3	9.8	8.1	6.7	5.8	10.9	8.6	7.2
Ferro	---	---	---	---	---	---	---	---	---
Pekabex	8.8	---	---	5.5	---	---	6.9	---	---
Raw lplug	15.6	7.3	5.9	7.4	5.4	4.9	13.3	8.2	7.1
Materiały budowlane - zagranic	16.2	15.0	13.3	9.2	8.4	7.9	12.1	11.0	10.3
3M	14.3	13.1	12.6	9.3	8.7	8.2	12.1	11.0	10.3
Sika	32.2	28.0	24.9	19.6	17.4	15.5	25.4	22.0	19.5
Saint-Gobain	12.7	11.6	11.2	6.8	6.3	5.9	9.3	8.4	7.9
Henkel	16.2	15.0	14.3	9.2	8.4	7.9	11.6	10.5	9.7
Kingspan	23.4	21.3	19.6	14.9	13.2	11.8	18.7	16.5	14.7
Akzo Nobel	14.0	12.3	11.1	9.0	8.2	7.5	11.9	10.6	9.5
RPM	21.5	19.0	17.5	14.0	12.6	11.6	16.4	14.6	13.4
Rockwool	18.7	18.1	17.1	9.6	9.1	8.5	13.6	13.0	12.2
Sto SE	12.3	10.9	9.9	4.6	3.9	3.4	7.0	5.8	5.0
Steico	18.8	15.8	13.3	8.3	7.2	6.2	15.0	12.3	10.3
Uzin UTZ	11.4	10.2	9.5	5.7	5.3	4.9	8.8	7.9	7.2
Partial year valuation	1,187	1,234	1,276	1,279	1,263	1,260	1,335	1,241	1,233
Year weight	33%	33%	33%	33%	33%	33%	33%	33%	33%
Partial multiple valuation	1,232			1,267			1,270		
Multiple weight	50%			50%			0%		

Current valuation (PLNm)	1,250
No. Shares	22.8
Current valuation per share	53.7
12m th TP	59

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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2023

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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 15%
 HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 15%
 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.

Date and time when the production of the recommendation was completed: 2024-07-19 17:05
 Date and time when it was first disseminated: 2024-07-19 17:15

Basis of the valuation or methodology and the underlying assumptions used to evaluate the financial instrument or the issuer, or to set a price target for the financial instrument: discounted cash flow model

The valuation, methodology or underlying assumptions have not changed since the date when this Document was completed and first disseminated.

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For detailed information on the valuation or methodology and underlying assumptions, as well as any previous recommendations concerning the Issuer's financial instruments disseminated during the preceding 12 months, go to the Brokerage House's website at www.trigon.pl.

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