

3/2019/GPW (82) June 21, 2019

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Pilot Program. This is a selected fragment of DM BOŚ SA's research report.

Analyst: Maciej Wewiórski
Marcin Sielicki

Sector: Consumer discretionary
Fundamental rating: Buy (-)
Market relative: Neutral (-)
Price: PLN 4.98
12M EFV: PLN 8.70 (-)

Market Cap: US\$ 99 m
Bloomberg code: TOA PW
Av. daily turnover: US\$ 0.005 m
12M range: PLN 4.92-14.60
Free float: 17%

Toya

Investment summary

Toya is an importer and distributor of industrial goods, in particular power tools and hand tools for professional and household use. Such elements as well managed geographical expansion, perfect relationships with suppliers, high quality and constant development of products seem to stand behind Toya's success. We value Toya via DCF FCFF approach and arrive at PLN 8.7 per share which is c. 75% above the Company's current market share price. We initiate the coverage of the Company with LT fundamental Buy recommendation and ST relative Neutral rating.

Toya's strategy is bound to two aims: geographical expansion and new products development. Every year hundreds of new products enters the Company's offer, product lines are enlarged, the assortment is modernized and upgraded.

Even though there is no dividend policy in place in the Company, to date Toya has shared its profits with shareholders generously and the only year when the Company did not pay a dividend was 2015 due to a purchase of Yato Tools shares in 2014. In 2017 the Company launched a buyback program and spent PLN 29.6 million for the purchase of its 3,288,615 outstanding shares. Toya plans another buyback at PLN 15.7 million.

Toya could move its warehouse to a location that is less attractive for investment purposes and then dispose the land to housing developers which, according to our estimates, would free PLN 15-20 million to be allocated for a dividend payment or a buyback.

Toya's sales have been growing dynamically for last 10 years (7.3% CAGR). We appreciate the Company's products high quality as well as its successful development of new lines and geographical expansion, nevertheless we assume a slight sales growth slowdown to 4.1% CAGR in 2019-2029 mainly due to the expected economic slowdown on the crucial markets for the Company.

Guide to adjusted profits

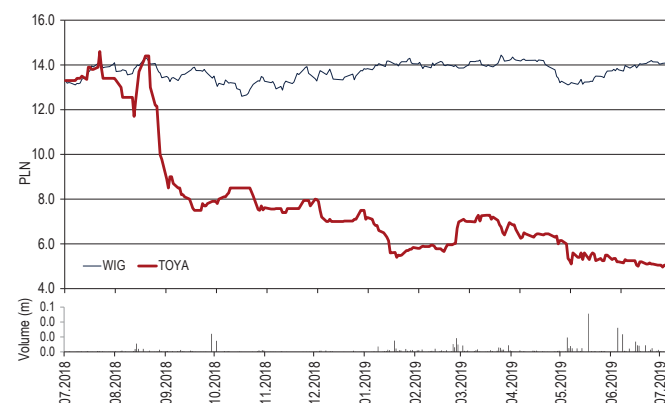
No factors necessitating adjustments.

Key data

IFRS consolidated		2018	2019E	2020E	2021E
Sales	PLN m	380.7	423.3	448.5	470.9
EBITDA	PLN m	59.9	62.1	66.2	69.8
EBIT	PLN m	55.4	57.9	62.0	65.6
Net profit	PLN m	43.8	45.6	50.0	52.9
EPS	PLN	0.58	0.61	0.67	0.70
EPS yoy chg	%	13.3	4.1	9.6	5.8
FCFF	PLN m	70.1	-7.5	-6.7	-6.4
Net debt	PLN m	8.5	8.2	7.5	7.1
P/E	x	7.8	7.5	6.9	6.5
P/CE	x	7.4	5.9	5.5	5.3
EV/EBITDA	x	8.0	6.3	5.9	5.6
EV/EBIT	x	1.2	0.9	0.8	0.8
DPS	PLN	9.4	0.0	10.4	11.4
Gross dividend yield	%	0.47	0.00	0.52	0.57
No. of shares (eop)	m	75.0	75.0	75.0	75.0

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Upcoming events

1. Release of 1H19 results: August 28, 2019
2. Release of 3Q19 results: November 7, 2019

We value the Company via both the DCF FCFF approach and comparative method. In the peer-relative context, we compare Toya to a pool of foreign companies on the basis of 2019-21E P/E, EV/EBITDA and EV/EBIT multipliers taking into consideration the Bloomberg market consensus. The peer-relative exercise implies the fair value of the Company's share at PLN 8.86 per share.

Risk factors

1. Economic slowdown on the markets where the Company operates (slower economic growth rate on the markets crucial for the Company translating into a decline in demand which in turn has a negative impact on financial performance)
2. New brands introduced by DIY shop chains (lowering the demand for the Company's products as c. 15% of Toya's sales generated in large format chains)
3. Unfavorable FX rates (strong CNY, weak PLN)
4. High/volatile raw materials prices (of copper and steel, mainly)

Catalysts

1. New products in the offer
2. New export distribution channel
3. Further geographical expansion
4. Increase in the high-margin on-line sale (currently it constitutes only a 4% share in the Company's sales)
5. No operating assets for sale (suboptimal utilized real estate in Wrocław)
6. Strengthening and repositioning of Toya's own brands
7. Warehouse space optimization
8. Investments in the Chinese economic zone
9. Relocation of the headquarters of Toya Romania
10. Favorable/stable FX rates
11. Favorable/stable raw materials prices

Competitive advantages

1. Strong and recognizable Yato brand (almost 70% of sales)
2. Strong position on the key markets
3. Good relationships with Asian manufacturers of Toya's goods
4. Efficient supply chain management

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM BOŠ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŠ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŠ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	36	35	10	8	0
Percentage	40%	39%	11%	9%	0%

Distribution of DM BOŠ's current recommendations for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision
Numbers	3	4	1	2	0
Percentage	30%	40%	10%	20%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	34	37	10	8	0
Percentage	38%	42%	11%	9%	0%

Distribution of DM BOŠ's current market relative recommended weightings for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	3	3	1	2	0
Percentage	33%	33%	11%	22%	0%

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
Non interest income = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

DM BOŠ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

LT fundamental recommendation tracker

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/ reiteration*	EFV (12 months)
Toya									
Maciej Wewiórski	Buy	–	21.07.2019	-	22.07.2019	21.07.2020	-	4.98	8.70 –

* prices at issue/reiteration are the closing prices at the report or reiteration date

Market-relative recommendation tracker

Analyst	Relative Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Price at issue/ reiteration*	Relative performance
Voxel							
Maciej Wewiórski	Neutral	–	21.07.2019	-	22.07.2019	21.07.2020	4.98 –

* prices at issue/reiteration are the closing prices at the report or reiteration date

This report has been prepared by Dom Maklerski Banku Ochrony Środowiska SA registered in Warsaw (hereinafter referred to as DM BOŚ SA) and commissioned by the Warsaw Stock Exchange SA (hereinafter referred to as WSE SA) pursuant to the agreement on the research report preparation between DM BOŚ SA and WSE SA within the framework of the Analytical Coverage Support Pilot Program described on the WSE SA website: <https://www.gpw.pl/gpwpa> (hereinafter referred to as the Agreement). DM BOŚ SA will receive a remuneration for the research report in accordance with the Agreement.

The production of the report was completed on July 22, 2019 at 8.10 a.m.

The report was distributed on July 22, 2019 at 8.20 a.m.

The report is an investment research within the meaning of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive. This report constitutes a recommendation within the meaning of Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest. This report is for information purposes only.

This report constitutes neither investment advice nor provides investment service as referred to in Article 76 of the Act on Financial Instruments Trading as of 29 July 2005 (Journal of Laws, 2018, Item 2286 as amended), hereinafter referred to as the Act on Trading; it does not constitute any legal or tax advice, neither does it constitute an indication whether an investment is suitable or appropriate in an individual situation of an investor. In particular this report is not a personal recommendation based on any individual needs or situation of any investor. DM BOŚ SA informs that the investment advice services exclusively consist in the preparation of a personal recommendation based on individual needs and situation of a given client and transferring it to them. To receive this type of a recommendation an agreement on providing investment advice services must be signed with an investments company offering these services.

Neither the information nor the opinions expressed in the report constitute a solicitation or an offer to buy or sell any securities referred herein. The opinions expressed in the report reflect independent, current judgment of DM BOŚ.

This report was prepared with due diligence and scrutiny. The information used in the report is based on all public sources such as press and branch publications, company's financial statements, current and periodic reports, as well as meetings and telephone conversations with company's representatives prior to the date of report's release. We believe the above mentioned sources of information to be reliable, however we do not guarantee their accuracy and completeness. All estimates and opinions included herein represent our judgment as of the date of the issue. All opinions, forecasts, calculations and estimates herein constitute the author's subjective assessment as of the date of the issue and can be modified at any time without prior notice. DM BOŚ SA informs that this report will be updated in the manner as referred to in the Agreement, at least once a year.

DM BOŚ SA is an investment firm within the meaning of the Act on Financial Instruments Trading. The legal entity supervising DM BOŚ SA is Polish Financial Supervision Authority in Warsaw (Komisja Nadzoru Finansowego, KNF in Polish abbreviation).

Institutional sales

Bartosz Jarczy
tel.: +48 (22) 504 32 46
b.jarczy@bossa.pl

Tomasz Grabowski
tel.: +48 (22) 504 32 47
t.grabowski@bossa.pl

Marcin Kozerski
tel.: +48 (22) 504 33 35
m.kozerski@bossa.pl

Grzegorz Kołodziejczyk
tel.: +48 (22) 504 33 34
g.kolodziejczyk@bossa.pl

Marcin Stosio
tel.: +48 (22) 504 33 37
m.stosio@bossa.pl

Michał Zawada
tel.: +48 (22) 504 33 36
m.zawada@bossa.pl

DM BOŚ SA, its management and supervisory bodies and employees do not take any responsibility for decisions taken on the basis of this report and opinions stated herein. Investors bear all responsibility for investment decisions taken on the basis of the contents of this report. The report is intended solely for private use of investors.

Copyrights to this report belong to the WSE. The rules for use of this report have been specified in the Agreement. This report mustn't be redistributed, reproduced or conveyed in any manner or form conflicting with the rules defined in the Agreement.

This report is made available on the day of its issue in the public domain on the website <https://bossa.pl/analizy-i-informacje/wsparcie-pokrycia-analitycznego-gpw/toya>

DM BOŚ SA is entitled to conveying or translation of the report into foreign languages on behalf of their clients and this shall not be sooner than making the report available on its website <https://bossa.pl/analizy-i-informacje/wsparcie-pokrycia-analitycznego-gpw/toya>.

DM BOŚ SA follows internal regulations for handling of conflicts of interest which include in particular internal organizational and administration arrangements as well as information barriers established for prevention and avoidance of conflicts of interest related to recommendations. A special organizational arrangement that constitutes an information barrier is so called Chinese walls prohibiting an uncontrolled flow of information among particular organizational units or employees of DM BOŚ SA. Where justified, DM BOŚ SA can create Chinese walls upon the realization of a particular project. Potential conflicts of interests referring to a specific recommendation which is made available to the public or to a wide range of persons are disclosed either in the recommendation or in the document attached.

The person(s) preparing this report receive(s) variable compensation indirectly based upon the financial results of DM BOŚ which in turn depend – among other factors – on the result on the brokerage activity.

DM BOŚ SA has not held any long or short position net exceeding 0.5% of the issuer's basic capital in total with respect to the company/companies indicated.

DM BOŚ S.A. provides brokerage services on behalf of Toya and receives a remuneration by virtue of this.

Apart from the mentioned above cases, there are neither ties of any kind between DM BOŚ SA, the analyst/ analysts involved in the preparation of the report and the issuer(s) of securities as referred to in the report nor circumstances that can justifiably be expected to have a negative impact on objectivity of the recommendation with regard to interests or conflicts of interests on their part or on the part of any natural person or legal entity which pertains to the financial instrument or the issuer.

The report was not shown to the analyzed company before the distribution of the report.

Research

Sobiesław Pająk, CFA
(Equity strategy, TMT)
tel.: +48 (22) 504 32 72
s.pajak@bossa.pl

Sylwia Jaskiewicz, CFA
(Construction materials, Consumer staples & discretionary, Health care)
tel.: +48 (22) 504 33 75
s.jaskiewicz@bossa.pl

Maciej Wewiński
(Residential construction, Construction, Real estate)
tel.: +48 (22) 504 33 07
m.wewinski@bossa.pl

Michał Sobolewski, CFA, FRM
(Financials)
tel.: +48 (22) 504 33 06
m.sobolewski@bossa.pl

Jakub Viscardi
(Telco, Consumer staples & discretionary, IT – hardware distribution, Utilities)
tel.: +48 (22) 504 32 58
j.viscardi@bossa.pl

Łukasz Prokopiuk, CFA
(Chemicals, Mining, Mining – machinery, Oil & gas)
tel.: +48 (22) 504 32 59
l.prokopiuk@bossa.pl

Tomasz Rodak, CFA
(Consumer discretionary, Video games)
tel.: +48 22 504 33 23
t.rodak@bossa.pl

Wojciech Romanowski
Junior Analyst
tel.: +48 22 504 33 88
w.romanowski@bossa.pl

Marcin Sielicki
Associate
tel.: +48 22 504 33 25
m.sielicki@bossa.pl

Copyright © 2019 by DM BOŚ S.A.

**Dom Maklerski Banku Ochrony
Środowiska Spółka Akcyjna**
ul. Marszałkowska 78/80
00-517 Warszawa
www.bossa.pl
Information: (+48) 0 801 104 104