

13/2020/GPW (55) May 10, 2020

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Pilot Program. This is an excerpt from the Polish version of DM BOŚ SA's research report.

Analyst: Maciej Wewiórski

Sector: Consumer discretionary

Fundamental rating: Hold (→)

Market relative: Neutral (→)

Price: PLN 4.76

12M EFV: PLN 5.1 (→)

Market Cap: US\$ 85 m

Bloomberg code: TOA PW

Av. daily turnover: US\$ 0.012 m

12M range: PLN 3.32-6.45

Free float: 17%

Toya

1Q20 financial results

1Q20 financial results proved to be a nice surprise for us as we expected slightly negative sales dynamics given rather poor performance at the end of March under the COVID-19 pandemic impact. We assumed that these weaker sales – without accompanying reduction of SGA costs – should have resulted in a drop of EBIT and NI by 10% yoy. However this never happened.

1Q20 consolidated revenues stood at PLN 119.3 million (+12% yoy) while 1Q20 consolidated NI reached PLN 13.2 million vs PLN 11.6 million a year ago.

Toya revealed that in 1Q20 all distribution channels delivered a yoy revenues growth, mostly stemming from higher export sales and the parent company's traditional sales. Foreign markets, in particular Hungary and the Ukraine (+25.2% yoy or in absolute values PLN +2.3 million), contributed most to the sales volume increase. The wholesale segment's growth dynamics was also very good with an 8% yoy sales growth (PLN +4.1 million yoy).

1Q20 EBITDA stood at PLN 19.2 million and beat our expectations by 27%. Besides, the EBITDA margin improved, from 15.6% in 1Q19 to 16.1% while we forecasted 14.4%.

1Q20 OCF soared to PLN 39.7 million in comparison to PLN -2.7 million in the base period which was possible mainly due to the absence of stock supplies from China (the pandemic effect) resulting in a PLN 35 million drop of inventories. We do not expect this trend to continue in the following quarters.

Guide to adjusted profits

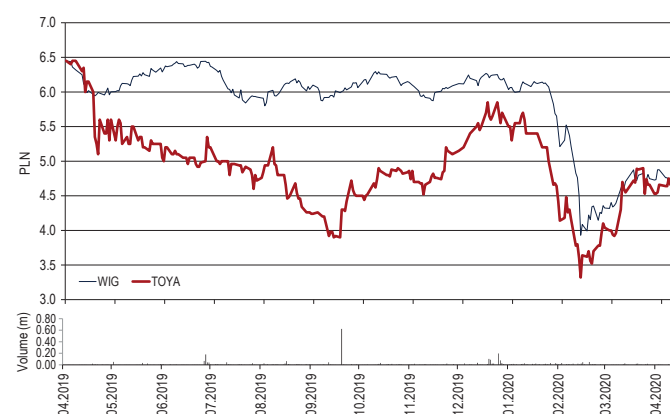
No factors necessitating adjustments.

Key data

IFRS consolidated		2019	2020E	2021E	2022E
Sales	PLN m	440.0	382.5	387.2	391.0
EBITDA	PLN m	65.2	49.0	50.0	50.9
EBIT	PLN m	58.2	42.2	43.3	44.1
Net profit	PLN m	44.9	32.9	34.5	35.2
EPS	PLN	0.60	0.44	0.46	0.47
EPS yoy chg	%	2.5	-26.7	4.9	2.1
FCFF	PLN m	58.8	7.9	4.2	0.6
Net debt	PLN m	8.0	10.9	10.4	10.1
P/E	x	6.9	9.0	8.7	8.5
P/CE	x	6.4	7.5	7.2	7.0
EV/EBITDA	x	7.1	8.6	8.4	8.1
EV/EBIT	x	0.9	1.0	0.9	0.9
DPS	PLN	0.0	0.0	7.8	8.2
Gross dividend yield	%	0.00	0.00	0.37	0.39
No. of shares (eop)	m	75.0	75.0	75.0	75.0

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Fig. 1. Toya; 1Q20 results compared to expectations

IFRS, consolidated (PLN m)	1Q20A	1Q19	yoy chg	1Q20E (DM BOŚ SA)	Compared to DM BOŚ SA
Sales	119.3	106.7	12%	105.0	↑
EBITDA	19.2	16.6	16%	15.1	↑
EBITDA margin	16.1%	15.6%	-	-	↑
EBIT	17.0	15.0	13%	13.4	↑
EBIT margin	14.2%	14.1%	-	-	↑
Net income	13.2	11.6	14%	10.5	↑
Net income margin	11.1%	10.9%	-	-	↑

Source: Company, DM BOŚ SA

Financial forecasts

Though Toya's 1Q20 financial results surprised on the positive side, we do not upgrade our FY20 financial forecasts given the poor visibility of 2Q20 performance and even 2H20 results.

Over last 10 years the Company's sales have been growing at a brisk pace (at 10% CAGR). We appreciate a high quality of Toya's products

and its track record in developing new products and vast geographic expansion nevertheless we expect the Company's sales drop of 12% this year bearing in mind restrictions imposed due to the pandemic.

We expect slight sales growths to show in the years to come and forecast a sales growth dynamics slowdown to 2.7% CAGR in 2020-28 (previously we expected >4% CAGR).

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)
5. Spreading coronavirus may hurt the supply chain

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	29	38	6	12	0
Percentage	34%	45%	7%	14%	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.

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	8	0	3	0
Percentage	21%	57%	0%	21%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	33	27	13	12	0
Percentage	39%	32%	15%	14%	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	6	2	3	0
Percentage	21%	43%	14%	21%	0%

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	Kupuj	-	21.07.2019	-	22.07.2019	19.04.2020	-2%	32%	4.98	8.70 -
Maciej Wewiórski	-	→	-	30.07.2019	31.07.2019	-	-	-	5.00	8.70 →
Maciej Wewiórski	-	→	-	29.08.2019	30.08.2019	-	-	-	4.94	8.70 →
Maciej Wewiórski	-	→	-	01.09.2019	02.09.2019	-	-	-	4.94	8.70 →
Maciej Wewiórski	-	→	-	13.10.2019	14.10.2019	-	-	-	3.92	8.70 →
Maciej Wewiórski	-	→	-	23.10.2019	24.10.2019	-	-	-	4.52	8.70 →
Maciej Wewiórski	-	→	-	24.10.2019	25.10.2019	-	-	-	4.50	8.70 →
Maciej Wewiórski	-	→	-	11.11.2019	12.11.2019	-	-	-	4.86	8.70 →
Maciej Wewiórski	-	→	-	17.11.2019	18.11.2019	-	-	-	4.88	8.70 →
Maciej Wewiórski	-	→	-	03.12.2019	04.12.2019	-	-	-	4.68	8.40 ↓
Maciej Wewiórski	-	→	-	08.12.2019	09.12.2019	-	-	-	4.66	8.40 →
Maciej Wewiórski	-	→	-	09.01.2020	10.01.2020	-	-	-	5.45	8.40 →
Maciej Wewiórski	-	→	-	04.02.2020	05.02.2020	-	-	-	5.65	8.40 →
Maciej Wewiórski	-	→	-	05.02.2020	06.02.2020	-	-	-	5.70	8.40 →
Maciej Wewiórski	-	→	-	06.02.2020	07.02.2020	-	-	-	5.60	8.40 →
Maciej Wewiórski	-	→	-	03.03.2020	04.03.2020	-	-	-	4.48	8.40 →
Maciej Wewiórski	-	→	-	30.03.2020	31.03.2020	-	-	-	4.00	8.40 →
Maciej Wewiórski	Hold	↓	19.04.2020	-	20.04.2020	Not later than 19.04.2021	-2%	-2%	4.88	5.10 ↓
Maciej Wewiórski	-	→	-	22.04.2020	23.04.2020	-	-	-	4.74	5.10 →
Maciej Wewiórski	-	→	-	10.05.2020	11.05.2020	-	-	-	4.76	5.10 →

* 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
Toya							
Maciej Wewiórski	Neutral	-	21.07.2019	-	22.07.2019	Not later than 21.07.2020	4.98 29%
Maciej Wewiórski	-	→	-	30.07.2019	31.07.2019	-	5.00 -
Maciej Wewiórski	-	→	-	29.08.2019	30.08.2019	-	4.94 -
Maciej Wewiórski	-	→	-	01.09.2019	02.09.2019	-	4.94 -
Maciej Wewiórski	-	→	-	13.10.2019	14.10.2019	-	3.92 -
Maciej Wewiórski	-	→	-	23.10.2019	24.10.2019	-	4.52 -
Maciej Wewiórski	-	→	-	24.10.2019	25.10.2019	-	4.50 -
Maciej Wewiórski	-	→	-	11.11.2019	12.11.2019	-	4.86 -
Maciej Wewiórski	-	→	-	17.11.2019	18.11.2019	-	4.88 -
Maciej Wewiórski	-	→	-	03.12.2019	04.12.2019	-	4.68 -
Maciej Wewiórski	-	→	-	08.12.2019	09.12.2019	-	4.66 -
Maciej Wewiórski	-	→	-	09.01.2020	10.01.2020	-	5.45 -
Maciej Wewiórski	-	→	-	04.02.2020	05.02.2020	-	5.65 -
Maciej Wewiórski	-	→	-	05.02.2020	06.02.2020	-	5.70 -
Maciej Wewiórski	-	→	-	06.02.2020	07.02.2020	-	5.60 -
Maciej Wewiórski	-	→	-	03.03.2020	04.03.2020	-	4.48 -
Maciej Wewiórski	-	→	-	30.03.2020	31.03.2020	-	4.00 -
Maciej Wewiórski	-	→	-	19.04.2020	20.04.2020	-	4.88 -
Maciej Wewiórski	-	→	-	22.04.2020	23.04.2020	-	4.74 -
Maciej Wewiórski	-	→	-	10.05.2020	11.05.2020	-	4.76 -

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

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