

**Sector:** Consumer discretionary  
**Fundamental rating:** Buy (→)  
**Market relative:** Overweight (→)  
**Price:** PLN 6.10  
**12M EFV:** PLN 8.4 (→)

**Market Cap:** US\$ 211 m  
**Bloomberg code:** TOA PW  
**Av. daily turnover:** US\$ 0.07 m  
**12M range:** PLN 3.32-8.12  
**Free float:** 36%

# Toya

## Key points

**The Strategy.** Toya's strategy addresses 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.

**Profits distribution.** Toya has not adopted the dividend policy and over years it shared profits with shareholders without any regular scheme. For example, in 2015 the Company did not pay the dividend as it acquired a stake in Yato Tools a year before; in 2017 there was a buyback and Toya bought 3,288,615 shares for PLN 29.6 million and in 2018 a dividend in the amount of PLN 35.3 million was distributed to Toya's shareholders but in 2019 they had to leave empty handed. The buyback adopted at the GSA to be launched on February 29, 2019 at the latest did not go ahead. The Company's management's last proposal to earmark PLN 28.5 million for the dividend payment from the FY19 profit seemed quite generous (it implied DPS at PLN 0.38). But a counterproposal of one of the shareholders of DPS at PLN 0.8 was supported by the majority of shareholders.

**Impact of COVID 19.** Toya enjoyed strong sales dynamic and profit margin increase in 2Q20 and 3Q20. It is worth noting that stores selling construction and building materials stayed open during the lockdown. Besides, the construction materials sector data indicate that during the pandemic surprisingly strong interest in renovations surfaced. Moreover, the Company recorded increased internet sales, a distribution channel enjoying the highest profit margin.

**Non-core assets.** 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

### Guide to adjusted profits

No factors necessitating adjustments.

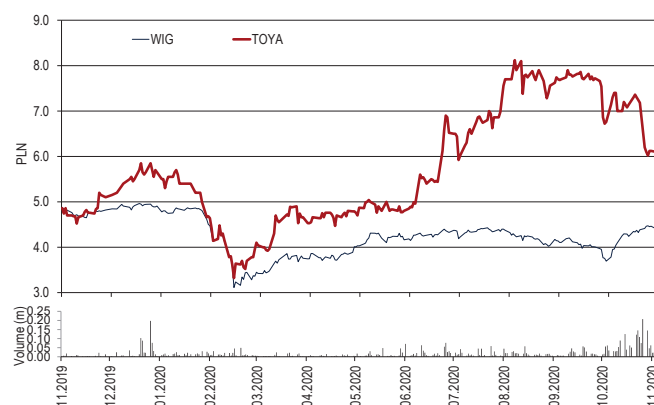
### Key data

IFRS consolidated		2019	2020E	2021E	2022E
Sales	PLN m	440.0	511.5	539.7	562.4
EBITDA	PLN m	65.2	83.5	86.0	89.5
EBIT	PLN m	58.2	73.0	77.3	80.7
Net profit	PLN m	44.9	57.6	61.7	64.5
EPS	PLN	0.60	0.77	0.82	0.86
EPS yoy chg	%	2.5	28.4	7.1	4.7
FCFF	PLN m	58.8	24.6	23.4	20.5
Net debt	PLN m	10.1	7.9	7.4	7.0
P/E	x	8.7	7.2	7.0	6.7
P/CE	x	7.9	5.7	5.5	5.3
EV/EBITDA	x	8.8	6.5	6.2	5.9
EV/EBIT	x	1.2	0.9	0.9	0.8
DPS	PLN	0.0%	13.2%	10.8%	11.6%
Gross dividend yield	%	0.00	0.80	0.65	0.70
No. of shares (eop)	m	75.0	75.0	75.0	75.0

Multiples priced as of the close of December 2, 2020

Source: Company, DM BOS SA estimates

### Stock performance



Source: Bloomberg

### Upcoming events

1. Release of 4Q20 financial results: March-April 2021

free PLN 15-20 million to be allocated for a dividend payment or a buyback.

We expect a gradual decline of revenue growth profile. 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 CAGR deceleration to 4.1% in 2019-2029, mainly due to the expected economic slowdown on the crucial markets for the Company.

**Financial forecast.** Our financial forecasts for Toya remain unchanged.

**4Q20E results.** We forecast Toya to deliver a decent growth dynamic of 4Q20 revenues. It is worth noting that stores selling construction and building materials stayed open during the lockdown. Besides, the construction materials sector data indicate that during the pandemic surprisingly strong interest in renovations surfaced. We believe that quite a few keen do-it-yourselfers threw themselves into renovations as the lockdown forced them to stay home. Nevertheless we would like to point out that

the visibility of our forecasts for 4Q20 and FY21 is low due to the COVID-19 pandemic.

**Valuation.** We value Toya via two methods: DCF (FCFF approach) and peer-relative valuation (comparison against a set of peer companies listed on the WSE). The DCF FCFF method implies 12M EFV at PLN 11.3 per share. Our peer-relative valuation based on forward P/E, EV/EBITDA and EV/EBIT multiples for 2020-21 yields PLN 7.1 per share. Our ultimate 12M EFV for the Company which is an arithmetic mean of the outcomes of both above mentioned methods rests at PLN 8.4 per share.

**Risk to financial forecast.** Moderate both ways.

**Recommended action.** Excellent 1-3Q20 financial performance and good outlook justify our LT fundamental Buy recommendation.

**Risk factors**

1. Economic slowdown on the markets where the Company operates
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 the 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 break the supply chain

**Catalysts**

1. New products introduced in the offer
2. Export channel development
3. Further geographical expansion
4. Increase in the high-margin on-line sale (the highest margin)
5. Non-operating assets for sale (suboptimal utilization of the 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. Favorable/stable FX rates
10. Favorable/stable raw materials prices
11. Profit distribution among shareholders

**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** =  $\text{EBIT}/\text{sales}$   
**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	41	28	5	9	0
Percentage	49%	34%	6%	11%	0%

### Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	33	29	12	9	0
Percentage	40%	35%	14%	11%	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	5	5	0	2	0
Percentage	42%	42%	0%	17%	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	5	2	2	0
Percentage	25%	42%	17%	17%	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)	
<b>Toya</b>										
Maciej Wewiórski	Buy	-	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	24.08.2020	43%	25%	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 →
Maciej Wewiórski	-	→	-	19.05.2020	20.05.2020	-	-	-	4.72	5.10 →
Maciej Wewiórski	-	→	-	15.06.2020	16.06.2020	-	-	-	5.00	5.10 →
Maciej Wewiórski	-	→	-	13.07.2020	14.07.2020	-	-	-	5.50	5.10 →
Maciej Wewiórski	-	→	-	30.07.2020	31.07.2020	-	-	-	5.92	5.10 →
Maciej Wewiórski	Buy	↑	25.08.2020	-	26.08.2020	Not later than 25.08.2021	-1%	-7%	6.98	8.00 ↑
Maciej Wewiórski	-	→	-	01.09.2020	02.09.2020	-	-	-	7.70	8.00 →
Maciej Wewiórski	-	→	-	08.10.2020	09.10.2020	-	-	-	7.80	8.00 →
Maciej Wewiórski	-	→	-	29.10.2020	30.10.2020	-	-	-	6.72	8.00 →
Maciej Wewiórski	-	→	-	08.11.2020	09.11.2020	-	-	-	7.00	8.00 →
Maciej Wewiórski	-	→	-	16.11.2020	17.11.2020	-	-	-	7.30	9.20 ↑
Maciej Wewiórski	-	→	-	22.11.2020	23.11.2020	-	-	-	5.40	8.40 ↓
Maciej Wewiórski	-	→	-	06.12.2020	07.12.2020	-	-	-	6.10	8.40 →

\* 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
<b>Toya</b>							
Maciej Wewiórski	Neutral	-	21.07.2019	-	22.07.2019	13.07.2020	45%
Maciej Wewiórski	-	→	-	30.07.2019	31.07.2019	-	-
Maciej Wewiórski	-	→	-	29.08.2019	30.08.2019	-	-
Maciej Wewiórski	-	→	-	01.09.2019	02.09.2019	-	-
Maciej Wewiórski	-	→	-	13.10.2019	14.10.2019	-	-
Maciej Wewiórski	-	→	-	23.10.2019	24.10.2019	-	-
Maciej Wewiórski	-	→	-	24.10.2019	25.10.2019	-	-
Maciej Wewiórski	-	→	-	11.11.2019	12.11.2019	-	-
Maciej Wewiórski	-	→	-	17.11.2019	18.11.2019	-	-
Maciej Wewiórski	-	→	-	03.12.2019	04.12.2019	-	-
Maciej Wewiórski	-	→	-	08.12.2019	09.12.2019	-	-
Maciej Wewiórski	-	→	-	09.01.2020	10.01.2020	-	-
Maciej Wewiórski	-	→	-	04.02.2020	05.02.2020	-	-
Maciej Wewiórski	-	→	-	05.02.2020	06.02.2020	-	-
Maciej Wewiórski	-	→	-	06.02.2020	07.02.2020	-	-
Maciej Wewiórski	-	→	-	03.03.2020	04.03.2020	-	-
Maciej Wewiórski	-	→	-	30.03.2020	31.03.2020	-	-
Maciej Wewiórski	-	→	-	19.04.2020	20.04.2020	-	-
Maciej Wewiórski	-	→	-	22.04.2020	23.04.2020	-	-
Maciej Wewiórski	-	→	-	10.05.2020	11.05.2020	-	-
Maciej Wewiórski	-	→	-	19.05.2020	20.05.2020	-	-
Maciej Wewiórski	-	→	-	15.06.2020	16.06.2020	-	-
Maciej Wewiórski	Neutral	→	13.07.2020	-	14.07.2020	24.08.2020	25%
Maciej Wewiórski	-	→	-	30.07.2020	31.07.2020	-	-
Maciej Wewiórski	Overweight	↑	25.08.2020	-	26.08.2020	Not later than 25.08.2021	-7%
Maciej Wewiórski	-	→	-	01.09.2020	02.09.2020	-	-
Maciej Wewiórski	-	→	-	08.10.2020	09.10.2020	-	-
Maciej Wewiórski	-	→	-	29.10.2020	30.10.2020	-	-
Maciej Wewiórski	-	→	-	08.11.2020	09.11.2020	-	-
Maciej Wewiórski	-	→	-	16.11.2020	17.11.2020	-	-
Maciej Wewiórski	-	→	-	22.11.2020	23.11.2020	-	-
Maciej Wewiórski	-	→	-	06.12.2020	07.12.2020	-	-

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

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The production of the report was completed on December 7, 2020 at 7.50 a.m.  
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