

17/2021/GPW (77) August 12, 2021

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program. 3.0. This is an excerpt from the Polish version of DM BOŚ SA's research report.

Analyst: Sylwia Jaśkiewicz, CFA

Ferro

Sector: Health care

Fundamental rating: Buy (→)

Market relative: Overweight (→)

Price: PLN 38.00

12M EFV: PLN 41.7 (↑)

Market Cap: US\$ 207 m

Bloomberg code: FRO PW

Av. daily turnover: US\$ 0.11 m

12M range: 16.30-40.60 PLN

Free float: 67%

Stock performance



Source: Bloomberg

Recommended action

We uphold our ST market relative Overweight rating and LT fundamental Buy recommendation for the Company. We believe good 2Q21 results are in the cards for the Group. Given the high demand trend continued we assume that Ferro would adjust their products' prices to the raw materials prices and transport costs accordingly. Besides, the results should be under the positive impact of the offer expansion (FDESIGN brand) towards the upper-shelf products and consolidation of subsidiaries, Termet and Tester.

2Q21 financial results preview

We forecast the Group's 2Q21 revenues at PLN 176 million (up 57% yoy) under the assumption of a 21% organic growth rate and PLN 40 million contributed by Termet/Tester.

We expect EBIT profitability to rise to 14.1% in 2Q21 vs 13.8% a year ago. We believe a sizable portion of costs growth was offset by a price growth of goods (lower discounts). Besides, the Group's inventories were cheaper. Wage costs might have grown mainly in relation to the strategy implementation (in 1H20 some projects were suspended due to huge market

Guide to adjusted profits

Income tax.

Key data

IFRS consolidated		2020	2021E	2022E	2023E
Sales	PLN m	519.1	699.4	741.3	778.4
EBITDA	PLN m	83.2	102.5	106.8	113.7
EBIT	PLN m	75.8	91.3	94.1	99.4
Net income	PLN m	62.1	103.9	71.3	75.7
Adj net income	PLN m	62.1	69.4	71.3	75.7
Adj EPS	PLN	2.9	3.3	3.4	3.6
Adj EPS yoy chg	%	45	12	3	6
Net debt	PLN m	31.8	74.0	63.9	44.2
P/E	x	13.0	7.8	11.3	10.7
Adj P/E	x	13.0	11.6	11.3	10.7
EV/EBITDA*	x	10.1	8.8	8.4	7.7
EV/EBIT*	x	11.1	9.8	9.5	8.8
DPS	PLN	0.40	2.20	2.20	2.18
Gross dividend yield	%	1.1	5.8	5.8	5.7
Number of shares (eop)	m	21.2	21.2	21.2	21.2

Source: Company DM BOŚ SA estimates

Upcoming events

1. Release of 1H21 consolidated results: September 30
2. Release of 3Q21 consolidated results: November 29

Risk factors

1. Economic slowdown in Europe
2. Falling demand for new flats
3. Falling frequency of renovations
4. Labor force shortage
5. Wage pressure
6. High/volatile raw materials prices (of copper and zinc, in particular)
7. Unfavorable/volatile FX rates (currency risk when PLN and CZK weaken against US\$ and EUR)
8. Own brands developed by shopping chains

Catalysts

1. Ongoing demand for new apartment flats
2. Development of the market for renovations
3. Expansion in the European markets
4. Strengthening the Company's position on the existing markets
5. New products (expanding the product offer)
6. Repositioning of the Company's own brands (new upper segment brands)
7. Favorable/stable FX rates and raw materials prices
8. Brand promotion (intensifying the online activities)
9. Potential acquisitions

uncertainty) and acquisitions, however we expect their share in the Group's revenues to drop yoy. Thus, we forecast 2Q21 EBIT to reach PLN 24.7 million (up 60% yoy and up 41% organically).

We expect the Group's 2Q21 net profit at PLN 54 million (up 336% yoy).

Fig. 1. Ferro; 2Q21E financials' forecasts

IFRS consolidated (PLN m)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	yoy chg	1H20	1H21E	yoy chg
Sales	109.4	105.8	122.1	113.9	124.8	112.0	147.7	134.6	163.3	175.5	57%	249.5	338.8	36%
EBITDA	18.7	14.4	21.5	12.3	21.8	17.3	29.4	14.7	26.1	27.6	60%	43.6	53.7	23%
EBITDA margin	17.1%	13.6%	17.6%	10.8%	17.5%	15.4%	19.9%	10.9%	16.0%	15.7%	-	17.5%	15.9%	-
EBIT	17.5	12.7	19.8	10.6	20.0	15.4	27.6	12.7	23.8	24.7	60%	40.1	48.5	21%
EBIT margin	16.0%	12.0%	16.2%	9.3%	16.1%	13.8%	18.7%	9.4%	14.5%	14.1%	-	16.1%	14.3%	-
Pre-tax profit	16.1	11.7	17.7	8.5	20.2	14.5	29.1	12.7	21.9	39.0	170%	40.4	60.9	51%
Pre-tax profit margin	14.7%	11.1%	14.5%	7.4%	16.2%	12.9%	19.7%	9.4%	13.4%	22.2%	-	16.2%	18.0%	-
Net profit	13.0	9.5	14.5	2.9	16.5	12.3	23.6	9.6	17.7	53.8	336%	33.0	71.5	116%
Net profit margin	11.9%	9.0%	11.9%	2.6%	13.2%	11.0%	16.0%	7.1%	10.9%	30.6%	-	13.2%	21.1%	-

Source: The Company, DM BOŚ SA estimates

Fig. 2. Ferro; Changes in DM BOŚ forecasts

IFRS consolidated (PLN m)	2021E			2022E			2023E		
	current	previous	change	current	previous	change	current	previous	change
Sales	699.4	679.5	3%	741.3	720.3	3%	778.4	756.3	3%
EBITDA	102.5	94.3	9%	106.8	100.0	7%	113.7	106.5	7%
EBIT	91.3	84.2	8%	94.1	88.7	6%	99.4	93.8	6%
NP	103.9	63.8	63%	71.3	66.6	7%	75.7	70.8	7%
Adj NP	69.4	63.8	9%	71.3	66.6	7%	75.7	70.8	7%
Net debt	74.0	87.8	-16%	63.9	72.9	-12%	44.2	50.8	-13%

Source: DM BOŚ SA estimates

Valuation

Thanks to the financial forecast update, valuation horizon forward shift, revision of the risk free rate (currently at 2%) and risk market premium (currently at 6.5%) our 12M EFV representing a mix of the DCF valuation (50%) and peer relative valuation (50%) goes up by 22% to PLN 41.7 from PLN 34.1 per share. The DCF method valuation of the Company renders PLN 46.6 (prev. 34.3) per share while the peer comparison implies the Company's per share value at PLN 36.8 (prev. 33.9)

BASIC DEFINITIONS

A/R turnover (in days) = 365/(sales/average A/R))
Inventory turnover (in days) = 365/(COGS/average inventory))
A/P turnover (in days) = 365/(COGS/average A/P))
Current ratio = ((current assets – ST deferred assets)/current liabilities)
Quick ratio = ((current assets – ST deferred assets – inventory)/current liabilities)
Interest coverage = (pre-tax profit before extraordinary items + interest payable/interest payable)
Gross margin = gross profit on sales/sales
EBITDA margin = EBITDA/sales
EBIT margin = EBIT/sales
Pre-tax margin = pre-tax profit/sales
Net margin = net profit/sales
ROE = net profit/average equity
ROA = (net income + interest payable)/average assets
EV = market capitalization + interest bearing debt – cash and equivalents
EPS = net profit/ no. of shares outstanding
CE = net profit + depreciation
Dividend yield (gross) = pre-tax DPS/stock market price
Cash sales = accrual sales corrected for the change in A/R
Cash operating expenses = 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	46	23	6	10	0
Percentage	54%	27%	7%	12%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	36	28	11	10	0
Percentage	42%	33%	13%	12%	0%

Banks

Net Interest Margin (NIM) = net interest income/average assets
Non interest income = fees&commissions + result on financial operations (trading gains) + FX gains
Interest Spread = (interest income/average interest earning assets)/ (interest cost/average interest bearing liabilities)
Cost/Income = (general costs + depreciation)/ (profit on banking activity + other net operating income)
ROE = net profit/average equity
ROA = net income/average assets
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = loan loss provisions/NPL
Net provision charge = provisions created – 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	9	4	0	1	0
Percentage	64%	29%	0%	7%	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	5	7	1	1	0
Percentage	36%	50%	7%	7%	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)	
Ferro											
Sylwia Jaśkiewicz	Hold	-	21.07.2019	-	22.07.2019	04.12.2019	11%	20%	13.70	17.10	-
Sylwia Jaśkiewicz	-	→	-	30.07.2019	31.07.2019	-	-	-	13.50	17.10	→
Sylwia Jaśkiewicz	-	→	-	01.09.2019	02.09.2019	-	-	-	12.05	17.10	→
Sylwia Jaśkiewicz	-	→	-	10.09.2019	11.09.2019	-	-	-	12.10	17.10	→
Sylwia Jaśkiewicz	-	→	-	15.09.2019	16.09.2019	-	-	-	12.65	17.10	→
Sylwia Jaśkiewicz	-	→	-	13.10.2019	14.10.2019	-	-	-	13.40	17.10	→
Sylwia Jaśkiewicz	-	→	-	24.10.2019	25.10.2019	-	-	-	13.00	17.10	→
Sylwia Jaśkiewicz	-	→	-	17.11.2019	18.11.2019	-	-	-	13.00	17.10	→
Sylwia Jaśkiewicz	-	→	-	18.11.2019	19.11.2019	-	-	-	13.00	17.10	→
Sylwia Jaśkiewicz	Buy	↑	04.12.2019	-	05.12.2019	28.01.2020	17%	15%	15.20	17.80	↑
Sylwia Jaśkiewicz	-	→	-	08.12.2019	09.12.2019	-	-	-	15.00	17.80	→
Sylwia Jaśkiewicz	-	→	-	09.01.2020	10.01.2020	-	-	-	16.30	17.80	→
Sylwia Jaśkiewicz	Hold	↓	28.01.2020	-	29.01.2020	22.07.2020	-4%	5%	17.80	18.50	↑
Sylwia Jaśkiewicz	-	→	-	04.02.2020	05.02.2020	-	-	-	17.90	18.50	→
Sylwia Jaśkiewicz	-	→	-	06.02.2020	07.02.2020	-	-	-	17.50	18.50	→
Sylwia Jaśkiewicz	-	→	-	03.03.2020	04.03.2020	-	-	-	15.20	18.50	→
Sylwia Jaśkiewicz	-	→	-	30.03.2020	31.03.2020	-	-	-	12.25	18.50	→
Sylwia Jaśkiewicz	-	→	-	22.04.2020	23.04.2020	-	-	-	14.00	18.50	→
Sylwia Jaśkiewicz	-	→	-	23.04.2020	24.04.2020	-	-	-	14.00	18.50	→
Sylwia Jaśkiewicz	-	→	-	19.05.2020	20.05.2020	-	-	-	13.65	18.50	→
Sylwia Jaśkiewicz	-	→	-	15.06.2020	16.06.2020	-	-	-	16.60	18.50	→
Sylwia Jaśkiewicz	-	→	-	13.07.2020	14.07.2020	-	-	-	17.90	18.50	→
Sylwia Jaśkiewicz	Buy	↑	22.07.2020	-	23.07.2020	16.04.2021	75%	51%	17.00	20.30	↑
Sylwia Jaśkiewicz	-	→	-	01.09.2020	02.09.2020	-	-	-	18.60	20.30	→
Sylwia Jaśkiewicz	-	→	-	17.09.2020	18.09.2020	-	-	-	18.90	20.30	→
Sylwia Jaśkiewicz	-	→	-	29.09.2020	30.09.2020	-	-	-	18.70	19.90	↓
Sylwia Jaśkiewicz	-	→	-	08.10.2020	09.10.2020	-	-	-	19.00	19.90	→
Sylwia Jaśkiewicz	-	→	-	03.11.2020	04.11.2020	-	-	-	17.30	22.00	↑
Sylwia Jaśkiewicz	-	→	-	08.11.2020	09.11.2020	-	-	-	17.25	22.00	→
Sylwia Jaśkiewicz	-	→	-	19.11.2020	20.11.2020	-	-	-	18.40	23.40	↑
Sylwia Jaśkiewicz	-	→	-	26.11.2020	27.11.2020	-	-	-	20.00	23.40	→
Sylwia Jaśkiewicz	-	→	-	06.12.2020	07.12.2020	-	-	-	24.80	25.70	↑
Sylwia Jaśkiewicz	-	→	-	05.01.2021	05.01.2021	-	-	-	25.50	25.70	→
Sylwia Jaśkiewicz	-	→	-	28.01.2021	29.01.2021	-	-	-	26.50	25.70	→
Sylwia Jaśkiewicz	-	→	-	09.02.2021	10.02.2021	-	-	-	25.70	30.80	↑
Sylwia Jaśkiewicz	-	→	-	28.02.2021	01.03.2021	-	-	-	26.10	30.80	→
Sylwia Jaśkiewicz	-	→	-	31.03.2021	01.04.2021	-	-	-	27.00	30.80	→
Sylwia Jaśkiewicz	Buy	→	16.04.2021	-	16.04.2021	Not later than 16.04.2022	30%	13%	29.30	30.80	→
Sylwia Jaśkiewicz	-	→	-	10.05.2021	11.05.2021	-	-	-	29.80	34.10	↑
Sylwia Jaśkiewicz	-	→	-	27.05.2021	28.05.2021	-	-	-	32.50	34.10	→
Sylwia Jaśkiewicz	-	→	-	30.05.2021	31.05.2021	-	-	-	33.00	34.10	→
Sylwia Jaśkiewicz	-	→	-	09.07.2021	09.07.2021	-	-	-	35.30	34.10	→
Sylwia Jaśkiewicz	-	→	-	12.08.2021	13.08.2021	-	-	-	38.00	41.70	↑

* 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
Ferro								
Sylwia Jaśkiewicz	Neutral	-	21.07.2019	-	22.07.2019	18.11.2019	13.70	-2%
Sylwia Jaśkiewicz	-	→	-	30.07.2019	31.07.2019	-	13.50	-
Sylwia Jaśkiewicz	-	→	-	01.09.2019	02.09.2019	-	12.05	-
Sylwia Jaśkiewicz	-	→	-	10.09.2019	11.09.2019	-	12.10	-
Sylwia Jaśkiewicz	-	→	-	15.09.2019	16.09.2019	-	12.65	-
Sylwia Jaśkiewicz	-	→	-	13.10.2019	14.10.2019	-	13.40	-
Sylwia Jaśkiewicz	-	→	-	24.10.2019	25.10.2019	-	13.00	-
Sylwia Jaśkiewicz	-	→	-	17.11.2019	18.11.2019	-	13.00	-
Sylwia Jaśkiewicz	Overweight	↑	18.11.2019	-	19.11.2019	28.01.2020	13.00	41%
Sylwia Jaśkiewicz	-	→	-	04.12.2019	05.12.2019	-	15.20	-
Sylwia Jaśkiewicz	-	→	-	08.12.2019	09.12.2019	-	15.00	-
Sylwia Jaśkiewicz	-	→	-	09.01.2020	10.01.2020	-	16.30	-
Sylwia Jaśkiewicz	Neutral	↓	28.01.2020	-	29.01.2020	23.04.2020	17.80	-1%
Sylwia Jaśkiewicz	-	→	-	04.02.2020	05.02.2020	-	17.90	-
Sylwia Jaśkiewicz	-	→	-	06.02.2020	07.02.2020	-	17.50	-
Sylwia Jaśkiewicz	-	→	-	03.03.2020	04.03.2020	-	15.20	-
Sylwia Jaśkiewicz	-	→	-	30.03.2020	31.03.2020	-	12.25	-
Sylwia Jaśkiewicz	-	→	-	22.04.2020	23.04.2020	-	14.00	-
Sylwia Jaśkiewicz	Overweight	↑	23.04.2020	-	24.04.2020	16.04.2021	14.00	60%
Sylwia Jaśkiewicz	-	→	-	19.05.2020	20.05.2020	-	13.65	-
Sylwia Jaśkiewicz	-	→	-	15.06.2020	16.06.2020	-	16.60	-
Sylwia Jaśkiewicz	-	→	-	13.07.2020	14.07.2020	-	17.90	-
Sylwia Jaśkiewicz	-	→	-	22.07.2020	23.07.2020	-	17.00	-
Sylwia Jaśkiewicz	-	→	-	01.09.2020	02.09.2020	-	18.60	-
Sylwia Jaśkiewicz	-	→	-	17.09.2020	18.09.2020	-	18.90	-
Sylwia Jaśkiewicz	-	→	-	29.09.2020	30.09.2020	-	18.70	-
Sylwia Jaśkiewicz	-	→	-	08.10.2020	09.10.2020	-	19.00	-
Sylwia Jaśkiewicz	-	→	-	03.11.2020	04.11.2020	-	17.30	-
Sylwia Jaśkiewicz	-	→	-	08.11.2020	09.11.2020	-	17.25	-
Sylwia Jaśkiewicz	-	→	-	19.11.2020	20.11.2020	-	18.40	-
Sylwia Jaśkiewicz	-	→	-	26.11.2020	27.11.2020	-	20.00	-
Sylwia Jaśkiewicz	-	→	-	06.12.2020	07.12.2020	-	24.80	-
Sylwia Jaśkiewicz	-	→	-	05.01.2021	05.01.2021	-	25.50	-
Sylwia Jaśkiewicz	-	→	-	28.01.2021	29.01.2021	-	26.50	-
Sylwia Jaśkiewicz	-	→	-	09.02.2021	10.02.2021	-	25.70	-
Sylwia Jaśkiewicz	-	→	-	28.02.2021	01.03.2021	-	26.10	-
Sylwia Jaśkiewicz	-	→	-	31.03.2021	01.04.2021	-	27.00	-
Sylwia Jaśkiewicz	Overweight	→	16.04.2021	-	16.04.2021	Not later than 16.04.2022	29.30	13%
Sylwia Jaśkiewicz	-	→	-	10.05.2021	11.05.2021	-	29.80	-
Sylwia Jaśkiewicz	-	→	-	27.05.2021	28.05.2021	-	32.50	-
Sylwia Jaśkiewicz	-	→	-	30.05.2021	31.05.2021	-	33.00	-
Sylwia Jaśkiewicz	-	→	-	09.07.2021	09.07.2021	-	35.30	-
Sylwia Jaśkiewicz	-	→	-	12.08.2021	13.08.2021	-	38.00	-

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

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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.

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Stockbrokers

Piotr Kalbarczyk
tel.: +48 (22) 504 32 43
p.kalbarczyk@bossa.pl

Research

Sobiesław Pająk, CFA
(Equity strategy, TMT)

Sylvia Jaśkiewicz, CFA
(Construction materials, Consumer staples & discretionary, Health care)

Tomasz Rodak, CFA
(Consumer discretionary, Video games)

Lukasz Prokopiuk, CFA
(Chemicals, Mining, Mining – machinery, Oil & gas)

Michał Sobolewski, CFA, FRM
(Financials)

Jakub Viscardi
(Telco, Consumer staples & discretionary, IT – hardware distribution, Utilities)

Maciej Wewiórski
(Residential construction, Construction, Real estate)

Mikołaj Stepien
Associate

Michał Zamel
Associate

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