BOŚ DOM MAKLERSKI

11/2018/RP (20) January 29, 2018

Quarterly Results Preview

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BAH

Sector: Consumer discretionary
Fundamental rating: Hold (→)
Market relative: Neutral (→)
Price: PLN 9.6
12M EFV: PLN 10.3 (→)

Market Cap: US$ 119 m
Bloomberg code: MVP PW
Av. daily turnover: US$ 0.13 m
Free float: 54%
12M range: PLN 6.79-12.00

Ratings and action

With the lack of a meaningful upside to the Company's current share market price, we stick to our Hold LT fundamental recommendation and a Neutral ST market-relative bias vs. the Company's shares. The pressure on high sales volume set by JLR as well as lack of profitable exports and dealerships' modernizations may negatively affect FY18 profitability. Yet, a high div. yield cannot be ignored.

Valuation

An update of our financial forecasts for the Company does not impact our 12M EFV, which remains intact at PLN 10.3 per share.

4Q17E financials

BAH should release its FY17 financial results in March 2018. In our view 4Q17 financials of the automotive segment will be worse yoy, yet mainly due to the strong last year base and high effective income tax rate.

In 4Q17 the Company sold 646 vehicles, up 19% yoy, including 420 Land Rovers (+2% yoy) and 226 Jaguars (+71% yoy). The volume of cars sold by own dealers dropped by 28%, to 245 vehicles, including 180 Land Rovers (-42% yoy) and 65 Jaguars (+30% yoy) in 4Q17. The sales to dealers outside the Group reached 351 cars, up 36% yoy, including 215 Land Rovers (+32% yoy) and 136 Jaguars (+40% yoy), in the discussed period. 4Q17 sale of cars generated PLN 139 million, down 8% yoy (vs. PLN 136/155/148 million in 1/2/3Q17).

We expect the Company's automotive business top line at PLN 182 million in 4Q17, down 3%/1% yoy/qoq. We project the segment's profitability to decline which should stem from the sales mix changes (lower yoy exports) and car prices drops (by c. 6% due to FX adjustment). We forecast 4Q17 EBITDA and EBIT of the automotive business at PLN 17 million and PLN 16 million, respectively. Contrary to 3Q17, we assume a high effective income tax rate and thus envisage the segment's NP at PLN 9 million in 4Q17.

Financial forecasts

The Company imported 2,500 cars in FY17, up 20% yoy, including 1,808 Land Rovers, up 24% yoy, and 694 Jaguars, up 11% yoy. The volume of cars sold by own dealers dropped by 10%, to 917 vehicles, including 705 Land Rovers, down 17% yoy and 212 Jaguars, 18% yoy, in FY17. The sales to dealers outside the Group reached 1,459 cars, up 31% yoy, including 1,011 Land Rovers, up 45% yoy, and 448 Jaguars, up 7% yoy, in the discussed period. FY17 sale of cars stood at PLN 575 million, up 13% yoy. The aforementioned results were slightly below our forecasts due to lower than expected price. According to our calculations, the average price dropped by 6% yoy in FY17, yet in 4Q17 standalone it deteriorated 22% yoy, after the rise of 7% and

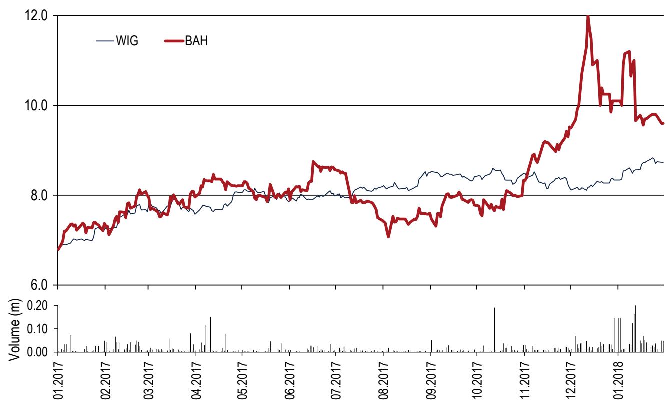
Guide to adjusted profits
No factors necessitating adjustments.

Key Data

IFRS, consolidated		2016	2017E	2018E	2019E
Sales	*PLN m*	653.9	723.4	819.3	950.1
EBITDA	*PLN m*	60.7	66.4	59.7	68.4
EBIT	*PLN m*	60.1	65.3	58.3	65.9
Net income	*PLN m*	46.7	50.5	44.3	50.2
EPS	*PLN*	1.12	1.21	1.07	1.21
EPS yoy chg	*%*	88	8	-12	13
FCFF	*PLN m*	67.9	-20.4	13.4	27.7
Net debt*	*PLN m*	-2.0	55.1	85.1	100.5
P/E	*x*	8.5	7.9	9.0	8.0
P/CE	*x*	8.4	7.7	8.7	7.6
EV/EBITDA	*x*	6.5	6.8	8.1	7.3
EV/EBIT	*x*	6.6	6.9	8.3	7.6
Gross dividend yield	*%*	4.0	8.5	10.1	10.0
DPS	*PLN*	0.39	0.82	0.97	0.96
Number of shares (eop)	*m*	41.6	41.6	41.6	41.6

* Including factoring without regress
Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Upcoming events

1. Release of FY17 financial results: March 2018

Catalysts

1. Rising demand for premium cars
2. New models in the offer
3. Development of own dealers' network
4. Launch of own paint and body repair shop increasing the profitability
5. Sales of used cars
6. High dividend yield
7. FX rates

Risk factors

1. Changes/termination of the importer agreement
2. High dependency on JLR's strategy
3. Rising competition in the premium cars segment
4. Changes in the product mix towards cheaper models
5. Concentrated portfolio of cars
6. Lack of new interesting car models in the offer
7. Exports drop
8. FX rates

15% in 1Q17 and 2Q17 respectively and a 4% decline in 3Q17. Thus, we cut our top line forecast for FY17 from PLN 730 million to PLN 723 million, by 1%.

The Company's 1-3Q17 EBIT and NP stood at PLN 49 million and PLN 42 million, up 19% and 23% yoy, respectively. We expect a profitability drop in 4Q17, yet at a smaller scale than previously. We forecast FY17 EBIT at PLN 65 million, up 5% versus our previous forecasts. We expect the Company's NP to be close to PLN 50 million in FY17, down 4% vs. our previous forecast (assuming FY17 effective income tax rate close to the nominal level).

We forecast 2,910 and 3,492 cars sold, up 22% and 20% yoy, in 2018 and 2019, respectively. We do not forecast any exports this year while we assumed c. 350 cars exported in FY17E (around 14% of all sales). The top line growth should be triggered by new models in the offer (Land Rover Discovery Sport and Jaguar XE in 2015, Jaguar F-Pace in 1H16, new model of Land Rover Discovery in 1H17, Range Rover Velar in July 2017, Jaguar XF Sportbrake in 3/4Q17) and healthy sales of old models (Range Rover Sport, Range Rover Evoque, Range Rover). The Company aims to launch new vehicles into a market in 2018 as well (Jaguar E-Pace at the year beginning, new models of Range Rover, Range Rover Sport in 1Q18, electric vehicle – Jaguar I-Pace with 700Nm instant torque, 400PS and 0-100km/h in around 4 seconds in 2H18) which should constitute a solid driver for the Company's top line. Although the profitability on each car sold can be under pressure, its own dealers network's expansion should compensate for it.

We assume a yoy average price deterioration this year. It should be remembered that the price of the average exported car was higher than sold on the domestic market. Additionally, the Company will be, in our view, forced to offer higher discounts to its clients to meet sales targets set by JLR (end of accounting year at the end of March). In the longer run, the Company may have to change its sales mix towards lower segments (more price-sensitive clients). In the longer run the car price erosion may be slightly offset by the better margin in the vehicle repair segment due to a launch of an own paint and body repair shop and expansion of own dealer points. Yet, we forecast a slight drop of the Company's profitability.

We assume capex exceeding PLN 90 million in 2017-19E to be spent on the dealer network and service station development. BAH distributes cars through 6 authorized external as well as 4 own dealer points located in Warsaw (at Waszyngtona and Witosa streets), Łódź, Gdańsk and Katowice. The Company aims to increase its dealers' network from current 10 to 17 in 2021, and believes that there is a capacity for the coverage of 14 voivodships with dealerships (excl. Lubuskie and Opolskie). JLR demands standardized dealer points with a floor space allowing for the presentation of at least 14 car models.

In the short term, the Company aims to: (i) construct a new own 3S (sales, service, spare parts) dealer point at Puławska street in Warsaw at the cost of PLN 18 million (excl. the plot value); it should be fully operational in 2019, (ii) build a showroom at Wawelska street with capex of PLN 11 million (excl. plot); to be operational in 2018, (iii) modernize dealer points at Waszyngtona street in Warsaw (for PLN 6 million; expected to be completed in 1H18) and at Przybyszewskiego street in Łódź (2018), (iv) construct a dealer point in Gdańsk (2018) and Katowice. The Company is in talks with potential dealers in Szczecin, Rzeszów, Kielce, Lublin and is looking for a dealer candidate in Olsztyn.

Despite significant capex, the Company is going to pay a dividend reaching 80% of the previous year NP. The Company's shareholders approved a PLN 34 million dividend from the Company's last year NP (above 70% of the automotive part's 2016 NP).

Jaguar Land Rover

We believe that the Company's automotive business results are highly dependent on the Jaguar Land Rover performance and introduction of new models to the offer. Retail sales for Jaguar Land Rover totaled 621,109 vehicles in FY17, up 7% yoy. Sales of Jaguars increased by 20%, to 178,601 cars, driven mainly by F-PACE growth (up 66% yoy). Sales of Land Rovers advanced by 2%, to 442,508, mainly due to higher yoy sales of Discovery Sport and Range Rover (+3% yoy each) as well as Range Rover Velar in the offer. Retail sales in January – December were up 23% and 9% yoy in China and in North America, respectively, in Europe they were flattish, including UK and declined 1% yoy in overseas markets.

JLR's strategy assumes: (i) growing premium segments & balanced market mix, (ii) investment in hybrid and BEV technology to meet electrification and emissions standards, (iii) investment in new technology and services in line with driver assistance, connectivity and mobility trends, (iv) new products development, and (v) cost efficiency management (mid-term EBIT margin at 8-10%).

FY18 investment spending is expected to oscillate around £4 –4.35 billion. Despite increased geopolitical uncertainty (e.g. Brexit in the UK), economic growth in most major economies is continuing, although competitive conditions and incentive levels in the automotive sector have increased in the key markets such as North America. JLR expects margin pressures as seen in FY17 including higher incentive levels and launch and growth costs to continue in FY18 (EBIT margin stood at 14%/8%/6%/5% in FY15/FY16/FY17/FY18 Q1 LTM). The launch of the new Discovery (US and China in May), Range Rover Velar, Jaguar E-PACE, XF Sportbrake and other new models in FY18 such as the 18MY Range Rover and Range Rover Sport, featuring plug-in hybrid variants, is expected to strengthen the portfolio and attract new customers.

Please note that the figures have been removed from this publication intentionally.

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 BOŚ 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.

Banks
Net Interest Margin (NIM) = net interest income/average assets
NIM Adjusted = (net interest income adjusted for SWAPs)/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 + other operating costs)/ (profit on banking activity + other operating income)
ROE = net profit/average equity
ROA = net income/average assets
Non performing loans (NPL) = loans in 'substandard', 'doubtful' and 'lost' categories
NPL coverrage ratio = loan loss provisions/NPL
Net provision charge = provisions created – provisions released

DM BOŚ 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.

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 BOŚ 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 BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	43	30	10	3	0
Percentage	50%	35%	12%	3%	0%

Distribution of DM BOŚ's current recommendations for the companies which DM BOŚ 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 BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	35	31	17	3	0
Percentage	41%	36%	20%	3%	0%

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

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	7	3	3	1	0
Percentage	50%	21%	21%	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)	
MARVIPOL + BAH											
Sylwia Jaśkiewicz/Maciej Wewiórski	Buy	–	*18.10.2016*	-	*19.10.2016*	*18.10.2017*	*33%*	*-2%*	9.95	14.60	–
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*02.11.2016*	*03.11.2016*	-	-	-	11.20	14.60	→
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*04.12.2016*	*05.12.2016*	-	-	-	10.77	15.60	↑
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*12.01.2017*	*13.01.2017*	-	-	-	11.90	15.60	→
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*08.02.2017*	*09.02.2017*	-	-	-	12.20	15.60	→
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*09.02.2017*	*10.02.2017*	-	-	-	11.97	17.20	↑
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*07.03.2017*	*08.03.2017*	-	-	-	12.35	17.20	→
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*11.04.2017*	*12.04.2017*	-	-	-	13.45	17.20	→
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*30.05.2017*	*31.05.2017*	-	-	-	13.03	17.20	→
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*11.06.2017*	*12.06.2017*	-	-	-	13.15	19.00	↑
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*09.07.2017*	*10.07.2017*	-	-	-	12.93	18.20	↓
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*12.07.2017*	*13.07.2017*	-	-	-	12.69	18.20	→
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*03.09.2017*	*04.09.2017*	-	-	-	12.10	18.20	→
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*15.10.2017*	*16.10.2017*	-	-	-	12.55	18.20	→
Sylwia Jaśkiewicz/Maciej Wewiórski	Buy	→	*18.10.2017*	-	*19.10.2017*	*07.01.2018*	*51%*	*49%*	12.45	19.70	↑
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*15.11.2017*	*16.11.2017*	-	-	-	14.85	19.70	→
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*10.12.2017*	*11.12.2017*	-	-	-	18.06	19.70	→
Sylwia Jaśkiewicz**	Hold	↓	*07.01.2018*	-	*08.01.2018*	*Not later than 08.01.2019*	*-2%*	*-1%****	11.15	10.30	–
Sylwia Jaśkiewicz	-	→	-	*10.01.2018*	*11.01.2018*	-	-	-	10.90	10.30	–
Sylwia Jaśkiewicz	-	→	-	*29.01.2018*	*30.01.2018*	-	-	-	9.60	10.30	–

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

Market-relative recommendation tracker

Analyst	Relative Recommendation		Report date	Reiteration date	Distribution date	Expiry date	Price at issue/ reiteration*	Relative performance
MARVIPOL + BAH								
Sylwia Jaśkiewicz/Maciej Wewiórski	Overweight	–	*18.10.2016*	-	*19.10.2016*	*18.10.2017*	9.95	-2%
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*02.11.2016*	*03.11.2016*	-	11.20	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*04.12.2016*	*05.12.2016*	-	10.77	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*12.01.2017*	*13.01.2017*	-	11.90	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*08.02.2017*	*09.02.2017*	-	12.20	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*09.02.2017*	*10.02.2017*	-	11.97	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*07.03.2017*	*08.03.2017*	-	12.35	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*11.04.2017*	*12.04.2017*	-	13.45	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*30.05.2017*	*31.05.2017*	-	13.03	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*11.06.2017*	*12.06.2017*	-	13.15	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*09.07.2017*	*10.07.2017*	-	12.93	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*12.07.2017*	*13.07.2017*	-	12.69	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*03.09.2017*	*04.09.2017*	-	12.10	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*15.10.2017*	*16.10.2017*	-	12.55	-
Sylwia Jaśkiewicz/Maciej Wewiórski	Overweight	→	*18.10.2017*	-	*19.10.2017*	*07.01.2018*	12.45	49%
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*15.11.2017*	*16.11.2017*	-	14.85	-
Sylwia Jaśkiewicz/Maciej Wewiórski	-	→	-	*10.12.2017*	*11.12.2017*	-	18.06	-
Sylwia Jaśkiewicz	Neutral	↓	*07.01.2018*	-	*08.01.2018*	*Not later than 08.01.2019*	11.15	-1%
Sylwia Jaśkiewicz	-	→	-	*10.01.2018*	*11.01.2018*	-	10.90	-
Sylwia Jaśkiewicz	-	→	-	*29.01.2018*	*30.01.2018*	-	9.60	-

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

This material was produced by DM BOŚ based in Warsaw.

The production of the recommendation report was completed on 30 January, 2018 at 8.45 a.m.
The recommendation was distributed on 30 January, 2018 at 8.55 a.m.

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