ipopema

2 June 2016

Amica

Appetite is growing

We perceive Amica as an attractive play on: 1) domestic consumption that should be driven by fiscal stimulus (500+ family support program); 2) weakness of PLN that should bring higher competitiveness of export. Having supportive macro environment, the Company's management is continuing rather conservative development policy. It seems, Amica has permanently broken the "mental" barrier of entry on German market (consumer traditionally preferring domestic brands). We believe this trend will be supported by demographic changes visible in the Western Europe (higher migration). Moreover we expect an increase in demand on MDA assortment deriving from boosting primary housing market. The Company is consequently enriching its range of products (focusing more on highly profitable build-up assortment) that should also support the sales in further years. The planned investments in production capacities and planned acquisitions seems to be well thought out and are definitely not overwhelming the Company's potential for "consumption" of such expansion of operations. Despite this investments, the Company is maintaining its dividend policy - approved DPS of PLN 4 is not very impressive (DY of 2%), but it is important the Company is going to pay the fifth dividend out of the last 6 years).

Financial forecasts

The first quarter of current year showed a solid improvement in Company's results. The Company successfully consolidated CDA, that had consequence in almost 21% yoy pace of top line growth. Moreover, the other markets of Western Europe are recording sound dynamics of sales (base is still low, so this trend has a great chance to be prolonged). Taking into consideration the improving economic conditions in Russia, the probability to beat the market consensus at key lines are, in our opinion, very high. We increase our estimates regarding top line by 3% vs. our recommendation issued in February. Our forecast related to EBITDA is revised up from PLN 207m to almost PLN 220m. Last but not least, we expect bottom line to improve to the level of PLN 181m (vs. PLN 113m before and vs. market consensus of PLN 105m), that should be a consequence of higher assumptions related to sales and the potential impact of tax deduction (in amount of PLN 48m, related to investments in Special Economic Area).

Valuation

The Company is significantly cheaper vs. comparable companies operating in segment of household goods. Looking at multiples based on net earnings (adjusted by tax effect), the discount to wide market equals 22-37%. We maintain our BUY recommendation increasing TP by 15.7% to the level of PLN 253. that means an upside by 37%.

Table 1: Amica – Financial summary

	2013	2014	2015	2016E	2017E	2018E
Revenues (PLN m)	1,656	2,028	2,090	2,590	2,738	2,838
EBITDA (PLN m)	125	166	184	220	246	255
EBIT (PLN m)	96	131	147	189	209	214
Net profit (PLN m)	89	78	95	181	172	152
EPS (PLN)	11.49	10.04	12.28	23.22	22.16	19.56
DPS (PLN)	4.43	3.50	4.28	6.97	6.65	5.87
EV / EBITDA (x)	7.5	5.3	8.3	6.9	5.8	5.2
P/E (x)	9.7	10.9	14.2	7.9	8.3	9.4

Source: Company, IPOPEMA Research

Amica
BUY

Unchanged

TP PLN 253 from PLN 220

Price as of June 1st: PLN 184.55

Key Ratios	2016E	2017E
EBITDA Margin	8.5%	9.0%
EBIT Margin	7.3%	7.6%
ROE	27.0%	21.5%
Bank Debt / Assets	14.4%	13.2%

Share data	
Number of shares (m)	7.8
Market Cap (€m)	326
12M Avg daily volume (th)	6.1
12M Average daily turnover (€m)	0.23
52 W High / Low	192 / 150
WIG Weight (%)	0.35
Reuters	AMC WA
Bloomberg	AMC PW

Performance	Abs.
1M	3%
3M	7%
12M	9%

Shareholders	Stake
Holding Wronki	34.9%
Nationale-Nederlanden OPF	7.2%
Aviva BZ WBK OPF	5.6%
Other	52.3%

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Current developments

At the beginning of the year, the management signaled that we may observe a growth of EBITDA to the level of PLN 200m from PLN 184m recorded in 2015. On one hand, we knew that the results should be impacted positively by the effect of acquisition of CDA (generating annual revenue visibly above GBP 40m). On the other hand the great risk was related to the market of Russia that was suffering from downturn in prices of commodities. The first quarter of the year, was better than market expectations. Hence we claim, that the appetite for Amica's profits should not weaken.

- **Sales performance.** Acquisition of CDA added ca. GBP 11m to the Company's top line in 1Q16. Nevertheless, the comparable dynamics of sales in Western region was very impressive (+21% yoy). It is a result of strong performance of German market (improving brand recognition, hedging of EURCNY still supporting the Company's offer). It seems, the structure of Western European society is changing (due to migration). Hence, the Company is benefiting from some changes in habits and weakening attachment to traditional brands (especially in Germany).

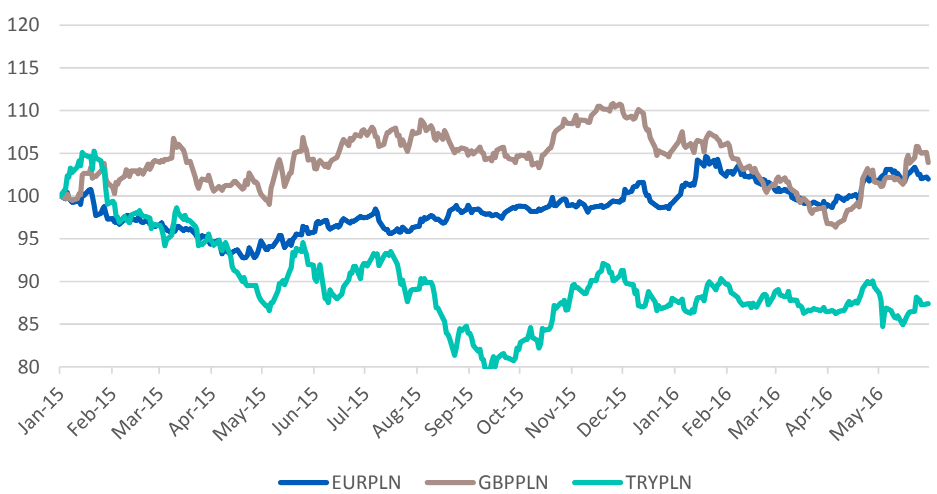
  In the UK, the Company is competing with Arcelik (its sales are supported by relatively weaker TRY). The growth potential is very large (the Company's target is to reach the revenue of GBP 100m within the next 3-4 years). The first step will be better utilization of distribution channels between structures of CDA and Amica (CDA will manage all the business of Amica in UK).

  Sales in France and Spain are increasing very strongly (but the share of those markets is still insignificant). The Company is still negotiating the acquisition of further 20% stake in local distributor (giving the control on this entity).

  In Russia, we observed flattening of negative dynamics of sales. The spring months show the further improvement (we see a chance to record neutral volumes yoy). A rebound on oil prices should support the Russian consumer. On the other hand, the RUB is still weak, that means relatively low competitiveness of imported goods vs. domestic production (it is important in area of FS assortment, where the leading position is occupied by local producer).

  The weaker dynamics observed in Polish market is explained by the management by the reorganization of distribution model. The Company is expecting the figures will improve in further quarters along with strengthening of the consumer and rising volume of completions of housing investments. The management declared, that the first positive signs were visible in volumes related to April and May.

Chart 1: FX environment since January 2015



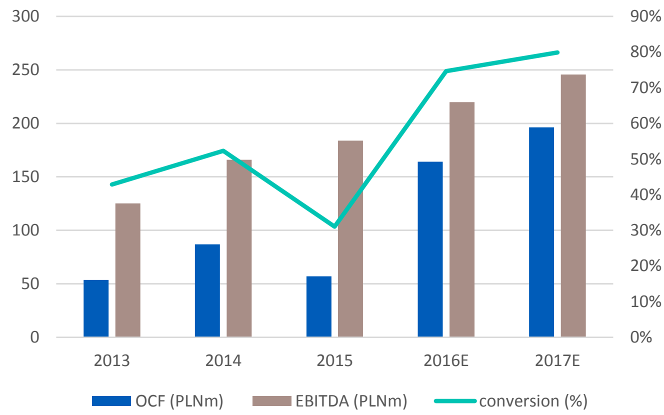
Source: Bloomberg, IPOPEMA Research

- **Profitability.** 1Q16 figures showed an improvement in margin on goods (from 1.9% in 1Q15 to 6.8%). It is partly an effect of consolidation of CDA (that has operating margin around 10%). Declining profitability on FS heating equipment is a consequence of lack of favourable hedging of EURRUB (according to Company's estimates, it added ca. EUR 2m of profit in 1Q15). The current profitability on heating assortment is close to the mid-term assumptions. Since the beginning of the year, the Company is renegotiating contracts with suppliers (to take the advantage from improved purchasing position). The effects of this action should be visible in profitability in 2H16. The prices of raw materials are still supportive for producers (see chart below).

Chart 5: Raw material price index for appliances category

Source: Arcelik

Chart 6: Amica – EBITDA to OCF conversion



Source: Company, IPOPEMA Research

- The Company's mid-term plan is to improve the sales mix. The sales effort will be focused more on heating assortment – not on goods. We should expect an introduction of new products (large oven) during the next year.
- The Company plans an optimization in logistics side of business. The investments in storage area should bring significant cost savings (up to PLN 14m annually since 2018). Moreover we should observe some optimization in inventory management.
- We have to point out, that the Company's bottom line in 2016-17 period is highly probable to be positively impacted by the tax deduction effect resulting from the investments made in Special Economic Area. The Company expects, the threshold of PLN 120m will be reached this year, that implies a PLN 48m tax deduction this year.
- We should rather not expect completions of further acquisition processes this year. The Company still not decided about re-entrance in the segment of production of fridges. The Company should focus on organic growth. The short-term plan is to increase the nominal production capacity from ca. 1.3m currently to 1.5m (plus eventual production line related to the new type of oven).
- The management declared to focus on improvement of EBITDA to OCF conversion (many depends on the results of WC management). Cash flows may be additionally supported by the sale of non-core assets (logistic center and shopping mall in Gorzow).
- Last but not least, the Company is interested in the further development of production capacities on the base of Special Economic Area (it is highly probable, that the tax deduction after 2018 may reach the level of 25% in relation to CAPEX directed to this area).

Forecasts revision

On the basis of better than expected Company's performance in 1Q16 and optimistic declarations of the management regarding the spring months, we decided to increase our expectations related to the foreseeable future.

- **Sales.** Our assumptions regarding top line are increasing by 3% to the level of PLN 2,590m in 2016. It is a result of strong figures deriving from German market and improving macro environment in CIS region. We believe, the rebound (and potential stabilization) of oil/gas prices will positively impact Russian consumer. We assumed the bottom of sales dynamics was observed in 1Q16 and the current quarter may show a neutral figures. Despite rather disappointing performance of domestic market (only + 1.7% yoy), the annual pace of growth will reach at least 4% (driven by strengthening of the consumer and high numbers of completions in area of housing development). The pace of growth in further years will flatten (assuming no acquisitions) – in line with our previous estimates.
- **Profitability.** We expect gross margin to fluctuate near the level of 32% this year. It is a "natural" level of profitability for the Company (assuming no negative/positive impact of hedging). The situation on raw materials is stable. The pressure on wages is limited, and the side effect of increasing production capacity is lower risk of the costs related to overtime work. In mid-term, the improvement in the area of logistics should result in significant savings of operating costs (according to the estimates of the management it may reach the level of PLN 10-15m annually since 2018).
- **One-offs.** The management is working on the sale of non-core assets (shopping mall and logistics center in Gorzow). The cash inflow may reach the level of PLN 20-25m, on the other hand, the book valuation of this properties are higher by ca. PLN 10m, that will negatively impact P&L. On the other hand, it is too early to assume if this transaction will be completed till the end of this year.

  When it comes to the Company's activity in SEA (Special Economic Area), the total amount of expenditures should surpass the level of PLN 120m this year, that means, the Company will be allowed to recognize tax asset in the amount of 40% of costs (PLN 48m). This trigger should have positive influence on the Company's bottom line this year.

Peers comparison

Table 2: Amica – peers comparison (prices at June 1st, 2016)

	Market Cap	P/E			EV/EBITDA			EBITDA margin
COMPANY	EUR m	2016E	2017E	2018E	2016E	2017E	2018E	2016E
WHIRLPOOL CORP	11,886	11.8	9.9	8.3	6.6	5.5	4.6	*11.9%*
ELECTROLUX AB-SER B	7,400	15.6	13.7	12.6	7.1	6.3	5.7	*8.4%*
DE'LONGHI SPA	3,524	22.4	19.7	17.5	11.1	9.7	8.5	*15.0%*
ARCELIK AS	4,038	14.3	13.1	11.5	9.5	8.6	7.6	*10.9%*
MIDDLEBY CORP	6,403	27.4	23.2	19.3	16.3	13.7	11.4	*20.8%*
GORENJE VELENJE	153	35.2	14.0	9.0	na	na	na	*7.0%*
VESTEL BEYAZ ESYA SANAYI VE	594	15.0	13.1	10.2	7.7	6.6	6.2	*9.6%*
ZOJIRUSHI CORP	1,146	19.0	16.5	14.5	9.0	7.5	6.4	*13.9%*
Median		**17.3**	**13.9**	**12.1**	**9.0**	**7.5**	**6.4**	**11.4%**
AMICA		**10.9**	**9.6**	**9.4**	**6.9**	**5.8**	**5.2**	**8.5%**
premium/ discount		*-36.9%*	*-30.4%*	*-22.4%*	*-23.1%*	*-22.5%*	*-19.0%*	

Source: Bloomberg, IPOPEMA Research

The Company is trading with ca. 22-37% discount to peers (bases on net earnings estimates for 2016-18E). When it comes to valuation bases of EV/EBITDA multiples, Amica is cheaper than comparable companies by ca. 19-23%.

On the basis of the average sector multiples presented in a table above, we see the fair value of Amica shares in the range of PLN 219-252, that implies the average pricing at the level of PLN 231 per share (that means an upside of ca. 26% to the current market valuation).

DCF Valuation

Our DCF valuation is based on the assumption of the 2% pace of growth in terminal period and 7% of operating profitability (conservatively).

We assumed risk free rate at 3.2% and market risk premium of 5.5%.

	2016E	2017E	2018E	2019E	2020E	Terminal Year
Revenue Growth Rate	23.9%	5.7%	3.7%	2.5%	2.0%	2.0%
Revenues	2,590	2,738	2,838	2,909	2,968	
EBIT Margin	7.3%	7.6%	7.5%	7.5%	7.3%	7.0%
EBIT	**189**	**209**	**214**	**219**	**217**	**208**
Effective Tax Rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
NOPAT	**153**	**169**	**173**	**177**	**175**	**168**
+ Depreciation	30	37	42	45	55	55
- Capex	-90	-80	-70	-70	-60	-55
- Change in Working Capital	1	11	20	-7	2	2
FCF	**95**	**137**	**165**	**145**	**172**	**170**
Terminal Value						**2,264**
WACC	**9.1%**	**9.6%**	**9.6%**	**9.6%**	**9.6%**	
Present Value of FCF	**95**	**125**	**137**	**110**	**120**	

NPV of free cash flows	587
+ Present value of terminal value	1,721
Value of Operating Assets of the firm =	**2,308**
+ Value of non-operating assets	0
Value of Firm =	**2,308**
- Value of Net Debt =	**171**
- Minority =	**-1**
Value of Equity =	**2,139**
Target Price (PLN)	**275**

Key Assumptions	
Revenue CAGR 2016E-2020E	3.5%
Average operating margin in 2016E-2020E	7.5%
Market Risk Premium	5.5%
Beta	1.0
Average WACC in 2016E-2020E	9.6%

DCF Sensitivity (PLN)

		Operating Margin in Perpetuity				
Real Growth Rate in Perpetuity	**Nominal Growth**	**9.0%**	**8.0%**	**7.0%**	**6.0%**	**5.0%**
-0.5%	**1.0%**	302	274	246	219	191
0.5%	**2.0%**	338	307	**275**	243	212
1.5%	**3.0%**	386	349	313	276	239

		WACC in Perpetuity				
Real Growth Rate in Perpetuity	**Nominal Growth**	**12%**	**11%**	**10%**	**9%**	**8%**
-0.5%	**1.0%**	210	226	246	272	305
0.5%	**2.0%**	229	249	**275**	309	354
1.5%	**3.0%**	252	279	313	359	426

On the basis of the assumptions mentioned above, we see the market valuation of Amica at the level of PLN 275 per share (that means an upside by almost 50%).

AMICA - P&L (PLN m)	2013	2014	2015	2016E	2017E	2018E
Revenues	**1,656**	**2,028**	**2,090**	**2,590**	**2,738**	**2,838**
- yoy change	*6%*	*22%*	*3%*	*24%*	*6%*	*4%*
Gross Profit	**524**	**637**	**694**	**829**	**871**	**897**
- yoy change	*20%*	*21%*	*9%*	*19%*	*5%*	*3%*
SG&A cost	-422	-502	-531	-629	-660	-678
- yoy change	*16%*	*19%*	*6%*	*18%*	*5%*	*3%*
Other Operating Income/(Cost)	-6	-5	-16	-10	-2	-5
EBIT	**96**	**131**	**147**	**189**	**209**	**214**
- yoy change	*30%*	*36%*	*12%*	*29%*	*10%*	*2%*
Depreciation cost	29	35	37	30	37	42
EBITDA	**125**	**166**	**184**	**220**	**246**	**255**
- yoy change	*26%*	*33%*	*11%*	*20%*	*12%*	*4%*
Financial Income/(Cost)	-15	-30	-25	-26	-26	-26
Pretax Profit	**81**	**101**	**122**	**164**	**183**	**188**
- yoy change	*30%*	*25%*	*21%*	*34%*	*12%*	*3%*
Income Tax	8	-23	-27	17	-11	-36
Minority (Profits)/Losses	0	0	0	0	0	0
Net Income	**89**	**78**	**95**	**181**	**172**	**152**
EPS (PLN)	**11.49**	**10.04**	**12.28**	**23.22**	**22.16**	**19.56**
- yoy change	*94%*	*-13%*	*22%*	*89%*	*-5%*	*-12%*

Profitability Ratios	2013	2014	2015	2016E	2017E	2018E
Gross Margin	31.7%	31.4%	33.2%	32.0%	31.8%	31.6%
EBIT Margin	5.8%	6.4%	7.0%	7.3%	7.6%	7.5%
Net Margin	5.4%	3.8%	4.6%	7.0%	6.3%	5.4%
ROE	19.0%	14.6%	16.1%	24.3%	19.8%	15.5%

Balance Sheet (PLN m)	2013	2014	2015	2016E	2017E	2018E
Total Current Assets	**535**	**684**	**896**	**1,005**	**1,094**	**1,195**
Cash and Equivalents	26	56	65	108	180	280
Other Current Assets	510	629	831	896	914	915
Total Fixed Assets	**398**	**409**	**518**	**625**	**692**	**721**
Tangible assets	254	232	277	336	379	407
Other Fixed assets	125	120	203	251	275	275
Total Assets	**933**	**1,094**	**1,423**	**1,640**	**1,796**	**1,926**
Stockholders` Equity	**471**	**534**	**593**	**742**	**869**	**978**
Including Minority Interest	-1	-1	-1	-1	-2	-2
Long Term Liabilities	**52**	**66**	**190**	**190**	**190**	**190**
Long -Term Debt	38	44	156	156	156	156
Other Long - Term liabilities	14	22	33	33	33	33
Short Term Liabilities	**410**	**494**	**641**	**709**	**738**	**758**
Accounts Payable	290	366	415	482	512	532
Short -Term Debt	61	49	79	79	79	79
Other Current Liabilities	60	78	146	147	147	147
Total Equity & Liabilities	**933**	**1,094**	**1,423**	**1,640**	**1,796**	**1,926**
BVPS (PLN)	60.73	68.84	76.41	95.63	111.99	126.01

Ratios	2013	2014	2015	2016E	2017E	2018E
Current Ratio	1.3	1.4	1.4	1.4	1.5	1.6
Quick Ratio	0.9	0.9	0.9	0.9	1.0	1.1
Bank Debt/Assets	11%	9%	17%	14%	13%	12%
Bank Debt/Equity	21%	18%	40%	32%	27%	24%

Cash Flow (PLN m)	2013	2014	2015	2016E	2017E	2018E
Net Profit	89	78	95	133	148	152
Depreciation and Amortisation	29	35	37	30	37	42
Other (incl. WC change)	-74	-53	-136	1	11	20
Operating Cash Flows	**44**	**60**	**-4**	**164**	**196**	**214**
Capital Expenditures (Net)	-48	-46	-74	-90	-80	-70
Other	12	16	-76	0	0	0
Cash Flows from Investing Activities	**-36**	**-30**	**-149**	**-90**	**-80**	**-70**
Change in Debt	-14	5	141	0	0	0
Other	-52	-32	-39	-31	-45	-43
Cash Flows from Financing Activities	**-66**	**-27**	**102**	**-31**	**-45**	**-43**
Beginning Cash	75	26	56	65	108	180
Increase/(Decrease) in Cash	-58	3	-51	43	71	101
Ending Cash	**26**	**56**	**65**	**108**	**180**	**280**
DPS (PLN)	4.50	3.50	3.00	4.00	5.81	5.54

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The definitions of terms used in the recommendation include:

NII – Net interest income – interest income minus interest expense
Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense
LLP – loan loss provisions – an expense set aside as an allowance for bad loans
NPL – non-performing loan – loans that are in default or close to be in default
Cost/Income – operating expenses divided by total banking revenue
ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity
ROA – return on assets – net income (or adjusted net income) divided by the average assets
EBIT – earnings before interests and tax
EBITDA – earnings before interests, tax, depreciation and amortization
EPS – earnings per share – the net income (or adjusted net income divided by the number of shares outstanding
P/E – price to earnings ratio – price divided by earnings per share
PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time
CAGR –compound annual growth rate
BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding
P/BV – price to book value - price divided by the BVPS
DPS – dividend per share – dividend of a given year divided by the number of shares outstanding
DY – dividend yield – dividend of a given year divided by the current price
DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends
TP – target price, calculated based on valuation methods outlined in the document

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	Number	%
Buy	38	70%
Hold	9	17%
Sell	7	13%
Total	57	100%

Rating History – AMC

Date	Recommendation	Target Price	Last Price
27,01,2015	BUY	141	99
10.12.2015	BUY	219	162.85
09.02.2016	BUY	220	166.75