

Thursday, September 13, 2018 | special comment

Amica – Rebound Ahead

Rating: overweight | current price: PLN 112.80

AMC PW; AMC.WA | Industrials, Poland

Analyst: Jakub Szkopek +48 22 438 24 03

Amica said during the 2018 Q2 earnings conference that it expected its core business to grow at a steady pace in the quarters ahead, resulting in a double-digit rise in 2018 H2 financials, supported by positive base effects. The Company is considering another offer to repurchase treasury stock after the August proposition to buy back 250,000 shares at PLN 120 apiece failed to draw interest. Moreover, there are plans to raise next year's payout ratio for cash dividend, with the implied dividend yield per our calculations potentially coming close to 4%. AMC stock is currently trading at a double-digit discount to historical averages and relative to comparable global appliance makers. After slight adjustments to our FY2018-2019 financial outlook, we maintain an overweight call for AMC.

- Amica continues to grow its organic business after a Q2 rebound which followed several quarters of shrinking sales. The expansion anticipated in H2 will be reinforced by positive year-ago base effects.
- Commenting on the recent plunge in the Turkish lira, Amica says that on the one hand the weak currency gives local appliance producers an edge over competition, but on the other hand it drives up the costs of imported parts alongside mounting pay pressures. Amica pointed out that insurers have reduced the limits for Turkish companies that want to insure their debts. In addition, a cheaper lira revs up debt service costs for companies with debts denominated in foreign currencies. The risks faced by

Turkish supplies in our view can negatively affect the sentiment of investors.

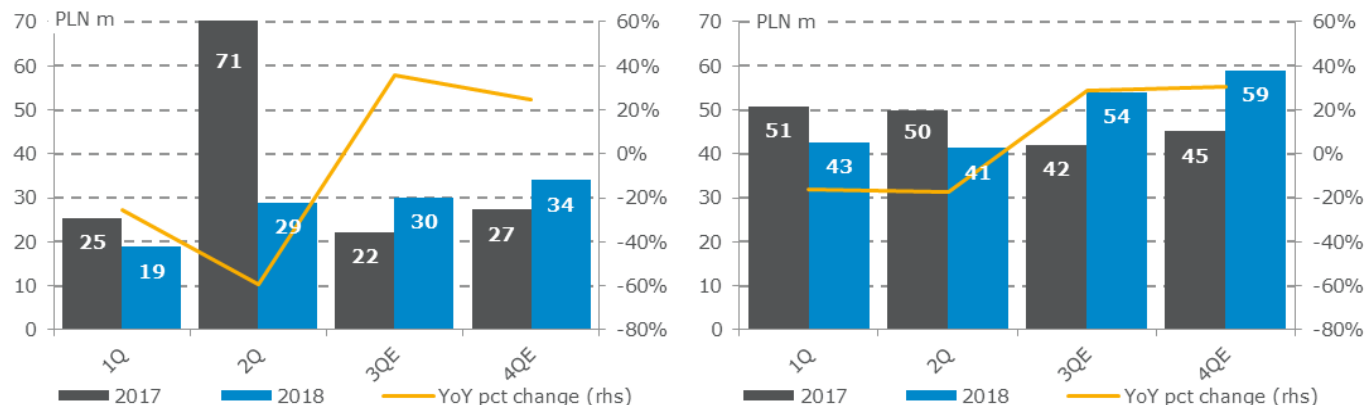
- In order to mitigate increasing pay pressures, Amica decided to increase the share of migrant labor (Ukrainians account for 10% of the current headcount), and it is testing inmate labor opportunities offered by a nearby penitentiary. Labor costs currently account for about 12% of total costs at Amica. Any rise by a further 5% will boost costs by PLN 15m.
- Amica, which pays about PLN 5m a year (0.3% of total costs) in electricity bills, is not worried about the current rally in power prices.
- Amica has hedged its 2019 FX exposure in Germany and the UK at better rates, and it plans to implement a hedging policy in Poland. Thanks to more effective hedging, the Company expects to generate higher sales and margins.
- If successful, the planned acquisition of the Spanish appliance trademark Fagor can boost Amica's Spanish sales from several to about 50 million euros.
- Amica hopes its shareholders will take advantage of the planned new share buyback offer.
- After a potential hike in the 2019 dividend payout ratio, the shareholders could look forward to a cash dividend of PLN 4-5 per share.
- 2018 CAPEX is budgeted at PLN 80m, and in subsequent years capital expenditures should be lower.

Summary of 2018-2019 FY forecast adjustments

(PLN m)	New Estimates		Old Estimates		Pct. Change	
	2018E	2019E	2018E	2019E	2018E	2019E
Revenue	2,846.8	2,920.1	2,777.2	2,829.4	+2.5%	+3.2%
EBITDA	197.0	212.4	205.1	219.5	-3.9%	-3.3%
Net profit	111.9	117.4	110.1	124.6	+1.6%	-5.8%
DPS (PLN)	3.00	4.32	3.00	4.25	0.0%	+1.6%
Net debt	200.1	175.4	193.1	149.9	+3.7%	+17.0%

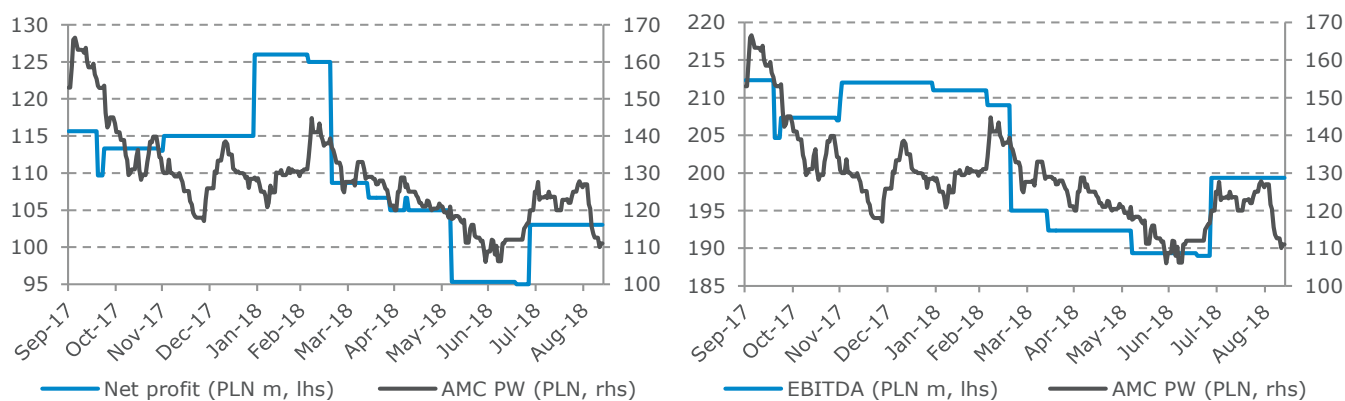
Source: estimates by Dom Maklerski mBanku

Historical and projected quarterly net profit (left) and EBITDA (right) figures



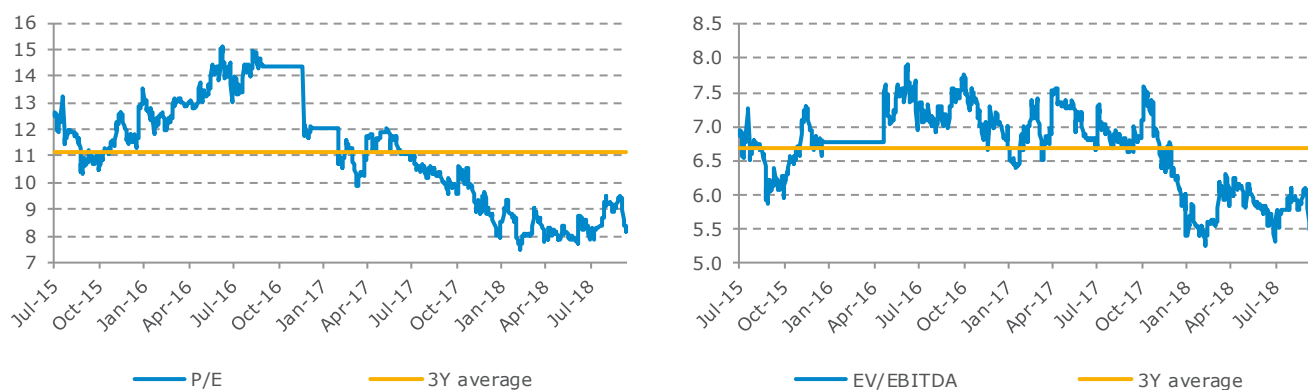
Source: estimates by Dom Maklerski mBanku

Amica stock price movements versus changes in earnings expectations



Source: Bloomberg

P/E and EV/EBITDA ratios of Amica versus historical averages



Source: Bloomberg

Historical earnings and 2018-2019 estimates

(PLN m)	2013	2014	2015	2016	2017	2018E	2019E
Price (PLN)	111.00	111.00	111.00	111.00	111.00	111.00	111.00
P/E	9.7	11.0	9.0	7.7	5.9	7.7	7.4
EV/EBITDA	7.5	5.5	5.6	4.9	5.7	5.4	4.9
Dividend Yield	4.1%	3.2%	2.7%	3.6%	5.0%	2.7%	3.9%
Net debt / EBITDA	0.6	0.2	0.9	0.6	1.1	1.0	0.8
P/B	1.8	1.6	1.5	1.3	1.1	1.0	0.9
P/(BV-goodwill)	2.0	1.7	1.6	1.4	1.2	1.0	0.9
Revenue	1,653.7	2,019.7	2,084.0	2,474.6	2,645.6	2,846.8	2,920.1
Y/Y pct. change	5.7%	22.1%	3.2%	18.7%	6.9%	7.6%	2.6%
Gross profit margin	511.7 30.9%	634.9 31.4%	693.9 33.3%	780.9 31.6%	768.3 29.0%	795.4 27.9%	821.9 28.1%
Selling expenses	161.5	192.9	212.7	269.9	292.3	314.8	322.9
Administrative expenses	261.8	310.4	317.8	338.5	335.4	332.4	339.1
EBITDA margin	124.3 7.5%	163.9 8.1%	183.9 8.8%	201.2 8.1%	187.9 7.1%	197.0 6.9%	212.4 7.3%
EBIT margin	95.4 5.8%	128.3 6.4%	146.9 7.0%	155.7 6.3%	139.5 5.3%	145.0 5.1%	159.9 5.5%
Financing activity	-14.6	-29.3	-25.1	-17.3	-21.2	-13.8	-15.0
Net profit	89.4	78.3	95.6	112.5	146.3	111.9	117.4
Net debt	72.8	37.9	170.7	115.3	216.0	200.1	175.4

Source: Amica, E - estimates by Dom Maklerski mBanku

List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

Recommendations of Dom Maklerski mBanku:

A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
 Recommendations are updated at least once every nine months.

mBank S.A. with its registered office in Warsaw at Senatorska 18 renders brokerage services in the form of derived organisational unit – Brokerage Office which uses name Dom Maklerski mBanku.

This document has been created and published by Dom Maklerski mBanku. The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Dom Maklerski mBanku S.A. considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Dom Maklerski mBanku S.A., in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation. Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located below.

The present report was not transferred to the issuer prior to its publication.

mBank S.A. had a brokerage agreement in place with the Issuer in the last 12 months.
 mBank S.A. received compensation for services provided to the Issuer in the last 12 months.

The production of this recommendation was completed on September 13, 2018, 8:27 AM.
 This recommendation was first disseminated on September 13, 2018, 8:27 AM.

mBank S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written consent of mBank S.A.

Recommendations are addressed to all Clients of Dom Maklerski mBanku.

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Dom Maklerski mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of the present recommendations.

This publication constitutes investment research within the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Dom Maklerski mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

For U.S. persons only: This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

Strong and weak points of valuation methods used in recommendations:

DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

NAV - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following investment recommendations for Amica in the 12 months prior to this publication

Rating	overweight	overweight
Rating date	2018-06-06	2018-01-05
Target price (PLN)	-	-
Price on rating day	121.00	130.00

Dom Maklerski mBanku

Senatorska 18
00-082 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszcz

director
+48 22 438 24 02
kamil.klischcz@mbank.pl
energy, power generation

Jakub Szkopek

+48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Piotr Bogusz

+48 22 438 24 08
piotr.bogusz@mbank.pl
retail

Michał Marczak

+48 22 438 24 01
michal.marczak@mbank.pl
strategy

Paweł Szpigel

+48 22 438 24 06
pawel.szpigel@mbank.pl
media, IT, telco

Michał Konarski

+48 22 438 24 05
michal.konarski@mbank.pl
banks, financials

Piotr Zybala

+48 22 438 24 04
piotr.zybala@mbank.pl
construction, real-estate development

Sales and Trading

Traders

Piotr Gawron

director
+48 22 697 48 95
piotr.gawron@mbank.pl

Jędrzej Łukomski

+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Andrzej Sychowski

+48 22 697 48 46
andrzej.sychowski@mbank.pl

Krzysztof Bodek

+48 22 697 48 89
krzysztof.bodek@mbank.pl

Adam Prokop

+48 22 697 47 90
adam.prokop@mbank.pl

Tomasz Galanciak

+48 22 697 49 68
tomasz.galanciak@mbank.pl

Tomasz Jakubiec

+48 22 697 47 31
tomasz.jakubiec@mbank.pl

Szymon Kubka, CFA, PRM

+48 22 697 48 54
szymon.kubka@mbank.pl

Magdalena Bernacik

+48 22 697 47 35
magdalena.bernacik@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim

deputy director
+48 22 697 48 82
marzena.lempicka@mbank.pl

Bartosz Orzechowski

+48 22 697 48 47
bartosz.orzechowski@mbank.pl

Private Client Sales

Kamil Szymański

director
+48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak

deputy director
+48 22 697 48 70
jaroslaw.banasiak@mbank.pl