

Tuesday, January 12, 2021 | special comment

Kruszwica: Bunge Tender Offer – Accept or Decline?

recommendation: underweight | current price: PLN 66.30

KSW PW; KSW.WA | Food Producers, Poland

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On December 9th, 2020, Koninklijke Bunge B.V. ("Bunge"), the lead shareholder of Kruszwica, announced an intent to conduct a Tender Offer to acquire all 8.2 million of the outstanding shares of the Company at PLN 66.30 per share. After acquiring a 100% stake Bunge might decide to take Kruszwica off the Warsaw Stock Exchange.

There are good reasons for and against accepting Bunge's offer. On the one hand, it seems that European producers of edible oils face a shortage of oilseed material due to a decrease in production observed across the EU, including in Poland, where the area planted to rapeseed has shrunk 15% in the last five years. The potential future deficit could be made even worse by lower rapeseed imports from Ukraine after the introduction of unfavorable VAT rules on oilseed traders. Lastly, Kruszwica's dividend policy could change to the dissatisfaction of remaining shareholders if the second-biggest investor, Windstorm Trading & Investments Limited, with powers to appoint members of the supervisory board, opts to sell its stake in the Tender Offer.

One of the reasons against existing Kruszwica are the bright prospects this year for the edible oil business after last year's bumper rapeseed harvest in Poland, the highest since 2017. With high oilseed supply Kruszwica is positioned to achieve strong crushing margins at seven-year highs amid upward-trending prices of edible oils. Furthermore, Kruszwica is firmly entrenched in the Polish edible oils market, where Bunge and Archer Daniels Midland, between them, account for an estimated 80% of the whole market, and where the addition of more oilseed crushing capacity would not make sense considering the decreasing supply. Last but not least, we have to point out Kruszwica's generous dividend policy, facilitated by its strong market position and low capital spend – in the last few years the Company was able to offer dividend payout ratios in the range of 50-75% of annual earnings.

At Bunge's offer price (PLN 66.30), on our estimates KSW stock is trading at 13.6x 2021E P/E and 7.8x EV/EBITDA (8.7x if we take into account factoring) – relatively high multiples when compared to the median ratios of our broad industrials line-up at 10.9x 2021E P/E and 6.5x EV/EBITDA. This represents a premium which most likely reflects Kruszwica's stable market share, dividend policy, and favorable business environment.

Ranked among our top industrial picks throughout 2020, Kruszwica generated a dividend-adjusted return of 48% last year.

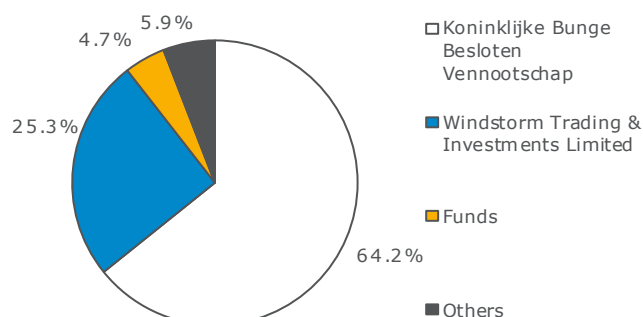
We see Bunge's bid as a profit-taking opportunity after looking at potential risks, and so we change our view on Kruszwica from neutral to underweight without changing our financial outlook.

The Tender Offer

Koninklijke Bunge is seeking to acquire 100% of all outstanding shares of Kruszwica and it might consider **delisting** the shares from the Warsaw Stock Exchange. Bunge's tender offer is for upwards of **8.2 million shares**, representing a **voting stake of 35.78%**. The Dutch firm is offering to pay **PLN 66.30** per share – a 22% premium to the average price for the last three months and a 17% premium over the six-month average. The acceptance period for the Tender Offer began on 31 December 2020, and it **ends on 29 January 2021**.

Koninklijke Bunge is currently the **biggest shareholder** in Kruszwica with a stake of **64.22%**. The next biggest shareholder with 25.3% is **Windstorm Trading & Investments Limited** ("Windstorm"), a company indirectly controlled by Mr. Jerzy Starak, owner of Polpharma pharmaceuticals and Herbapol Lublin herbal teas. The remaining shareholders own only 10.5% of the outstanding shares of Kruszwica, of which 4.7% are in the hands of investment and pension funds.

Shareholder structure of Kruszwica (%)



Source: mBank

With this distribution of ownership, it seems that the success of the Tender Offer hinges on Mr. Starak, via Windstorm. One of the sitting members of Kruszwica's Supervisory Board is the CEO of Polpharma, of which Mr. Starak is the owner – a connection which indicates a level of influence on Kruszwica's business strategy and on protection of minority shareholders. Hence, in a scenario where Windstorm exited Kruszwica by accepting Bunge's bid, and the other minority shareholders did not, the remaining shareholders would potentially face a change in Kruszwica's policy with respect to dividends and corporate governance. To date, Kruszwica has been consistent in offering distributions to its shareholders, and as such it has been favored by dividend investors.

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

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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%
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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 Kruszwica in the 12 months prior to this publication:

recommendation	neutral	overweight	beutral	overweight	overweight	overw2eight
date issued	2020-12-08	2020-10-29	2020-06-29	2020-05-21	2020-05-13	2020-01-30
target price (PLN)	-	-	-	-	-	-
price on rating day	56.60	53.20	60.40	59.00	54.80	52.20



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