

27/2019/GPW (150) December 3, 2019

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Pilot Program. This is a selected fragment of DM BOŚ SA's research report.

Analyst: Maciej Wewiórski

Sector: Consumer discretionary
Fundamental rating: Buy (→)
Market relative: Neutral (→)
Price: PLN 4.68
12M EFV: PLN 8.4 (↓)

Market Cap: US\$ 91 m
Bloomberg code: TOA PW
Av. daily turnover: US\$ 0.02 m
12M range: PLN 3.90-8.00
Free float: 17%

Toya

Equity story

- The Strategy.** Toya's strategy is bound to two aims: geographical expansion and new products development. Every year hundreds of new products enters the Company's offer, product lines are enlarged, the assortment is modernized and upgraded.
- Profits distribution.** Even though there is no dividend policy in place in the Company, to date Toya has shared its profits with shareholders generously and the only year when the Company did not pay a dividend was 2015 due to a purchase of Yato Tools shares in 2014. In 2017 the Company launched a buyback program and spent PLN 29.6 million for the purchase of its 2,288,615 outstanding shares.
- Non-core assets.** Toya could move its warehouse to a location that is less attractive for investment purposes and then dispose the land to housing developers which, according to our estimates, would free PLN 15-20 million to be allocated for a dividend payment or a buyback.
- We expect a gradual decline of revenue growth profile.** Toya's sales have been growing dynamically for last 10 years (7.3% CAGR). We appreciate the Company's products high quality as well as its successful development of new lines and geographical expansion, nevertheless we assume a slight sales growth slowdown to 4.1% CAGR in 2019-2029 mainly due to the expected economic slowdown on the crucial markets for the Company.
- Valuation.** We value the Company via the DCF FCFF approach. In the DCF FCFF valuation the Company's share amounts to PLN 8.4, but it is still materially above the current share market price. A moderate decline of our 12M EFV is the effect of higher level of net working capital (higher value of inventories).

Guide to adjusted profits

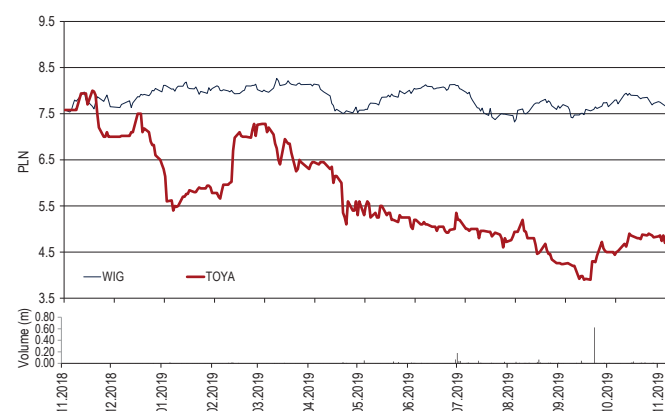
No factors necessitating adjustments.

Key data

IFRS consolidated		2018	2019E	2020E	2021E
Sales	PLN m	380.7	432.0	457.8	480.8
EBITDA	PLN m	59.9	64.3	68.5	72.3
EBIT	PLN m	55.4	60.1	64.3	68.1
Net profit	PLN m	43.8	46.7	50.6	53.5
EPS	PLN	0.58	0.62	0.67	0.71
EPS yoy chng	%	13.3	6.8	8.2	5.9
Net debt	PLN m	70.1	44.9	49.2	52.1
P/E	x	8.0	7.5	6.9	6.6
P/CE	x	7.3	6.9	6.4	6.1
EV/EBITDA	x	7.0	6.2	5.8	5.6
EV/EBIT	x	7.6	6.6	6.2	5.9
EV/Sales	x	1.1	0.9	0.9	0.8
Gross dividend yield	%	10.0	0.0	11.3	12.2
DPS		0.47	0.00	0.53	0.57
No. of shares (eop)	m	75.0	75.0	75.0	75.0

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

- 4Q19E results.** We forecast Toya to deliver a decent growth dynamic of 4Q19 revenues. This should be possible thanks to strong macro environment prevailing on the core markets, geographical expansion and product development. As far as the profits are concerned, we fear that SG&A cost exallation, the Company may find it hard to deliver higher yoy EBIT and profit.

- **Risk to financial forecast.** Moderate, however higher CAPEX due to plans of storage facility acquisition China.
- **Recommended action.** Toya offers an exposure to the fast rising tool market. The business is low capital intensive which makes Toya a cash cow.

Fig. 1. Toya; Changes in DM BOŚ's forecasts

	2019E			2020E			2021E		
	current	previous	change	current	previous	change	current	previous	change
Sales	432.0	423.3	2%	457.8	448.5	2%	480.8	470.9	2%
EBIT	60.1	57.9	4%	64.3	62.0	4%	68.1	65.6	4%
Net income	46.7	45.6	3%	50.6	50.0	1%	53.5	52.9	1%
Net debt	44.9	-7.5	n.m.	49.2	-6.7	n.m.	52.1	-6.4	n.m.

Source: DM BOŚ SA

Risk factors

1. Economic slowdown on the markets where the Company operates (slower economic growth rate on the markets crucial for the Company translating into a decline in demand which in turn has a negative impact on financial performance)
2. New brands introduced by DIY shop chains (lowering the demand for the Company's products as c. 15% of Toya's sales generated in large format chains)
3. Unfavorable FX rates (strong CNY, weak PLN)
4. High/volatile raw materials prices (of copper and steel, mainly)

Catalysts

1. New products in the offer
2. New export distribution channel
3. Further geographical expansion
4. Increase in the high-margin on-line sale (currently it constitutes only a 4% share in the Company's sales)
5. No operating assets for sale (suboptimal utilized real estate in Wrocław)
6. Strengthening and repositioning of Toya's own brands
7. Warehouse space optimization
8. Investments in the Chinese economic zone
9. Relocation of the headquarters of Toya Romania
10. Favorable/stable FX rates
11. Favorable/stable raw materials prices

Competitive advantages

1. Strong and recognizable Yato brand (almost 70% of sales)
2. Strong position on the key markets
3. Good relationships with Asian manufacturers of Toya's goods
4. Efficient supply chain management

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

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.

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Distribution of DM BOŠ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	37	37	7	8	0
Percentage	42%	42%	8%	9%	0%

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
Non interest income = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

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	3	6	1	2	0
Percentage	25%	50%	8%	17%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	34	37	10	8	0
Percentage	38%	42%	11%	9%	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	2	5	3	2	0
Percentage	17%	42%	25%	17%	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)	
Toya										
Maciej Wewiórski	Buy	21.07.2019	-	22.07.2019	Not later than 21.07.2020	-6%	2%	4.98	8.70	-
Maciej Wewiórski	-	→	30.07.2019	31.07.2019	-	-	-	5.00	8.70	→
Maciej Wewiórski	-	→	29.08.2019	30.08.2019	-	-	-	4.94	8.70	→
Maciej Wewiórski	-	→	01.09.2019	02.09.2019	-	-	-	4.94	8.70	→
Maciej Wewiórski	-	→	13.10.2019	14.10.2019	-	-	-	3.92	8.70	→
Maciej Wewiórski	-	→	23.10.2019	24.10.2019	-	-	-	4.52	8.70	→
Maciej Wewiórski	-	→	24.10.2019	25.10.2019	-	-	-	4.50	8.70	→
Maciej Wewiórski	-	→	11.11.2019	12.11.2019	-	-	-	4.86	8.70	→
Maciej Wewiórski	-	→	17.11.2019	18.11.2019	-	-	-	4.88	8.70	→
Maciej Wewiórski	-	→	03.12.2019	04.12.2019	-	-	-	4.68	8.40	↓

* 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
Toya							
Maciej Wewiórski	Neutral	21.07.2019	-	22.07.2019	Not later than 21.07.2020	4.98	2%
Maciej Wewiórski	-	→	30.07.2019	31.07.2019	-	5.00	-
Maciej Wewiórski	-	→	29.08.2019	30.08.2019	-	4.94	-
Maciej Wewiórski	-	→	01.09.2019	02.09.2019	-	4.94	-
Maciej Wewiórski	-	→	13.10.2019	14.10.2019	-	3.92	-
Maciej Wewiórski	-	→	23.10.2019	24.10.2019	-	4.52	-
Maciej Wewiórski	-	→	24.10.2019	25.10.2019	-	4.50	-
Maciej Wewiórski	-	→	11.11.2019	12.11.2019	-	4.86	-
Maciej Wewiórski	-	→	17.11.2019	18.11.2019	-	4.88	-
Maciej Wewiórski	-	→	03.12.2019	04.12.2019	-	4.68	-

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

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The report was not shown to the analyzed company before the distribution of the report.

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