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This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Pilot Program.

Analyst: Maciej Wewiórski
Marcin Sielicki

Sector: Consumer discretionary
Fundamental rating: Buy (→)
Market relative: Neutral (→)
Price: PLN 4.94
12M EFV: PLN 8.70 (→)

Market Cap: US\$ 93 m
Bloomberg code: TOA PW
Av. daily turnover: US\$ 0.013 m
12M range: PLN 4.60-14.40
Free float: 17%

Toya

2Q19 results – earnings marginally below our expectations

In 2Q19 Toya generated revenues in the amount of PLN 109.5 million, compared to our forecast of PLN 112 million. Strong yoy growth dynamic of 16% was fuelled by strong macro environment on the core markets, geographical expansion and product development.

The earnings of Toya turned out slightly below our expectations. 2Q19 EBITDA amounted to PLN 17.3 million compared to our forecast of PLN 17.9 million. The EBITDA margin fell from 19.4% in 2Q18 to 15.8% in 2Q19 due to the escalation of selling costs, which grew on the back of rising salary demands.

Summing up, after the 2Q19 results publication of Toya we see no need to revise our financial forecast for the Company.

Guide to adjusted profits

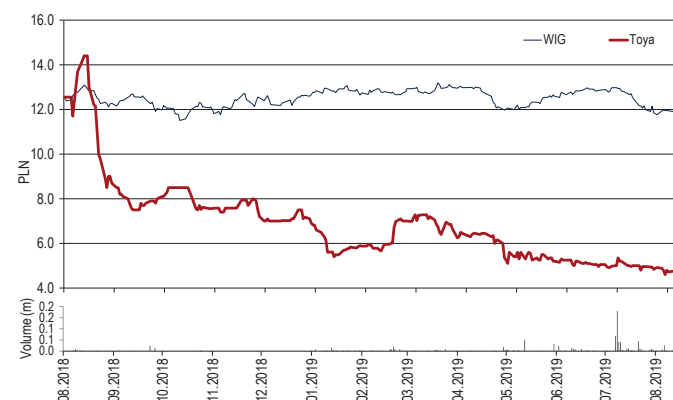
No factors necessitating adjustments.

Key data

IFRS consolidated		2018	2019E	2020E	2021E
Sales	PLN m	380.7	423.3	448.5	470.9
EBITDA	PLN m	59.9	62.1	66.2	69.8
EBIT	PLN m	55.4	57.9	62.0	65.6
Net profit	PLN m	43.8	45.6	50.0	52.9
EPS	PLN	0.58	0.61	0.67	0.70
EPS yoy chg	%	13.3	4.1	9.6	5.8
FCFF	PLN m	70.1	-7.5	-6.7	-6.4
Net debt	PLN m	8.5	8.1	7.4	7.0
P/E	x	7.7	7.5	6.8	6.5
P/CE	x	7.4	5.9	5.5	5.2
EV/EBITDA	x	8.0	6.3	5.9	5.6
EV/EBIT	x	1.2	0.9	0.8	0.8
DPS	PLN	9.5	0.0	10.5	11.5
Gross dividend yield	%	0.47	0.00	0.52	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

Upcoming events

1. Release of 3Q19 results: November 7, 2019

Fig. 1. Toya's 2Q19 results compared to expectations

IFRS, consolidated (PLN m)	2Q19A	2Q18	yoy change	2Q19E (DM BOŚ SA)	Compared to DM BOŚ SA
Sales	109.5	94.0	16%	112.0	→
EBITDA	17.3	18.3	-5%	17.9	↓
EBIT	15.6	17.2	-9%	16.2	↓
Net income	12.0	13.7	-12%	12.7	↓

Source: Company, DM BOŚ SA

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.

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 BOŠ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	36	35	10	8	0
Percentage	40%	39%	11%	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	5	1	2	0
Percentage	27%	45%	9%	18%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	34	38	9	8	0
Percentage	38%	43%	10%	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	3	4	1	2	0
Percentage	30%	40%	10%	20%	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	-1%	9%	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	-

* 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	9%
Maciej Wewiórski	-	→	30.07.2019	31.07.2019	-	5.00	-
Maciej Wewiórski	-	→	29.08.2019	30.08.2019	-	4.94	-

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

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Institutional sales

Bartosz Jarczy
tel.: +48 (22) 504 32 46
b.jarczy@bossa.pl

Tomasz Grabowski
tel.: +48 (22) 504 32 47
t.grabowski@bossa.pl

Marcin Kozerski
tel.: +48 (22) 504 33 35
m.kozerski@bossa.pl

Grzegorz Kołodziejczyk
tel.: +48 (22) 504 33 34
g.kolodziejczyk@bossa.pl

Marcin Stosio
tel.: +48 (22) 504 33 37
m.stosio@bossa.pl

Michał Zawada
tel.: +48 (22) 504 33 36
m.zawada@bossa.pl

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

Research

Sobiesław Pająk, CFA
(Equity strategy, TMT)
tel.: +48 (22) 504 32 72
s.pajak@bossa.pl

Sylwia Jaskiewicz, CFA
(Construction materials, Consumer staples & discretionary, Health care)
tel.: +48 (22) 504 33 75
s.jaskiewicz@bossa.pl

Maciej Wewiński
(Residential construction, Construction, Real estate)
tel.: +48 (22) 504 33 07
m.wewinski@bossa.pl

Michał Sobolewski, CFA, FRM
(Financials)
tel.: +48 (22) 504 33 06
m.sobolewski@bossa.pl

Jakub Viscardi
(Telco, Consumer staples & discretionary, IT – hardware distribution, Utilities)
tel.: +48 (22) 504 32 58
j.viscardi@bossa.pl

Łukasz Prokopiuk, CFA
(Chemicals, Mining, Mining – machinery, Oil & gas)
tel.: +48 (22) 504 32 59
l.prokopiuk@bossa.pl

Tomasz Rodak, CFA
(Consumer discretionary, Video games)
tel.: +48 22 504 33 23
t.rodak@bossa.pl

Wojciech Romanowski
Junior Analyst
tel.: +48 22 504 33 88
w.romanowski@bossa.pl

Marcin Sielicki
Associate
tel.: +48 22 504 33 25
m.sielicki@bossa.pl

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**Dom Maklerski Banku Ochrony
Środowiska Spółka Akcyjna**
ul. Marszałkowska 78/80
00-517 Warszawa
www.bossa.pl
Information: (+48) 0 801 104 104