

10/2020/GPW (33) April 19, 2020

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Pilot Program. This is an excerpt from the Polish version of DM BOŚ SA's research report.

Analyst: Maciej Wewiórski

Sector: Consumer discretionary
Fundamental rating: Hold (↓)
Market relative: Neutral (→)
Price: PLN 4.88
12M EFV: PLN 5.1 (↓)

Market Cap: US\$ 88 m
Bloomberg code: TOA PW
Av. daily turnover: US\$ 0.02 m
12M range: PLN 3.32-6.95
Free float: 17%

Toya

FY19 financial performance

We consider Toya's last year financial results as very good, albeit in line with our expectations (cf. our research report as of July 21, 2019).

Fig. 1. Toya: FY19 financial results and DM BOŚ SA forecasts

IFRS, consolidated (PLN m)	2019	
	DM BOŚ SA forecast (July 21, 2019)	FY19 (April 2020)
Sales	423.3	440.0
EBIT	57.9	58.2
Net profit	45.6	44.9

Source: Company, DM BOŚ SA estimates

Good FY19 financial performance stemmed mainly from the export sales increase, in particular in Baltic states/ Asian markets/South America (a 56%/ 18%/ 86% growth yoy to PLN 23.5/ 38.8/ 11.5 million). Consolidated sales increased dynamically by c. 16% yoy without any significant deterioration of gross margin that actually fell slightly to 36.0% from 36.9% in 2018. In our opinion Toya took advantage from favorable economic conditions prevailing on the local market increasing its offer and acquiring new clients which boosted sales in the remaining distribution channels.

Fig. 2. Toya: Geographic split of sales revenues

(PLN m)	2016	2017	2018	2019
Exports	93.0	112.4	125.9	151.1
growth		21%	12%	20%
Poland	170.7	181.5	196.2	226.0
growth		6%	8%	15%
Romania	34.0	37.0	40.4	43.6
growth		9%	9%	8%
China	12.5	16.7	18.2	19.4
growth		34%	9%	7%
Total sales	310.2	347.9	381.0	440.0

Source: Company, DM BOŚ SA estimates

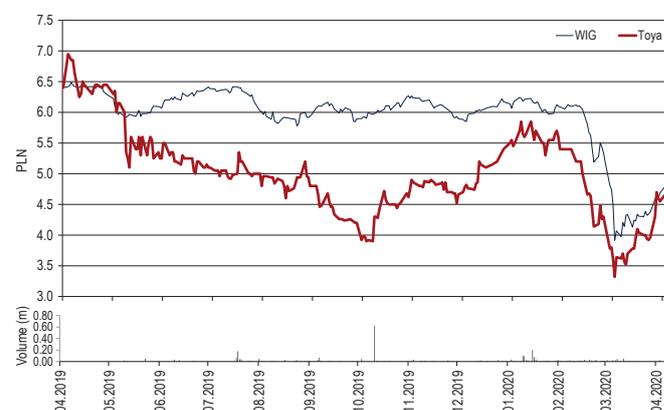
Guide to adjusted profits

No factors necessitating adjustments.

Key data

IFRS consolidated		2019	2020E	2021E	2022E
Sales	PLN m	440.0	382.5	387.2	391.0
EBITDA	PLN m	65.2	49.0	50.0	50.9
EBIT	PLN m	58.2	42.2	43.3	44.1
Net profit	PLN m	44.9	32.9	34.5	35.2
EPS	PLN	0.60	0.44	0.46	0.47
EPS yoy chg	%	2.5	-26.7	4.9	2.1
FCFF	PLN m	58.8	7.9	4.2	0.6
Net debt	PLN m	8.2	11.1	10.6	10.4
P/E	x	7.1	9.2	8.9	8.7
P/CE	x	6.5	7.6	7.4	7.2
EV/EBITDA	x	7.3	8.9	8.6	8.3
EV/EBIT	x	1.0	1.0	1.0	0.9
DPS	PLN	0.0	0.0	7.6	8.0
Gross dividend yield	%	0.00	0.00	0.37	0.39
No. of shares (eop)	m	75.0	75.0	75.0	75.0

Source: Company, DM BOŚ SA estimates

Stock performance


Source: Bloomberg

Subsidiaries contributed a lot to the Group's good financial performance as well. A Chinese subsidiary Yato Tools based in Shanghai increased their sales yoy and strengthened their position in the chain of supplies with tightening relationships with local suppliers and optimization of operating processes. Toya Romania improved sales yoy supported by long-standing relationships with clients.

COVID-19 impact

We expect the pandemic development observed in Poland, Europe and other parts of the world will undoubtedly adversely affect the Company's business. In our optimistic scenario the pandemic may disrupt Toya's dynamic development, in a negative one the COVID-19 virus spread negative impact may severely disorganize the Company's operations in two areas: (i) the supply chain and (ii) sale of goods.

The risk pertaining to the supply chain. We consider the risk of breaking the supply chain as low given the fact that the warehouses in Poland and Romania handle incoming shipments and dispatches since Chinese suppliers restarted production and Chinese means of transportation (railway, seaports) as well as factories in adjacent Asian countries have returned to usual activities.

The risk pertaining to the sale of goods. There is a material risk of a sudden sales drop in 2Q20 as numerous governments decided to introduce the lockdown resulting in a closure of shops and services outlets.

Additionally, we fear this sales drop in stationary stores is likely to extend beyond 2Q20 due to the COVID-19 virus spread and resulting lockdown decisions of governments.

In our view the Company's sales and then profits may be hit by restrictions with respect to sales outlets operations.

Though we expect a significant increase of the on-line sale, both in the Company's own on-line store and in the clients' stores, this is not likely to offset the sales drop in the stationary stores.

Given very dynamic pandemic spreading and its nature coupled with Toya's Group's subsidiaries geographic diversity the extent of the COVID-19 negative impact on the Company's financial performance is extremely difficult to quantify.

Profit distribution. Though the Company has not established the dividend policy, Toya used to share profits with shareholders. In 2015 Toya did not pay a

dividend because of the purchase of Yato Tools shares in 2014. In 2017 the Company carried out a buy-back of 3,288,615 shares for PLN 29.6 million. In 2018 the Company paid a dividend of PLN 35.3 million. In 2019 the shareholders did not receive a penny though. The buy-back voted by the GSA that was to start by February 29 at the latest failed to go ahead. We assume that given the pandemic Toya is not likely to splurge.

Financial forecasts

We expect a sales drop this year. For the last 10 years the Company's sales have grown dynamically, at a 10% CAGR. We like a high quality of Toya's products and their impressive track record both in the development of new products and geographic expansion but at the same time we assume a 13% FY20 sales drop yoy due to pandemic-led restrictions.

We expect some marginal growth of sales in the following years and forecast a sales CAGR slowdown to 2.7% in 2020-28 from above 4% before.

1Q20E. We forecast slightly negative sales dynamics stemming from a March weak ending because of the pandemic impact. Weaker sales coupled with no cuts of SGA costs should result in a decline of EBIT and NI by 10% each.

Financial forecasts risk. Moderate; albeit we would like to remind about the low visibility of future results.

Valuation. We value the Company with the DCF FCFF method and this time we do not refer to the peer-relative exercise as we believe the pandemic impact is not included in the market consensus. The DCF FCFF valuation yields the Company's value at PLN 5.1 per share that somewhat exceeds the current share market price.

Recommended action. We expect the pandemic-led trade restrictions will bring about poor 2Q20 financial results. Additionally, lack of will to distribute cash to shareholders and low visibility of financial results do not speak in favor of buying Toya's equities.

Fig. 3. Toya; 1Q20 results' forecast

IFRS, consolidated (PLN m)			yoy chg	Realization of the full-year figures in 1Q:	
	1Q20E	1Q19		2020E	2019
Sales	105.0	106.7	-2%	27%	24%
EBITDA	15.1	16.6	-9%	31%	26%
<i>EBITDA margin</i>	14.4%	15.6%	-	-	-
EBIT	13.4	15.0	-10%	32%	26%
<i>EBIT margin</i>	12.8%	14.0%	-	-	-
Gross profit	12.9	14.4	-10%	32%	26%
<i>Gross profit margin</i>	12.3%	13.5%	-	-	-
Net profit	10.5	11.6	-10%	32%	26%
<i>Net profit margin</i>	10.0%	10.8%	-	-	-

Source: Company, DM BOŚ SA estimates

Fig. 4. Toya; Changes in DM BOŚ SA financial forecasts

	2020E			2021E		
	current	previous	change	current	previous	change
Sales	382.5	457.8	-16%	387.2	480.8	-19%
EBIT	42.2	64.3	-34%	43.3	68.1	-36%
Net income	32.9	50.6	-35%	34.5	53.5	-36%
Net debt	7.9	49.2	-84%	4.2	52.1	-92%

Source: DM BOŚ SA estimates

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)
5. Spreading coronavirus may hurt the supply chain

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.

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	30	42	3	13	0
Percentage	34%	48%	3%	15%	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	2	7	0	3	0
Percentage	17%	58%	0%	25%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	33	30	12	13	0
Percentage	38%	34%	14%	15%	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	2	3	0
Percentage	17%	42%	17%	25%	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	19.04.2020	-2%	32%	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 ↓
Maciej Wewiórski	-	-	08.12.2019	09.12.2019	-	-	-	4.66	8.40 →
Maciej Wewiórski	-	-	09.01.2020	10.01.2020	-	-	-	5.45	8.40 →
Maciej Wewiórski	-	-	04.02.2020	05.02.2020	-	-	-	5.65	8.40 →
Maciej Wewiórski	-	-	05.02.2020	06.02.2020	-	-	-	5.70	8.40 →
Maciej Wewiórski	-	-	06.02.2020	07.02.2020	-	-	-	5.60	8.40 →
Maciej Wewiórski	-	-	03.03.2020	04.03.2020	-	-	-	4.48	8.40 →
Maciej Wewiórski	-	-	30.03.2020	31.03.2020	-	-	-	4.00	8.40 →
Maciej Wewiórski	Hold	19.04.2020	-	20.04.2020	Not later than 19.04.2021	-	-	4.88	5.10 ↓

* 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	32%
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	-
Maciej Wewiórski	-	-	08.12.2019	09.12.2019	-	4.66	-
Maciej Wewiórski	-	-	09.01.2020	10.01.2020	-	5.45	-
Maciej Wewiórski	-	-	04.02.2020	05.02.2020	-	5.65	-
Maciej Wewiórski	-	-	05.02.2020	06.02.2020	-	5.70	-
Maciej Wewiórski	-	-	06.02.2020	07.02.2020	-	5.60	-
Maciej Wewiórski	-	-	03.03.2020	04.03.2020	-	4.48	-
Maciej Wewiórski	-	-	30.03.2020	31.03.2020	-	4.00	-
Maciej Wewiórski	-	-	19.04.2020	20.04.2020	-	4.88	-

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

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The production of the report was completed on April 20, 2020 at 8.00 a.m.

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