

**27/2021/GPW (94)** September 30, 2021

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program. 3.0.  
This is an excerpt from the Polish version of DM BOŚ SA's research report.

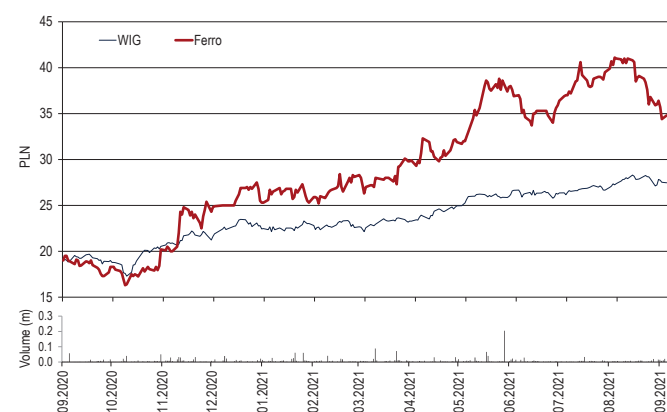
**Analyst:** Sylwia Jaśkiewicz, CFA

# Ferro

**Sector:** Health care  
**Fundamental rating:** Buy (→)  
**Market relative:** Overweight (→)  
**Price:** PLN 35.60  
**12M EFV:** PLN 41.7 (→)

**Market Cap:** US\$ 190 m  
**Bloomberg code:** FRO PW  
**Av. daily turnover:** US\$ 0.06 m  
**12M range:** PLN 16.30-41.10  
**Free float:** 67%

## Stock performance



Source: Bloomberg

## Recommended action

We keep our ST market relative Overweight rating and LT fundamental Buy recommendation for the Company intact. The Group's 2Q21 financial results are good indeed and beating our expectations. It seems that given the ongoing high demand Ferro keeps adjusting their products' prices to the raw materials prices and transport costs accordingly. Besides, the results are favorably affected by the offer expansion (FDESIGN brand) towards the upper-shelf products and consolidation of subsidiaries, Termet and Tester.

## 2Q21 financial results review

The Group's 2Q21 revenues reached PLN 219 million (up 96% yoy) while we expected PLN 176 million (up 57% yoy). Termet and Tester contributed altogether PLN 112 million in 1H21 vs PLN 179 million in FY20.

We expected EBIT profitability to rise to 14.1% in 2Q21 from 13.8% a year ago; the actual EBIT profitability in 2Q21 stood at 14.2%. It seems that a sizable portion of costs growth was offset by a price growth of goods (lower discounts). Besides, the Group's inventories were cheaper. Costs of

## Guide to adjusted profits

Income tax.

## Key data

IFRS consolidated		2020	2021E	2022E	2023E
Sales	PLN m	519.1	699.4	741.3	778.4
EBITDA	PLN m	83.2	102.5	106.8	113.7
EBIT	PLN m	75.8	91.3	94.1	99.4
Net income	PLN m	62.1	103.9	71.3	75.7
Adj net income	PLN m	62.1	69.4	71.3	75.7
Adj EPS	PLN	2.9	3.3	3.4	3.6
Adj EPS yoy chg	%	45	12	3	6
Net debt	PLN m	31.8	74.0	63.9	44.2
P/E	x	12.2	7.3	10.6	10.0
Adj P/E	x	12.2	10.9	10.6	10.0
EV/EBITDA*	x	9.5	8.3	7.9	7.2
EV/EBIT*	x	10.4	9.3	8.9	8.2
DPS	PLN	0.40	2.20	2.20	2.18
Gross dividend yield	%	1.1	6.2	6.2	6.1
Number of shares (eop)	m	21.2	21.2	21.2	21.2

Source: Company, DM BOŚ SA estimates

## Upcoming events

1. Release of 3Q21 consolidated results: November 29

## Risk factors

1. Economic slowdown in Europe
2. Falling demand for new flats
3. Falling frequency of renovations
4. Labor force shortage
5. Wage pressure
6. High/volatile raw materials prices (of copper and zinc, in particular)
7. Unfavorable/volatile FX rates (currency risk when PLN and CZK weaken against US\$ and EUR)
8. Own brands developed by shopping chains

## Catalysts

1. Ongoing demand for new apartment flats
2. Development of the market for renovations
3. Expansion in the European markets
4. Strengthening the Company's position on the existing markets
5. New products (expanding the product offer)
6. Repositioning of the Company's own brands (new upper segment brands)
7. Favorable/stable FX rates and raw materials prices
8. Brand promotion (intensifying the online activities)
9. Potential acquisitions

wages might have grown mainly due to the strategy implementation (in 1H20 some projects were suspended due to huge market uncertainty) and acquisitions, however their share in the Group's 2Q21 revenues dropped yoy. 2Q21 EBIT reached PLN 31 million beating our expectations at PLN 24.7 million.

The Group's net financial income at PLN 14.2 million was in line with our expectations (PLN 14.2 million) while net financial costs reached PLN 1.0 million. We assumed PLN 15.3 million of interest would be booked in 2Q21 in the net financial income position (for the period between July 26, 2018 and June 8, 2021) as a result of the court ruling in favor of the Company in the lawsuit filed by the Tax

Office of Małopolska (the Lesser Poland) related to CIT payment for FY12. We also assumed that the principal sum of PLN 19.2 million would be booked in the line of the income tax. The total amount adjudged by the court was PLN 34.5 million. The Group's 2Q21 net profit at PL 58 million (up 368% yoy) was above our expectations.

**Fig. 1. Ferro; 2Q21 financials vs forecasts**

IFRS consolidated (PLN m)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	Results vs forecasts	2Q21E	yoy chg	1H20	1H21	yoy chg
Sales	109.4	105.8	122.1	113.9	124.8	112.0	147.7	134.6	163.3	219.3	↑	175.5	96%	249.5	382.6	53%
EBITDA	18.7	14.4	21.5	12.3	21.8	17.3	29.4	14.7	26.1	34.6	↑	27.6	100%	43.6	60.7	39%
EBITDA margin	17.1%	13.6%	17.6%	10.8%	17.5%	15.4%	19.9%	10.9%	16.0%	15.8%	-	15.7%	-	17.5%	15.9%	-
EBIT	17.5	12.7	19.8	10.6	20.0	15.4	27.6	12.7	23.8	31.1	↑	24.7	102%	40.1	54.9	37%
EBIT margin	16.0%	12.0%	16.2%	9.3%	16.1%	13.8%	18.7%	9.4%	14.5%	14.2%	-	14.1%	-	16.1%	14.3%	-
Pre-tax profit	16.1	11.7	17.7	8.5	20.2	14.5	29.1	12.7	21.9	45.3	↑	39.0	214%	40.4	67.2	66%
Pre-tax profit margin	14.7%	11.1%	14.5%	7.4%	16.2%	12.9%	19.7%	9.4%	13.4%	20.7%	-	22.2%	-	16.2%	17.6%	-
Net profit	13.0	9.5	14.5	2.9	16.5	12.3	23.6	9.6	17.7	57.8	↑	53.8	368%	33.0	75.6	129%
Net profit margin	11.9%	9.0%	11.9%	2.6%	13.2%	11.0%	16.0%	7.1%	10.9%	26.4%	-	30.6%	-	13.2%	19.8%	-

Source: The Company, DM BOŚ SA estimates

## 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** =  $\text{EBIT}/\text{sales}$   
**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 BOŚ 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 BOŚ 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 BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	52	21	5	9	0	2
Percentage	58%	24%	6%	10%	0%	2%

### Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	41	28	9	9	0	2
Percentage	46%	31%	10%	10%	0%	2%

## 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 BOŚ 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 BOŚ's current recommendations for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	11	4	0	1	0	2
Percentage	61%	22%	0%	6%	0%	11%

### Distribution of DM BOŚ's current market relative recommended weightings for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	7	6	2	1	0	2
Percentage	39%	33%	11%	6%	0%	11%

LT fundamental recommendation tracker

Analyst	Recommendation		Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/reiteration*	EFV (12 months)	
<b>Ferro</b>											
Sylwia Jaśkiewicz	Hold	-	21.07.2019	-	22.07.2019	04.12.2019	11%	20%	13.70	17.10	-
Sylwia Jaśkiewicz	-	→	-	30.07.2019	31.07.2019	-	-	-	13.50	17.10	→
Sylwia Jaśkiewicz	-	→	-	01.09.2019	02.09.2019	-	-	-	12.05	17.10	→
Sylwia Jaśkiewicz	-	→	-	10.09.2019	11.09.2019	-	-	-	12.10	17.10	→
Sylwia Jaśkiewicz	-	→	-	15.09.2019	16.09.2019	-	-	-	12.65	17.10	→
Sylwia Jaśkiewicz	-	→	-	13.10.2019	14.10.2019	-	-	-	13.40	17.10	→
Sylwia Jaśkiewicz	-	→	-	24.10.2019	25.10.2019	-	-	-	13.00	17.10	→
Sylwia Jaśkiewicz	-	→	-	17.11.2019	18.11.2019	-	-	-	13.00	17.10	→
Sylwia Jaśkiewicz	-	→	-	18.11.2019	19.11.2019	-	-	-	13.00	17.10	→
Sylwia Jaśkiewicz	Buy	↑	04.12.2019	-	05.12.2019	28.01.2020	17%	15%	15.20	17.80	↑
Sylwia Jaśkiewicz	-	→	-	08.12.2019	09.12.2019	-	-	-	15.00	17.80	→
Sylwia Jaśkiewicz	-	→	-	09.01.2020	10.01.2020	-	-	-	16.30	17.80	→
Sylwia Jaśkiewicz	Hold	↓	28.01.2020	-	29.01.2020	22.07.2020	-4%	5%	17.80	18.50	↑
Sylwia Jaśkiewicz	-	→	-	04.02.2020	05.02.2020	-	-	-	17.90	18.50	→
Sylwia Jaśkiewicz	-	→	-	06.02.2020	07.02.2020	-	-	-	17.50	18.50	→
Sylwia Jaśkiewicz	-	→	-	03.03.2020	04.03.2020	-	-	-	15.20	18.50	→
Sylwia Jaśkiewicz	-	→	-	30.03.2020	31.03.2020	-	-	-	12.25	18.50	→
Sylwia Jaśkiewicz	-	→	-	22.04.2020	23.04.2020	-	-	-	14.00	18.50	→
Sylwia Jaśkiewicz	-	→	-	23.04.2020	24.04.2020	-	-	-	14.00	18.50	→
Sylwia Jaśkiewicz	-	→	-	19.05.2020	20.05.2020	-	-	-	13.65	18.50	→
Sylwia Jaśkiewicz	-	→	-	15.06.2020	16.06.2020	-	-	-	16.60	18.50	→
Sylwia Jaśkiewicz	-	→	-	13.07.2020	14.07.2020	-	-	-	17.90	18.50	→
Sylwia Jaśkiewicz	Buy	↑	22.07.2020	-	23.07.2020	16.04.2021	75%	51%	17.00	20.30	↑
Sylwia Jaśkiewicz	-	→	-	01.09.2020	02.09.2020	-	-	-	18.60	20.30	→
Sylwia Jaśkiewicz	-	→	-	17.09.2020	18.09.2020	-	-	-	18.90	20.30	→
Sylwia Jaśkiewicz	-	→	-	29.09.2020	30.09.2020	-	-	-	18.70	19.90	↓
Sylwia Jaśkiewicz	-	→	-	08.10.2020	09.10.2020	-	-	-	19.00	19.90	→
Sylwia Jaśkiewicz	-	→	-	03.11.2020	04.11.2020	-	-	-	17.30	22.00	↑
Sylwia Jaśkiewicz	-	→	-	08.11.2020	09.11.2020	-	-	-	17.25	22.00	→
Sylwia Jaśkiewicz	-	→	-	19.11.2020	20.11.2020	-	-	-	18.40	23.40	↑
Sylwia Jaśkiewicz	-	→	-	26.11.2020	27.11.2020	-	-	-	20.00	23.40	→
Sylwia Jaśkiewicz	-	→	-	06.12.2020	07.12.2020	-	-	-	24.80	25.70	↑
Sylwia Jaśkiewicz	-	→	-	05.01.2021	05.01.2021	-	-	-	25.50	25.70	→
Sylwia Jaśkiewicz	-	→	-	28.01.2021	29.01.2021	-	-	-	26.50	25.70	→
Sylwia Jaśkiewicz	-	→	-	09.02.2021	10.02.2021	-	-	-	25.70	30.80	↑
Sylwia Jaśkiewicz	-	→	-	28.02.2021	01.03.2021	-	-	-	26.10	30.80	→
Sylwia Jaśkiewicz	-	→	-	31.03.2021	01.04.2021	-	-	-	27.00	30.80	→
Sylwia Jaśkiewicz	Buy	→	16.04.2021	-	16.04.2021	Not later than 16.04.2022	29%	10%	29.30	30.80	→
Sylwia Jaśkiewicz	-	→	-	10.05.2021	11.05.2021	-	-	-	29.80	34.10	↑
Sylwia Jaśkiewicz	-	→	-	27.05.2021	28.05.2021	-	-	-	32.50	34.10	→
Sylwia Jaśkiewicz	-	→	-	30.05.2021	31.05.2021	-	-	-	33.00	34.10	→
Sylwia Jaśkiewicz	-	→	-	09.07.2021	09.07.2021	-	-	-	35.30	34.10	→
Sylwia Jaśkiewicz	-	→	-	12.08.2021	13.08.2021	-	-	-	38.00	41.70	↑
Sylwia Jaśkiewicz	-	→	-	31.08.2021	31.08.2021	-	-	-	40.50	41.70	→
Sylwia Jaśkiewicz	-	→	-	30.09.2021	01.10.2021	-	-	-	35.60	41.70	→

\* 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
<b>Ferro</b>								
Sylwia Jaśkiewicz	Neutral	-	21.07.2019	-	22.07.2019	18.11.2019	13.70	-2%
Sylwia Jaśkiewicz	-	→	-	30.07.2019	31.07.2019	-	13.50	-
Sylwia Jaśkiewicz	-	→	-	01.09.2019	02.09.2019	-	12.05	-
Sylwia Jaśkiewicz	-	→	-	10.09.2019	11.09.2019	-	12.10	-
Sylwia Jaśkiewicz	-	→	-	15.09.2019	16.09.2019	-	12.65	-
Sylwia Jaśkiewicz	-	→	-	13.10.2019	14.10.2019	-	13.40	-
Sylwia Jaśkiewicz	-	→	-	24.10.2019	25.10.2019	-	13.00	-
Sylwia Jaśkiewicz	-	→	-	17.11.2019	18.11.2019	-	13.00	-
Sylwia Jaśkiewicz	Overweight	↑	18.11.2019	-	19.11.2019	28.01.2020	13.00	41%
Sylwia Jaśkiewicz	-	→	-	04.12.2019	05.12.2019	-	15.20	-
Sylwia Jaśkiewicz	-	→	-	08.12.2019	09.12.2019	-	15.00	-
Sylwia Jaśkiewicz	-	→	-	09.01.2020	10.01.2020	-	16.30	-
Sylwia Jaśkiewicz	Neutral	↓	28.01.2020	-	29.01.2020	23.04.2020	17.80	-1%
Sylwia Jaśkiewicz	-	→	-	04.02.2020	05.02.2020	-	17.90	-
Sylwia Jaśkiewicz	-	→	-	06.02.2020	07.02.2020	-	17.50	-
Sylwia Jaśkiewicz	-	→	-	03.03.2020	04.03.2020	-	15.20	-
Sylwia Jaśkiewicz	-	→	-	30.03.2020	31.03.2020	-	12.25	-
Sylwia Jaśkiewicz	-	→	-	22.04.2020	23.04.2020	-	14.00	-
Sylwia Jaśkiewicz	Overweight	↑	23.04.2020	-	24.04.2020	16.04.2021	14.00	60%
Sylwia Jaśkiewicz	-	→	-	19.05.2020	20.05.2020	-	13.65	-
Sylwia Jaśkiewicz	-	→	-	15.06.2020	16.06.2020	-	16.60	-
Sylwia Jaśkiewicz	-	→	-	13.07.2020	14.07.2020	-	17.90	-
Sylwia Jaśkiewicz	-	→	-	22.07.2020	23.07.2020	-	17.00	-
Sylwia Jaśkiewicz	-	→	-	01.09.2020	02.09.2020	-	18.60	-
Sylwia Jaśkiewicz	-	→	-	17.09.2020	18.09.2020	-	18.90	-
Sylwia Jaśkiewicz	-	→	-	29.09.2020	30.09.2020	-	18.70	-
Sylwia Jaśkiewicz	-	→	-	08.10.2020	09.10.2020	-	19.00	-
Sylwia Jaśkiewicz	-	→	-	03.11.2020	04.11.2020	-	17.30	-
Sylwia Jaśkiewicz	-	→	-	08.11.2020	09.11.2020	-	17.25	-
Sylwia Jaśkiewicz	-	→	-	19.11.2020	20.11.2020	-	18.40	-
Sylwia Jaśkiewicz	-	→	-	26.11.2020	27.11.2020	-	20.00	-
Sylwia Jaśkiewicz	-	→	-	06.12.2020	07.12.2020	-	24.80	-
Sylwia Jaśkiewicz	-	→	-	05.01.2021	05.01.2021	-	25.50	-
Sylwia Jaśkiewicz	-	→	-	28.01.2021	29.01.2021	-	26.50	-
Sylwia Jaśkiewicz	-	→	-	09.02.2021	10.02.2021	-	25.70	-
Sylwia Jaśkiewicz	-	→	-	28.02.2021	01.03.2021	-	26.10	-
Sylwia Jaśkiewicz	-	→	-	31.03.2021	01.04.2021	-	27.00	-
Sylwia Jaśkiewicz	Overweight	→	16.04.2021	-	16.04.2021	Not later than 16.04.2022	29.30	10%
Sylwia Jaśkiewicz	-	→	-	10.05.2021	11.05.2021	-	29.80	-
Sylwia Jaśkiewicz	-	→	-	27.05.2021	28.05.2021	-	32.50	-
Sylwia Jaśkiewicz	-	→	-	30.05.2021	31.05.2021	-	33.00	-
Sylwia Jaśkiewicz	-	→	-	09.07.2021	09.07.2021	-	35.30	-
Sylwia Jaśkiewicz	-	→	-	12.08.2021	13.08.2021	-	38.00	-
Sylwia Jaśkiewicz	-	→	-	31.08.2021	31.08.2021	-	40.50	-
Sylwia Jaśkiewicz	-	→	-	30.09.2021	01.10.2021	-	35.60	-

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

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