

TIM SA – changes bring results

Investing in TIM shares gives a very good exposure to the trading market e-commerce, both directly (TIM SA) and indirectly (through the 3LP logistics company serving customers from the e-commerce sector). In the era of the coronavirus pandemic, the on-line channel is the solution preferred by customers, which translates into above-average sales growth dynamics of TIM and helps to increase market share. After three quarters, the company has already met our profit forecast, and the outlook for the next periods looks very good. Therefore, we significantly raised our financial expectations and, as a result, also the company's valuation. We have separately valued the trade and logistics segment, and the company's current value (PLN 27.3 / share) is almost 70% the potential of the price increase.

Growing sales with a high share of the on-line channel

Sales data for 10 months of 2020 show a dynamic increase in revenues, despite the deterioration of the macroeconomic environment (coronavirus). The company is certainly favored by a modern trading model and an on-line approach, which in the current situation is a solution desired by customers.

2020 is not a one-off

We are convinced that the very good results achieved by the TIM Group (both in the commercial and logistics part) are not a one-off event resulting from a pandemic. The change in customer habits (especially in such a conservative sector as construction) is permanent and will support TIM's results also in the coming years, because the implemented business model is pioneering in this industry and on this scale, which obviously increases the company's competitiveness on the market. The logistics segment dedicated to servicing e-commerce entities will develop even faster.

Profitable divestment

As part of organizing the group, TIM sold the Rotopino company. The profit from the transaction is almost PLN 7 million, the company will receive approx. PLN 35 million. We expect that in the absence of significant investments in the near future, this amount will be credited to the dividend fund.

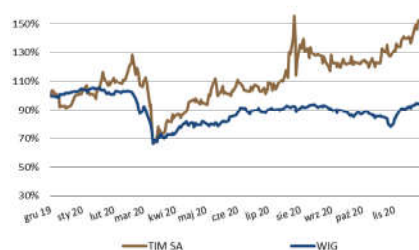
The incentive program as a direction of changes, not financial goals

With the dynamic growth of results assumed by us in the coming years, the assumptions of the incentive program may seem unambitious. Therefore, we treat them as the direction of changes and "entry parameters" to the program for selected key employees, and not as financial goals.

We estimated the value of TIM shares on the basis of the following methods: DCF (total for the entire group: PLN 26.4) and comparative (separately for commercial: PLN 20.9 and logistics: PLN 7.2), which after weighing the above valuations allowed us to set the present value at PLN 27.3.

**NOBLE
SECURITIES**
DOM MAKLECKI

Current price	16.2 PLN
Valuation	27.3 PLN
Upside/downside	68%
Market cap.	360 PLNm
Free float	63%
Avg. Vol. 6M	43 130



Source: Bloomberg, Noble Securities

COMPANY PROFILE

Leader on the wholesale distribution of electrical installation materials in Poland, with an exposure to the logistics market in the e-commerce industry.

SHAREHOLDERS

K. Folta with wife	23.28%
K. Wieczorkowski	13.51%
NN OFE	7.03%
Others	47.03%

Source: TIM, Noble Securities

(PLNm)	2017	2018	2019F	2020F	2021F	2022F
Revenues	719.2	830.3	890.0	1 019.8	1 007.2	1 021.6
EBITDA	7.3	31.1	53.0	74.0	70.8	73.2
Net profit	-3.7	11.9	19.6	29.0	36.3	38.2
EPS	-0.17	0.54	0.88	1.30	1.63	1.72
DPS	0.00	1.00	0.80	1.50	1.26	1.28
P/E (x)	na	30.2	18.4	12.4	9.9	9.4
EV/EBITDA (x)	50.2	12.6	8.5	5.6	5.3	5.0

The preparation of report was finalized on 2/12/2020 at 9:00 a.m.. The first publication took place on 2/12/2020 at 9:10 a.m..

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VALUATION

We calculated the value of one share of TIM SA as the average of the comparative valuation and DCF, with a weight of 50% each. On this basis, **we set the current value of the shares at PLN 27.3**. With the comparative approach, we valued the commercial and logistics business separately (in both cases using the ratio analysis), and the sum of the obtained values contributed to the total value. When selecting the group of companies for the comparative analysis, in the case of the commercial segment, we decided on domestic companies (operating in the wholesale and / or e-commerce segment) and foreign companies (distribution of products from the electrical engineering segment), while in the case of the logistics segment, Due to the lack of equivalents on the WSE, we chose foreign entities.

The increase in the valuation in relation to our previous report results both from the increase in financial forecasts (after very good results for 2020, which in our assumption are not a one-off event) and from higher stock exchange ratios of comparable companies. Changes to the forecasts are described later in the report. The average for the market indicators for calculating the value of commercial business has increased since June by approx. 10%, and for the logistics business by approx. 35%.

Valuation summary	Weight	Per share (PLN)	Previous (PLN)	Change
DCF	50%	26.4	16.0	65%
Peers	50%	28.1	18.1	55%
- trading/commercial business		20.9	15.4	36%
- logistics segment		7.2	2.7	168%
Average valuation		27.3	17.1	59%
Current price		16.2		
Upside/downside		68%		

Source: Noble Securities

DCF VALUATION

Assumptions:

- Based on consolidated financial data,
- FCF discounted on the current date,
- Net debt as at 31/12/2020 in the amount of PLN 55 million (including proceeds from the sale of Rotopino and the payment of an advance for dividend in December 2020),
- Growth rate (g) 0%,
- Equity ratio 80%,
- Risk free rate 1.3% (previous 2%), market premium 6.5% (previous 7.14%), beta 1.0 (no change).

DCF VALUATION

DCF	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Revenues	1 007	1 022	1 036	1 046	1 056	1 066	1 076	1 086	1 096	1 106
NOPAT	40	41	42	42	42	43	43	43	44	44
Depreciation and amortization	21	22	24	25	23	26	28	28	22	24
Change in WC	1	-1	-1	-1	-1	-1	-1	-1	-1	-1
CAPEX	-10	-21	-22	-24	-25	-23	-26	-28	-28	-22
FCFF	52	41	42	42	40	44	44	43	37	45
WACC	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%
Discount factor	0.93	0.87	0.82	0.77	0.72	0.67	0.63	0.59	0.56	0.52
DFCFF	48.3	35.7	34.7	32.5	28.8	29.6	28.0	25.4	20.4	23.5
Sum of DFCFF to 2028	307									
Growth rate (g)	0%									
Residual value 2028	643									
Discounted Residual value	335									
Enterprise Value (EV)	642									
Net debt 31/12/2018	55									
Minorities	0									
Equity value	587									
Shares (ths.)	22.2									
Equity Value per share	26.4									

Source: Noble Securities

Sensitivity analysis					
	Growth rate (g)				
	-2%	-1%	0%	1%	2%
WACC - 1.0%	26.2	28.4	31.5	35.9	42.7
WACC - 0.5%	24.3	26.2	28.8	32.3	37.4
WACC	22.7	24.3	26.4	29.3	33.3
WACC + 0.5%	21.3	22.7	24.4	26.7	30.0
WACC + 1.0%	20.0	21.2	22.7	24.6	27.2

Below we present WACC calculation:

WACC	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Risk free rate	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Market risk premium	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Effective tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Cost of debt	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
Cost of debt after tax bracket	2.24%	2.24%	2.24%	2.24%	2.24%	2.24%	2.24%	2.24%	2.24%	2.24%
Net debt/EV	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
WACC	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%

Source: Noble Securities

PEERS VALUATION

Trading segment	Market cap. (PLNm)	P/E (x)			EV/EBITDA (x)		
		2020F	2021F	2022F	2020F	2021F	2022F
W.W.Grainger	81 878	25.5	22.5	20.1	15.7	14.6	13.3
Electrocomponents	18 361	22.8	28.2	21.9	14.8	16.9	13.7
Rexel	15 734	23.3	11.7	9.6	8.5	7.4	7.0
Eurocash	1 950	25.6	18.4	16.1	5.6	5.3	5.6
Intercars	3 386	12.7	12.9	11.9	9.3	9.3	8.7
Solar	1 517	8.3	9.4	8.7	5.3	5.1	4.9
Neuca	2 629	17.9	17.0	15.8	11.5	10.9	10.1
Oponeo	464	16.7	17.5	15.9	10.5	9.4	8.7
AB	521	7.6	6.7	6.5	6.0	5.2	4.9
Median		17.9	17.0	15.8	9.3	9.3	8.7
TIM's implied fair value (trading segment)		20.7	23.9	22.4	19.8	19.8	19.5
TIM's implied fair value (trading segment)				20.9			

Source: Bloomberg, Noble Securities, data on 2.12.2020 at 7:30 a.m.

Logistics segment	Market cap. (PLNm)	P/E (x)			EV/EBITDA (x)		
		2020F	2021F	2022F	2020F	2021F	2022F
DSV	360				18.5	16.1	15.1
XPO Logistics	181				11.2	8.7	8.0
Kerry Logistics	37 276				8.5	8.2	7.8
ID Logistics Group	14 639				7.1	6.4	5.9
Wincanton	5 006				5.5	4.3	3.8
Self Storage	177				16.9	14.0	11.2
Median					9.8	8.4	7.9
TIM's implied fair value (logistics segment)					6.6	7.3	7.7
TIM's implied fair value (logistics segment)				7.2			

Source: Bloomberg, Noble Securities, data on 2.12.2020 at 7:30 a.m.

FINANCIAL RESULTS AND FORECAST

TIM SA (PLNm)	2017	2018	2019	2020F	2021F	2022F
Revenues	655.7	751.5	798.4	908.5	953.9	963.4
Gross profit from sales	106.1	131.0	149.1	175.5	180.7	182.1
<i>Gross margin</i>	<i>15.5%</i>	<i>16.7%</i>	<i>17.8%</i>	<i>18.6%</i>	<i>18.2%</i>	<i>18.2%</i>
Operating costs	105.4	116.3	119.7	137.4	142.4	143.6
<i>% of revenues</i>	<i>16.1%</i>	<i>15.5%</i>	<i>15.0%</i>	<i>15.1%</i>	<i>14.9%</i>	<i>14.9%</i>
Net profit from sales	0.7	14.8	29.4	38.1	38.2	38.5
Other operating revenues and costs	0.6	-1.9	0.2	0.0	0.0	0.0
EBIT	1.3	12.9	29.6	38.1	38.2	38.5
EBITDA	4.9	17.2	35.8	44.2	44.3	44.6
Financial income and costs	-0.2	-0.4	-0.4	0.3	0.1	0.3
Reported net profit	0.7	10.2	22.7	31.1	31.1	31.5
Repeatable net profit	0.7	12.6	22.7	25.7	31.1	31.5
Depreciation and amortization	3.6	4.3	6.3	6.1	6.1	6.1
CAPEX	-3.8	-1.6	-7.0	-9.0	-9.0	-6.1
CF from current operations	12.5	19.7	37.3	29.6	34.0	36.9
Dividend	0.0	22.2	17.8	26.6	6.7	28.0
Net debt	-12.7	-1.3	-6.3	-28.6	-47.0	-49.8
Rotopino (PLNm)	2017	2018	2019	2020F	2021F	2022F
Revenues	56.6	60.8	64.1	70.6	out of consolidation	
Gross profit from sales	9.5	11.4	11.9	14.1	out of consolidation	
<i>Gross margin</i>	<i>16.9%</i>	<i>18.7%</i>	<i>18.6%</i>	<i>20.0%</i>		
Operating costs	9.5	10.8	11.9	14.1	out of consolidation	
<i>% of revenues</i>	<i>16.8%</i>	<i>17.7%</i>	<i>18.6%</i>	<i>20.0%</i>		
Net profit from sales	0.0	0.6	0.0	0.0	out of consolidation	
3LP (PLNm)	2017	2018	2019	2020F	2021F	2022F
Total revenues	60.2	74.2	86.6	115.0	130.0	140.0
External revenues	4.1	14.4	26.1	40.8	53.3	58.2
EBIT	-7.0	1.1	1.9	9.5	11.7	12.9
EBITDA	-0.7	7.6	16.1	23.3	26.4	28.6

Source: TIM (2017-2019), Noble Securities (2020-2022), forecasts for years 2020-22 with IFRS16 (unless otherwise noted)

Profit and loss account (PLNm)	2017	2018	2019	2020F	2021F	2022F
Revenues from sales	719.2	830.3	890.0	1 019.8	1 007.2	1 021.6
Gross profit from sales	123.6	161.1	188.5	230.4	234.0	240.3
SG&A costs	126.3	143.5	155.8	182.8	184.0	188.9
Net profit from sales	-2.7	17.7	32.7	47.6	50.0	51.4
Other operating revenues and expenses	-0.5	2.2	-0.2	-0.3	0.0	0.0
EBIT	-3.2	19.9	32.5	47.4	50.0	51.4
Financial income and costs	-1.1	-1.1	-7.3	-11.6	-5.2	-4.3
Profit before tax	-4.3	18.7	25.2	42.5	44.8	47.1
Income tax	-0.4	3.6	5.7	8.1	8.5	9.0
Reported net profit	-3.7	15.1	19.6	34.4	36.3	38.2
Repeatable net profit	-3.7	11.9	19.6	29.0	36.3	38.2
Depreciation and amortization	10.4	11.2	20.5	19.9	20.8	21.7
EBITDA	7.3	31.1	53.0	74.0	70.8	73.2

Source: TIM (2017-2019), Noble Securities (2020-2022), forecasts for years 2020-22 with IFRS16 (unless otherwise noted)

Balance Sheet (PLNm)	2017	2018	2019	2020F	2021F	2022F
Assets	366.4	370.0	468.5	498.7	515.2	518.3
Non-current assets	110.9	116.2	185.1	146.9	136.1	135.1
Tangible and Intangible assets	91.9	100.7	170.6	132.4	121.6	120.7
Subsidiaries goodwill	5.9	5.9	5.7	5.7	5.7	5.7
Other long-term assets	13.1	9.7	8.8	8.8	8.8	8.8
Current Assets	255.5	253.8	283.4	351.8	379.1	383.1
Inventories	98.2	102.0	96.8	111.8	110.4	112.0
Trade receivables	142.7	142.1	168.0	195.6	193.2	195.9
Cash and cash equivalents	13.5	2.2	17.4	43.3	74.4	74.1
Other current assets	1.1	7.5	1.2	1.2	1.2	1.2
Liabilities	366.4	370.0	468.5	498.7	515.2	518.3
Equity	164.7	155.4	152.7	166.0	195.6	205.8
Long-term liabilities	23.3	36.1	102.7	95.0	84.7	74.4
Loans, borrowings and other financial liabilities	12.7	25.3	91.6	83.8	73.5	63.3
Other	10.6	10.8	11.2	11.2	11.2	11.2
Current liabilities	173.8	178.5	213.1	237.8	234.9	238.1
Loans, borrowings and other financial liabilities	5.3	8.1	17.7	14.2	14.2	14.2
Accounts payable	157.6	157.2	181.8	209.6	207.0	209.9
Other	10.8	13.2	13.6	14.0	13.8	14.0

Source: TIM (2017-2019), Noble Securities (2020-2022), forecasts for years 2020-22 with IFRS16 (unless otherwise noted)

Cash Flow Statement (PLNm)	2017	2018	2019	2020F	2021F	2022F
Net profit	-3.7	15.1	19.6	34.4	36.3	38.2
Depreciation and amortization	10.4	11.2	20.5	19.9	20.8	21.7
Change in working capital	8.2	-1.2	4.3	-14.5	1.0	-1.2
CF from current operations	13.8	27.2	54.1	39.8	58.1	58.7
CAPEX	-10.5	-29.3	-18.0	-10.0	-10.0	-20.8
Capital investments	0.0	6.8	0.0	-28.3	0.0	0.0
Divestments and other	1.4	15.4	18.9	56.6	0.0	0.0
Purchase of debt securities	0.0	0.0	0.0	-23.7	-31.3	0.6
CF from investing activities	-9.1	-7.1	0.9	-5.4	-41.3	-20.2
Increase of share capital	0.0	0.0	0.0	0.0	0.0	0.0
Change in financial liabilities	0.0	0.0	-77.6	-11.2	-10.4	-10.3
Dividends and other payments due to equity holders	0.0	-22.2	-17.8	-26.6	-6.7	-28.0
CF from financial activities	0.4	-31.4	-117.4	-37.8	-17.0	-38.3
CF for the period	5.1	-11.3	-62.4	-3.4	-0.2	0.3
Cash at the beginning of the period	8.4	13.5	2.2	17.4	14.0	13.8
Cash at the end of the period	13.5	2.2	17.4	14.0	13.8	14.0

Source: TIM (2017-2019), Noble Securities (2020-2022), forecasts for years 2020-22 with IFRS16 (unless otherwise noted)

Selected indicators	2017	2018	2019	2020F	2021F	2022F
EBITDA margin	1.0%	3.7%	6.0%	7.3%	7.0%	7.2%
EBIT margin	-0.4%	2.4%	3.7%	4.6%	5.0%	5.0%
Net profit margin	-1%	2%	2%	3%	4%	4%
Net debt (without IFRS16)	4.5	31.2	14.1	-22.9	-64.3	-74.3
Net debt			91.8	54.8	13.3	3.3
Net debt /EBITDA	0.6	1.0	0.3	-0.3	-0.9	-1.0
Number of shares issued	22.2	22.2	22.2	22.2	22.2	22.2
Dividend per share	0.0	1.0	0.8	1.5	1.3	1.3
P/BV	2.2	2.3	2.4	2.2	1.8	1.7

Source: TIM (2017-2019), Noble Securities (2020-2022), forecasts for years 2020-22 with IFRS16 (unless otherwise noted)

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FINAL REMARKS

Analyst preparing the Report: Michał Sztabler

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Last recommendation on TIM SA			
Recommendation / update	na	na	na
Publication date	16.06.2019	31.01.2020	26.06.2020
Price at publication	9.8	11.4	10.9
Price target	14.1	17.3	17.1
WIG at publication	52 344.83	56 923.36	49 725.89

All recommendation distributed by NS in last 12 months:

Company	Direction	Price target	Price at publication	Current price	Difference to price target	Date of publication (1)	Date of validation (2)	Prepared by (3)
Bioton	BUY	7.3	4.4	4.4	67%	06.11.2020	24M	Krzysztof Radojewski
Forte	BUY	48.3	34.5	36.9	31%	05.11.2020	9M	Dariusz Dadej
CD Projekt	BUY	415.0	346.0	406.0	2%	03.11.2020	9M	Maciej Kietliński
PKP Cargo	SELL	7.9	9.9	11.7	-32%	22.10.2020	9M	Michał Sztabler
Amica	BUY	177.1	133.4	144.8	22%	14.10.2020	9M	Michał Sztabler
Ten Square Games	SELL	477.1	535.0	496.5	-4%	04.09.2020	9M	Maciej Kietliński
Krynicky Recykling	NA	11.8	7.8	7.3	62%	31.08.2020	24M	Dariusz Dadej
Wielton	BUY	5.5	4.5	5.8	-5%	29.07.2020	9M	Michał Sztabler
Eurocash	BUY	21.5	16.1	14.0	53%	24.07.2020	9M	Dariusz Dadej
Bioton	NA	6.8	4.6			24.07.2020	24M	Krzysztof Radojewski
MCI Capital	NA	24.9	12.1	15.2	64%	31.06.2020	24M	Krzysztof Radojewski
TIM	NA	17.1	10.9	16.2	6%	26.06.2020	24M	Michał Sztabler
Aplisens	NA	15.8	9.8	11.1	42%	02.06.2020	9M	Michał Sztabler
LW Bogdanka	REDUCE	18.3	21.0	18.1	1%	30.04.2020	9M	Michał Sztabler
Bioton	NA	6.4	3.9			29.04.2020	9M	Krzysztof Radojewski
Dino Polska	SELL	138.8	188.9	251.0	-45%	23.04.2020	9M	Dariusz Dadej
Eurocash	HOLD	23.0	21.9			23.04.2020	9M	Dariusz Dadej
MCI Capital	NA	21.9	8.3			12.03.2020	24M	Kamil Jędrej
TIM	NA	17.3	11.4			31.01.2020	24M	Michał Sztabler
PKP Cargo	BUY	30.6	20.9	11.7	162%	07.01.2020	9M	Michał Sztabler
Aplisens	NA	17.3	10.5	11.1	56%	03.01.2020	nd	Michał Sztabler
Forte	HOLD	29.5	30.9			20.12.2019	9M	Dariusz Dadej
Amica	ACCUMULATE	165,2	138.0			13.12.2019	9M	Michał Sztabler

(1) Date of publication is simultaneously date of first publication, (2) recommendation is valid for a period of 9 months, unless it is previously updated

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