

Sector: Consumer discretionary
Fundamental rating: Buy (→)
Market relative: Overweight (→)
Price: PLN 7.18
12M EFV: PLN 8.4 (→)

Market Cap: US\$ 140 m
Bloomberg code: TOA PW
Av. daily turnover: US\$ 0.3 m
12M range: PLN 3.52-8.12
Free float: 36%

Toya

4Q20 results summary

On March 19, in the evening, Toya released its preliminary financial results for the last quarter of 2020 which turned out to be very good and beat our expectations. 4Q20 sales dynamic was very high yoy and a yoy growth hit 37% while we expected 10%.

We believe this bulky sales dynamic stems probably from the domestic market as the stores selling construction and building materials stayed open during the lockdown. Besides, the construction materials sector data indicate that during the pandemic surprisingly strong interest in renovations surfaced. We believe that quite a few keen do-it-yourselfers threw themselves into renovations as the lockdown forced them to stay home.

4Q20 EBIT reached PLN 24.4 million (up 100% yoy) and EBT margin jumped from 10.6% in 4Q19 to 15.5% in 4Q20. NI margin performance was good as well as it grew to 12% in 4Q20 from 7.9% in the base period.

Toya will release its FY20 annual report on April 8. We will be particularly interested in 4Q20 sales mix and CFO.

Guide to adjusted profits

No factors necessitating adjustments.

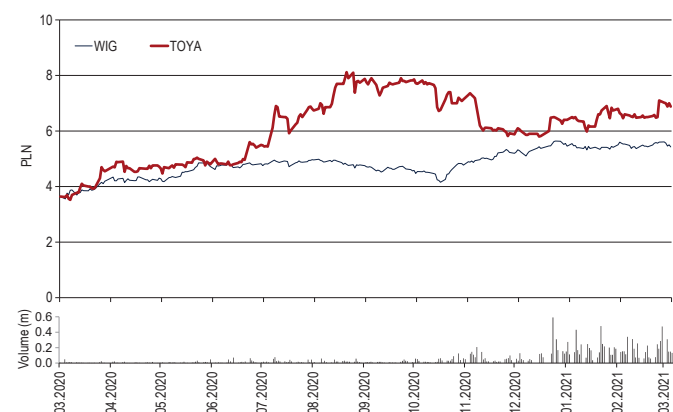
Key data

IFRS consolidated		2020E*	2021E	2022E	2023E
Sales	PLN m	542.1	539.7	562.4	581.8
EBITDA	PLN m	83.5	86.0	89.5	92.3
EBIT	PLN m	82.1	77.3	80.7	83.6
Net profit	PLN m	64.9	61.7	64.5	66.9
EPS	PLN	0.77	0.82	0.86	0.89
EPS yoy chg	%	28.4	7.1	4.7	3.7
Net debt	PLN m	24.6	23.4	20.5	16.5
P/E	x	8.3	8.7	8.3	8.1
P/CE	x	8.5	8.3	7.9	7.7
EV/EBITDA	x	6.7	6.5	6.3	6.0
EV/EBIT	x	6.9	7.3	6.9	6.6
EV/Sales	x	1.0	1.0	1.0	1.0
Gross dividend yield	%	11.1	9.1	9.7	10.2
DPS	PLN	0.80	0.65	0.70	0.73
No. of shares (eop)	m	75.0	75.0	75.0	75.0

*FY20E sales, EBIT and NI based on preliminary results released on March 19, 2021

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Upcoming events

1. 4Q20 financial results release: April 8
2. 1Q21 financial results release: May 7
3. 2Q21 financial results release: August 26
4. 3Q21 financial results release: November 5

Fig. 1. Toya, 4Q20 results compared to expectations

IFRS consolidated (PLN m)	4Q20	4Q19	yoy chg	4Q20E (DM BOŚ SA)	Compared to expectations DM BOŚ SA
Sales	157.1	114.8	37%	126.6	↑
EBIT	24.4	12.2	100%	15.2	↑
EBIT margin	15.5%	10.6%	-	12.0%	↑
Net profit	19.1	9.1	110%	8.7	↑
Net margin	12.2%	7.9%	-	6.9%	↑

Source: Company, DM BOŚ SA

Financial forecasts and valuation

We are comfortable with our financial forecasts and valuation; thus they stay intact. We would like to note that visibility of financials remains low due to the pandemic.

Recommended action

Excellent financial performance of the Company in FY20 and good outlook make us uphold our LT fundamental Buy rating while expectations of a generous dividend payment on the horizon justify maintaining ST relative stance at Overweight.

Risk factors

1. Economic slowdown on the markets where the Company operates
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 the 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 break the supply chain

Catalysts

1. New products introduced in the offer
2. Export channel development
3. Further geographical expansion
4. Increase in the high-margin on-line sale (the highest margin)
5. Non-operating assets for sale (suboptimal utilization of the 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. Favorable/stable FX rates
10. Favorable/stable raw materials prices
11. Profit distribution among shareholders

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	41	29	5	9	0
Percentage	49%	35%	6%	11%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	35	30	10	9	0
Percentage	42%	36%	12%	11%	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	6	6	0	2	0
Percentage	43%	43%	0%	14%	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	7	2	2	0
Percentage	21%	50%	14%	14%	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	24.08.2020	43%	25%	4.88	5.10 ↓
Maciej Wewiórski	-	→	-	22.04.2020	23.04.2020	-	-	-	4.74	5.10 →
Maciej Wewiórski	-	→	-	10.05.2020	11.05.2020	-	-	-	4.76	5.10 →
Maciej Wewiórski	-	→	-	19.05.2020	20.05.2020	-	-	-	4.72	5.10 →
Maciej Wewiórski	-	→	-	15.06.2020	16.06.2020	-	-	-	5.00	5.10 →
Maciej Wewiórski	-	→	-	13.07.2020	14.07.2020	-	-	-	5.50	5.10 →
Maciej Wewiórski	-	→	-	30.07.2020	31.07.2020	-	-	-	5.92	5.10 →
Maciej Wewiórski	Buy	↑	25.08.2020	-	26.08.2020	Not later than 25.08.2021	14%	3%	6.98	8.00 ↑
Maciej Wewiórski	-	→	-	01.09.2020	02.09.2020	-	-	-	7.70	8.00 →
Maciej Wewiórski	-	→	-	08.10.2020	09.10.2020	-	-	-	7.80	8.00 →
Maciej Wewiórski	-	→	-	29.10.2020	30.10.2020	-	-	-	6.72	8.00 →
Maciej Wewiórski	-	→	-	08.11.2020	09.11.2020	-	-	-	7.00	8.00 →
Maciej Wewiórski	-	→	-	16.11.2020	17.11.2020	-	-	-	7.30	9.20 ↑
Maciej Wewiórski	-	→	-	22.11.2020	23.11.2020	-	-	-	5.40	8.40 ↓
Maciej Wewiórski	-	→	-	06.12.2020	07.12.2020	-	-	-	6.10	8.40 →
Maciej Wewiórski	-	→	-	05.01.2021	05.01.2021	-	-	-	6.48	8.40 →
Maciej Wewiórski	-	→	-	28.01.2021	29.01.2021	-	-	-	6.20	8.40 →
Maciej Wewiórski	-	→	-	28.02.2021	01.03.2021	-	-	-	6.56	8.40 →
Maciej Wewiórski	-	→	-	22.03.2021	23.03.2021	-	-	-	7.18	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	13.07.2020	45%
Maciej Wewiórski	-	→	-	30.07.2019	31.07.2019	-	-
Maciej Wewiórski	-	→	-	29.08.2019	30.08.2019	-	-
Maciej Wewiórski	-	→	-	01.09.2019	02.09.2019	-	-
Maciej Wewiórski	-	→	-	13.10.2019	14.10.2019	-	-
Maciej Wewiórski	-	→	-	23.10.2019	24.10.2019	-	-
Maciej Wewiórski	-	→	-	24.10.2019	25.10.2019	-	-
Maciej Wewiórski	-	→	-	11.11.2019	12.11.2019	-	-
Maciej Wewiórski	-	→	-	17.11.2019	18.11.2019	-	-
Maciej Wewiórski	-	→	-	03.12.2019	04.12.2019	-	-
Maciej Wewiórski	-	→	-	08.12.2019	09.12.2019	-	-
Maciej Wewiórski	-	→	-	09.01.2020	10.01.2020	-	-
Maciej Wewiórski	-	→	-	04.02.2020	05.02.2020	-	-
Maciej Wewiórski	-	→	-	05.02.2020	06.02.2020	-	-
Maciej Wewiórski	-	→	-	06.02.2020	07.02.2020	-	-
Maciej Wewiórski	-	→	-	03.03.2020	04.03.2020	-	-
Maciej Wewiórski	-	→	-	30.03.2020	31.03.2020	-	-
Maciej Wewiórski	-	→	-	19.04.2020	20.04.2020	-	-
Maciej Wewiórski	-	→	-	22.04.2020	23.04.2020	-	-
Maciej Wewiórski	-	→	-	10.05.2020	11.05.2020	-	-
Maciej Wewiórski	-	→	-	19.05.2020	20.05.2020	-	-
Maciej Wewiórski	-	→	-	15.06.2020	16.06.2020	-	-
Maciej Wewiórski	Neutral	→	13.07.2020	-	14.07.2020	24.08.2020	25%
Maciej Wewiórski	-	→	-	30.07.2020	31.07.2020	-	-
Maciej Wewiórski	Overweight	↑	25.08.2020	-	26.08.2020	Not later than 25.08.2021	3%
Maciej Wewiórski	-	→	-	01.09.2020	02.09.2020	-	-
Maciej Wewiórski	-	→	-	08.10.2020	09.10.2020	-	-
Maciej Wewiórski	-	→	-	29.10.2020	30.10.2020	-	-
Maciej Wewiórski	-	→	-	08.11.2020	09.11.2020	-	-
Maciej Wewiórski	-	→	-	16.11.2020	17.11.2020	-	-
Maciej Wewiórski	-	→	-	22.11.2020	23.11.2020	-	-
Maciej Wewiórski	-	→	-	06.12.2020	07.12.2020	-	-
Maciej Wewiórski	-	→	-	05.01.2021	05.01.2021	-	-
Maciej Wewiórski	-	→	-	28.01.2021	29.01.2021	-	-
Maciej Wewiórski	-	→	-	28.02.2021	01.03.2021	-	-
Maciej Wewiórski	-	→	-	22.03.2021	23.03.2021	-	-

* 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 March 23, 2020 at 7.50 a.m.
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The report is an investment research within the meaning of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive. This report constitutes a recommendation within the meaning of Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest. This report is for information purposes only.

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

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