

Ambra *summary of report*

accumulate

alcoholic beverages

previous recommendation: buy

Current price: 18.0

Target price: 21.3

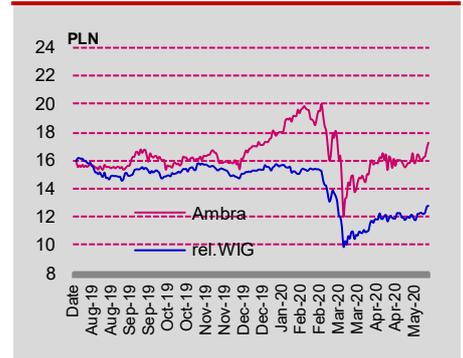
Moderate decrease in results

In April the company suffered a slump in the sales of its own CENTRUM WINA / DISTILLERS LIMITED stores and the HoReCa channel, which together account for around 15% of the group's sales. In the rest of the business there are slight declines, although it must be remembered that at the beginning of 2020 the group's revenues increased by over 10% y/y. Thus, the impact of the epidemic at its worst can be considered significant, but not dramatic. In the medium term, the lowering of consumer sentiment caused by rising unemployment and lower wage dynamics will have an impact however revenue dynamics should stabilize in the range of 4-6%. The current P/E of Ambra is 15.4 for 2019/20 and 17.1 for 2020/21 (which is not high considering the bottom of the profits). As a result of worsening profit outlook, we are lowering the target price for Ambra shares from 26.0 to 21.3, and we downgrade from buy to accumulate rating after strong relative performance since the last recommendation.

Ambra's revenues in Q3 2019/20 increased by 7.5% y/y and were lower than the dynamics from previous quarters (11.6%) due to the impact of the epidemic on the company's business since mid-March. The EBIT loss was PLN 1.2m vs. PLN 1.6m profit a year earlier, while the net loss was PLN 2.5m vs PLN 0.2m loss. The direct impact of the epidemic on Q3 results is a decrease in revenues by approx. 2-2.5 pp, while the indirect impact was much greater, i.e. through a significant increase in EUR/PLN. Exchange rate differences reduced the gross margin by approximately PLN 1.4 million and increased financial costs by PLN 1.3 million due to an increase in liabilities due to rights to use assets (IFRS 16). If not for the EUR/PLN increase, the net loss in Q3 2019/20 would be similar y/y. After 3 quarters of 2019/20, EBIT was PLN 54.8 million (+ 3.8% y/y), and net profit of PLN 31.8 million was only PLN 0.5 million (1.6%) higher y/y. Net debt increased by PLN 28.7 million y/y and at the end of Q3 19/20 amounted to PLN 27.9 million.

In response to the challenges of the coronavirus epidemic, Ambra will want to renegotiate rents in rented stores and close some of the least attractive outlets. Advertising expenses are to be strongly reduced and wages are to be made more flexible in some of HoReCa. The company did not dismiss employees, however their working time was limited. We expect the company to pay dividends for 2019/20, although its amount this year remains under the influence of increased uncertainty. We believe that the company can afford dividend payment at last year's level, i.e. PLN 0.7 per share, and this amount is possible. The level of debt looks slightly worse than a year ago, however, the average annual net debt does not exceed 1x EBITDA (despite temporarily increased inventories by approx. PLN 20 million), which is a very safe value. The final decision will depend on the difficult to predict epidemiological and economic situation as well as the organic investments planned for the next year. At the moment, the management board assumes no significant acquisitions in the near future, and the organic CAPEX is to amount to approx. PLN 20 million annually. We think a cautious

Share price vs index



Max/min 52 weeks (PLN)	12.0 / 20.0		
Shares issued (m)	25.2		
Market cap. (m PLN)	454		
EV (m PLN)	453		
Free float (m PLN)	176		
Average turnover (m PLN)	0.1		
Main shareholder	Schloss-Wachenheim		
% of shares, % of votes	61.1%, 61.1%		
	1 m	3 m	12 m
Price change	11.8%	5.9%	17.6%
Change rel. WIG	3.0%	11.1%	32.0%

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	Sales	EBIT	EBITDA	Profit before tax	Net profit	EPS	CEPS	BVPS	P/E	P/BV	DY (%)	EV /EBIT	EV /EBITDA	ROE (%)
2018/19	552.4	55.6	68.6	54.4	32.9	1.31	1.82	11.1	13.8	1.6	3.8	8.1	6.6	12.4
2019/20p	583.4	51.7	66.2	48.2	29.5	1.17	1.74	11.5	15.4	1.6	3.9	8.8	6.8	10.6
2020/21p	579.2	44.4	59.2	43.5	26.5	1.05	1.64	12.0	17.1	1.5	3.3	10.2	7.6	9.1
2021/22p	615.8	50.7	65.9	50.4	30.9	1.22	1.82	12.6	14.7	1.4	3.3	8.9	6.9	10.2

p - consolidated forecasts MillenniumDM, EBITDA in accordance with MSR 17, mPLN

The report was prepared by Millennium Dom Maklerski S.A. on the order of the Warsaw Stock Exchange S.A. within the Program of Analytical Coverage Support Information regarding the links between Millennium Dom Maklerski S.A. with the company being the subject of this report and other required information were placed on the last page of the report.

Forecasts and valuation

Implementation of the government restrictions impacted negatively sales in its Ambra own stores and the HoReCa channel. Therefore after several quarters with double digit sales growth we expect that the dynamics will slowdown in the whole 2019/20 year to 5.6% and -0.7% in 2020/21. In the following 5 years, we expect an average annual revenue growth of 5.7%. We expect EBIT will decrease y/y in both 2019/20 and 2020/21 to 51.7 mln PLN and 44.4 mln PLN (from 55.6 mln PLN in 2018/19) due to lower gross profit margin and negative impact of some operating leverage. We expect Ambra not to take over any major goals beyond really valuable opportunistic acquisitions in the next 1-2 years.

The company is listed with a P/E ratio equal to 15.4 for 2019/20 profits and 17.1 for the next financial year. Considering very strong operating cash flows, the bottom of the profits and solid dividends, this indicator is not excessive. Our valuation with the DCF method indicates the value of Ambra share for PLN 22.3, while the comparable companies multiples method indicates the valuation of PLN 20.2 per share. We set the target price PLN 21.3 as the average of both valuations and as the current price is PLN 18.0 we recommend accumulating Ambra shares.

Risk factors:

The most important risk factors that may affect the operations of the Ambra Group include:

- ❑ Risk of continuing weak economic situation and consumer sentiment - in the perspective of the following quarters, it is likely that consumer sentiment that is much lower than in recent years will continue. The last 2 months indicate a collapse of consumer sentiment which last year was at record levels. Even improving the epidemiological situation will not raise consumer sentiment to pre-pandemic levels. At the moment, there are still many unknowns that can significantly affect the economy.
- ❑ The risk of increased costs of wages, energy and services should decrease in the near future, although their increase will be higher than the dynamics of revenues. The most important cost (apart from purchased raw materials and goods) are the salary costs, which in 2018/2019 amounted to PLN 82.4 million. The last wage increases took place just before the epidemic.
- ❑ Risk of exchange rates and commodity prices. A significant part of goods and raw materials are imported (value around EUR 40 million per year), therefore raw material prices and EUR / PLN affect costs. However, according to the board, the company is able to pass on rising costs to customers with a delay of 2-3 quarters. An increase of EUR / PLN by 10% would reduce, through exchange rate differences, the net result by approx. 1.7 million PLN, and 2.7 million PLN after taking into account the IFRS 16 effect.
- ❑ Risk of adverse changes in the regulations regarding trade in alcoholic beverages. Ambra operates on a market which is significantly influenced by regulations regarding e.g. the amount of excise duty or the possibility of advertising certain alcoholic products. There is always a risk that the regulations will change unfavorably from Ambra's point of view.
- ❑ Risk of transactions with the main shareholder. Such transactions may generate conflicts of interest, however, purchases from the main shareholder (and related companies) accounted for only 1.3% of revenues in 2018/2019.
- ❑ Risk of prolonged impact of a coronavirus epidemic on company operations. Due to restrictions imposed by the government, there are restrictions on the operation of restaurants and hotels, where the Ambra group supplies its goods and products. The prolonged epidemic will negatively affect the sales of the HoReCa channel.
- ❑ Risk of change in the company's dividend practice. This practice assumes a stable increase in the dividend paid. We believe that a change in this respect would be adversely perceived by stock market participants. In the near future there is an increased risk that the dividend will be lower than a year ago.

Looking at the above factors, we believe that Ambra's risks are moderate and that the company should not have a big problem managing most of them. The current situation of the epidemic should not strongly affect the operations and results of the Ambra group.

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Explanation of the professional terminology used in the report

EV - market valuation of the company + net interest debt
EBIT - operating profit
EBITDA - operating profit + depreciation
P/CE - ratio of the share price to net profit per share plus depreciation per share
P/E - ratio of the share price to the net profit per share
P/BV - ratio of the share price to the book value per share
ROE - return on equity
ROA - return on assets
EPS - net profit per share
CEPS - net profit and depreciation per share
BVPS - book value per share
DPS - dividend per share

The scale of recommendation used in Millennium Dom Maklerski S.A.

BUY - we believe that the company's shares have more than 20% upside potential
ACCUMULATE - we believe that the company's shares have more than 10% upside potential
NEUTRALALLY - we believe that the price of the company's shares will remain stable (+/- 10%)
REDUCE - we think that the company's shares are overvalued by 10-20%
SELL - we believe that the company's shares are overvalued by over 20%
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The recommendations are based on the following valuation methods (selected 2 out of 3): DCF method (discounted cash flow model) - the method considered the most suitable for the valuation of enterprises. The disadvantage of the DCF method is the sensitivity of the valuation obtained in this way to the adopted assumptions concerning both the company itself and its macroeconomic environment. Comparable companies method (comparison of relevant market indicators, where a company with a similar ratios for other companies in the same industry or related industries is listed) - better than the DCF method reflects the perception of the industry in which the company operates, by investors. The disadvantage of the comparable companies method is the sensitivity to the selection of the adopted comparative group and the indicators being compared, as well as the high variability of the valuation depending on the market situation. ROE-P / BV method (a model that makes the right P / BV ratio dependent on the company's profitability) - the method considered the most suitable for the valuation of banks. The disadvantage of this method is the sensitivity of the valuation obtained in this way to the adopted assumptions regarding both the company itself (profitability, effectiveness) and its macroeconomic environment.

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The work related to the preparation of the report was completed on May 27, 2020 at 15.15, the date of the first dissemination of the report is the date of the report, May 27, 2020 at 15.30.

Millennium DM S.A. recommendations for the last 12 month

Company	Recommendation	Date of the recommendation	Market price on the day of recommendation issue	Target price	Author
Ambra	Buy	2019.07.12	15.7	23.9	Marcin Palenik
Agora	Buy	2019.07.26	12.0	20.5	Adam Zajler
LPP	Neutrally	2019.11.08	8530	9108	Marcin Palenik
VRG	Buy	2019.11.08	4.08	5.01	Marcin Palenik
Ambra	Buy	2019.12.06	15.8	26.0	Marcin Palenik
Agora	Buy	2019.12.20	10.3	22.0	Adam Zajler

Source: MillenniumDM S.A., recommendations issued by MillenniumDomMaklerski S.A. are valid for 6 months after the date of recommendation if not actualized earlier.

Structure of Millennium DM recommendations for the last 12 months

	Number of recommendatic	% share
Buy	5	83%
Accumulate	0	0%
Neutrally	1	17%
Reduce	0	0%
Sell	0	0%

Structure of Millennium DM recommendations for companies for which Millennium DM S.A. provided investment banking services*

	Number of recommendatic	% share
Buy	0	0%
Accumulate	0	0%
Neutrally	0	0%
Reduce	0	0%
Sell	0	0%

*last 12 months, including companies for which MDM S.A. is a market maker