

# Ambra *summary of report*

**buy**

alcoholic beverages

previous recommendation: buy

Current price: 20.4

**Target price: 25.6**

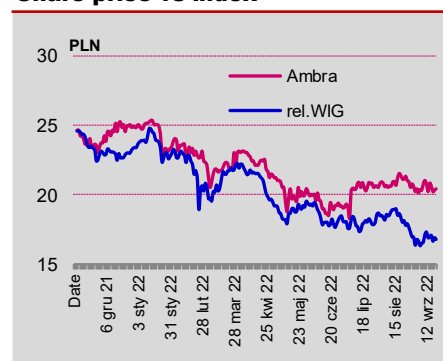
## Costs passed on to customers

The second half of 2021/22 was the first period in 6 years when there was a decrease profit y/y. However, they were still above our expectations and throughout the year the Ambra group achieved a record net profit of PLN 51.8 million (+ 13.6% y/y). The visible cost pressure will increase, therefore Ambra in October will introduce a second price raise this year on its goods and products (again approx. 10%). As a result, most, but not all, costs will remain transferred to customers. This year's margin decline is inevitable. We estimate that the EBIT profitability will drop from 11.1% in 2021/22 to 9.3% in the current financial year. According to our forecasts, the net profit of the Ambra group will fall by 7.6% y/y to PLN 47.8m. We think even in pessimistic scenarios should not fall by more than 10-15% y/y.

The company is trading with a P/E ratio of 10.8, taking into account our forecast of net profit in the financial year 2022/23. This is a level close to quotations in recent years, so it cannot be said that Ambra's shares price have dropped to exceptionally attractive levels. On the other hand, we believe that Ambra stands out from the market in terms of quality and low variability of results as well as systematic dividends. In this report we are lowering our valuation of 1 Ambra share from PLN 28.5 to PLN 25.6, which is mainly the effect of the higher risk-free rate and lower ratios of peers. With the current share price at PLN 20.4, we are reiterating a buy rating on Ambra shares.

Ambra's Management Board will recommend a PLN 1.0 dividend per share payout for 2021/22 compared to PLN 0.95 a year earlier. Increase dividends will amount to 5% despite the fact that the net profit increased by 14%. You can see that the company getting ready for a more difficult year. Ambra could afford in the latter years to pay significantly higher dividends. At the end of June 2022 debt net amounted to PLN 19.8 million, or only 0.2x EBITDA. It is important for the board however, so that the dividend is not reduced in any year, even in the case of worse period. In our opinion, this is good for the long term shareholders. Thanks to this, it is possible to assume with a high degree of probability that that in the coming years the dividend will not fall below PLN 1.0 per share, even in the event of a greater drop in profits than we expect. Attractive and repeatable shareholder payments should defend the company's share price against major drops. Additionally, thanks to moderate (compared to the possibilities) dividends, Ambra may look for attractive investment targets in these worse times.

### Share price vs index



Max/min 52 weeks (PLN)	25.85 / 18.2	
Shares issued (m)	25.2	
Market cap. (m PLN)	514	
EV (m PLN)	534	
Free float (m PLN)	200	
Average turnover (m PLN)	0,3	
Main shareholder	Schloss-Wachenheim	
% of shares, % of votes	61.1%, 61.1%	
	<b>1 m</b>	<b>3 m</b> <b>12 m</b>
Price change	-4,4%	5,2% -17,4%
Change rel. WIG	4,1%	11,2% 10,7%

**Marcin Palenik, CFA**

22 598 26 71

marcin.palenik@millenniumdm.pl

	Sales	EBIT	EBITDA	Profit before tax	Net profit	EPS	CEPS	BVPS	P/E	P/BV	DY (%)	EV /EBIT	EV /EBITDA	ROE (%)
2021/22	775,6	86,0	100,0	82,4	51,8	2,05	2,61	14,2	9,9	1,4	4,7	6,2	5,3	15,9
2022/23p	859,6	80,2	98,0	76,8	47,8	1,90	2,60	15,1	10,8	1,4	4,9	6,7	5,4	13,4
2023/24p	916,4	84,7	104,0	81,3	50,6	2,01	2,77	16,1	10,2	1,3	4,9	6,3	5,1	13,3
2024/25p	965,2	90,3	110,6	86,9	54,1	2,15	2,95	17,2	9,5	1,2	5,2	5,9	4,8	13,4

p - consolidated forecasts BMBanku Millennium, EBITDA in accordance with MSR 17, m PLN

The report was prepared by Biuro Maklerskie Banku Millennium S.A. on the order of the Warsaw Stock Exchange S.A. within the Program of Analytical Coverage Support Information regarding the links between Bank Millennium 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

We are raising our 2022/23 revenue forecast by 5.9% compared to our previous expectations and similar increase in the following years. However the net profit forecasts stayed almost unchanged due to stronger costs pressure. Our 2022/23 net profit forecast was increased by 0.3% to PLN 47.8m and by 0.9% to PLN 50.6m in 2023/24. Our valuation with the DCF method indicates the value of Ambra share for PLN 21.9, while the comparable companies multiples method indicates the valuation of PLN 29.3 per share. We set the target price PLN 25.6 as the average of both valuations and as the current price is PLN 20.4 we recommend buying Ambra shares.

## Risk factors:

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

- ❑ **Risk of deteriorating consumer sentiment.** Consumer sentiment and willingness to increase purchases are one of the main factors affecting the wine market. We expect them to deteriorate in the coming periods due to high inflation, which will remain above 10%, the war in Ukraine and the related economic slowdown. The strong economy and labour market are probably past their best. Inflation will force interest rates up further, which will further cool the economy. Rising prices for necessities (food, energy) may have a negative impact on less essential expenditure like alcohols.
- ❑ **The risk of a greater increase in payroll costs.** The most important cost (apart from purchased raw materials and goods) are payroll costs, which in 2021/2022 amounted to PLN 108.5 million and increased by as much as 10.5% y/y. This dynamics, however, was lower than the increase in sales revenues. Generally speaking, the wage factor should be neutral for the company in the long run, as wage growth in the economy has a positive effect on consumer demand, including Ambra's products. In the short term of the coming quarters, we expect payroll costs to increase faster than revenues.
- ❑ **Risk of exchange rates and prices of raw materials.** A significant part of goods and raw materials is imported (worth approx. EUR 45 million per year), therefore the prices of raw materials and EUR/PLN affect the costs. According to the management board, however, the company is able to pass the rising costs onto customers with a delay of 2-3 quarters. An increase in EUR / PLN by 10% would reduce the net result by approx. PLN 3.0 million through exchange rate differences. Increase in commodity prices and energy may be one of the main risks to the company's results in the coming quarters.
- ❑ **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)
- ❑ **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.

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. However, the short term will be adversely affected by significant cost increases, which the company will not be able to pass on further to customers.

## Research Department

**Marcin Materna, CFA**  
Doradca inwestycyjny  
+48 22 598 26 82  
marcin.materna@bankmillennium.pl

**Marcin Palenik, CFA**  
+48 22 598 26 71  
marcin.palenik@bankmillennium.pl

**Adam Zajler**  
+48 22 598 26 88  
adam.zajler@bankmillennium.pl

**Grzegorz Gawkowski**  
+48 22 598 26 05  
grzegorz.gawkowski@bankmillennium.pl

**Łukasz Bugaj**  
Doradca inwestycyjny  
+48 22 598 26 59  
lukasz.bugaj@bankmillennium.pl

**Head of Research Department**  
banks and financial institutions

Analyst  
Equities, retail

Analyst  
equities

Analyst  
investment funds  
gaming

Analyst  
investment funds

## Sales Department

**Radosław Zawadzki**  
+48 22 598 26 34  
radoslaw.zawadzki@bankmillennium.pl

**Arkadiusz Szumilak, CFA**  
+48 22 598 26 75  
arkadiusz.szumilak@bankmillennium.pl

**Jarosław Oldakowski**  
+48 22 598 26 11  
jaroslaw.oldakowski@bankmillennium.pl

**Leszek Iwaniec**  
+48 22 598 26 90  
leszek.iwaniec@bankmillennium.pl

**Marek Pszczółkowski**  
+48 22 598 26 60  
marek.pszczolkowski@bankmillennium.pl

**Marcin Czerwonka**  
+48 22 598 26 70  
marcin.czerwonka@bankmillennium.pl

**Head of Sales**

**Biuro Maklerskie Banku Millennium S.A.**  
**ul. Żyryna 2A, Millennium Park IIIp**  
**02-593 Warszawa Polska**

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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 Biuro Maklerskie Banku Millennium 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%  
Recommendations issued by Biuro Maklerskie Banku Millennium S.A. are valid for 6 months from the date of issue, unless they are previously updated. Biuro Maklerskie Banku Millennium S.A. updates the issued recommendations depending on the market situation and the analyst's assessment.

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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 September 22, 2022 at 2:00 pm, the date of the first dissemination of the report is the date of the report, September 22, 2022 at 3:00 pm.

**BM Bank Millennium 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
Mostostal Zabrze	Buy	2021-09-07	1,89	3,20	Adam Zajler
Ambra	Buy	2021-09-28	25,4	36,1	Marcin Palenik
KGL	Neutral	2021-10-13	15,0	15,6	Marcin Palenik
Selvita	Neutral	2021-12-14	86,0	78,2	Marcin Palenik
Agora	Buy	2021-12-20	6,66	16,2	Adam Zajler
Ambra	Buy	2022-03-08	21,00	28,5	Marcin Palenik
Mostostal Zabrze	Buy	2022-03-31	1,56	3,50	Adam Zajler
Selvita	Neutral	2022-04-27	78,1	77,0	Marcin Palenik
KGL	Neutral	2022-05-16	9,9	9,3	Marcin Palenik
Agora	Buy	2022-06-10	5,6	10,4	Adam Zajler
Mostostal Zabrze	Buy	2022-09-12	1,8	3,2	Adam Zajler

Source: BM Bank Millennium S.A., recommendations issued by BM Bank Millennium are valid for 6 months from the date of issue, unless updated earlier.

Ambra, Agora, KGL and Mostostal Zabrze participate in the WSE Program of Analytical Coverage Support, for which BM Bank Millennium receives remuneration.

**Structure of BM Bank Millennium S.A. recommendations for the last 12 months**

	Number of recommendat	% share
Buy	7	64%
Accumulate	0	0%
Neutrally	4	36%
Reduce	0	0%
Sell	0	0%

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

No recommendation was issued for companies for which Millennium DM S.A. provided investment banking services \*

\*last 12 months, including companies for which BM Bank Millennium S.A. is a market maker