Dadelo

Sales dynamics slowed a little, but profitability still surprises in the positive

Buy
(Previous: Buy; 27.5 PLN)

Target Price: 29 PLN
Current Price: 21.2 PLN
Upside: 37%

3Q24 Earnings
07/11/2024

 # 3Q24 estimates: **(1)** According to the sales report, the company's Q3 revenue was PLN 77m (+33% y/y). **(2)** Trading update also shows that the 1H pattern will continue with a significant improvement in gross margin y/y (gross margin 31.3%, +3.9pp y/y). **(3)** Profitability on lower lines in Q3 will be supported by operating leverage in our view (we expect SG&A ratio down 1.7pp y/y). As a result, we expect Q3 EBITDA of PLN 7m and EBIT of PLN 5.6m (EBIT margin 7.2%, +5.3pp y/y). We expect the company to continue to broaden its product offering, and to stock up for over 30% y/y sales growth in 2025. As a result, net cash at the end of September will be at a lower level q/q (pre-IFRS16 net cash of PLN 10m).

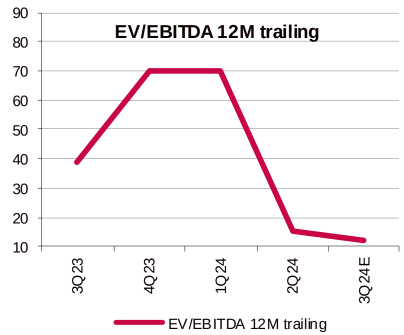
 # Market consolidation is progressing faster than we assumed so far. We identify two main areas of customer flow on the bicycle, parts and accessories market in Poland. The first is related to the decreasing importance of the traditional channel, whose offer is very limited in relation to DAD (currently over 50k SKUs with next day delivery and over 10k SKUs in stationary shops) and at the same time less competitive in terms of price. This process will not slow down in the coming years, especially as DAD is planning further investments in omnichannel (3 more shops in 2025). The second customer flow factor is the increasing online penetration in an environment of a stable competitive environment, where DAD's advantage over other specialised e-stores, in addition to the breadth of the offer and good logistics, is free delivery regardless of the value of the order.

 # Outlook & valuation. We are revising upwards this year's EBIT and net profit forecasts to PLN 18m and PLN 14m, respectively (vs. PLN 14m and PLN 11m previously). Changes in earnings trajectory imply TP growth of 5%. This year's improvement in gross margin is a positive surprise; the question is how much faster the Company would have grown had it not been for a correction in pricing policy and a greater focus on profitability than before. We assume that the Company will look for an answer to this question in 2025. Thus, we expect a relatively greater focus on sales growth at the expense of investments in prices (estimated gross margin decline of 1.5p y/y). Additionally, investments in new shops will undercut SG&A growth. Consequently, lower lines in 2025 will grow much slower than the top line. Nevertheless, in the context of the company's value growth, gaining market share should be a relatively higher priority at present, in our view.

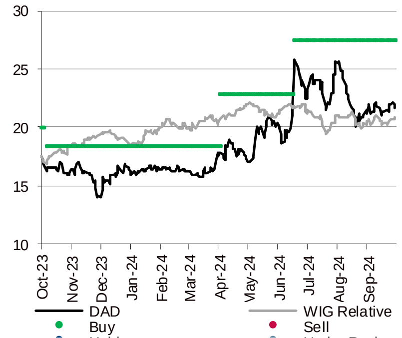
FACT SHEET			
Ticker	DAD		
Sector	Distribution		
Price (PLN)	21.2		
52W range (PLN)	13.9 / 27		
Shares outstanding (m)	11.7		
Market Cap (PLNm)	247		
S&P Global ESG Scores	-		
3M Avg. Vol. (PLNm)	0.09		
Price perf.	1M	3M	1Y
	-2.8%	-9.0%	21.1%

RECOMMENDATIONS	Date	Valuation
Buy	19/07/2024	27.5
Buy	04/07/2024	27.5
Buy	19/04/2024	23.0
Buy	11/12/2023	18.5
Buy	23/10/2023	18.5
Buy	24/07/2023	20.0
Buy	22/05/2023	19.0
Buy	24/04/2023	15.0

P/E 12M vs EV/EBITDA 12M



DAD RELATIVE SHARE PRICE vs WIG



PLNm	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	y/y	q/q
Revenues	34	22	29	70	58	32	54	105	77	33%	-27%
EBITDA	3	1	0	4	2	-2	4	12	7	231%	-40%
EBIT	2	0	-1	3	1	-3	3	10	6	412%	-46%
Net profit	2	0	-1	3	1	-2	2	8	5	468%	-46%
P/E12M trailing	59.4	63.2	87.2	71.1	99.3	3055.3	81.9	28.7	20.0		
EV/EBITDA 12M trailing	31.2	35.1	39.8	33.9	38.9	70.1	70.1	15.2	11.9		
revenues growth y/y	51%	30%	49%	70%	70%	44%	89%	50%	33%		
EBITDA margin	7.8%	2.6%	-	5.5%	3.7%	-	7.3%	11.1%	9.1%		
EBIT margin	6.1%	-	-	4.1%	1.9%	-	5.4%	9.9%	7.2%		
Net profit margin	5.2%	0.1%	-	3.8%	1.4%	-	3.6%	7.9%	5.8%		

PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	83	117	189	279	383	497
EBITDA	9	7	4	23	27	30
EBIT	7	4	0	18	19	21
Net profit	6	4	0	14	15	17
EPS (PLN)	0.52	0.3	0.0	1.2	1.3	1.5
DPS (PLN)	0.0	0.1	0.0	0.0	0.0	0.0
P/E (x)	41.1	63.2	3,055.3	17.6	16.2	14.4
EV/EBITDA (x)	24.8	35.1	70.1	10.5	9.2	7.6
P/BV (x)	2.4	2.3	2.3	2.1	1.8	1.6
DY (%)	0.0%	0.7%	0.0%	0.0%	0.0%	0.0%

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Valuation	Current		Previous		Change
DCF	29.0	100%	27.5	100%	5%
Multiples	26.4	0%	23.0	0%	15%

	2024E			2025E			2026E		
PLNm	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.
Revenues	279	286	-2%	383	384	0%	497	496	0%
EBITDA	23	18	26%	27	23	15%	30	30	1%
EBIT	18	14	28%	19	17	11%	21	23	-6%
Net profit	14	11	28%	15	14	11%	17	18	-6%
P/E (x)	17.6	22.5		16.2	18.0		14.4	13.6	
EV/EBITDA (x)	10.5	13.4		9.2	10.7		7.6	8.3	
P/BV (x)	2.1			1.8			1.6		
DY (%)	0.0%			0.0%			0.0%		

Multiples	2022	2023	2024E	2025E	2026E
P/E (x)	63.2	3055.3	17.6	16.2	14.4
adj. P/E (x)	63.2	3055.3	17.6	16.2	14.4
P/BV (x)	2.3	2.3	2.1	1.8	1.6
EV/EBITDA (x)	35.1	70.1	10.5	9.2	7.6
adj. EV/EBITDA (x)	35.1	70.1	10.5	9.2	7.6
EV/Sales (x)	2.1	1.3	0.9	0.6	0.5
FCF Yield (%)	-6.7%	-3.5%	-0.1%	0.3%	5.0%
DY (%)	0.7%	0.0%	0.0%	0.0%	0.0%

KPIs	2022	2023	2024E	2025E	2026E
EPS (PLN)	0.3	0.0	1.2	1.3	1.5
adj. EPS (PLN)	0.3	0.0	1.2	1.3	1.5
DPS (PLN)	0.1	0.0	0.0	0.0	0.0
BVPS (PLN)	9.1	9.1	10.3	11.6	13.1

Operational ratios	2022	2023	2024E	2025E	2026E
Gross margin (%)	30.5%	27.4%	31.3%	29.8%	29.0%
adj. EBITDA margin (%)	5.9%	1.9%	8.3%	6.9%	6.1%
EBIT margin (%)	3.8%	0.2%	6.5%	4.9%	4.3%
Net profit adj. margin (%)	3.3%	0.0%	5.0%	4.0%	3.5%
ROE (%)	3.7%	0.1%	11.7%	11.3%	11.2%
ROA (%)	3.3%	0.1%	8.3%	7.7%	7.6%
CAPEX/Sales (%)	2.4%	4.8%	2.0%	2.0%	1.8%
CAPEX/D&A (x)	1.2	2.8	1.1	1.0	1.0
Net debt/Equity (x)	-0.1	0.1	0.0	0.0	-0.1
Net debt/EBITDA (x)	-0.9	1.6	-0.1	-0.2	-0.5
Cash conversion cycle (days)	310	216	162	129	109
Inventory turnover (days)	291	242	205	171	157
Receivables turnover (days)	48	26	16	13	9
Payables turnover (days)	29	51	59	55	58

Income Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
Revenues	**83**	**117**	**189**	**279**	**383**	**497**
COGS	56	81	137	192	269	353
Gross Profit	**27**	**36**	**52**	**87**	**114**	**144**
Selling costs	16	27	46	63	87	113
G&A costs	3	4	5	6	8	9
Profit on sales	7	5	1	18	19	22
Other operating items, net	0	0	0	0	0	-1
EBITDA	**9**	**7**	**4**	**23**	**27**	**30**
adj. EBITDA	**9**	**7**	**4**	**23**	**27**	**30**
D&A	2	2	3	5	8	9
EBIT	**7**	**4**	**0**	**18**	**19**	**21**
Net financial costs	0	0	0	-1	0	0
EBT	**8**	**5**	**1**	**17**	**19**	**21**
Income tax	1	1	1	3	4	4
Minority interest	0	0	0	0	0	0
Net profit	**6**	**4**	**0**	**14**	**15**	**17**
adj. net profit	**6**	**4**	**0**	**14**	**15**	**17**

Balance Sheet (PLNm)	2021	2022	2023	2024E	2025E	2026E
Non-current Assets	**14**	**16**	**25**	**25**	**25**	**25**
Current Assets	**96**	**104**	**116**	**144**	**173**	**202**
Inventories	51	78	103	113	140	164
Receivables	16	15	12	13	14	12
Cash and cash equivalents	29	10	1	18	19	26
Assets	**110**	**120**	**142**	**169**	**198**	**227**
Equity	**104**	**106**	**106**	**120**	**135**	**153**
Minority Interests	**0**	**0**	**0**	**0**	**0**	**0**
Non-current Liabilities	**2**	**3**	**5**	**5**	**5**	**3**
Long-term borrowings	2	3	5	5	5	3
Current Liabilities	**4**	**11**	**31**	**45**	**58**	**72**
Short-term borrowings	1	1	2	11	11	8
Payables	3	10	28	34	47	64
Equity and Liabilities	**110**	**120**	**142**	**169**	**198**	**227**

Cash Flow Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
Cash flow from operating activities	**-28**	**-13**	**0**	**14**	**9**	**20**
Changes in working capital	-36	-20	-4	-5	-14	-6
D&A	2	2	3	6	8	9
Cash flow from investing activities	**-17**	**-3**	**-8**	**-6**	**-8**	**-9**
CAPEX	-4	-3	-9	-6	-8	-9
Cash flow from financing activities	**72**	**-2**	**-2**	**8**	**0**	**-5**
Dividend/Buy-back	0	-2	0	0	0	0
Net change in cash	28	-19	-9	17	1	7
Cash opening balance	1	29	10	1	18	19
Cash closing balance	29	10	1	18	19	26

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Valuation

#DCF

Net debt (PLN m)	2023
Interest-bearing liabilities	0
Cash	1
Net debt	**-1**

DCF (PLN m)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	>2033E
EBIT	**18**	**19**	**21**	**28**	**35**	**43**	**49**	**53**	**57**	**66**	
EBIT margin (%)	**6.5%**	**4.9%**	**4.3%**	**4.4%**	**4.5%**	**4.6%**	**4.6%**	**4.6%**	**4.6%**	**5.0%**	
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	
NOPLAT	**15**	**15**	**17**	**23**	**28**	**35**	**40**	**43**	**46**	**53**	
D&A	6	8	9	11	12	12	12	13	13	13	
CAPEX	-6	-8	-9	-9	-10	-10	-11	-11	-12	-12	
Change in NWC	-5	-14	-6	-6	-9	-14	-6	-8	-10	-10	
FCF	**9**	**1**	**12**	**18**	**22**	**22**	**36**	**36**	**38**	**44**	**47**
Risk-free rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	4.5%
Market premium	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Releveraged Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity (CAPM)	12.3%	12.3%	12.4%	12.4%	12.3%	12.3%	12.3%	12.3%	12.3%	12.3%	11.3%
Cost of debt after tax	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	4.9%
Debt (Debt/Equity)	1%	2%	4%	3%	2%	2%	2%	1%	1%	1%	1%
WACC	**12.2%**	**12.2%**	**12.3%**	**12.3%**	**12.2%**	**12.2%**	**12.2%**	**12.2%**	**12.2%**	**12.2%**	**11.2%**
DFCF	**9**	**1**	**9**	**13**	**13**	**12**	**17**	**16**	**15**	**15**	

Present value FCF 2024-33	120
FCF growth rate after '33	2.5%
Terminal value	541
Discounted TV	187
EV	**307**
Net debt	-1
Equity value (PLN m)	**308**
Shares outstanding* (m)	12
Value of 1 share (PLN)	**26.4**
Target price 12M (PLN)	**29.0**
Upside	*39%*

WACC change (in p.p.)

g	0.0	-1.0%	-0.5%	**0.0%**	0.5%	1.0%
	1.5%	32.0	29.8	27.9	26.1	24.5
	2.0%	32.7	30.4	28.3	26.5	24.8
	2.5%	33.5	31.1	28.9	26.9	25.2
	3.0%	34.4	31.8	29.5	27.4	25.6
	3.5%	35.5	32.6	30.1	28.0	26.0

*Source: Trigon DM, *includes ESOP dilution*

#Comparative valuation

	P/E			EV/EBIT			EV/EBITDA		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Dadelo SA	**17.9**	**16.4**	**14.6**	**13.5**	**12.8**	**10.9**	**10.5**	**9.1**	**7.6**
E-commerce discretionary									
Etsy Inc	12.2	11.4	10.5	19.8	16.1	14.0	9.3	8.5	7.5
Zalando SE	31.2	24.5	19.3	15.6	12.1	9.7	8.7	7.4	6.2
Wayfair Inc	83.5	35.3	25.4	83.7	36.3	21.1	16.1	12.1	9.0
Boozt AB	26.5	20.8	17.2	17.7	14.1	11.9	11.2	9.4	8.0
About You Holding SE	-	-	-	-	-	32.9	26.6	11.5	7.8
boohoo Group PLC	-	-	-	-	-	-	8.4	7.4	6.0
ASOS PLC	-	-	-	-	-	16.5	11.2	5.7	4.7
Pierce Group AB	16.7	12.7	9.5	22.7	11.5	6.9	7.6	5.2	3.7
Answear.com SA	-	35.9	11.4	-	-	-	-	-	-
Bike24 Holding AG	-	-	9.4	-	-	13.5	32.7	9.7	4.9
Median	**26.5**	**22.7**	**11.4**	**19.8**	**14.1**	**13.8**	**11.2**	**10.2**	**7.8**
DAD premium/discount	*-32%*	*-28%*	*28%*	*-32%*	*-9%*	*-21%*	*-6%*	*-11%*	*-2%*
Implied value of 1 share (PLN)	**31.8**	**29.7**	**16.8**	**30.8**	**23.1**	**26.3**	**22.5**	**23.6**	**21.5**
weight of the year	33%	33%	33%	33%	33%	33%			
weight of a coefficient		50%			50%				
Value of 1 share (PLN)	**26.4**								

Source: Trigon DM, Bloomberg

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Risk factors

Company-specific risk factors:

(1) a lower-than-assumed growth path for business scale in the omnichannel model (lower-than-assumed evolution of the average basket so-called AOV, worse-than-assumed platform traffic and lower conversion);

(2) weaker-than-assumed gross margin on sales (greater focus on market share gains at the expense of margins than assumed, competitive pressures, deterioration in store rotation resulting in deeper promotions);

(3) higher SG&A ratio (greater support of sales with activity on the performance marketing and ATL marketing side, expansion of the network of stationary stores, higher return ratio dragging on external logistics costs);

(4) a longer payback period on investments in stationary shops, as part of the implementation of an omnichannel strategy;

(5) a worse than assumed normalisation path of the cash conversion cycle, mainly due to a weaker inventory turnover and consequently a higher increase in working capital requirements.

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Disclaimer

General information

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Glossary of professional terms:
capitalisation – market price multiplied by the number of a company's shares
free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company
min/max 52 wks – lowest/highest share price over the previous 52 weeks
average turnover – average volume of share trading over the previous month

EBIT – operating profit
EBITDA – operating profit before depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
CAPEX – sum of investment expenditures on fixed assets
OCF – cash generated through a company's operating activities
FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets
ROA – rate of return on assets
ROE – rate of return on equity
ROIC – rate of return on invested capital
NWC – net working capital
cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services
gross profit margin – ratio of gross profit to net revenue
EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – ratio of operating profit to net revenue
net margin – ratio of net profit to net revenue
EPS – earnings per share
DPS – dividend per share
P/E – ratio of market price to earnings per share
P/BV – ratio of market price to book value per share
EV/EBITDA – ratio of a company's EV to EBITDA
EV – sum of a company's current capitalisation and net debt
DY – dividend yield, ratio of dividends paid to share price
RFR – risk free rate
WACC – weighted average cost of capital

Recommendations of the Brokerage House
Issuer – DADELO S.A.
BUY – we expect the total return on an investment to reach at least 15%
HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 15%
SELL – we expect negative total return on an investment of more than -0%

Recommendations of the Brokerage House are valid for a period of 12 months from their issuance or until the price target of the financial instrument is achieved.
The Brokerage House may update its recommendations at any time, depending on the prevailing market conditions or the judgement of persons who produced a given recommendation.
Short-term recommendations (particularly those designated as speculative) may be valid for shorter periods of time. Short-term recommendations designated as speculative involve a higher investment risk.
Document prepared by: Grzegorz Kujawski

Valuation methods used
The Discounted Cash Flow (DCF) method values a company by estimating its future cash flows and discounting them back to their present value.
- Advantages: future-oriented, flexible when it comes to assumptions, based on the intrinsic value of a company, widely accepted.
- Disadvantages: sensitivity to assumptions, complexity, subjectivity, doesn't consider market sentiment or short-term fluctuations.
The comparable valuation method values a company by comparing it to similar publicly traded companies.
- Advantages: simplicity, transparency, benchmarking, reflects current market valuations and investor sentiment.
- Disadvantages: lack of specificity, limited comparables, sensitive to market fluctuations, ignoring fundamental differences.
SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.
- Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.
- Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.

Risk-adjusted net present value method (rNPV)
- Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.
- Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.

Discounted residual income method (DRI)
- Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.
- Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.

Discounted dividend model (DDM)
- Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.
- Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.

Net asset value method (NAV)
- Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.
- Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.

Target multiple method
- Advantages: the method can be applied to any company.
- Disadvantages: it involves a high degree of subjectivity.

Replacement value method – it assesses the value of a company based on the costs of replacing its assets.
- Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.
- Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.

Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.
- Advantages: the method can capture the lowest threshold of a company's value.
- Disadvantages: it may be hard to capture the value of a company's intangibles.

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