Sanok Rubber Company

Support program for analytical coverage – initiation

Bloomberg: SNK PW, Reuters: SNK.WA

CEE Equity Research

Industrials, Poland

September 12, 2025, 17:05 CET

In search for antidote to structural market changes

Recommendation: Neutral, Dec'26 TP: PLN25.2

We are initiating coverage of Sanok RC SA with a Neutral recommendation and a target price of PLN25.2 (with a valuation horizon to December 2026). In the coming years, we expect the company's revenue structure to evolve towards a smaller share of the automotive segment in the sales structure, which, with appropriate adjustments to the organisational potential, may have a positive impact on operating margins. However, we would like to emphasise that the company's growth strategy is based on M&A projects. Due to their uncertain nature, they are not included in our valuation model. In 2024-30E, we assume a CAGR of approximately 5.2%, of which approximately 2.9% is due to the volume effect. In the short term (up to 12 months), we see the potential for margin recovery in relatively more favourable trends in material and energy prices, as well as slightly lower wages growth. We emphasise the fact, that the company is a dividend-paying one. Valuation ratios appear close to neutral levels (2026E P/E 9.7x and EV/2026E EBITDA 5.2x).

Investment profile. Sanok RC's core business is the production and sale of rubber products divided into four main groups based on manufacturing technology: moulded products, extruded products, V-belts and rubber compounds. The main business segments are: automotive, construction, agriculture & industry, and compounds. The majority of the production capacity is located in Poland. The company also has plants in France and, more recently, in Finland, which is important from the group's point of view.

A challenging business environment... After the visible expansion of industry following the outbreak of COVID-19, a persistent decline in industrial production began in Europe in early 2023. The war in Ukraine and the resulting energy crisis have clearly left their mark, translating into a deterioration of Europe's position on the industrial map of the world (similar trends in the US and China turned out to be significantly better). In addition, specific to Poland, wages have recently been characterised by a notably higher growth rate compared to other countries.

...puts the business model to the test. Most of the basic raw materials used in production are characterised by high price volatility, which has been particularly evident in recent years. However, we have the impression that the group has successfully managed to translate changes in variable costs into unit product prices (based on the estimated change in unit prices, the estimated dynamics of material prices and the operating margins achieved). Pressure on fixed costs (salaries) also seemed to be mitigated by improved operational efficiency and optimisation of the organisational structure. In our opinion, this fact proves the effectiveness of the management board's actions and, to some extent, the quality of services offered by Sanok RC. We believe that the recent negative volume effect is related to structural changes in the market and unfavourable economic trends.

Growth strategy based largely on acquisitions. Sanok RC pursues a strategy of both organic growth and acquisitions. However, the current strategy, as well as the assumptions of the incentive programme, place the main emphasis on inorganic growth focused on the development of promising segments outside the area dedicated to automotive production. The goal is the implementation of the sustainable diversification and EBITDA growth.

Risks and opportunities. We associate risks and opportunities mainly with macroeconomic trends and the global political situation. We believe that, in combination with structural changes in the market, they directly define the group's competitive environment. Specific factors include the geographical proximity of the conflict in Ukraine and exposure to rising labour and energy costs in Poland.

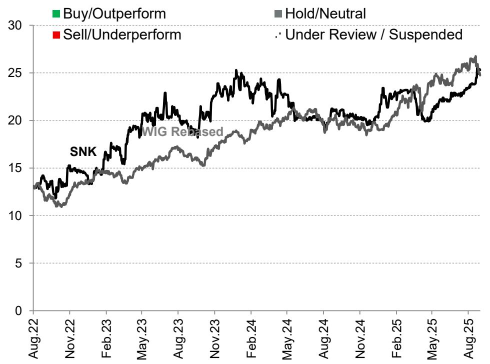
Valuation and recommendation. The weighted average of DCF, comparative valuation and TMV implies a Dec'26 TP of PLN25.2/share (ca. 11% upside). In the effect, we issue a Neutral rating for the stock.

Financial summary (year to Dec)

PLNmn	2022	2023	2024	2025E	2026E	2027E
Revenues	1,385	1,446	1,446	1,498	1,594	1,701
EBITDA	119	150	141	143	167	192
EBIT	57	86	65	70	93	117
Net profit	57	74	53	46	63	83
P/E (x)	6.5	7.2	10.9	13.4	9.7	7.3
EV/EBITDA (x)	4.3	4.0	6.3	6.2	5.2	4.3
FCF Yld	4.5%	7.0%	1.6%	5.9%	1.4%	6.2%
DY	0.0%	5.8%	5.2%	6.5%	3.7%	5.2%

Source: Company, Notoria, Santander Brokerage Poland estimates

Recommendation	Neutral
Dec'26 Target Price	PLN25.2
Price (PLN, Sep 11, 2025)	22.8
Market cap. (PLNmn)	683
Free float (%)	89.0
Number of shares (mn)	26.9



The chart measures performance against the WIG index.

Main shareholders	% of votes
PTE Allianz Polska	13.20
Marek Łęcki	11.04
NN PTE	10.32
PTE PZU	10.06
Sanok Rubber Company	7.00
Generali PTE	5.99

Source: gpw.pl

Company description

Sanok Rubber Company is a European leader in the production of modern rubber, rubber-metal and composite products. The core of its production assets is located in Sanok, Poland.

Analyst

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Table of contents

Investment summary

Fig. 1. Sanok RC: operational and financial indicators summary

	2021	2022	2023	2024	2025E	2026E	2027E
REVENUES (PLNmn)	1,172	1,385	1,446	1,446	1,498	1,594	1,701
Revenues YoY (%)	20.0%	18.2%	4.3%	0.1%	3.5%	6.4%	6.7%
Domestic revenues (PLNmn)	382	450	480	425	479	507	527
Export revenues (PLNmn)	790	939	966	1,022	1,018	1,087	1,174
Export share in total revenues (%)	67.4%	67.8%	66.8%	70.6%	68.0%	68.2%	69.0%
P&L ACCOUNT ITEMS (PLNmn; %)							
Gross profit	63	62	64	75	73	74	75
Gross profit margin	*18%*	*18%*	*19%*	*21%*	*22%*	*23%*	*24%*
EBITDA	102	119	150	141	143	167	192
EBITDA margin	*9%*	*9%*	*10%*	*10%*	*10%*	*10%*	*11%*
EBIT	38	57	86	65	70	93	117
EBIT margin	*3%*	*4%*	*6%*	*5%*	*5%*	*6%*	*7%*
Net profit	30	57	74	53	46	63	83
Net profit margin	*3%*	*4%*	*5%*	*4%*	*3%*	*4%*	*5%*
SG&A	163	173	196	241	255	271	289
% of revenues	14%	12%	14%	17%	17%	17%	17%
Selling costs	38	43	42	43	45	48	51
% of revenues	3%	3%	3%	3%	14%	14%	14%
General management cots	125	130	154	198	210	223	238
% of revenues	11%	9%	11%	14%	14%	14%	14%
COSTS BY KIND (PLNmn)							
D&A	63	62	64	75	73	74	75
Wages&Social insurance	299	322	363	449	479	505	533
Energy and materials	595	742	780	709	724	762	805
External services	110	106	116	120	120	127	135
Taxes and charges	11	9	11	12	12	12	13
Other costs	11	24	22	35	21	22	24
BALANCE SHEET ITEMS (PLNmn)							
Cash & equivalents	82	92	123	46	42	28	35
Total assets	940	1,017	1,030	1,205	1,182	1,198	1,230
Total bank debt	196	200	156	319	287	258	232
Total equity	502	547	589	581	587	628	679
CF STATEMENT ITEMS (PLNmn)							
Net operating CF	137	78	183	55	130	115	142
CF investing	-51	-59	-80	-237	-59	-75	-76
CF financing	-115	-10	-72	105	-75	-54	-60
LEVERAGE AND SOLVENCY							
Net debt (PLNmn)	143	137	59	301	270	253	218
Net debt/EBITDA (x)	1.4	1.2	0.4	2.1	1.9	1.5	1.1
Net debt/(ND+Equity) (x)	0.2	0.2	0.1	0.3	0.3	0.3	0.2
PERFORMANCE & RETURN							
EBIT YoY (%)	-13%	49%	51%	-24%	7%	33%	26%
NET PROFIT YoY	-16%	86%	31%	-28%	-14%	38%	32%
ROA (%)	3%	6%	7%	4%	4%	5%	7%
ROE (%)	6%	11%	13%	9%	8%	10%	13%
ROIC (%)	5%	8%	12%	7%	7%	9%	11%
ROCE (%)	6%	7%	12%	7%	8%	10%	13%
DPS (PLN)	1.00	0.00	1.16	1.11	1.48	0.85	1.17
DY (%)	4%	0%	6%	5%	7%	4%	5%
FCFE yield (%)	-10%	5%	7%	2%	6%	1%	6%
EPS (PLN)	1.1	2.1	2.8	2.0	1.7	2.3	3.1
BVPS (PLN)	18.7	20.3	21.9	21.6	21.9	23.3	25.3
VALUATION MULTIPLES							
P/E (x)	15.9	8.6	6.1	10.5	13.0	9.7	7.3
EV/EBITDA (x)	6.2	5.2	3.4	6.1	6.0	5.2	4.3
P/BV (x)	1.2	0.7	0.9	1.1	1.1	1.0	1.0
EV/REVENUES (x)	0.6	0.4	0.4	0.6	0.6	0.5	0.5

Source: Company data, Notoria, Santander Brokerage Poland estimates

Valuation

DCF Valuation

Fig. 2. WACC calculation*

Risk free rate	5.0%
Unlevered beta	1.0
Levered beta	1.3
Equity risk premium	6.0%
Cost of equity	**12.5%**
Risk free rate (10-year Polish T-bond yield)	5.0%
Debt risk premium	1.5%
Tax rate	19%
After tax cost of Debt	**5.3%**
%D	24%
%E	76%
WACC	**10.8%**

*Source: Santander Brokerage Poland estimates, *terminal rate*

Fig. 3. Forecast change summary

PLNmn	2025E			2026E			2027E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Revenues	1,498	N/A	*N/A*	1,594	N/A	*N/A*	1,701	N/A	*N/A*
EBITDA	143	N/A	*N/A*	167	N/A	*N/A*	192	N/A	*N/A*
EBIT	70	N/A	*N/A*	93	N/A	*N/A*	117	N/A	*N/A*
Net profit	46	N/A	*N/A*	63	N/A	*N/A*	83	N/A	*N/A*

Source: Santander Brokerage Poland estimates

Fig. 4. DCF model

	2025E	2026E	2027E	2028E	2029E	2030E
Net sales	**1,498**	**1,594**	**1,701**	**1,793**	**1,871**	**1,937**
EBIT	70	93	117	118	122	130
Cash taxes on EBIT	-11	-15	-20	-21	-22	-24
NOPAT	**59**	**78**	**97**	**97**	**100**	**107**
Depreciation	73	74	75	76	77	79
Change in operating WC	-10	22	16	12	15	15
Capital expenditure	72	78	79	80	82	83
FCF	**70**	**52**	**77**	**81**	**80**	**88**
WACC	11.7%	10.7%	10.8%	10.8%	10.8%	10.9%
PV FCF	63	42	57	54	48	48
PV FCF 2025-30E	311					
Terminal growth	1.5%					
Terminal Value (TV)	1,007					
PV TV	544					
Total EV	**856**					
Net debt (-)	301.0					
Teknikum minority share (-)	57.1					
Own shares (+)	42.9					
Current equity value (BOP)	**540**					
Number of shares (mn)	26.9					
Current value per share (PLN)	**20.1**					
Dividend per share (PLN)	1.5					
Dec'26 Target Price (PLN)	**24.0**					

Source: Santander Brokerage Poland estimates

Comparative valuation

Fig. 5. Comparative valuation – peers' multiples

Company	Price	Curr.	Mkt Cap (EURm)	P/E 2025E	P/E 2026E	P/E 2027E	EV/EBITDA 2025E	EV/EBITDA 2026E	EV/EBITDA 2027E
Sanok Rubber Co	**22.8**	**PLN**	**144**	**13.4**	**9.7**	**7.3**	**6.3**	**5.6**	**4.7**
Poland									
Mangata Holding SA	62	PLN	97	11.8	n.a.	n.a.	n.a.	n.a.	n.a.
Grupa Kety SA	924	PLN	2,132	15.8	15.5	13.3	11.1	10.0	8.9
Amica SA	54	PLN	99	23.3	14.7	9.2	5.0	4.8	4.0
Apator SA	22.2	PLN	170	n.a.	14.4	13.0	5.7	5.9	5.7
Sanok Rubber Co SA	22.8	PLN	144	9.5	10.8	11.1	6.0	5.6	5.6
Stalprodukt SA	241	PLN	306	n.a.	n.a.	n.a.	3.4	2.2	1.9
Median				**13.8**	**14.6**	**12.0**	**5.7**	**5.6**	**5.6**
Europe									
OC Oerlikon Corp AG Pfaffikon	2.918	CHF	1,061	9.6	15.6	11.6	6.4	8.2	7.3
Gestamp Automocion SA	3.422	EUR	1,969	10.7	9.7	7.1	3.8	3.7	3.4
Continental AG	72.56	EUR	14,512	10.1	10.1	8.5	6.7	7.5	6.5
SAF-Holland SE	15.14	EUR	687	6.8	7.6	6.3	5.4	5.4	4.9
CIE Automotive SA	26.95	EUR	3,229	9.7	9.4	8.7	6.3	6.3	6.0
GEA Group AG	64.05	EUR	10,427	23.5	22.4	20.0	12.8	11.8	11.0
ElringKlinger AG	4.6	EUR	291	n.a.	16.3	7.0	4.5	4.3	3.8
Hexpol AB	86.2	SEK	2,717	12.3	13.6	12.3	8.8	9.6	9.0
Trelleborg AB	374.1	SEK	7,919	22.0	21.2	18.3	13.3	12.6	11.6
Median				**10.4**	**13.6**	**8.7**	**6.4**	**7.5**	**6.5**
Other geographies									
Yokohama Rubber Co Ltd/The	5843	JPY	5,633	12.3	10.5	9.0	8.1	7.1	6.4
Exco Technologies Ltd	6.88	CAD	162	9.0	12.7	6.3	4.1	5.1	3.5
Crane Co	186.39	USD	9,139	38.5	32.3	28.7	24.3	21.4	18.7
ITT Inc	178.47	USD	11,860	30.6	27.4	24.3	18.7	17.4	15.9
PACCAR Inc	101.76	USD	45,527	12.8	18.6	15.5	8.9	12.7	10.7
Magna International Inc	46.79	USD	11,233	8.9	9.3	8.1	5.3	5.4	5.0
Dana Inc	21.25	USD	2,375	25.6	24.7	11.5	6.8	8.9	8.2
Median				**12.8**	**18.6**	**11.5**	**8.1**	**8.9**	**8.2**
Poland: premium/discount vs. median				*-3.5%*	*-33.4%*	*-39.0%*	*8.9%*	*-16.8%*	*-16.8%*
Europe: premium/discount vs. median				*28.3%*	*-28.9%*	*-15.3%*	*-2.0%*	*-27.5%*	*-27.5%*
Other geographies: premium/discount vs. median				12.0%	*12.0%*	*4.3%*	*-47.8%*	*-36.2%*	*-37.0%*

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 6. Peers valuation: implied share prices vs. (PLN)

	P/E 2025E-27E	EV/EBITDA 2025E-27E	Average
Domestic peers	31.7	26.2	29.0
Europe peers	25.6	33.2	29.4
Other peers	33.8	33.2	33.5
Per share value*	**29.5**	**29.7**	**29.6**

*Source: Bloomberg,Santander Brokerage Poland estimates, *50% domestic peers / 50% foreign peers*

Fig. 7. TMV valuation: implied share prices vs. (PLN)

PLNmn	2025E	2026E	2027E	Average
Target EV/EBITDA (x)	4.8	5.5	6.3	5.5
EBITDA	143	167	192	
EV	681	914	1,210	
Net debt	270	253	218	
Mcap	412	661	992	
Implied valuation per share	**15.3**	**24.6**	**36.9**	**25.6**
Target P/E (x)	8.3	9.5	11.0	9.6
Net profit	46	63	83	
Mcap	381	603	916	
Implied valuation per share	**14.2**	**22.4**	**34.1**	**23.6**
Weights				
EV/EBITDA	50%			
P/E	50%			
Average	**14.7**	**23.5**	**35.5**	**24.6**

Source: Bloomberg, Santander Brokerage Poland estimates,

Fig. 8. Per share valuation (PLN)*

	New	Previous	*Change*
DCF valuation	24.0	n.a.	*n.a.*
Comparable valuation (based on 2025-27E)	29.6	n.a.	*n.a.*
TMV (target multiple valuation)	24.6	n.a.	*n.a.*
Weighted average (PLN, Dec'26)*	**25.2**	**n.a.**	***n.a.***

*Source: Santander Brokerage Poland estimates, *DCF: 70%; CV: 20%; TMV: 10%.*

Our DCF-model derived valuation pointing at PLN24.0 per share (a 70% weight), comparative valuation indicating PLN29.6 value per share (a 20% weight) and TMV implying PLN24.6 per share (10% weight), lead us to a Dec'26 TP of PLN25.2.

We assigned more weight to DCF as we consider it as the main tool for long term outlook forecast for the company. The adoption of the comparative method and TMV, in our opinion, allows for reference to current market trends for the selected companies for the purposes of the peer group, as well as to reflect, to some extent, historical factors specific to the Sanok Rubber Company Group (mainly the TMV method) taken into account by the market in the market valuation.

Other

Factors affecting operating and financial results

The most important factors (identified as both opportunities and threats) that may affect the results of the Sanok RC Group include:

1. **Competitive environment**, which translates into, among other things, the commercial policy of customers and suppliers;
2. **Macroeconomic trends** (e.g. inflation and interest rates, the situation on the labour market, exchange rates, mainly EUR/PLN, etc.) and the resulting economic situation on the Group's main target markets;
3. Changes in the **prices of raw materials** and energy factors;
4. The global political situation (including the impact of the ongoing war in Ukraine on the global economy) determining demand for the group's products;
5. The **availability of credit for direct and indirect customers** of the group's products and goods, especially for natural persons, including those conducting business activity (important for the agriculture and construction segments);
6. **Weather factors;**
7. **Specific factors** to segments, e.g. climate policy, significantly different dynamics of energy/wage cost growth across regions.

Quarterly results corner

Fig. 9. 2Q25 results review / 3Q25E results preview (1/2)

PLNmn	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25E	y/y	q/q
Sales	343.8	393.7	374.7	334.2	357.4	389.4	380.0	1%	-2%
EBITDA	30.6	40.4	39.3	26.9	28.7	43.0	42.3	8%	-2%
EBITDA margin	*8.9%*	*10.3%*	*10.5%*	*8.1%*	*8.0%*	*11.1%*	*11.1%*	*63.7*	*7.2*
EBIT	15.2	20.8	22.7	3.5	8.7	22.1	21.3	-6%	-4%
EBIT margin	*4.4%*	*5.3%*	*6.1%*	*1.1%*	*2.4%*	*5.7%*	*5.6%*	*-46.5*	*-7.2*
Net profit	13.6	13.9	22.8	2.5	7.2	13.4	13.9	-39%	4%
Net margin	*4.0%*	*3.5%*	*6.1%*	*0.7%*	*2.0%*	*3.4%*	*3.7%*	*-242.3*	*21.7*
OCF	26.5	15.6	45.6	37.2	32.5	33.0	25.0	-45%	-24%
Net debt	108	306	267	301	236	225	254	-5%	13%
Net debt / LTM EBITDA	0.7	2.2	1.9	2.2	1.7	1.6	1.8	-0.1	0.2
Sales costs	48.8	64.8	59.8	69.0	62.9	65.3	65.0	9%	0%
% revenues	14.2%	16.5%	15.9%	20.6%	17.6%	16.8%	17.1%	*1.2*	*0.3*

Source: Company data, Santander Brokerage Poland estimates

Fig. 10. 2Q25 results review / 3Q25E results preview (2/2)

PLNmn	1Q25	2Q25	3Q25E	y/y	q/q	FY21	FY22	FY23	FY24	LTM
Sales	357.4	389.4	380.0	1%	-2%	1,172	1,385	1,446	1,446	357.4
EBITDA	28.7	43.0	42.3	8%	-2%	101	119	150	137	28.7
EBITDA margin	*8.0%*	*11.1%*	*11.1%*	*63.7*	*7.2*	*8.6%*	*8.6%*	*10.4%*	*9.5%*	*8.0%*
EBIT	8.7	22.1	21.3	-6%	-4%	38	57	86	62	8.7
EBIT margin	*2.4%*	*5.7%*	*5.6%*	*-46.5*	*-7.2*	*3.2%*	*4.1%*	*6.0%*	*4.3%*	*2.4%*
Net profit	7.2	13.4	13.9	-39%	4%	31	57	75	53	7.2
Net margin	*2.0%*	*3.4%*	*3.7%*	*-242.3*	*21.7*	*2.6%*	*4.1%*	*5.2%*	*3.7%*	*2.0%*
OCF	32.5	33.0	25.0	-45%	-24%	75	92	188	125	32.5
Net debt	236	225	254	-5%	13%	202	143	59	301	236
Net debt / LTM EBITDA	1.7	1.6	1.8	-0.1	0.2	1.9	1.4	0.4	2.2	1.7
Sales costs	62.9	65.3	65.0	9%	0%	162.7	173.1	195.8	242.3	62.9
% revenues	17.6%	16.8%	17.1%	*1.2*	*0.3*	13.9%	12.5%	13.5%	16.8%	17.6%

Source: Company data, Santander Brokerage Poland estimates

Financial forecasts

Fig. 11. Income statement

	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Net sales	1,385	1,446	1,446	1,498	1,594	1,701	1,793	1,871
COGS	1,143	1,170	1,144	1,175	1,232	1,297	1,373	1,433
Gross profit	243	275	303	323	362	405	420	438
SG&A	173	196	241	255	271	289	305	318
Other operating income, net	2	7	3	2	2	2	2	2
EBITDA	119	150	141	143	167	192	194	200
Operating profit	57	86	65	70	93	117	118	122
Net financial income (costs)	0	-1	-8	-11	-12	-11	-10	-8
Profit before tax	58	85	57	59	81	106	108	114
Income tax	0	-9	-2	-11	-15	-20	-21	-22
Net profit	57	74	53	46	63	83	84	89
Gross margin	17.5%	19.0%	20.9%	21.5%	22.7%	23.8%	23.4%	23.4%
EBITDA margin	8.6%	10.4%	9.7%	9.6%	10.5%	11.3%	10.8%	10.7%
Operating margin	4.1%	6.0%	4.5%	4.7%	5.8%	6.9%	6.6%	6.5%
Net profit margin	4.1%	5.1%	3.7%	3.1%	4.0%	4.9%	4.7%	4.8%

Source: Company data, Notoria, Santander Brokerage Poland estimates

Fig. 12. Balance sheet

PLNmn	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Current assets	570	568	544	536	551	582	606	633
Fixed assets	443	461	661	646	647	648	649	651
Total assets	1,017	1,030	1,205	1,182	1,198	1,230	1,255	1,285
Current liabilities	240	277	279	279	282	286	289	292
bank debt	20	45	45	40	36	33	30	27
Long-term liabilities	228	159	339	310	283	259	238	219
bank debt	180	111	274	246	222	200	180	162
Equity	547	589	581	587	628	679	722	769
Total liabilities	1,017	1,030	1,205	1,182	1,198	1,230	1,255	1,285
Net debt	137	59	301	270	253	218	189	159
Net debt / EBITDA	1.2	0.4	2.1	1.9	1.5	1.1	1.0	0.8

Source: Company data, Notoria, Santander Brokerage Poland estimates

Fig. 13. Cash flow statement

	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
CF from operations	78	183	55	130	115	142	149	151
CF from investment	-59	-80	-237	-59	-75	-76	-77	-80
CF from financing	-10	-72	105	-75	-54	-60	-67	-65
dividends	0	-31	-30	-40	-23	-32	-42	-42
Net change in cash	10	31	-77	-4	-14	6	4	6

Source: Notoria, Santander Brokerage Poland estimates

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The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.
The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.
The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.
SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.
Liquidation value method – liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

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