

# Korporacja KGL *summary of report*

**buy**

plastic packaging

previous recommendation: —

Current price: 17.4

Target price: 23.4

## Modern packaging manufacturer

Korporacja KGL is a producer of plastic packaging for the food industry and a distributor of plastic raw materials. KGL is a leader (with over 50% share) in the production of meat trays and packaging for biscuits, delivering them to demanding, international corporations with plants in Poland. Last year, the higher-margin production segment generated 56% of sales and 72% of gross profit, and its share continues to grow. This segment is also resistant to changes in the economic situation (customers from the food industry). KGL is listed with a P / E ratio of 10.2 for 2019 and 11.1 for 2020. Based on DCF and comparative valuations, we set the target price for KGL shares at PLN 23.4 and recommend their purchase.

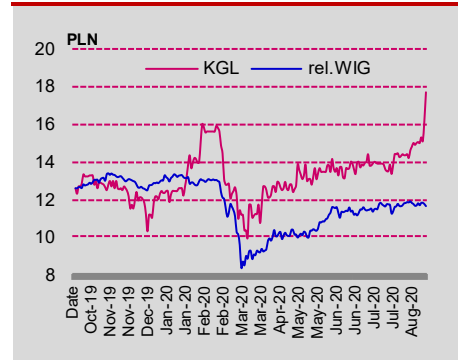
### Prospects for further development

In recent years, the share of the higher-margin production segment has clearly increased, and the share of higher-margin specialist plastics in the distribution segment has also grown. These positive trends should partially ease the pressure on regulatory margins. In the near future, the company wants to enter the large packaging market for the dairy sector. For this purpose, it has already purchased thermoforming lines for such products and is in the process of taking over a production plant, which, apart from fixed assets, has know-how in this market segment. In the last 4 years, the company made investments worth PLN 157 million (production capacity, adjustment of production from recyclates, R&D center), thanks to which EBITDA increased by 62% (from PLN 23.0 million in 2015 to PLN 37.6 million). However, the net profit only increased by 9%, suggesting low investment efficiency. At the same time, net debt / EBITDA increased to 2.2x, limiting further investment opportunities.

### Regulations as the main risk factor

The most important threats for the company are related to regulations, due to the negative perception of plastic in the context of environmental impact. According to the management board, the company is relatively well prepared for the next requirements set by the EU. Investments in recent years have allowed for the production of 100% recycled packaging, and KGL develops packaging from easy-to-recycle monomaterials. Regulatory requirements may even create a competitive advantage for KGL. On the other hand, a new tax of EUR 0.8 per kg of non-recycled plastics (depending on details) will make alternative packaging more competitive. Regulatory changes may put pressure on margins and the strength of their impact is difficult to predict.

### Share price vs index



Max/min 52 weeks (PLN)	17.7 / 9.9		
Shares issued (m)	7.2		
Market cap. (m PLN)	125		
EV (m PLN)	208		
Free float (m PLN)	30		
Average turnover (m PLN)	0.1		
Main shareholders	Krzysztof Gromkowski, Ireneusz Strzelczak, każdy po:		
% of shares, % of votes	19.06%, 21.19%		
	<b>1 m</b>	<b>3 m</b>	<b>12 m</b>
Price change	27.5%	27.5%	46.7%
Change rel. WIG	20.5%	34.2%	62.5%

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 (%)
2019	392.4	18.6	37.3	15.3	12.2	1.70	4.30	17.2	10.2	1.0	0.8	11.2	5.6	10.8
2020p	351.1	17.1	37.8	13.9	11.3	1.57	4.46	18.5	11.1	0.9	2.0	12.2	5.5	9.1
2021p	364.8	15.8	36.1	13.1	10.7	1.49	4.33	19.6	11.7	0.9	1.8	13.2	5.8	8.1
2022p	374.6	16.5	36.6	14.2	11.5	1.61	4.42	20.9	10.8	0.8	1.7	12.6	5.7	8.2

p - consolidated forecasts MillenniumDM, rm PLN

## Forecasts and valuation

KGL Group in the period 2015-19 increased revenues on average at the rate of 13.4% annually. However due to pandemic, recession and product prices drop revenues should decrease by 10.5% in 2020. In the next 5 years, we assume average annual revenue growth of 2.2% as the company is close to full capacity. We think that margins should be relatively steady despite regulation pressure. It should be supported by strong competitive advantages in the production segment as well as increasing share of specialist plastics in distribution segment. We assume CAPEX close to depreciation as net debt/EBITDA is close 2.2x and the company does not have much more financial capacity. The company is listed with a P/E ratio equal to 10.4 for 2019 profits and 11.3 for 2020 profits. The ratios are relatively low, however partly justified by low profits change after large investment plan. Our valuation with the DCF method indicates the value of KGL Group share for PLN 18.0, while the comparable companies multiples method indicates the valuation of PLN 28.7 per share. We set the target price PLN 23.4 as the average of both valuations and as the current price is PLN 17.4 we recommend to buy KGL Group shares.

## Risk factors:

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

- ❑ **Regulatory risks.** The EU tries to influence the limitation of the use of plastic and increase the share of its recycling through restrictions and taxes. The impact of these regulations on the company is difficult to determine at the moment without knowing the details of the regulations being implemented. The fact that plastic is negatively perceived by lawmakers is certainly a threat to the industry.
- ❑ **Risk of exchange rates.** A significant part of goods and materials is purchased in foreign currencies (mainly EUR). In order to limit the foreign exchange risk in its operating activities, the company uses natural hedging, i.e. setting the selling price for customers also in foreign currencies. The remaining part is hedged with forward contracts. However, an unhedged part of the balance sheet remains. Due to higher liabilities in EUR than receivables in EUR, the unrealized negative exchange rate differences with a 1% increase in EUR / PLN would amount to approx. PLN 0.45 million (sensitivity at the end of 2019).
- ❑ **The risk of rising remuneration costs and shortage of employees.** The share of employee costs in total costs was growing systematically (from 19.3% in 2015 to 25.1% in 2019) as a result of employee shortages and growing wage pressure.
- ❑ **The risk of a conflict of interest.** In the company, four long-term managers and founders hold a total of 84.5% of votes at the company's AGM. Additionally, four members of the supervisory board have family ties to them. In such a situation, there is a risk of a conflict of interest at the expense of minority shareholders (mitigated by two independent members of the supervisory board).
- ❑ **Risk of over-indebtedness.** After 4 years of intensive investments, the company significantly increased its interest debt reaching the level of 2.2x EBITDA, with simultaneous significant financing by suppliers.

We believe that most of the risk in KGL's operations is moderate. However, in the case of regulatory issues, the risk can be considered high (political decisions are quite unpredictable and have a large impact on the company).

## Research Department

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

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

**Sebastian Siemiątkowski**  
+48 22 598 26 05  
sebastian.siemiatkowski@millenniumdm.pl

**Artur Topczewski**  
Doradca inwestycyjny  
+48 22 598 26 59  
artur.topczewski@millenniumdm.pl

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

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

Analyst  
Equities, retail

Analyst  
investment funds  
gaming

Analyst  
investment funds  
developers

Analyst  
equities

## Sales Department

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

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

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

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

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

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

**Head of Sales**

**Millennium Dom Maklerski S.A.**  
**ul. Żaryna 2A, Millennium Park IIIp**  
**02-593 Warszawa Polska**

### Important information

This report has been prepared with diligence on the basis of facts considered to be reliable, however Millennium Dom Maklerski S.A. does not guarantee that they are completely accurate and complete. The basis for the preparation of the report was all information about the companies that were publicly available and known to the author up to the date of its preparation. The forecasts presented are based solely on the analysis carried out by Millennium Dom Maklerski S.A. without agreements with the companies being the subject of the report or with other entities, and based on a number of assumptions that may turn out to be inaccurate in the future. Millennium Dom Maklerski S.A. does not give any assurance that the given forecasts will be accurate. Investing in the shares of the companies listed in this analysis is connected with a number of risks related to, among others, the macroeconomic situation, changes in legal regulations, changes in the commodity markets, interest rate risk, the elimination of which is practically impossible. The content of the report regarding the description of the company was made available to the company being the subject of the report in order to verify the factual information provided. Millennium Dom Maklerski S.A. is not liable for damages incurred as a result of decisions taken on the basis of the information contained in this analytical report. The person or persons indicated in the lower right corner of the first page of this report prepared the analysis, information about the positions of the authors is included in the upper part of the last page of this publication. The remuneration received by the persons preparing the report is not directly dependent on the financial results obtained by Millennium Dom Maklerski S.A. as part of investment banking transactions or services regarding financial instruments of issuers covered by this report.

This report is an investment study and does not constitute advertising or offering securities, it can also be distributed via mass media, based on a decision of the Director of the Research Department. Dissemination or reproduction of this material in whole or in part without the written consent of Millennium Dom Maklerski S.A. is forbidden. This document, or a copy thereof, may not be directly or indirectly transferred or issued to persons in the USA, Australia, Canada or Japan.

Supervision over Millennium Dom Maklerski S.A. the Polish Financial Supervision Authority

### 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%

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

### Valuation methods used

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.

### Relation of Millennium Dom Maklerski S.A. with the companies being the subject of this report.

It is possible that Millennium Dom Maklerski S.A. as part of its brokerage activity, will provide or in the past has provided services to companies and other entities listed in this report. Millennium Dom Maklerski S.A. does not exclude the offer of brokerage services from submitting an offer to an issuer of securities being the subject of the report. Information on the conflict of interests arising in connection with the preparation of the report (if any) is provided below. Millennium Dom Maklerski S.A. is the issuer's market maker for the following companies: Wielton, Selena FM, KGHM, PZU, Eurotel, Dekpol, Lokum Developer, Zamet Industry and Gremi Media, Elzab from which it was paid. Millennium Dom Maklerski S.A. acts as market maker for the following companies: Wielton, Selena FM, KGHM, PZU, Eurotel, Dekpol, Lokum Developer, Zamet Industry, Gremi Media, Elzab. Millennium Dom Maklerski S.A. in the last 12 months did not perform the function of offering during the public offering for shares of companies described in the report. Millennium Dom Maklerski S.A. in the last 12 months, did not conclude investment banking agreements with the companies described in this report. The companies being the subject of the report may be clients of the Millennium Bank SA Capital Group, the main shareholder of Millennium Dom Maklerski S.A. There are no other links between Millennium Dom Maklerski SA and the companies being the subject of this report, as referred to in the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596 of the European Parliament and of the Council 2014 with respect to regulatory technical standards regarding technical means for the purpose of objectively presenting investment recommendations or other information recommending or suggesting an investment strategy and disclosing particular interests or indications of conflicts of interest that would be known to the author of this report. Millennium Dom Maklerski S.A. as part of the Pilot Program of Analytical Coverage Support, prepares analytical materials for companies: Agora, Ambra, Korporacja KGL. Millennium Dom Maklerski S.A. within the next 12 months will receive remuneration for the preparation of this report from the Warsaw Stock Exchange, which is entitled to copyrights to this report.

### Organizational solutions established to prevent conflicts of interest:

Rules for managing conflicts of interest in Millennium Dom Maklerski S.A. were included in the Conflicts of Interest Management Policy at Millennium Dom Maklerski S.A. The organizational solutions adopted for the prevention of conflicts of interest are defined, inter alia, by the Organizational Regulations of the Millennium Dom Maklerski S.A., which provides for: (a) supervision over persons whose main functions include conducting activities on behalf of or providing services to clients whose interests may be contradictory or which they represent different conflicting interests, including the interests of the Brokerage House; (b) measures preventing or limiting the influence of a third party on the manner in which an authorized person performs activities within the scope of services provided by the Brokerage House; (c) organizational separation of persons (teams) involved in carrying out activities that involve risk the occurrence of a conflict of interest; (d) ensuring that each organizational unit of the Brokerage House and its employees is independent in so far as it concerns the interests of the clients for which such entity performs certain activities. The solution adopted for the prevention of conflicts of interest determines also remuneration regulations, which ensures that there are no connections between the amount of remuneration of employees of various organizational units or the amount of revenues achieved by different organizational units, if they perform activities that involve the risk of a conflict of interests. Restrictions on the flow of information to prevent conflicts of interest, including confidential and professional secrets, are set out in the Rules for the protection of the flow of confidential and professional information in Millennium Dom Maklerski S.A.

The work related to the preparation of the report was completed on September 1, 2020 at 14:45, the date of the first dissemination of the report is the date of the report, September 1, 2020 at 15:00.

## 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
LPP	Neutrally	2019.11.08	8530.0	9108.0	Marcin Palenik
VRG	Buy	2019.11.08	4.1	5.0	Marcin Palenik
Ambra	Buy	2019.12.06	16	26	Marcin Palenik
Agora	Buy	2019.12.20	10.30	22.00	Adam Zajler
Ambra	Accumulate	2020.05.27	18.0	21.3	Marcin Palenik
Agora	Buy	2020.06.30	8.1	13.2	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	4	67%
Accumulate	1	17%
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