mBank Dom Maklerski

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Thursday, January 12, 2017 | Initiating Research Report

Grupa Stelmet: accumulate (new)

STL PW; STL.WA | Wood Products, Poland

A European Leader in Wooden Garden Structures

Analysts at OC&C Strategy Consultants place Stelmet as the leading manufacturer of wooden garden fencing and structures, with a combined market share of 6% in the top-eight European markets. In October 2016, Stelmet launched production in its new PLN 260m facility in the Polish city of Grudziądz, named "MrGarden," expected to boost the total capacity by 60%. The Company's plan for the years ahead is to initiate fast-paced expansion across the markets of Western Europe, particularly in the UK and Germany. To that end, after a 2014 acquisition of major UK producer Grange Fencing Ltd., with an estimated UK market share of 8%-9%, in the future Stelmet intends to look for fresh acquisition opportunities in its target countries. With most of its production capacity located in Poland, Stelmet is poised to capitalize on the ready availability of timber material from Poland's vast wooded areas, combined with relatively low costs of labor. We are initiating coverage of Stelmet with an accumulate rating and a 9-month price target of PLN 33.40.

Capacity Expansion

Stelmet predicts that it can fill the 200,000 cubic-meter annual capacity of the new wooden garden structures manufacturing facility in Grudziądz by mid-2024. Eventually, the new Polish plant will replace the less cost-efficient Grange Fencing facilities in the UK, resulting in annual labor cost savings to the tune of PLN 15-20m. The state-of-the-art Grudziądz facility is the most advanced plant of its kind in Europe, characterized by timber utilization efficiency 15% higher than Stelmet's existing plants (timber accounts for approximately 40% of the total costs of production).

Competitive Advantage

Stelmet outrivals all local competition in terms of annual capacity, with the next biggest player, Martyna, producing six times less garden structures in cubic meters, and the five biggest rivals, between them, operating capacity equivalent to just 50% of that of Stelmet. Thanks to high sales volumes, Stelmet can better manage the distribution of its products and streamline the production process. In addition, the Company, whose business is affected by seasonality, can easily finance its working-capital needs, as evidenced by the ample credit facilities, approximating PLN 220m, made available to it by financing providers.

Poised For Rapid Growth

According to our estimates, in the next five years Stelmet will achieve average annual revenue growth at a rate of 5.7%, with the projected EBITDA CAGR at 8.4%. The rapid earnings momentum will be driven by the production move from UK to Poland, allowing the Company to benefit from the more favorable price formulas used in state timber tenders.

(PLN m)	14/15	15/16E	16/17E	17/18E	18/19E
Revenue	572.8	556.0	599.0	643.7	691.9
EBITDA	78.7	92.4	105.2	121.9	129.7
EBITDA margin	13.7%	16.6%	17.6%	18.9%	18.7%
EBIT	58.6	72.1	67.7	84.5	92.6
Net income	64.7	62.0	57.3	73.4	82.0
DPS	1.07	0.29	0.00	0.00	1.2
P/E	13.4	13.9	15.9	12.4	11.1
P/CE	10.2	10.5	9.6	8.2	7.6
P/B	2.6	2.3	1.9	1.7	1.5
EV/EBITDA	12.9	11.9	10.4	8.3	7.4
DYield	3.4%	0.9%	0.0%	0.0%	4.0%

Current Price	PLN 31.00
Target Price	PLN 33.40
MCap	PLN 0.9bn
Free Float	PLN 0.2bn
ADTV (3M)	PLN 1.54m

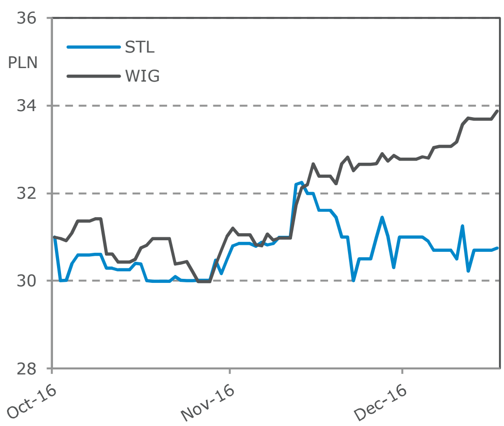
Shareholders

Rainbow 2 FIZ	79.9%
Others	20.1%

Business Profile

Stelmet is the largest manufacturer of wooden garden structures in Europe, with annual capacity for 250,000 cubic meters of garden products and 110,000 tons of wooden pellets. The Company exports more than 85% of the output produced in its Polish plants to Western Europe, and it has built a market share in the eight biggest importing countries of a combined 6%. In October 2016, Stelmet launched a new garden structures facility in the Polish city of Grudziądz, expected to increase its total capacity by 60% to 400,000 cubic meters per year, and serve as a springboard for dynamic expansion in Western Europe.

STL vs. WIG



Company	Target Price new	Target Price old	Rating new	Rating old
Stelmet	33.40		accumulate	-

Company	Current Price	Target Price	Upside / Downside
Stelmet	31.00	33.40	+7,8%

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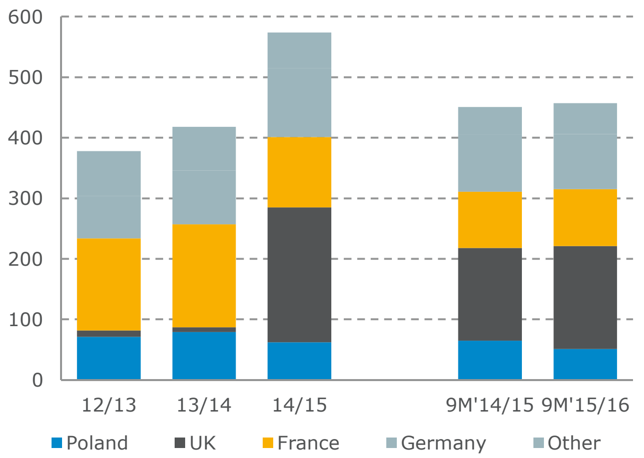
Business Profile

According to the Management Board, Stelmet is **the biggest producer and distributor of wooden garden fencing and structures in Poland and in Europe**, as measured by production capacity at 250,000 cubic meters of wooden garden products and 110,000 tons of wood pellets per year. The Company sells more than **85% of its production in Western Europe**, but operates about **80% of its capacity in Poland**. In October 2016, Stelmet is set to launch production in a new manufacturing facility in Grudziądz, expected to **boost the capacity for garden structures by 60% to 400,000 cubic meters** in fiscal 2019/2020 ending 30 June 2019.

Stelmet operates a **unique business model** creating maximum added value from the raw timber material. The Company is able to **maximize the added value of the timber it uses to make garden structures** through a pellet production plant located in the city of Zielona Góra which also sells the remaining by-products to third-party contractors.

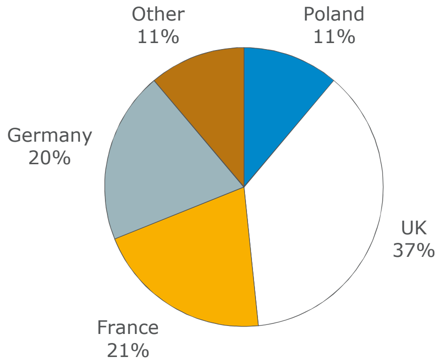
In the coming years, Stelmet **is planning to initiate a phase of dynamic sales growth**, supported by the new facility Grudziądz which is set double the Company's existing capacity in Poland.

2013-2016 sales revenue by country (PLN m)



Source: Stelmet, Dom Maklerski mBanku

Geographic breakdown of 9M FY2015/16 revenue



Source: Stelmet, Dom Maklerski mBanku

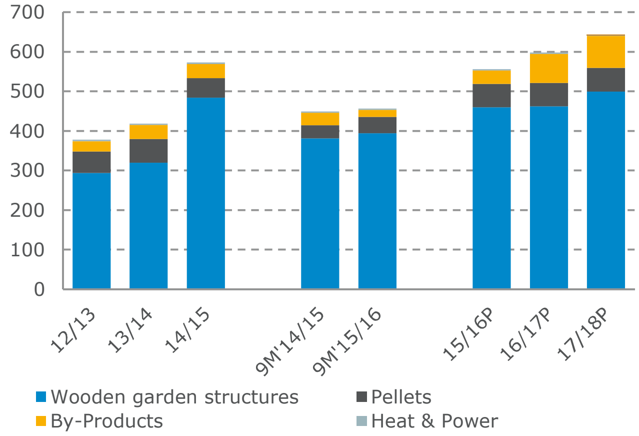
Key Advantages

The key competitive advantages of Stelmet include **economies of scale** provided by the fact that the Company's capacity for garden structures is among the biggest in Western Europe. This allows Stelmet to sell its products in **a wide range of European markets,** and to **efficiently utilize the raw timber material**. Further, the Company has the advantage of a **strong production base** by operating in a country with vast timber resources and competitive labor costs. As quantitatively the largest provider of garden products in Europe, Stelmet is able to **effectively manage the logistics of supplies** to its European customers, and optimize the costs of transport. What is more, Stelmet has a **solid financial standing** thanks to a low debt (2.5x EBITDA at end-2015/16E) and consistently high cash flows from operations. Last but not least, Stelmet's strengths include a **reliable and seasoned Management Board with vast experience in the wood and furniture industry**.

Sales

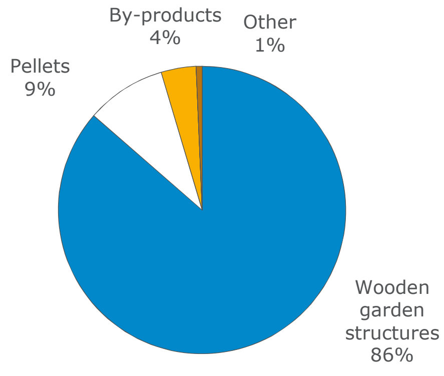
Stelmet's core sales range are **wooden garden structures**, accounting for 86% of the total sales generated in the first nine months of fiscal 2015/2016. The next biggest item in the sales mix are **wood pellets** (9%) for use as a renewable source of energy, and **by-products** (tree bark, sawdust, chips, splinters, and other wood-working residues).

2013-2018P revenues by operating segment (PLN m)



Source: Stelmet, P - Projection by Dom Maklerski mBanku

9M FY2015/16 revenue breakdown by product

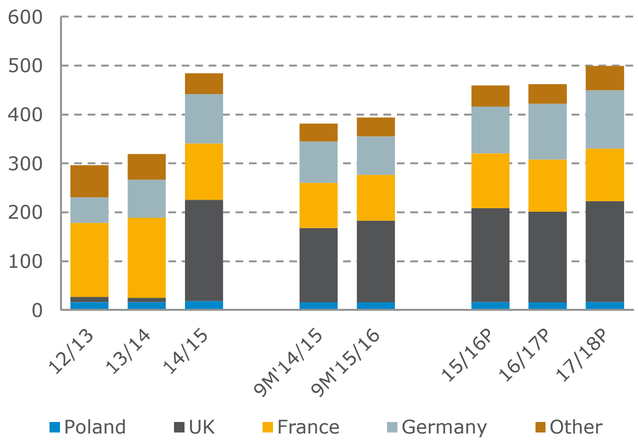


Source: Stelmet, Dom Maklerski mBanku

Wooden Garden Structures

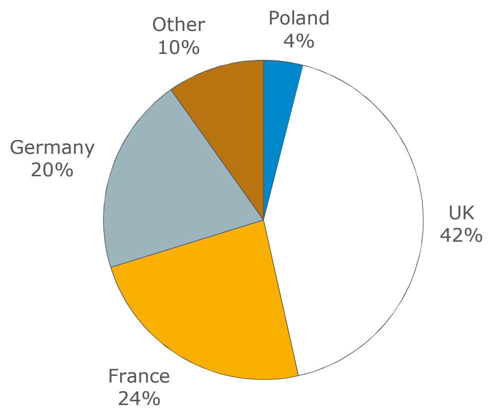
According to research by OC&C Strategy Consultants, Stelmet is the **leading supplier of garden structures to Europe's three biggest markets** of France, Germany, and the UK, which, combined, account for about 75% of the total market represented by eight European countries. In the first nine months of FY2015/2016, France, Germany, and the UK generated 86.2% of the total sales in the period. **Sales in Poland are relatively lower** due to the market being much smaller than Western European markets, and due to a less affluent population. The most popular garden products in Poland are in the affordable price ranges, and they are provided by the many small producers comprising the fragmented Polish market.

Sales of garden structures by country, 2013-2018P (PLN m)



Source: Stelmet, P - Projection by Dom Maklerski mBanku

Breakdown of garden structure sales revenue by country, 9M FY'15/16



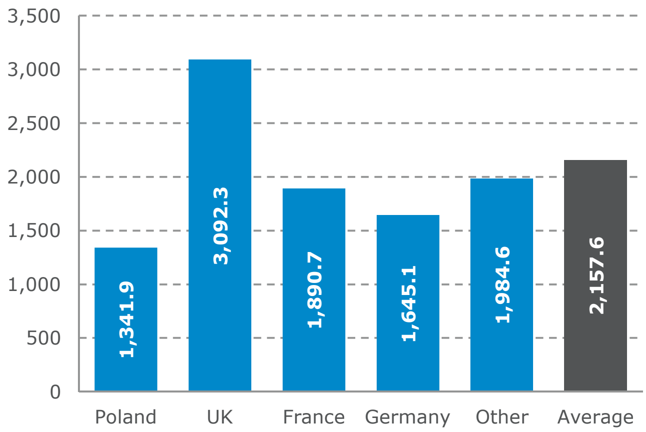
Source: Stelmet, Dom Maklerski mBanku

In fiscal 2014/2015, Stelmet significantly increased its market share in the UK with the acquisition of Grange Fencing (the second-biggest player in its home market). The UK market has relatively high entry barriers, as well as a specific product range offered. It is currently the biggest market for garden structures in Western Europe.

Stelmet has seen increasing sales in the Polish and German markets in the last three years. In **France**, sales **decreased in 2014/2015** due downward pressure on prices exerted by one of the local clients.

Stelmet's core markets differ significantly when it comes to average sales prices, stemming from the varying preferences of the local customers and their commitment to tending to home gardens. **Currently Stelmet achieves the highest prices in the UK**, followed by France and Germany, while in **Poland** prices are the **lowest**. The price differences from country to country are a function of the type of product range, the cost of labor, and the availability of timber materials in each market.

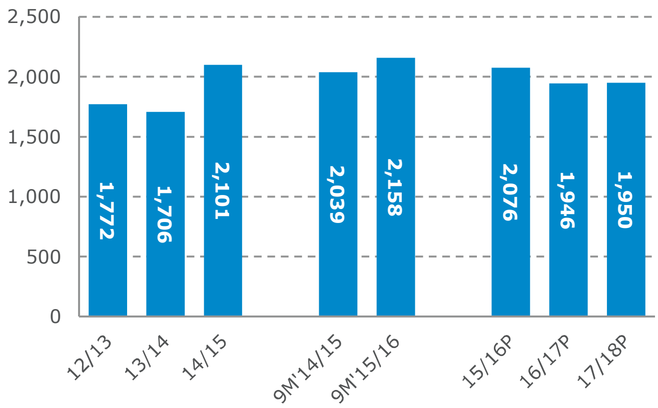
Average sales prices for garden structures, 9M FY2015/16 (PLN/cubic meter)



Source: Stelmet, Dom Maklerski mBanku

According to our calculations, in FY2015/2016 the average zloty selling price for Stelmet garden structures was 1.2% lower than in the previous year, and in FY2016/2017 we predict further contraction by an estimated 6.3% in the wake of a depreciation in the exchange rate of the British pound. Stelmet may not be in a position to raise prices until FY2017/2018, when we expect a hike of 0.2% in the average sales price.

Average sales prices for garden structures, 2013-2018P (PLN/cubic meter)



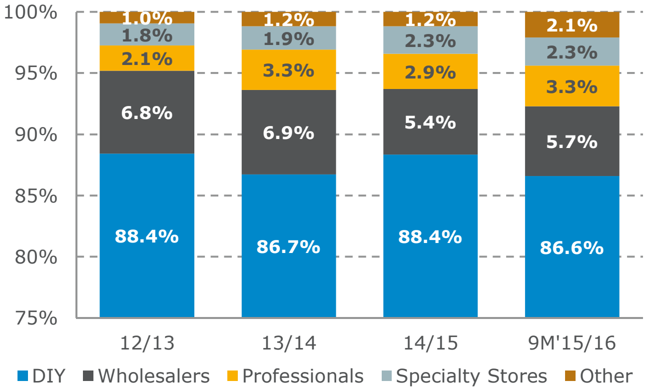
Source: Stelmet, P - Projection by Dom Maklerski mBanku

Stelmet markets its garden structures primarily through DIY stores (accounting for 86-89% of the total sales volume). The success of sales is ensured by the Company's long-standing relationships with customers, and the ability to deliver on time during periods of peak demand (taking place over five months each year).

Other distribution channels include wholesalers (large intermediaries who are suppliers for specialty and DIY stores), professionals, and specialty stores (selling construction materials and gardening equipment).

Stelmet's customer base consisted of 800 customers in FY2014/2015. The Company's key clients in Poland include the DYI chain stores **Leroy Merlin** and **Bricomarche**. Key customers in Germany include **Toom Baumarkt, Globus, and Hornbach**. Customers in France include **BricoDepot and Castorama**, and customers in the UK include **B&Q**. The main advantage of having DIY chains as the primary customers is sustained demand.

Sales volume breakdown by distribution channel, 9M FY2015/16

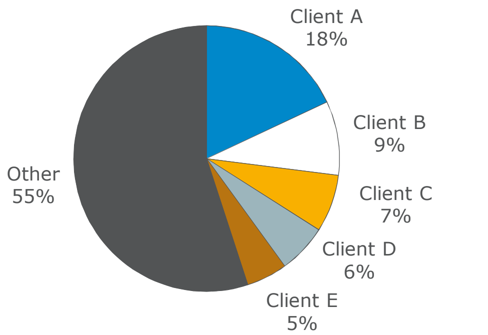


Source: Stelmet based on OC&C research, Dom Maklerski mBanku

Stelmet's sales arrangement are typically **framework agreements for the delivery of a specific range in the next season**. The agreements are signed following an informal tendering procedure organized by customers, and they range in length from **1 to 3 years, t**hough some are signed for indefinite periods. The product ranges for delivery in the next season are determined between June and September of the previous year. Once this is donw, Stelmet can set its **prices based on the next season's expected prices of timber**. **Under some contracts with DIY stores, product prices are indexed** depending on tender prices. Despite the short-term renewable nature of its arrangements with customers, Stelmet has always been able to successfully extend its relationships with all key accounts by offering economies of scale and high-quality, timely deliveries.

According to report by OC&C Consultants commissioned by Stelmet, the indicative structure of the main sales channels to reach end consumers varies from country to country. For example, the DIY channel has a large share in France (60-70%), Belgium (55-65%), Poland (45-55%), and the Netherlands (45-55%). Sales in specialty stores are popular in Italy (50-60%), Spain (25-35%), Poland (25-35%), and Germany (25-35%). Online sales have a relatively small share (several percent for Stelmet), which, however is more marked in certain countries (UK 0-10%).

Sales of wooden garden structures in a breakdown by end customer



Source: Stelmet, Dom Maklerski mBanku

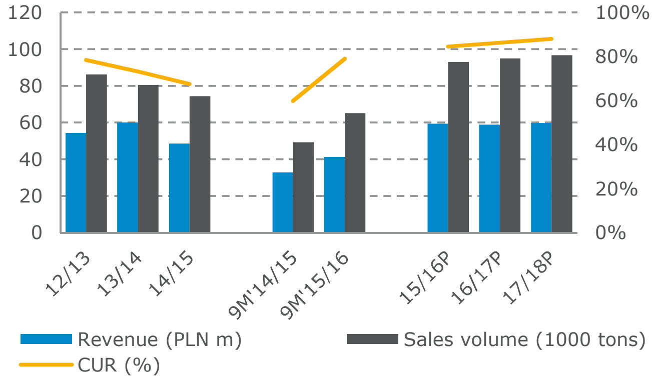
Stelmet has a well-diversified customer base. According to the prospectus, the top three customers in 2014/2015 accounted for ca. 34% of the total garden structure sales. As measured by brands groups, according to our estimates, the biggest group customer in 2014/2015 (consisting of six DYI chains) accounted for 33% of the annual sales, and the second-biggest group of seven chains generated 14%. **Stelmet has an advantage over smaller competition producing smaller quantities of garden structures for sale, who rely mainly on wholesalers for distribution.**

Pellets and By-Products

By-products of wood used in the production of garden structures include tree bark, sawdust, chips, etc. In order to enhance the added value of sawmilling residues, Stelmet converts them into pellets used as fuel for renewable energy generation. **Stelmet used ca. 25-50% of the by-product** of wooden garden structures **to produce pellets in 2013-2016.**

Stelmet sells approximately 60% of its pellet output in foreign markets, mainly Germany (2014/2015 data). Pellets are sold exclusively to **large distributors and wholesalers** with a predictable and sustained sales potential. Other channels include **wholesale and retail operators, as well as online sales**. Contracts with clients are signed for the long term or for an indefinite period. Stelmet offers discounts to distributors outperforming their sales targets.

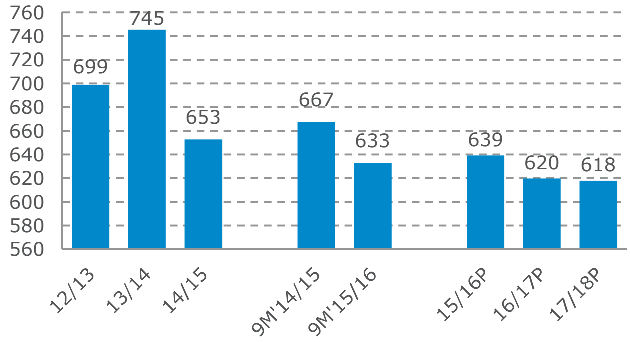
Sales revenue and volume of pellets (lhs) and capacity utilization rate (rhs) in pellets, 2013-2018P



Source: Stelmet, P - Projection by Dom Maklerski mBanku

The average sales prices for pellets depend on the prices of energy sources like coal, natural gas, and oil. The advantages of wood pellets include low carbon emissions, as well as the automated technology of pellet-fired furnaces which require no human labor.

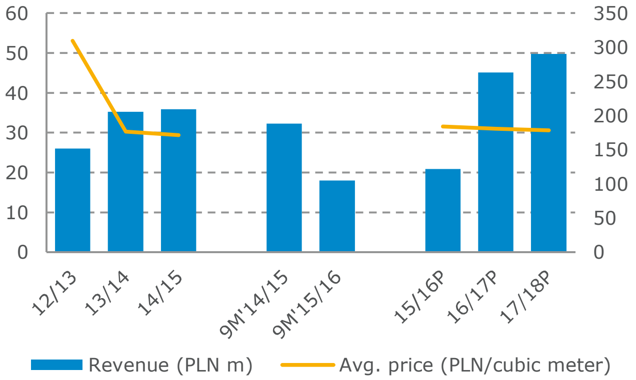
Average sales prices for pellets, 2013-2018P (PLN/t)



Source: Dom Maklerski mBanku

Any by-products of wood processing into garden structures are either **turned into pellets or sold to producers of wood-based boards, cellulose and paper, and other smaller customers**. The customer base for the by-products is continuously expanded to avoid dependence on a single group of customers. **In case of the new facility in Grudziądz, which as of now is not scheduled to have a pellet production line, the by-products will be sold to local cellulose and paper producers in the vicinity** (Mondi Świecie, Arctic Paper). Consequently, we expect that the average price at which Stelmet sells by-products will increase in the next two years relative to the historical prices thanks to the fact that the new facility will have the ability to sort by-product into higher-and lower grades.

Sales revenue (lhs) and average sales prices (rhs) of by-products, 2013-2018P



Source: Stelmet, P - Projection by Dom Maklerski mBanku

Product Overview

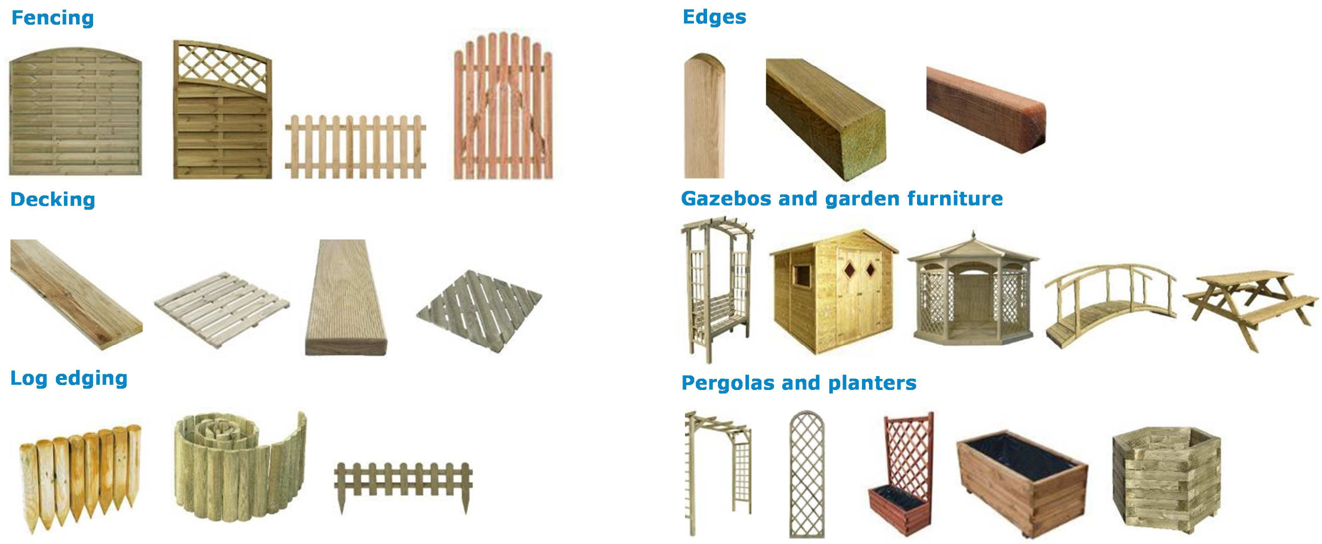
Stelmet's core product range are **wooden garden structures** spanning **2.6 thousand designs**. The key categories include fences, log edging, decking, gazebos and garden furniture, poles and rails, pergolas, and planters. The Group has a permanent section of trend-watchers who design new products, supporting negotiations of future supplies with key clients.

Stelmet's garden structures are made from **pine and spruce timber** (3rd and 4th impregnation class products). In the wood grades it purchases, the Company **does not compete** for timber material with large producers of **wood-based boards and paper** (Stelmet uses S2b paper-grade wood, while board and paper producers use S2a paper-grade wood).

Stelmet converts the by-products of garden structures into wooden **pellets**, deriving added value from the base materisl. Pellets are packed into mini-bags (up to 15 kg) for retail clients, and in bigger packs and big-bags for large-volume clients. The Company sells pellets under four proprietary brands, including the widely recognized brands 'Lava' and 'Olimp.' The brands 'Firemaxx' and 'EcoSpecial' are dedicated to spot sales and retail chains.

Stelmet sells other **unused by-product** raw to producers of wood-based boards and paper.

Examples of garden structures offered by Stelmet



Source: Stelmet, Dom Maklerski mBanku

Pellets and by-products offered by Stelmet

Pellet

"Lava" Pellets

"Olimp" Pellets

EcoSpecial & Firemaxx Pellets

Byproducts

Source: Stelmet, Dom Maklerski mBanku

Production Process

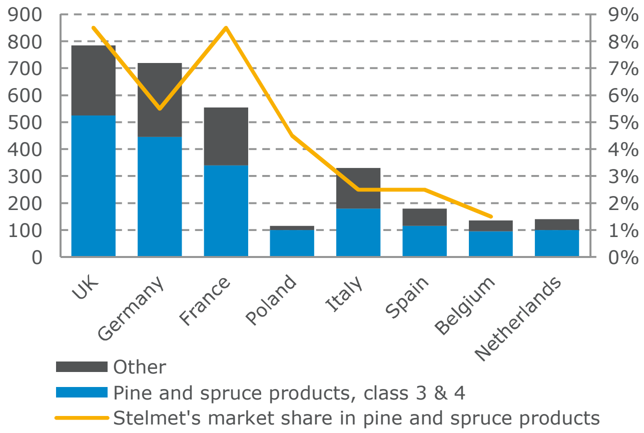
The business model of Stelmet allows it to utilize use **100% of the timber material,** with no production waste left after the sale of by-products. The first phase of production includes **planning and procurement of contracts** from clients. Once a portfolio of products is decided, the production volume and structure is planned. **Wood** for production is bought in specific quantities from **the State Forests** in closed tenders and via the online auction system e-drewno.pl. Once the timber has been delivered on location, it is handled, debarked, and sorted. **Large operators have an advantage** because they have a better ability to sort wood by size, which minimizes production waste. Wood is sorted in machines, with a precision of 1 cm for logs up to 350 mm in diameter (other wood is sorted manually using saws). Sorted wood is **rough cut** to carve out the biggest possible rectangular pieces and several smaller elements out of each log. From one cubic meter of timber, about **one-third goes toward garden structures** and **two-thirds is a by-product** (to be specific, the average effectiveness has been approximately 35% in the last few years). The large volume of sales helps maintain a continuous production process, which improves Stelmet's efficiency by 3-5 percentage points compared to small producers. In the next step, garden structures are assembled (automatically or using small assembly tools) and packed, taking into account the logistics. The packed products are impregnated in the final phase (to protect against damage and discoloration) and placed in the finished products warehouse. Stelmet uses a proprietary program to manage wood impregnation with pressure and surface impregnation methods. The production process is efficient thanks to a **state-of-the-art production line** which uses the **most advanced technology available in Poland**.

The first phase of the production of pellets is to shred and sort the wood **by-products** (the maximum capacity of the line is 35 tons/hour of the wet material and can be adjusted). Next, the material is **dried** (two conveyor belt driers). The energy used for drying is generated by three boilers, including a **base cogeneration unit**. The boilers are fired with the by-products. In the next step, the dried mass is **granulated** in four granulators with a capacity of 4 tons/hour each. The hot solidified product goes into two chillers and a packing line (automated packing with a capacity of 27 tons/hour each). In the final phase, the end product on palettes is placed in the finished products warehouse. The pellet facility in Zielona Góra can operate **24/7,** and the **total manpower** required to handle the process is less than **20 people**. The facility includes a **recovery unit** which recovers heat from chimney stacks, reducing the energy demand.

Market For Garden Structures

According to a report by OC&C Strategy Consultants commissioned by Stelmet, the garden structures market, as represented by a sample of eight European countries, is worth close to **EUR 3.0 billion** at producer prices (EUR 4.2 billion at shelf prices net of VAT). Of the total, ca. 64% i.e. close to **EUR 1.9 billion,** is the market addressable by the types of garden structures produced by Stelmet. Stelmet currently has the **strongest position in the three biggest European markets** (UK, Germany, France) and in Poland. OC&C puts Stelmet's Western European market share at ca. 6%. The Company's relatively low market share in Poland (4-5%) is driven by the specificity of the market (which is highly fragmented with many small producers, and where consumer spending on garden structures is low, and most products are sold outside the professional distribution network).

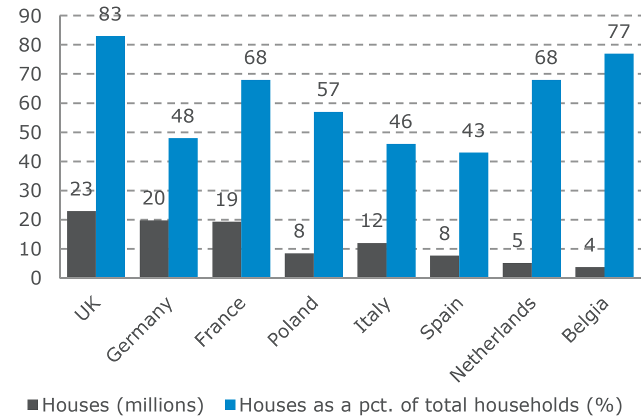
Europe's biggest garden structures markets (lhs; EUR m), and the market share of Stelmet (rhs; %) according to OC&C



Source: Stelmet based on OC&C research, Dom Maklerski mBanku

The preferences concerning ownership of single-family houses and household spending on garden structures differ from country to country in Europe. **The share of detached houses in the total number of households in the highest in the UK, Belgium, the Netherlands, and France**. The UK, Germany and France have the biggest numbers of single-family houses.

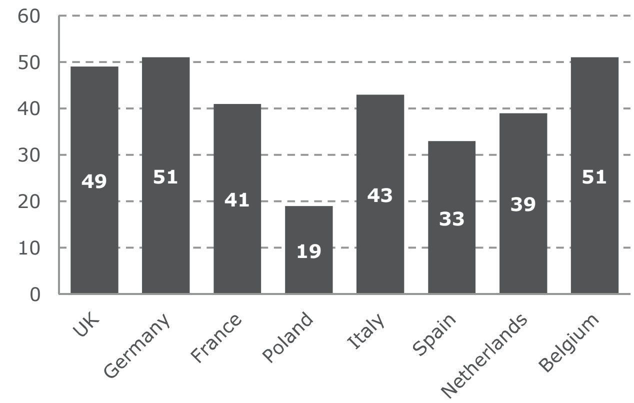
Number and share of houses in total households in Europe



Source: Stelmet based on OC&C research, Dom Maklerski mBanku

Annual spending on garden structures per household is **the highest in Germany, Belgium and the UK**. Compared to other countries, Poland ranks low, which may suggest potential for growth in the coming years.

Average annual household spending on garden structures (EUR)



Source: Stelmet based on OC&C research, Dom Maklerski mBanku

With high household spending on garden structures and a relatively high number of single-family houses, the UK, France and Germany are very high-demand markets. Demand in the UK and France also depends on weather conditions. Frequent storms witnessed in the UK often generate more demand for new garden fences and features as existing structures are destroyed by severe weather.

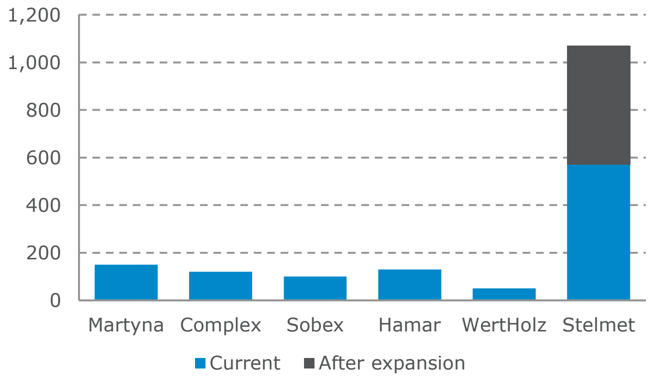
The main **trends** shaping the Western European markets include the **growing environmental awareness of consumers** (resulting in a higher use of ecological and biodegradable materials), the **increasing popularity** of home **gardening**, the growing importance of **home space** as a source of comfort, an **ageing population,** resulting in more spending on home décor and gardening equipment, the **rising affluence of households**, and the **growing numbers of single-family houses** in developing countries.

Going forward, Western European countries are expected to **import increasing quantities of garden structures** from Eastern Europe due to their **limited timber resources** and much **higher costs of labor** which account for an estimated 20% of total production costs. Poland and other forest-rich countries (e.g., Romania) will be the main beneficiaries of the this trend in the future.

Domestic Competition

Poland has established itself as the leading supplier of garden structures in Europe. For Stelmet, with its production facilities situated in the West of Poland, EU countries beyond the western border are the natural export destination. The Polish market for garden structures is highly fragmented across **many small players** with limited capacity to automate production, selling their products to intermediaries who work with bigger stores and chains. With that said, Poland has **at least five producers** (including Stelmet) with annual timber processing capacity of no less than **100,000 cubic meters**.

Annual capacity for processing wood into wooden garden structures by main domestic competitor (1000 cubic meters)



Source: Dom Maklerski mBanku

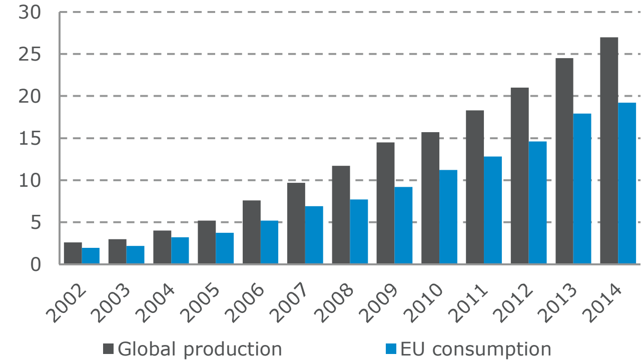
According to our estimates, the main competitors of Stelmet on the domestic market include **Martyna** (wood processing capacity of ca. 150,000 cubic meters per year, in business since 1992, has 4 production facilities, by-products include briquettes and wood pellets), **Complex** (wood processing capacity of ca. 120,000 cubic meters, in aggregate 3 plants in the group, in business since 1989, has ca. 400 employees), **Hamar** (wood processing capacity of ca. 130,000 cubic meters, 3 production plants, in business since 1990), **Sobex** (wood processing capacity of ca. 100,000 cubic meters, 1 production plant with an area of ca. 20 ha, in business since 1991), and **Wertholz** (wood processing capacity of ca. 50,000 cubic meters, has ca. 80 employees, a garden structures plant and a lumber production plant, in business as a successor to an insolvent entity since 2007, listed on NewConnect).

According to our estimates, other **non-direct competitors** of Stelmet include Andrewex and Ante-Holz. Both entities mainly produce lumber and construction wood, but their products also include garden structures. **Andrewex** has 3 plants in Poland with a total wood processing capacity of 300,000 cubic meters of wood per year. The company has 1,000 employees and has been in business since 1988. **Ante-Holz** is a major producer of lumber, construction wood, and laminated wood in Europe. The company has three plants in Germany and Austria and one plant in Poland, and ca. 750 employees. The company produces high quality structures and pellets

Market for Wood Pellets

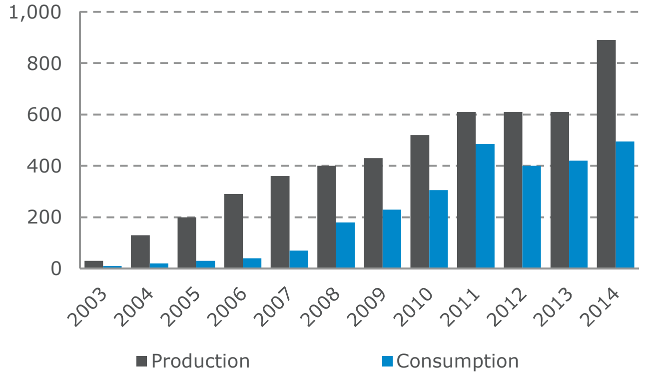
The main driver of demand for wood pellets is the global drive toward **clean energy** production. According to a presentation by the Baltic Energy Conservation Agency, the European Union is the world's biggest consumer of pellets, and Poland was the 7th-biggest pellet producer in the European Union in 2014. The production of pellets in Poland is ca. 50% higher the than consumption, which allows for a half of the production to be exported abroad.

Global production and EU consumption of wood pellets, 2002-2014 (millions of tons)



Source: Baltic Energy Conservation Agency, Dom Maklerski mBanku

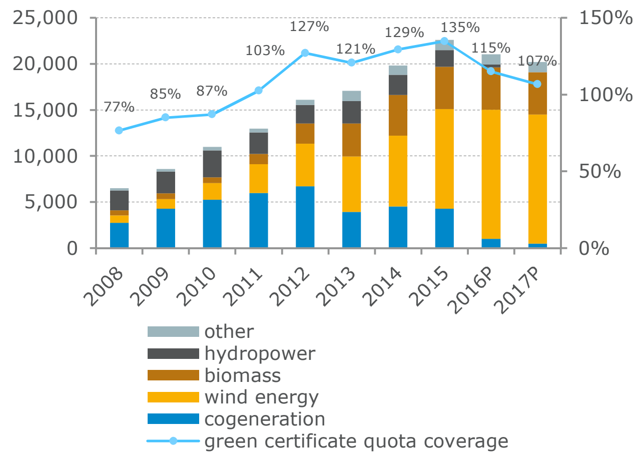
Production and consumption of wood pellets in Poland, 2003-2014 (thousands of tons)



Source: Baltic Energy Conservation Agency, Dom Maklerski mBanku

Demand for wood pellets is **driven** by the **shift away from using fossil fuels to generate heat and electricity**. In the future, demand may be additionally stimulated by the **ban on use of coal as fuel for heat production in big cities**. On the other hand, pellet sales can be **adversely impacted** by **low price of green certificates**, **electricity**, and **thermal coal**. In the past, the Polish demand was also affected by imports of cheaper and much lower-quality pellets from Ukraine.

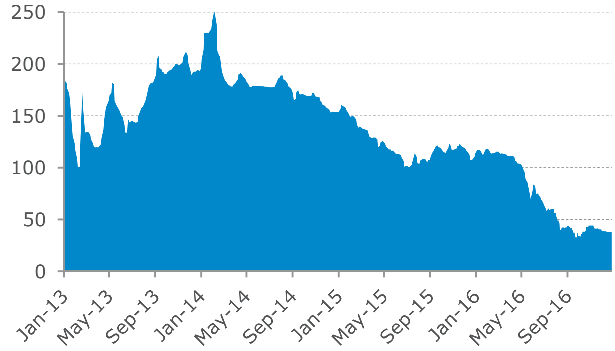
Polish green energy production (GWh) by fuel type



Source: P - Projection by Dom Maklerski mBanku

The strong rise in the production of energy from alternative sources has resulted in an **oversupply of green certificates** in 2012-2015. According to our estimates, the oversupply should be reduced within the next two years, but at the same time the **volume of energy produced from biomass is expected to be stable at most**.

Prices of green certificates (PLN/MWh)

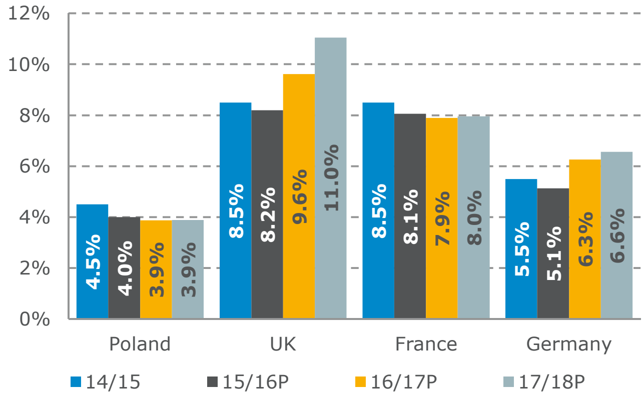


Source: Bloomberg

Business Strategy

The main strategic objective of Stelmet is to **build shareholder value by strengthening its positioning as a leading vertically-integrated producer and distributor of wooden garden structures in Europe**. To further this objective, the Company **is planning to achieve full capacity utilization at the new production facility** in the Grudziądz **by 2024/2025**. Moreover, Stelmet intends to **acquire new customers** by continuously realigning its sales strategy and by **establishing direct relationships** with leading distributors of wooden garden structures, i.e., DIY chains. Furthermore, the Company wants to **expand its product range** to match the needs of its customers. Going forward, Stelmet wants to expand its international presence through M&A activity targeting **Polish and international production and distribution companies**. Stelmet will particularly target companies which can add to its product portfolio and its customer base. With such initiatives, the Company is planning to grow its market share in the UK from 8-9% in 2014/2015 to 10-11.3% in 2016/2017 and in Germany from 5-6% in 2014/2015 to 6-7.2% in 2016/2017.

Stelmet's European market share in wooden garden structures by country



Source: Stelmet based on OC&C research, Dom Maklerski mBanku

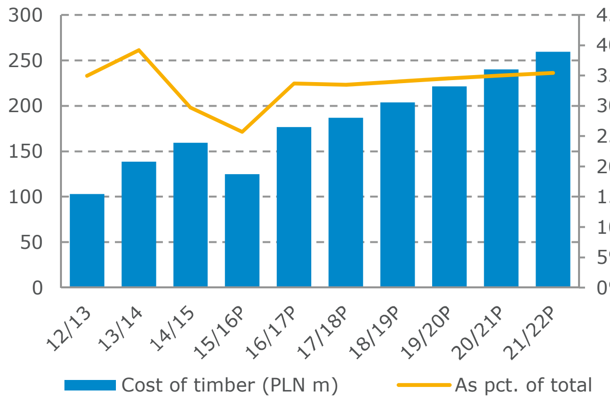
Stelmet is scheduled to launch the first phase of **the new production complex Grudziądz** in October 2016, with the target capacity after twelve months from launch set at **300,000 cubic meters** of garden structures. The **ultimate capacity target** for the Grudziądz plant is **400,000 cubic meters**, to be reached in 2019/2020. The new Polish facility will replace the less efficient plants in the UK. Aside from Grudziądz, Stelmet plans to further upgrade and automate its other plants in Poland.

Stelmet is working on streamlining its production processes, including by **closing down the UK plants in Hull and Telford**, **improving the quality of products** offered in the UK with the state-of-the-art technology implemented in Grudziądz, and **restructuring distribution in the UK**. The efficiency-boosting initiatives also include such savings measures as the **sale of non-active manufacturing properties**, and the reinforcement of the **central administration and management functions for the Grudziądz facility based in the Company's headquarters in Zielona Góra**.

Production Costs and Earnings

Stelmet's main cost driver is **timber**, which can represent between **25% and 40%** of the total costs of production depending on the period. In 2013/2014, the Company experienced an increase in timber costs due to high demand which necessitated the sourcing of additional timber material via online auctions at higher prices. A year later, Stelmet was able to reduce the cost by securing a higher purchase quota in limited state tenders. In addition, in 2014/2015 and 2015/2016 Stelmet's consolidated accounts factored in Grange Fencing which does not buy round wood but only processes semi-finished products whose costs are booked under other materials and utilities. Going forward, timber costs at Stelmet are set to increase in our view after the UK production is replaced with the new facility in Poland, using round timber as its base material.

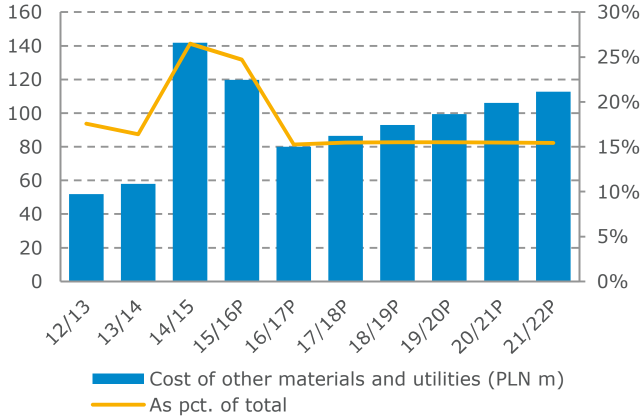
Costs of raw timber material in PLN m (lhs), and as a pct. of total costs (rhs), 2013-2022P



Source: Stelmet, P - Projection by Dom Maklerski mBanku

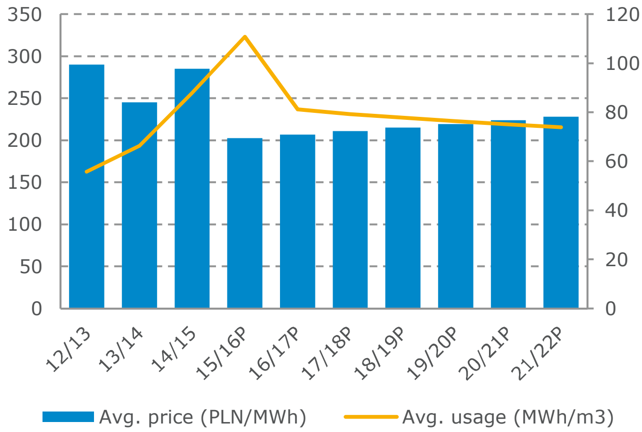
The second-biggest cost driver for Stelmet are **other materials and energy** (other than timber); according to our estimates, electricity accounts for ca. 10-15% of this cost category. The remaining cost items include semi-finished products used by Grange Fencing, varnish, dye, connecting components, etc. In our opinion, the share other materials and utilities will decrease sharply in 2016/2017 due to the relocation of production from the UK to Grudziądz (no need to buy semi-finished product) and following a decrease in average power prices, and it will remain at ca. 15% of total costs in subsequent years. In the longer term, we expect that the consumption of electricity per cubic meter of timber material will decrease given that about half of total power usage is by the pellet plant in Zielona Góra, and there are no plans to build a pellet unit at Grudziądz plant at the moment.

Cost of other materials and utilities (ex. timber) in PLN m (lhs) and as a percentage of total costs (rhs), 2013-2022P



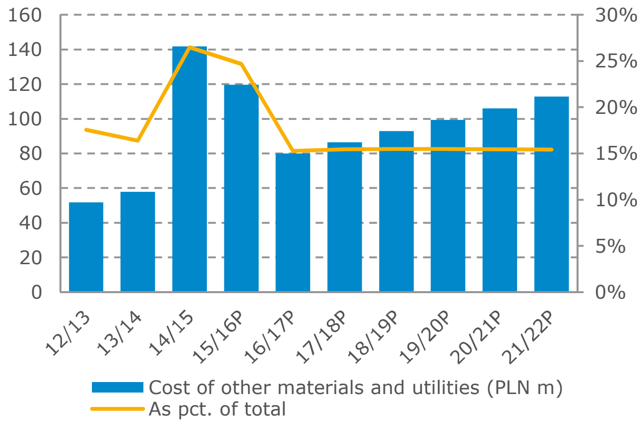
Source: Stelmet, P - Projection by Dom Maklerski mBanku

Average energy price (lhs) and average energy usage per cubic meter of timber input (rhs), 2013-2022P



Source: Stelmet, P - Projection by Dom Maklerski mBanku

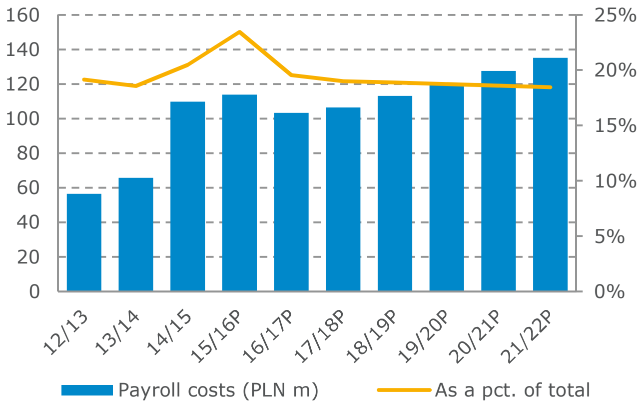
Cost of other materials and energy (ex. timber and energy), total (lhs) and per cubic meter of timber (rhs), 2013-2022P



Source: Stelmet, P - Projection by Dom Maklerski mBanku

Another major production cost category are **employee benefits**. Labor costs increased considerably in 2014/2015 following the acquisition of Grange Fencing in the UK where labor costs are higher than in Poland.

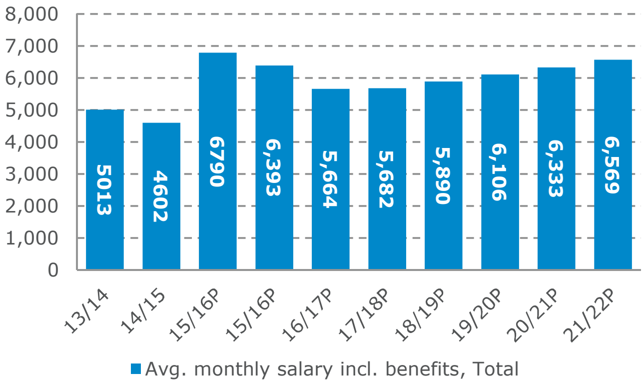
Payroll costs in PLN m (lhs) and as a percentage of total costs (rhs), 2013-2022P



Source: Stelmet, P - Projection by Dom Maklerski mBanku

According to our projections, the share of employee costs will start to decrease in 2016/2017 as the Hull and Telford plants are closed and the UK distribution network enters into restructuring. The Hull factory was shut down in late summer of 2016, and production in Telford will be phased out by mid-2017. Per our estimates, the share of personnel costs will gravitate towards 18% in the long term. The decrease in labor costs starting in 2016/2017 will be driven by the increasing utilization of the production capacity of the Grudziądz plant, which incurs no additional selling and administrative expenses (these functions will be provided by the Zielona Góra HQ).

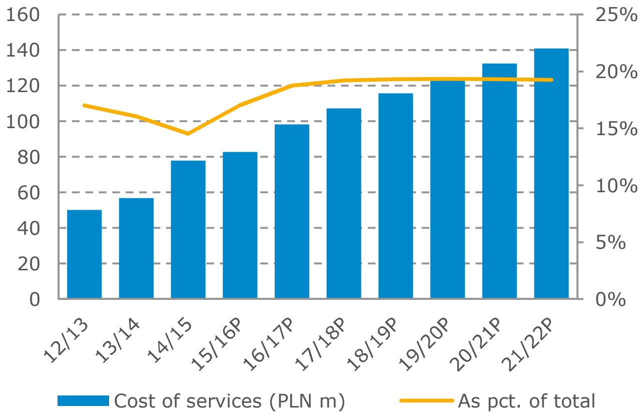
Average monthly employee compensation, 2013-2022P



Source: Stelmet, P - Projection by Dom Maklerski mBanku

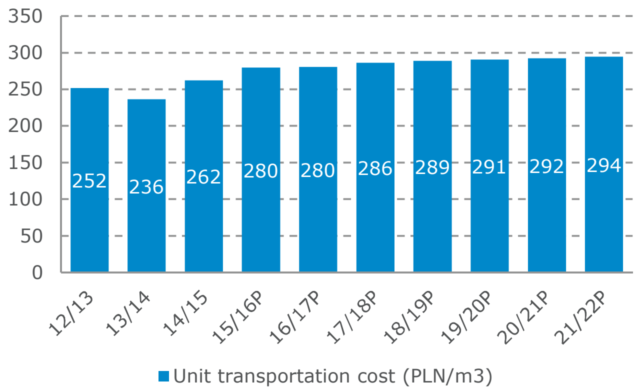
Stelmet's costs of **services** mainly include the **logistic costs** of transportation of end products to customers. According to our estimates, transport accounts for ca. 80%-85% of the service costs. In 2013/2014 and 2014/2015 logistics costs at Stelmet were on the decrease owing to the implementation of an IT system, a significant optimization of deliveries, and a reduction in shipments to France while deliveries to Germany increased. In the future, we predict that the average cost of logistics per cubic meter of wooden garden structures will increase in line with the planned expansion in the UK and the resulting increase in shipping costs from the new plant in Grudziądz, which will eventually replace production in the UK.

Cost of services in PLN m (lhs) and as a percentage of total costs (rhs), 2013-2022



Source: Stelmet, P - Projection by Dom Maklerski mBanku

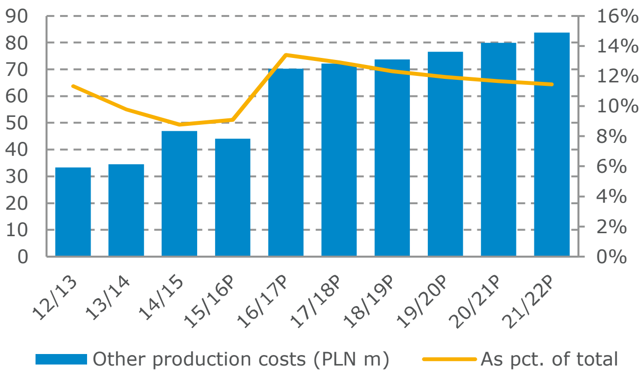
Transportation costs per cubic meter of garden structures, 2013-2022P



Source: Stelmet, P - Projection by Dom Maklerski mBanku

Other operating costs of Stelmet account for ca. 9%-14% of the total production costs; we expect that their share will decrease in the future (mainly as a result of the property tax exemption of the Grudziądz plant until 2024). The share of other production costs will increase in 2016/2017 due to higher depreciation charges following the completion of the first phase of capital investment in Grudziądz.

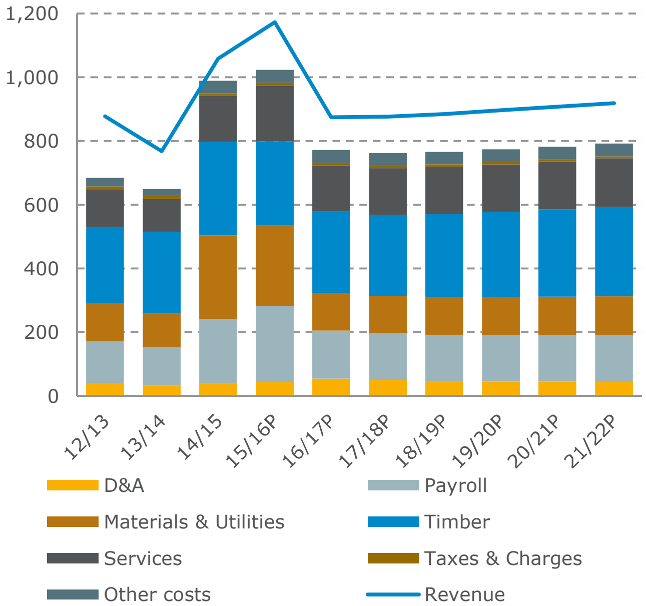
Other production costs in PLN m (lhs) and as a percentage of total costs (rhs), 2013-2022P



Source: Stelmet, P - Projection by Dom Maklerski mBanku

As demonstrated in following diagram, Stelmet's margins calculated as the difference between revenue per cubic meter processed wood and the unit production cost shrank in 2014/2015 following the acquisition of Grange Fencing (higher production costs, higher value of sold products other than own production). We expect that the margin will increase in subsequent years, driven by the higher efficiency of Polish plants and the relocation of production to Poland.

Revenue and costs per cubic meter of timber, 2013-2022 (PLN/m³)



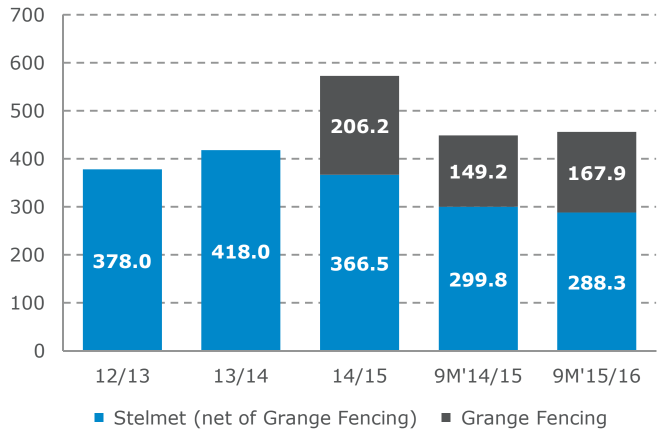
Source: Stelmet, P - Projection by Dom Maklerski mBanku

Financial Results In 2013-2016

In **2013/2014**, the sales of Stelmet increased by 10.6% YoY, driven by the **exceptionally good conditions** on the garden structures market in the UK due to **inauspicious weather conditions** (winds and storms). In **2014/2015,** Stelmet acquired **Grange Fencing**, which grew its sales by **37.0% YoY**. The sales were stable in 9M'2015/2016 due to the high (almost maximum) utilization of the production capacity.

After the acquisition of Grange Fencing in 2014/2015, the production and sales of Stelmet started to replace existing third-party suppliers with products manufactured in Poland.

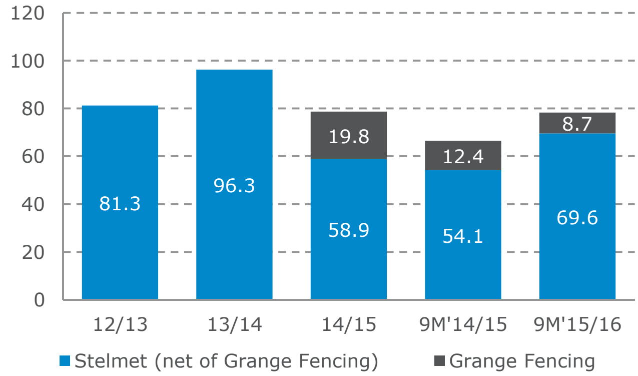
Sales revenue of Stelmet and Grange Fencing, 2013-2016 (PLN m)



Source: Stelmet, Dom Maklerski mBanku

In 2014/2015, the **EBITDA of Stelmet** net of the acquisition decreased markedly year on year due to a **higher proportion of wood purchased on the online portal e-drewno** (if the volume of purchased wood rises sharply, the pool of wood available in the limited tender is used up, and the purchasing must continue on the portal e-drewno at higher prices). The **stabilization of the proportion** of wood **purchased in the limited tender and on the portal e-drewno** helped to **improve the results in 2015/2016**.

EBITDA of Stelmet and Grange Fencing, 2013-2016 (PLN m)



Source: Stelmet, Dom Maklerski mBanku

Financial results of Stelmet, 2013-2016

(PLN m)	FY12/13	FY13/14	FY14/15	9M' 14/15	9M' 15/16
Revenue	378.0	418.0	572.8	449.1	456.2
Y/Y change	-	10.6%	37.0%	-	1.6%
Gross profit	129.7	150.0	167.4	132.2	165.0
Selling expenses	45.6	52.5	73.7	57.9	74.2
G&A expenses	21.2	21.6	39.5	30.4	31.5
Other operations	1.1	2.5	4.4	7.6	3.8
EBIT	64.1	78.4	58.6	51.4	63.1
margin	16.9%	18.7%	10.2%	11.4%	13.8%
EBITDA	81.3	96.3	79.5	66.5	78.3
margin	21.5%	23.0%	13.7%	14.8%	17.2%
Pre-tax profit	59.7	77.6	61.1	54.7	60.9
Net profit	57.4	77.5	64.7	66.5	47.2
margin	15.2%	18.5%	11.3%	14.8%	10.3%
CFO	82.7	85.0	67.3	-0.9	50.3
CFO/EBITDA	101.7%	88.3%	84.7%	-1.4%	64.2%
CAPEX	7.5	23.2	125.4	82.2	115.4
Net debt	123.5	64.2	151.0	201.5	243.7
Net debt /12M EBITDA	1.5	0.7	1.9	-	2.7

Source: Stelmet, Dom Maklerski mBanku

The **dynamic growth in sales** in 2013/2014 and 2014/2015 required **bigger volumes of timber material to be purchased outside the limited tenders** on the Forest and Wood Portal. This, in turn, **inflated the average price of purchased wood and reduced the realized** EBITDA margin. In **2014/2015**, Stelmet's profitability was adversely affected by the **acquisition of Grange Fencing**: due to higher production costs, its EBITDA margin was inferior to that of Stelmet (9.6% in 2014/2015). Furthermore, the results in Poland decreased year on year due to a higher proportion of wood purchased via the e-drewno auction portal (higher volumes of purchased wood exhausted the pool of wood available in the limited tender). The **margin** of Stelmet started to increase again in **9M'15/16** thanks to **lower purchase prices of wood** (a higher share of wood purchased in a limited tender thanks to a longer track record of purchases), the **initiated** optimization at Grange Fencing, and the **replacement of certain products** traded by Grange Fencing with products manufactured in the plants in Poland (higher profitability of production in Poland).

One-off factors driving the operating results of Stelmet in the last four years were **limited**. The main events took place in 2014/2015, including damages paid by the vendor of the boiler in the pellet plant in Zielona Góra and the revaluation of fixed assets designated for sale.

One-off factors driving the financial results of Stelmet, 2013-2016

(PLN m)	FY12/13	FY13/14	FY14/15	9M'14/15	9M'15/16
Damages received	-	-	6.4	6.4	-
White certificates	-	-	0.8	0.8	-
Out-of-court settlement	-	-	0.2	0.2	-
Adjustment to accident premium	-	-	-	-	1.2
Longevity bonus	-	-	-1.4	-	-
Acquisition of Grange Fencing	-	-0.1	-1.6	-1.6	-
Provision against 2005-2007 employee benefits	-	-0.3	-0.3	-0.3	-
Impairment of property, plant and equipment	-	-	-4.7	-	-
IPO costs	-	-	-	-	-0.8
Total eliminations	-	-0.3	-0.6	5.6	0.4
EBIT	64.1	78.4	58.6	51.4	63.1
Adjusted EBIT	64.1	78.7	59.2	45.9	62.7
EBITDA	81.3	96.3	79.5	66.5	78.3
Adjusted EBITDA	81.3	96.6	80.1	61.0	77.9

Source: Stelmet, Dom Maklerski mBanku

In 2013/2014 and 2014/2015, Stelmet operated as a **general partnership limited by shares** and then as an **open partnership**. As a result, the Company did not pay the corporate income tax due from joint-stock companies.

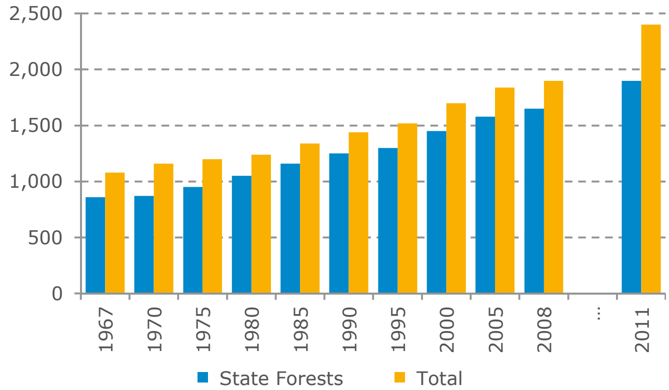
In 2014/2015, Stelmet **trademarks were transferred** to the subsidiary Stelmet IP sp. z o.o., resulting in the recognition of a tax asset, which will be recognized in cash over the next 17 years (the tax amortization rate is 5.3%).

In 2013-2016, the total **capital expenditure** was more than **PLN 270 million** (including mainly the acquisition of Grange Fencing and the development of the plant in Grudziądz). At the same time, Stelmet generated **cash flows from operating activities at PLN 295.3 million** (85% of EBITDA of the period). The net debt increased in the last two years due to the investment program. The **net debt to 12M EBITDA** was **2.7x** at the end of 9M'15/16.

Procurement of Timber

Timber is the main driver of production costs for Stelmet. The forest resources in Poland have been growing continuously since the 1970s. This is a result of a policy aiming to grow the acreage of forests as well as the uninterrupted sustainable forest management policy.

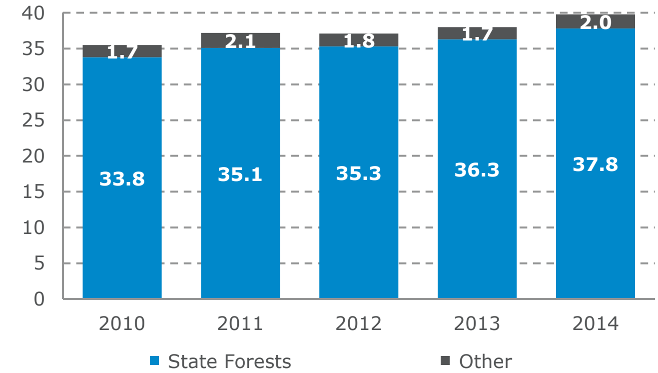
Polish timber resources (million cubic meters)



Source: Ministry of the Environment, State Forests

Poland's wood market is completely monopolized by the State-owned company State Forests (Polish: **Lasy Państwowe**). The company manages the vast majority of forests in Poland.

Timber supply by resource owner (million cubic meters)



Source: GUS, Dom Maklerski mBanku

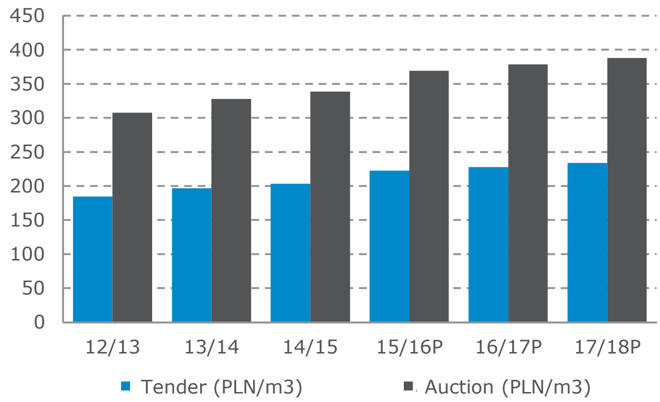
The key principle followed by the State Forests in using forest resources is to **preserve the sustainability of forests and amplify their resources**. In the last 20 years, the **ratio of consumption to production was ca. 60%.** While this is not a strict legal standard and may vary from year to year, the idea is that whenever the annual ratio is exceeded, supply will decrease in the subsequent years. The consumption of wood resources need not necessarily follow demand generated by producers of wood materials. In addition, weather calamities and biotic disasters (caused by insects or fungi) strike from time to time, resulting in additional consumption of wood biomass, as well as decreased quantities of wood in subsequent years.

How the State Forests Sell Timber

The State Forests sell wood in four different ways: **limited tenders on the Forest and Wood Portal; online auctions in the application e-drewno; other auctions and submissions;** and **trade negotiations**. Furthermore, **pools of investment wood** are available to entrepreneurs who undertake **new investment projects** which increase the production capacity by at least 5,000 cubic meters of wood per year.

Tenders on the Forest and Wood Portal are limited tenders addressed to long-standing buyers of wood. 70% of the total volume of the offered pool has been available in this channel since 2015 (50% from 2010 to 2015). Prices are set by forest precincts and non-negotiable; an entrepreneur defines the volume of wood it is interested in and the price it is willing to pay, as well as the location of the forest precinct from which the wood is to be delivered. The minimum transaction prices are defined for all precincts of a Regional Directorate of the State Forests or a group of precincts. The minimum prices are set by the Director of the General Directorate of the State Forests. **The maximum volume of wood to be purchased by an entity on the Forest and Wood Portal is limited to 70% of the track record of purchases from the Forest and Wood Portal in the last two years**. **The prices in limited tenders in the past few years were ca. 40% lower than prices at auctions (e-drewno).**

Projected average prices of state paper-grade timber, 2013-2018P



Source: Dom Maklerski mBanku estimates

Access to the **online application e-drewno** is much simpler: in fact, each entrepreneur may personally log in the portal and negotiate after paying in a security deposit. Minimum prices on the portal e-drewno are set similar to the Forest and Wood Portal. **The bids are evaluated according to a single criterion: the price.** The volume of wood allocated to this channel represents ca. 30% of the total selling volume. If wood is not sold on the Forest and Wood Portal, it is added to the volume of wood allocated for sale on the portal e-drewno. If it is not sold on the portal e-drewno, it is sold in trade negotiations or moved to the retail pool (sold directly in the precincts).

The **pool of investment wood** is a new concept on the Polish market offered to the wood processing industry. In the first two years of an investment project, **a new market player may buy up to 70% of the increase of the approved production capacity** for each year. The notion has been designed to encourage new entrants to join the market as it cuts the waiting time for wood purchased in limited tenders.

Wood is sold on the Forest and Wood Portal and the application e-drewno once per year (previously: twice per year). There are three terms of payment (14, 21, and 30 days). If the term of payment is exceeded or the timeline of wood collection and preparation is breached, the parties must pay liquidated damages.

In the case of natural disasters affecting forests, the General Director of the State Forests may approve other ad-hoc regulations to distribute wood produced as a result of the calamity. High prices of wood do not really affect the wood processing industry in the periods of high demand for products because, when the market is good, the producers can pass on cost increases to buyers. However, poor conditions on the wood product market are more adverse. Strong competition in the industry does not allow producers to raise their prices, resulting in lower margins of producers.

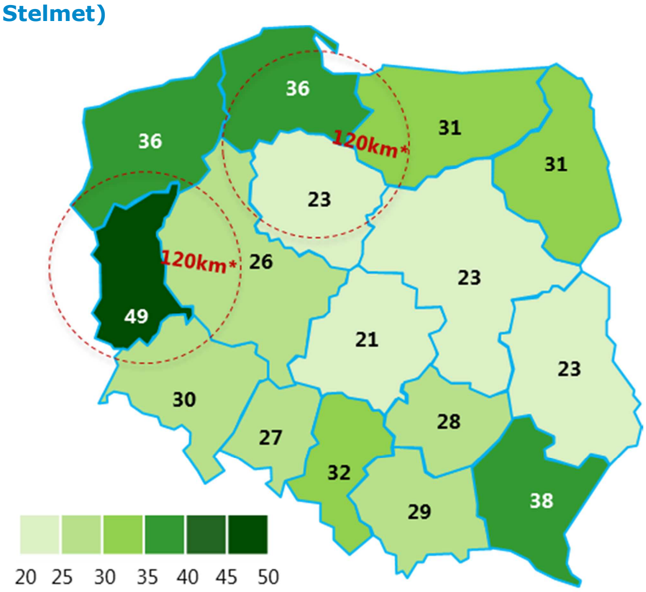
Stelmet's Timber Supplies

Wood purchased by Stelmet is a small fraction of wood purchased in Poland. In 2013 and 2014, **the Company used 1.1-1.4% of the total volume of wood produced in Poland**. Stelmet buys 100% of wood material from the State Forests. In addition, the Company may purchase lumber from neighboring markets (e.g., Germany); however, according to our estimates, it was historically more expensive than lumber produced in Poland.

Stelmet production plants are **located in areas of high density of forests**, which is good for the procurement of material. Throughout its history, Stelmet has worked with 9 out of 17 Regional Directorates of the State Forests.

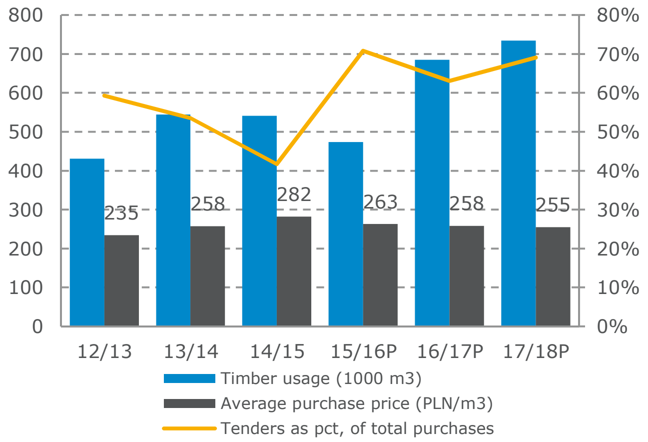
The **volume of the wood material procured** by Stelmet in the last three years **has increased markedly due to the strong demand** generated by key clients. According to our estimates, the utilization of the production capacity of garden structures increased from 82.8% in 2012/2013 to 93.6% in 2014/2015. As a result, the purchase of the wood material in 2013/2014 increased by 23% to 544.5,000 cubic meters. This, in turn, implied a share of the procurement of the material in limited tenders at slightly more than 53.5%. The wood that Stelmet had to purchase at auctions is ca. 40% more expensive than in limited tenders, which resulted in an increase of the average price of purchased material by 9.9% YoY. According to our estimates, **the share of wood purchased in limited tenders will remain above 60% in 2016/2017 and beyond** due to the activation of the investment wood pool related to the development of the Grudziądz plant. Wood from the investment pool may be purchased from precincts located across Poland. We also expect that access to an additional pool of wood from the State Forests, representing an increase of 2 million m^3 YoY (+5% YoY), will drive down the prices of wood in 2016/2017 both in limited tenders and in e-drewno auctions.

Forest density in Poland by region, 2014 (%; the circles represent the weighted average distance in respect of the volume of round wood purchased by Stelmet)



Source: Ministry of the Environment, State Forests

Volume of utilized wood material (lhs), average price of wood material and the share of wood purchased in limited tenders (rhs) by Stelmet, 2013-2018P



Source: Stelmet, P - Projection by Dom Maklerski mBanku

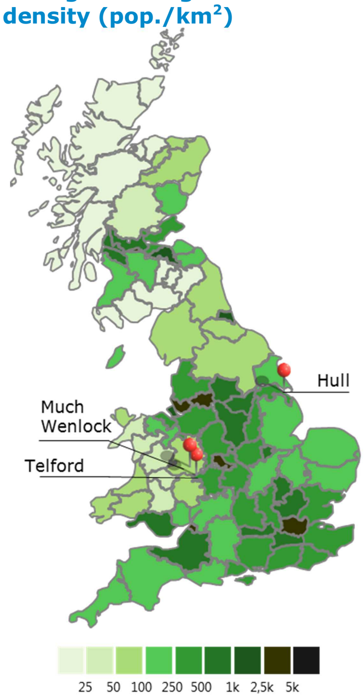
Production Plants

Stelmet produces wooden garden structures at **three locations** in Poland: Zielona Góra, Jeleniów, and Lubięcin, **representing 80% of the total production capacity** (in August 2016, the Company decided to close its UK facility in Telford). All production plants in Poland can manufacture a similar product mix and are **complementary** where necessary (where a product range is produced depends on the planning of production and logistics).

The most state-of-the-art plant is located in **Zielona Góra**. In addition to the production of garden structures, it comprises the Pellet Production Facility. The total roofed space of the plant is 5.1 ha. The oldest plant is **Jeleniów**, while the Lubięcin plant is somewhat younger.

With the acquisition of Grange Fencing, Stelmet became the owner of the production plants in **Telford and Hull**. The **Telford** plant has a production capacity of ca. 50,000 cubic meters of garden structures per year. The **Hull** plant (ca. 16-17,000 cubic meters) was closed down in July2016. Furthermore, in the UK, Grange Fencing uses the **Much Wenlock** distribution center with a warehouse area of 1.5 ha. All properties in the UK are leased.

Location of Grange Fencing assets in the UK, and population density (pop./km^2)



Source: UK Office for National Statistics

After closing down the **Hull and Telford** plants, the new plant in will become Stelmet's primary production facility. According to our estimates, the cost of labor in the UK plants of Stelmet is ca. GBP 1,550 – 1,600 / month net, while the Grudziądz plan will pay employees ca. PLN 2,000 / month net. According to our estimates, **if the total production is relocated from the UK to Poland, the annual labor costs will decrease by ca. PLN 18-19 million**. The relocation of production to Poland will also help to improve the quality of products. The UK plant previously used components purchased from third parties and wooden semi-finished products. Now the entire margin, including the margin of the manufacturer of semi-finished products, will be realized by Stelmet.

Stelmet is planning to relocate its distribution centers from Much Wenlock, and to reorganize distribution. In total, the cost of restructuring in the UK will be GBP 1.2 million by the end of 2016/2017, and the results are expected by the end of 2019/2020. The **savings** will be **equal to 25% of the total distribution costs (GBP 4 million),** i.e., ca. GBP 1 million per year. The Company is planning to open a distribution center in Southern UK, where population density is higher than at the present location.

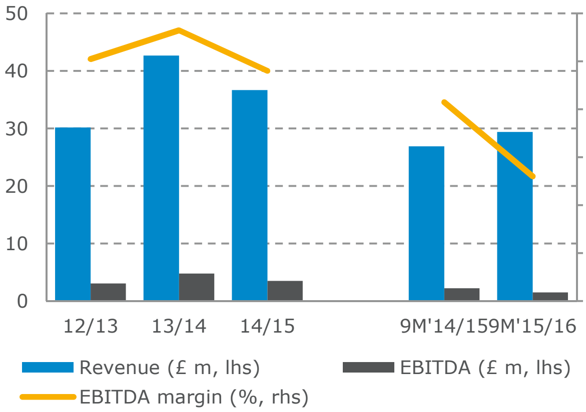
Grange Fencing

In the financial year 2014/2015, Stelmet acquired **Grange Fencing Ltd.** (a producer and distributor in the UK) for PLN 70.7 million at **4.0xEBITDA** (family company with no debt). The low ratio at acquisition was partly due to the lack of a financial base of Grange Fencing, whose EBITDA margin was much lower than that of Stelmet, and which could not raise significant working capital finance. Furthermore, Grange Fencing used leased assets, which restricted its ability to secure loans with assets. The acquisition was financed with loans and equity. The company is one **of the UK's two biggest producers and**

distributors of garden structures (next to Forest Garden) with a market share of **8-9%** (ca. 30% share in the fencing category). Grange Fencing has **40 years** of experience and its main clients are DIY chains and specialty stores. Its total workforce is ca. **260 employees**.

The acquisition of Grange Fencing allowed Stelmet to **take over the intermediary's margin**. Previously Stelmet sales were equal to ca. 10% of the supplies of Grange Fencing.

2013-2016 earnings results of Grange Fencing



Source: Stelmet, Dom Maklerski mBanku

The UK market is relatively specific due to a **lower share of DIY chains** in total sales and a higher share of **direct sales to households**. Lap panel fencing, which is very popular on the market, represented 33.8% of total sales of Grange Fencing. Furthermore, the UK market has **higher unit selling prices** due to **higher labor costs** and **small forest resources**. Most companies which continue to produce in the UK largely rely on deliveries of semi-finished products or end products (e.g., from Poland). In our opinion, it seems intuitive that production will be relocated to countries with lower production costs, such as Poland.

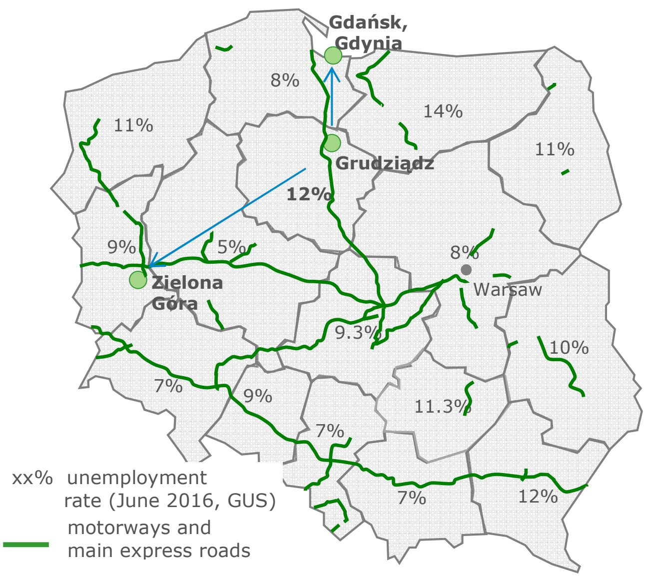
New Facility In Grudziądz

In 2014, Stelmet decided to build a new production plant in **Grudziądz**, which will eventually **double the production capacity** of the plants localized in Poland. The total capex of the project is ca. **PLN 260 million**, of which PLN 145 million was expensed by the end of 9M'2015/16. The plant will be the **most advanced** production facility producing garden structures in Europe with a total production facility of **200,000 cubic meters of products per year** (the target capacity will be reached in 2019/2020). The installations are fit to manufacture top quality products dedicated to Western European markets, in particular the UK. The plant will eventually have **500 employees** after reaching the target production capacity (according to our estimates, 250 in the first year) and will be situated within a Special Economic Zone. The plant is expected to go live in **October 2016**.

The main **benefits** of this production facility based in Grudziądz include its location within a **Special Economic Zone** (with the option of reimbursement of up to 50% of eligible expenditures over 10 years and the property tax until 2014 (property tax savings will be ca. PLN 213,000 in 2015; after the plant goes live, the savings should increase as more buildings are added to the tax exemption). Furthermore, Stelmet will have access to the **investment wood pool**, ensuring quicker access to limited tenders on the Forest and Wood Portal, which will reduce the cost of materials in the coming years (the price of wood on the Forest and Wood Portal is ca. 40% lower than at auctions). Furthermore, the Grudziądz plan will **less expensive wood** (paper grade wood), which is less expensive than the processed grades (purchase cost savings of ca. 10%). Stelmet Management Board expects **the personnel cost of the new plant to be lower**, mainly due to more automation, as well as access to cheaper labor compared to the other locations of Stelmet (unemployment in Grudziądz has been more than 15% over the years). In addition, the new installations will require no additional administrative personnel as **management and sales functions will be provided by the head office in Zielona Góra**. Thanks to the production of lap panels for the UK market, the Grudziądz plan is expected to reach a target **efficiency of processing at 40-45%**. Less by-product means more efficient production. Furthermore, the plant will be more effective than Hull and Telford in the UK thanks to lower personnel costs (while the selling prices will be comparable). The **by-product** in the new facility will be **sorted by grade**, ensuring sales at a higher margin. Moreover, Grudziądz is situated close to the Tri-City (Gdańsk, Gdynia), ensuring the **transport of products by sea**, and close to the **A1 motorway**, ensuring easy exports westwards.

In the future, Grudziądz may develop a **pellet** production line next to the garden structures plant. According to our estimates, the cost of construction of the pellet production line would be **PLN 60 million** with a capacity of less than **90,000 tons per year**. A plant equipped with **cogeneration** capabilities would cost another **PLN 15 million**. The Management Board will decide whether or not to build the pellet plant after the garden structures plant goes live. Initially, by-products will be sold to the cellulose producers in the vicinity (Świecie and Kwidzyń).

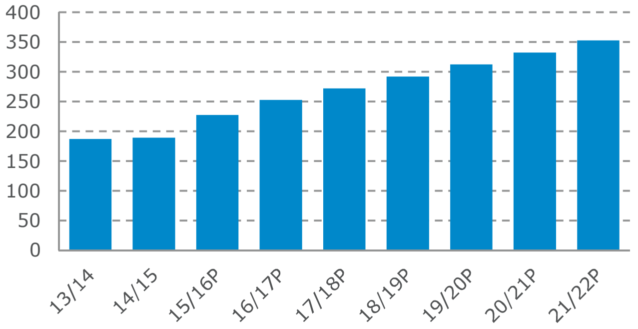
Unemployment by region vs. locations of Stelmet plants and motorways



Source: GUS, Dom Maklerski mBanku

According to our projections, the sales of garden structures from the **Grudziądz** plant in 2016/2017 will be **65,000 cubic meters**, rising to **85,000 cubic meters** and **105,000 cubic meters** in the next two years. We also expect the production volume of the UK plants to drop in favor of the new production plant. The target production capacity of the Grudziądz plant (200,000 cubic meters) will be achieved in 2019/2020, but its capacity will be **100,000 cubic meters** of products in the 12 months after the plant goes live. As a target, the full utilization of the production capacity will be reached in 2024/2025. Stelmet **is not planning to increase the production capacity of the other plants**: it is only going to modernize and automate their production.

Stelmet's garden structure output, 2014-2022P (1000 cubic meters)



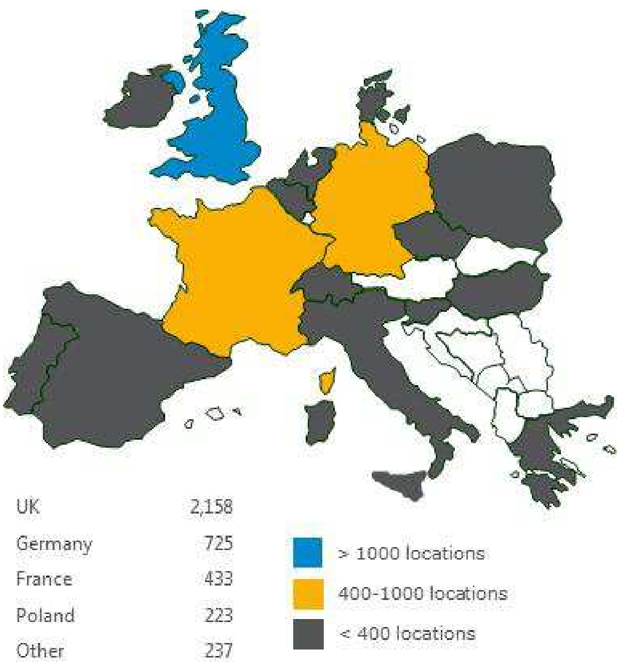
Source: Stelmet, P - Projection by Dom Maklerski mBanku

Logistics

Stelmet **handles its own logistics** and manages shipments to most customers. The Company uses **economies of scale** and a wide network of sites across Europe to offer **smaller, more frequent deliveries**, and through its **convenient locations** in a close proximity to highways it can reduce transportation costs by **combining orders from several customers into one shipment**.

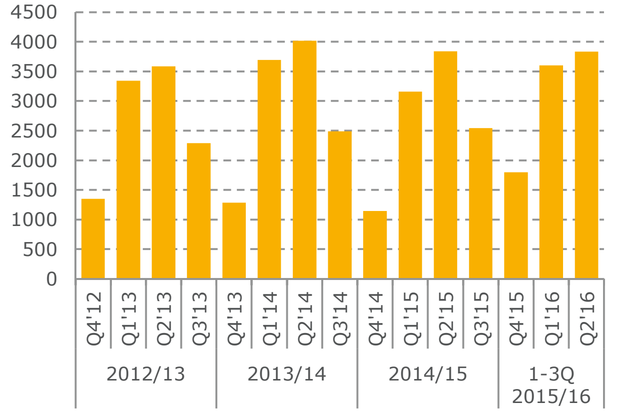
Stelmet uses a highly efficient **computer system** to **streamline its logistics operations** by filling underutilized truck space and planning **optimal driver routes**.

Shipping destinations by market (2014/2015)



Source: Stelmet, Dom Maklerski mBanku

Shipments originating in Poland



Source: Stelmet, Dom Maklerski mBanku

Every year, Stelmet issues a request for proposals for transportation services to secure the best price without compromising the quality and speed of deliveries. In addition, in 2016, the Company launched its own freight exchange.

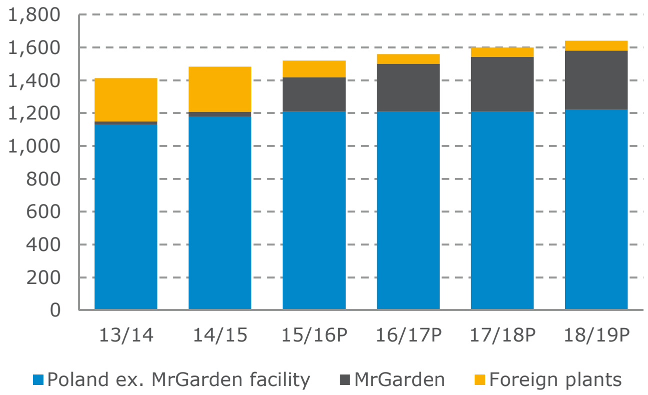
Finally, Stelmet takes advantage of simplified customs clearance procedures to offer faster service to customers outside the EU, including in Switzerland and Norway.

Employment

About 90% of Stelmet's workforce are **manual laborers**. There are **no labor unions or work councils** active within the Company, and there are no collective bargaining agreements in place at any of its subsidiaries. As of September 2015, Stelmet had set aside a reserve for retirement benefits in the amount of PLN 531,000.

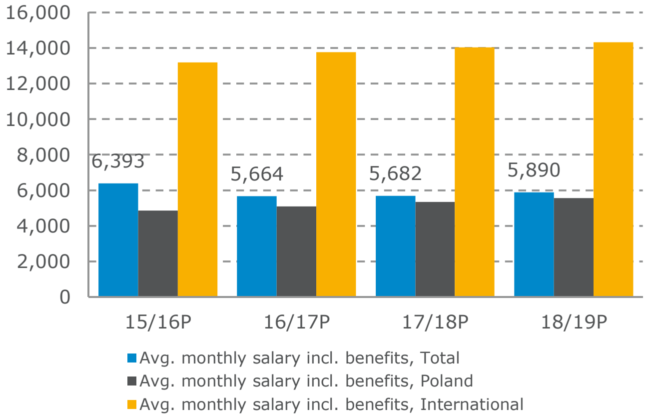
Our financial forecasts for Stelmet assume that by the end of 2017/2018 the Company will downsize its foreign headcount to about 60, while employment at the MrGarden facility will reach 210 at the end of 2016/2017, and increase to 290 at the end of 2017/2018. As a result, we predict that Stelmet's **average monthly cost per employee** (base salary + benefits) in 2016/2017 will decrease by about 11% to an estimated PLN 5,664.

Projection of employee headcount by Stelmet unit



Source: Stelmet, Dom Maklerski mBanku

2016-2019 average monthly pay projection (base salary + insurance) (PLN)

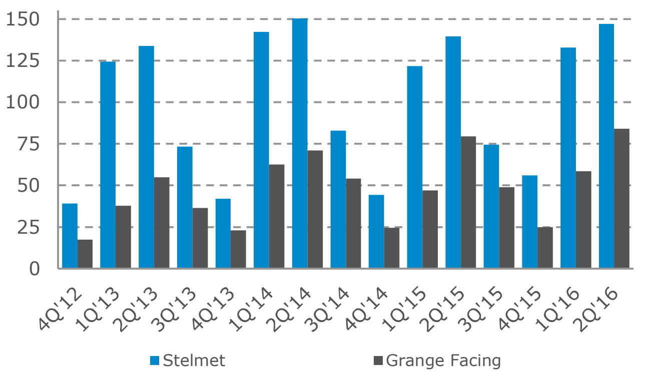


Source: Stelmet, Dom Maklerski mBanku

Seasonality

The garden fencing and pellet business is highly seasonal and weather-sensitive, with the peak sales months from February to July. Stelmet delivers to customers based on orders placed several weeks ahead. Since demand **during the high sales season is higher than Stelmet's capacity**, to avoid bottlenecks the Company begins to build inventory for the next season around September, **with the stockpile reaching peak level around early January,** stacked on the Company's vast storage lots. Aside from the usual seasonal patterns, Stelmet's sales can be affected either positively or negatively by **weather anomalies** such as **prolonged periods of cold** extending beyond the regular winter season (resulting in delayed orders), or other **extreme weather events** such as the winter storms of 2014 experienced in the UK which boosted demand for garden structures during the first and second quarter of the year in the wake of extensive damage to gardens across the country.

2012-2016 quarterly sales of Stelmet S.A. and Grange Fencing (PLN m)



Source: Stelmet, Dom Maklerski mBanku

In case of **pellets, the peak demand period is in September and October** and through to the end of the winter season, but production is kept fairly constant throughout the year. **Extended periods of winter cold and harsh weather will typically increase demand for thermal pellets,** but at the same time it will drive up production costs due to a need to use more heat energy in the pellet drying process. **The revenues earned on wood pellets and by-products help to mitigate seasonal sales variations at Stelmet.**

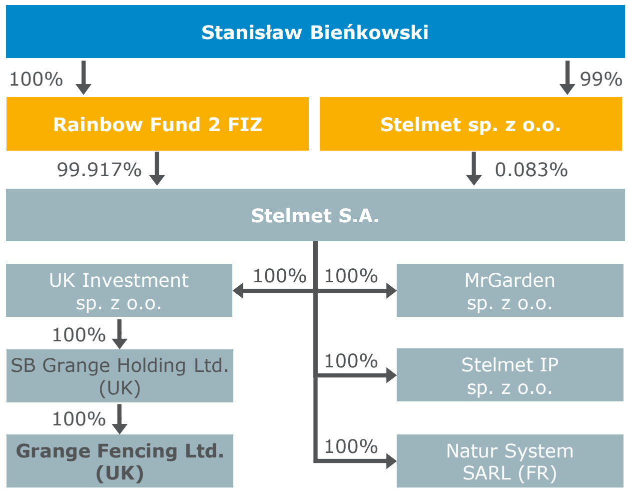
History and Organizational Structure

Stelmet was **founded in 1985** by Mr. Stanisław Bieńkowski as a sole proprietorship manufacturing wooden garden structures. The Company made its first **international shipment** in **1991**. **In 2000**, Stelmet was converted into a limited liability company, and its **sales reached PLN 60m**.

In the same year, **Stelmet acquired and expanded the fencing factory in Lubięcin,** and in **2007** the Company reached a crucial **milestone** by launching a new, bigger **facility in Zielona Góra** which has since been upgraded twice to increase capacity. The addition of a pellet plant in 2008 helped to achieve more efficient residue management, and diversify the utilization of by-products in Zielnoa Góra. The total cost of the Zielona Góra facility amounted to PLN 260m. In 2009, Stelmet suffered a financial **loss** totaling **PLN 130m** after one of its executives engaged in **harmful currency exchange trades**. This forced the Company to initiate a restructuring process which ended successfully within two years. Despite the loss on currency trading and the global economic crisis at that time, Stelmet retained a **stable financial footing during 2009**, exhibiting extraordinary resilience in the face of external shocks. In 2013, Stelmet reached another milestone as the sales for the year reached PLN 300m for the first time.

In 2014, Stelmet entered its next investment cycle by **acquiring the UK garden fencing company Grange Fencing** for PLN 70.7m (Grange had zero debt at the time of the acquisition, and its EBITDA for 2014/15 was £3.5m, with the acquisition multiple at 4x EV/EBITDA), and commencing the construction of a **the MrGarden facility in Grudziądz** (set to again double Stelmet's total capacity at a total CAPEX of PLN 260m).

Ownership and Organizational Chart



Source: Stelmet, Dom Maklerski mBanku

Organizational Structure

Stelmet is indirectly **wholly owned** by its founder, **Mr. Stanisław Bieńkowski**, via **Rainbow Fund 2 FIZ** and **Stelmet sp. z o. o.**

Stelmet S.A. manufactures and markets wood garden fencing since 2000.

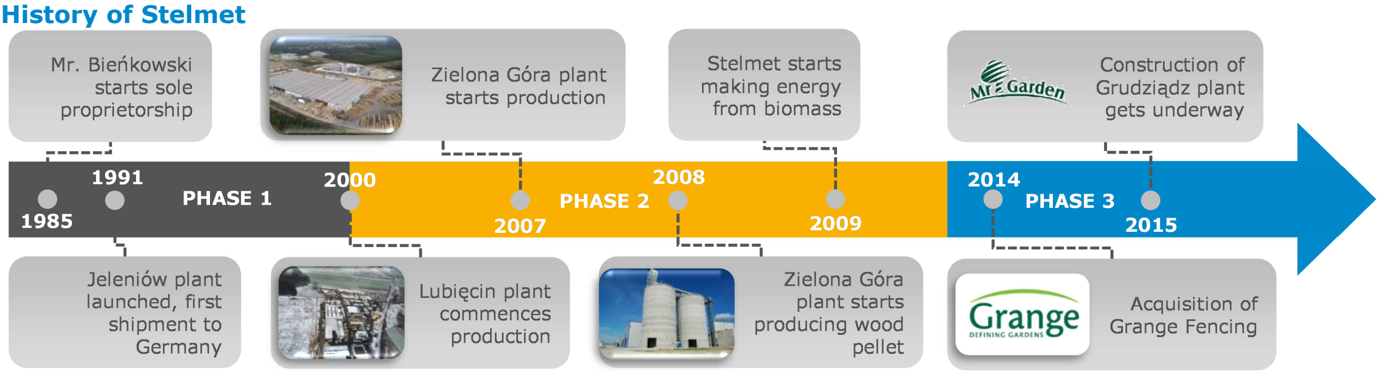
UK Investment sp. z o. o. is a holding company transferred to Stelmet S.A. by Rainbow Fund 2 FIZ on 30 September 2015. It controls the shares of SB Grange Holding Ltd, the owner of Grange Fencing.

MrGarden sp. z o. o. is the company set up to build the factory in Grudziądz, also transferred as a contribution in kind on 30 September 2015.

Stelmet IP sp. z o. o. is a company founded in 2015 to which Stelmet S.A. sold its trademarks for PLN 73.45m. Stelmet amortizes trademarks over a period of seventeen years at about PLN 4.3m per year.

Natur System SARL is a French company acting as Stelmet's agent in international markets.

History of Stelmet

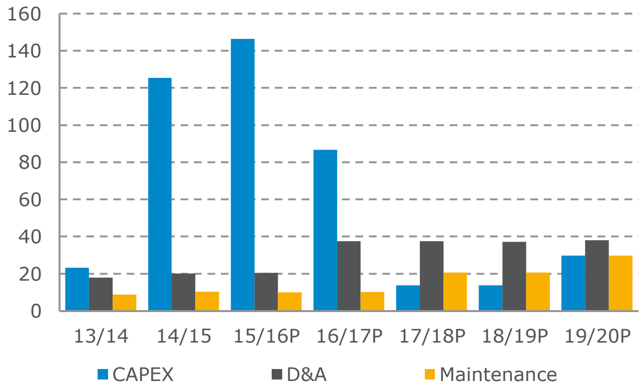


Source: Stelmet, Dom Maklerski mBanku

Capital Expenditures

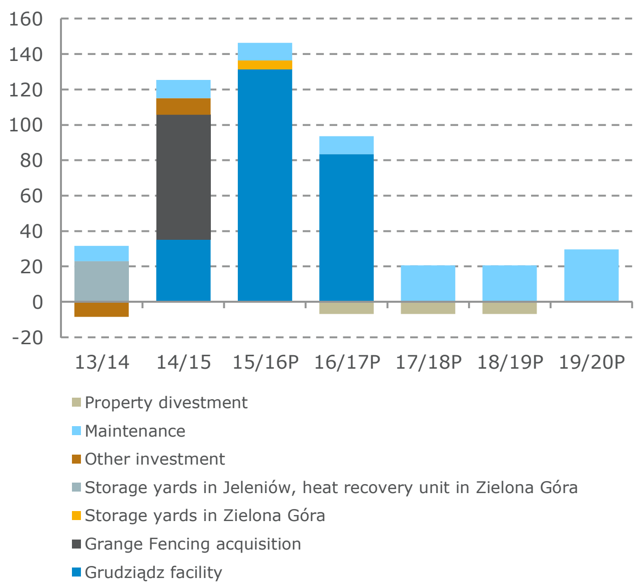
Stelmet spent a total of PLN 276.6m on capital and equity investment in the last four years, of which PLN 146m so far put toward the new factory in Grudziądz, PLN 70.7m paid for Grange Fencing, PLN 24m expended on a turbine generator for a captive power plant and on plant upgrades in the facility in Jeleniów, and PLN 23m allocated to the construction of a storage lot in Jeleniów and a heat recovery unit for the Zielona Góra pellet factory. By the end of 2016/17, Stelmet expects to have spent a total of about PLN 250m of the total PLN 260m budget on the MrGarden plant. In the future, the Company may **add a pellet unit to facility in Grudziądz** at an estimated cost of roughly **PLN 60m** for annual capacity below **90,000 tons**, rising by another **PLN 15m** if the unit were to be fitted with a **cogeneration system**. With that said, the latter two potential projects are not factored into our financial outlook for Stelmet.

Actual and projected annual CAPEX and D&A expenses (2014-2020P) (PLN m)



Source: Stelmet, Dom Maklerski mBanku

Actual and projected annual CAPEX (2014-2020) (PLN m)



Source: Stelmet, Dom Maklerski mBanku

According to our projections, Stelmet's future maintenance CAPEX should not exceed depreciation and amortization expenses.

Planned Divestment

Stelmet owns several non-core properties **with a combined book value of approximately PLN 20.5m** which it could sell for profit in the space of the next three years. Between them, the properties span a total area of 185,400 hectares, of which Stelmet owns 110,100 and leases the rest under various lease arrangements.

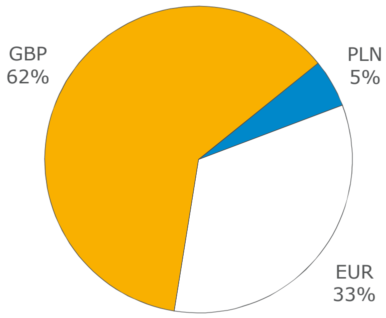
Debt

After the first nine months of fiscal 2015/2016, Stelmet had interest-bearing debt of approximately **PLN 251m** and unused credit facilities to the tune of **PLN 220m**. Most of the debt (62%) is denominated in British pounds, with 33% of the facilities taken out in euros.

Further, Stelmet has secured a **EUR 16m factoring facility** from which as of 30 June 2016 it had drawn down approximately **EUR 7.7m**. We estimate the margin rate on the facility at **0.75-1.00%**.

According to our estimates, the margins on Stelmet's FX-denominated loans fall in the range of 0.50-1.00%.

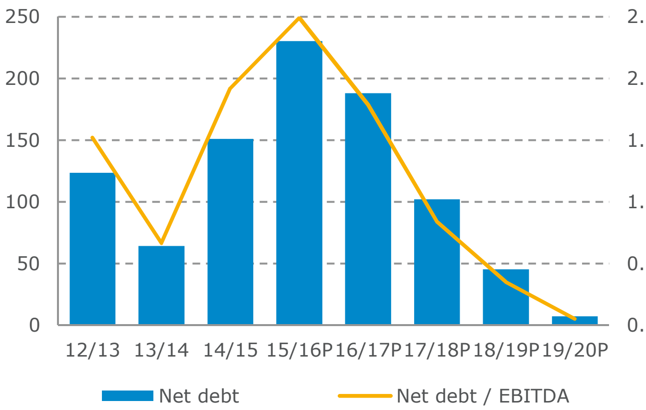
Currency breakdown of Stelmet's debt as of 31 March 2016



Source: Stelmet, Dom Maklerski mBanku

Stelmet's **financing needs** vary depending on the season, and they are the **highest from December to June**, first to pay for inventory when stocking up for the new season, and then to bridge cash flow gaps as the Company waits for payments for new deliveries made to its chain retail customers. When it comes to **working capital needs,** they are the **lowest in August and September** and **the highest in March and April.**

Net debt in millions of zlotys (lhs) and as a multiple of EBITDA (rhs) (2013-2020P)



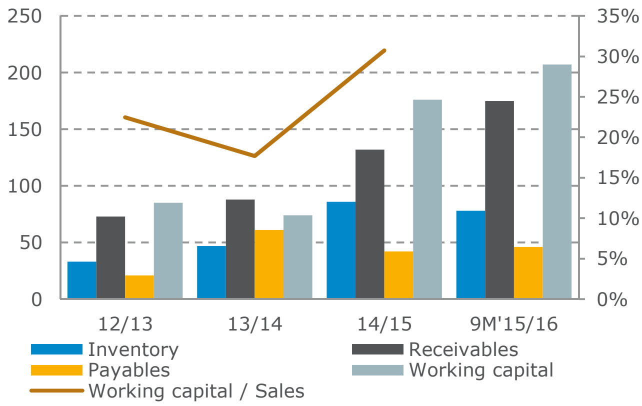
Source: Stelmet, Dom Maklerski mBanku

According to our predictions, even with the planned capital investment and the dividend distributions scheduled to start in 2018/2019, Stelmet's **net debt** will **not exceed the level of 3x EBITDA** during any of the forecast years. The Company's future dividend-paying potential is expected to increase significantly after it deleverages the balance sheet using the projected high operating cash flows.

Working Capital

Due to the **seasonality** of its business, Stelmet's **working capital needs** change across the year, rising during the inventory-building period from September to January, and **peaking in February-April**. After the peak sales season of March to May, when the inventory decreases and the customers pay for their orders, **in August and September the need for working capital is significantly reduced**.

Working capital in millions of zlotys (lhs) and as a percentage of sales (rhs), 2013-2016

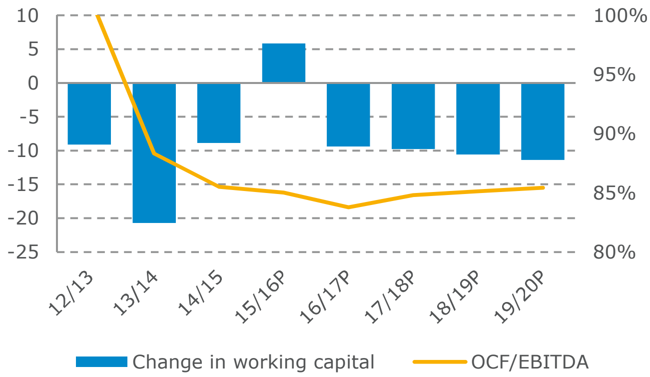


Source: Stelmet, Dom Maklerski mBanku

Stelmet's customers typically pay for their orders within **60 to 130 days**, with big chain retailers offered payment terms of **90 days**.

Our financial forecasts for Stelmet assume marked growth in annual revenues from 2017 to 2020, resulting in higher working capital. Further, we anticipate that the ratio of operating cash flow to EBITDA will decrease in 2016-2018.

Change in working capital (PLN m, lhs) and operating cash flow as a pct. of EBITDA (rhs), 2013-2020P



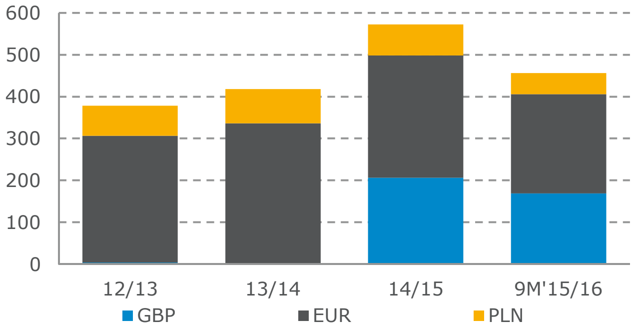
Source: Stelmet, Dom Maklerski mBanku

Foreign-Exchange Risk Hedging

Stelmet **generates the bulk (89% w 9M'15/16)** of its **revenues in euro and British pounds**, while most of its **costs are paid in zlotys**. The Company hedges the resulting currency risk with EUR and GBP borrowing and with currency forward contracts. At 31 March 2016, Stelmet's foreign-currency debt stood at EUR 18.7m and GBP 28.7m.

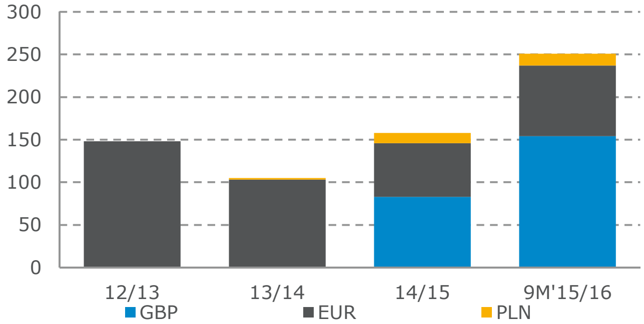
As of this writing, the Company is hedged against foreign exchange risk for 18 months out at 4.45 EUR/PLN (with a total exposure of EUR 40m) and 5.32 GBP/PLN (£5m).

2013-2016 foreign-currency revenues in millions of zlotys



Source: Stelmet, Dom Maklerski mBanku

2013-2016 foreign-currency-denominated interest-bearing debt in millions of zlotys

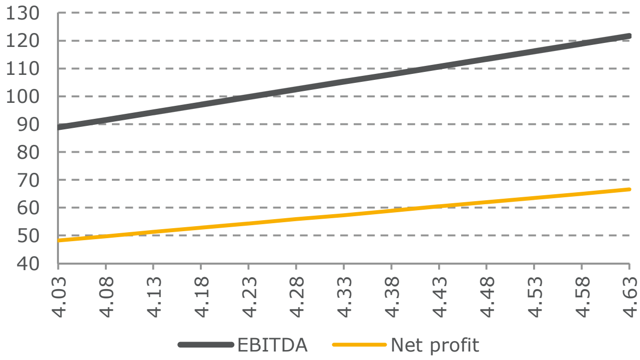


Source: Stelmet, Dom Maklerski mBanku

Sensitivity To Exchange-Rate Fluctuations

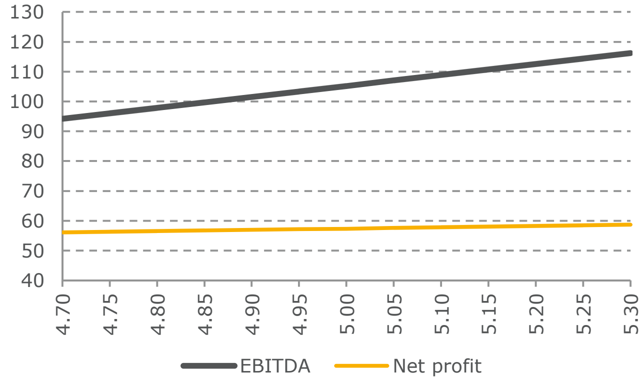
The earnings of Stelmet are affected by exchange rate movements, and to mitigate the impact the Company hedges its foreign currency exposure. We have performed a simulation of how Stelmet's earnings would be affected by exchange rate fluctuations without hedging. **Variations in the EUR/PLN exchange rate can affect EBITDA, but at net profit level they are partly offset by remeasurement of euro-denominated loans.** EBITDA is also affected by the **GBP/PLN** exchange rate, but the net impact is offset by adjustments to the Company's UK costs. At net profit level, GBP/PLN movements are neutralized by the remeasurement of a GBP 28.7m loan.

Sensitivity of FY2016/2017E EBITDA and net profit (PLN m, lhs) to changes in the EUR/PLN exchange rate (bottom scale)



Source: Dom Maklerski mBanku

Sensitivity of FY2016/2017E EBITDA and net profit (PLN m, lhs) to changes in the GBP/PLN exchange rate (bottom scale)

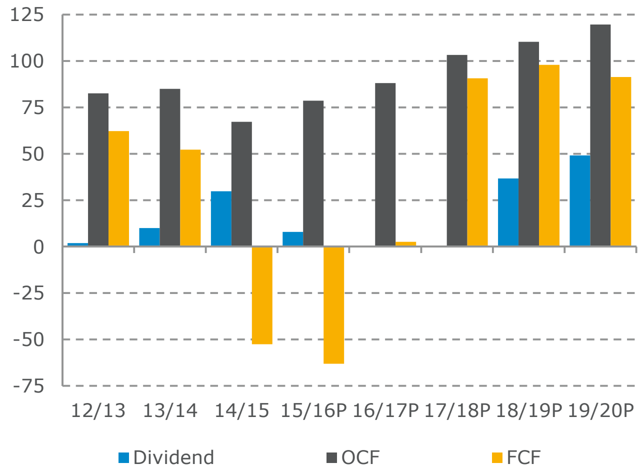


Source: Dom Maklerski mBanku

Dividend Policy

Given the ongoing capital investment in the new factory in Grudziądz, and the plans to boost sales, Stelmet is **not planning to pay its first dividend until after the end of fiscal 2017/2018**. According to our projections, free cash flow in 2016/2017 will be low in view of the ongoing capital expenditures, but once the capital projects are completed, in 2017/2018 free cash flow will rebound to annual levels in excess of PLN 75m. As a result, we believe Stelmet's shareholders can anticipate the first dividend payout upwards of PLN 30m in 2018.

Actual and projected dividends, cash flow from operations, and free cash flow (PLN m), 2012-2020P



Source: Stelmet, Dom Maklerski mBanku

Q4 FY2015/16 Earnings Forecast

We estimate that Stelmet sold 45,000 cubic meters of garden structures in the fourth quarter of fiscal 2015/2016, ended 30 September 2016, representing a small increase from the year-ago volume of 43,400 cubic meters. At the same time, we anticipate a contraction in the quarterly revenue led by an inventory sell-off by the UK plants earmarked for closure, underpinned by a depreciation in the GBP/PLN exchange rate and a slight appreciation in the PLN/EUR exchange rate. The average zloty sales price per cubic meter in the period is expected to have decreased to PLN 1,740 from PLN 2,450 the year before.

The quarterly profits should be supported by a decline in the average timber costs, resulting from a higher share of purchases via state tenders. We expect to see a one-time loss of PLN 2.8m, stemming from the UK production phase-out, in Q4 FY2015/16. Thanks to a sharp depreciation in the GBP vs. the PLN in the course of the quarter, Stelmet should be able to book a high gain on unrealized foreign exchange differences in an estimated total amount of PLN 12.7m).

Q4 FY'15/16 earnings forecast

(PLN m)	Q4'FY15/16E	Q4 FY'14/'15	change	FY2015/2016E	FY2014/2015	change
Revenue	99.8	123.7	-19.3%	556,0	572.8	-2.9%
EBITDA	14.1	12.2	16.1%	92.4	78.7	17.5%
margin	14.1%	9.8%		16.6%	13.7%	
EBIT	9	7.2	25.7%	72.1	58.6	23.1%
Pre-tax income	18.3	6.4	188.3%	79.3	61.1	29.7%
Net income	14.9	-1.9	-	62,0	64.7	-4.1%

Source: Dom Maklerski mBanku

Risks

Timber price volatility

Timber, which is the primary raw material for garden fencing and structures, is available in limited supply, and in Poland its sales are regulated by the state. Any change in regulation restricting the supply of timber for commercial use can drive up its prices, resulting in higher costs for Stelmet which may not necessarily be able to pass these onto end customers.

Biomass regulations

In 2011 an interest group put forth a proposal to allow the burning of round timber as a source of heat energy as a way of moving Poland closer to fulfilling the 20% renewable energy target by the EU-appointed 2020 deadline. The proposal at the time was rejected in the wake of protests from the timber industry and the public, but if it should reemerge and be passed some-time in the future, this would drive up timber costs via increased demand from the power industry.

Market competition

Stelmet faces higher materials costs in the event of rapid expansion of local timber-processing capacity, ramping up demand. In 2016, alongside Stelmet's MrGarden facility with annual timber needs of 570,000 cubic meters, Poland is set to see the launch of a new sawn timber plant, and capacity extensions by the wood-based panel manufacturer Grajewo. Next, the furniture maker Forte is planning to launch a wood-based panel factory with annual capacity of 250-300kcm in 2019-2020.

Weather

Demand for garden fencing can be affected by weather-related factors such as prolonged periods of winter cold. Stelmet, to an extent, can mitigate the negative impact of such factors on revenues with sales of pellets.

EU driver compensation regulations

In 2016 France passed a law, already in force in Germany, requiring that the hourly compensation of incoming non-French truck drivers be adjusted to the French minimum wage rates, sparking a debate about driver compensation practices. If the hourly rates for drivers from e.g. Eastern Europe, where wages are lower, were required to be brought up to the French or German levels, this would be a major cost driver for Stelmet where transportation costs are expected to increase from the current 15% to about 19% of total production costs in a few years. More broadly, the more stringent driver pay requirements would affect the whole timber industry, possibly forcing hikes in sales prices.

UK economy

The economic conditions in the United Kingdom have a significant effect on Stelmet's business. The recent referendum in which UK citizens voted to exit the European Union is expected to negatively affect the country's future growth in the wake of reduced investment and consumption, and a weaker housing market. If these predictions prove true, combined with a weakened pound, this can lead to reduced demand for Stelmet products and drive down the Company's sales prices, with implications for profit margins.

Moreover, one of the possible consequences of the so-called Brexit it that it may restrict the UK's free trade with the EU, and that it may entail the introduction of customs duties on certain goods, further exacerbating the downward pressure on Stelmet's profit margins. With that said, due to its limited timber resources available for wood supply, the UK is set to remain a major importer of timber landscaping products going forward.

Hydrocarbon prices

Low prices of coal, natural gas, and crude oil, affect the profitability of cogeneration and biomass cofiring for heat production, potentially reducing demand for wood pellets used as fuel, and putting downward pressure on prices, and hence also on the profit margins of Stelmet.

In addition, the Polish government's energy policy, which goes against the dominant global trends in that it continues to rely mostly on coal, results in lower demand for biomass.

Polish zloty exchange rates

Stelmet's benefits from the weakness of the Polish currency through its mostly zloty-denominated expenses, but on the other hand a sharp depreciation in the zloty can significantly increase the value of the Company's foreign-currency denominated debt to levels which in the worst-case scenario can breach the banking covenants set in loan agreements. To mitigate currency risk, Stelmet and its financing providers have agreed to revise the loan covenants at the end of each fiscal year when the working-capital needs are the lowest.

In addition, the zloty's depreciation versus foreign currencies intensifies the competition for timber along Poland's Western border as German buyers want to take advantage of the cheaper prices. The resulting increased demand for Polish timber can in turn cause local prices, especially in e-drewno auctions, to go up.

Customer default

Stelmet faces the risk that its biggest customers, i.e. DYI chain retailers, demand longer payment terms or default on paying their invoices. A failure of a major player similar to the 2013 bankruptcy of Praktiker Germany can have a negative impact on the debt ratios of Stelmet. The Company manages customer default risk through receivables insurance. Moreover, a big chain retailer can put pressure on Stelmet to reduce sales prices and give up a portion of its profit margin.

Competition from timber-rich, low-wage countries

At the moment, Poland is considered Europe's leading provider of garden fencing and landscaping products. In the future, however, there is a danger of rival producers building competitive capacity in other timber-rich, low-cost regions like, for instance, Romania.

Labor costs

Poland is experiencing economic growth, as reflected in decreasing unemployment which, in turn, creates upward pressure on salaries. With payroll accounting for an estimated 20% of the total production costs in Poland, higher labor costs can negatively affect Stelmet's profits.

Valuation

We have estimated the value of Stelmet using discounted cash flow analysis and relative valuation. The DCF model produced a per-share value of PLN 36.3, and multiples comparison returned a value of PLN 26.6.

(PLN)	weight	price
Relative Valuation	50%	26.6
DCF Analysis	50%	36.3
	value per share	31.4
	9m target price	**33.4**

Relative Valuation

We compared the forward earnings multiples of Stelmet with those projected for a group of comparable manufacturers of wood-based panels and furniture makers, and companies producing building materials, whose business depends on the situation in the housing market.

The multiples calculations for Stelmet are adjusted for one-time events and tax benefits, the discounted value of which is added to the final equity value.

Multiples Comparison

			P/E			EV/EBITDA		
	Country	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
AFG ARBONIA-FORSTER HOLD-REG	Switzerland	-	-	-	-	-	-	-
CANFOR CORP	Canada	15.2	13.8	11.0	10.8	5.1	4.7	4.3
CENTURY PLYBOARDS INDIA LTD	India	178.4	22.5	22.8	17.3	-	-	-
DECEUNINCK NV	Belgium	2.2	14.5	15.6	-	-	-	-
DURATEX SA	Brazil	7.2	174.4	21.3	14.2	10.3	7.5	6.5
FABRYKI MEBLI FORTE SA	Poland	74.8	16.2	15.5	14.6	12.1	11.9	11.7
GREENPLY INDUSTRIES LTD	India	256.0	24.3	25.3	21.3	-	-	-
INTERFOR CORP	Canada	14.6	16.4	12.3	9.2	6.8	5.1	3.8
INWIDO AB	Sweden	93.0	12.4	10.7	9.9	9.3	8.0	7.3
LOUISIANA-PACIFIC CORP	USA	19.7	22.4	12.9	12.5	8.5	5.8	5.3
NOBIA AB	Sweden	82.8	14.8	13.8	12.9	9.8	8.7	8.0
PAGED SA	Poland	53.4	14.0	10.4	9.8	10.4	8.6	7.8
PFLEIDERER GRAJEWO SA	Poland	36.4	25.6	12.1	11.0	6.6	5.4	5.0
RAYONIER INC	USA	27.4	49.7	57.8	59.6	19.1	18.8	18.3
UZIN UTZ AG	Germany	55.0	15.1	13.6	12.1	9.0	7.8	6.8
VANACHAI GROUP PUB CO LTD	Thailand	15.0	15.5	14.2	13.4	-	-	-
VILMORIN & CIE	France	59.8	16.6	14.4	12.6	7.7	6.9	6.3
WEST FRASER TIMBER CO LTD	Canada	46.8	11.9	9.7	8.8	6.3	5.0	4.2
Maximum			174.4	57.8	59.6	19.1	18.8	18.3
Minimum			11.9	9.7	8.8	5.1	4.7	3.8
Median			16.2	13.8	12.5	9.0	7.5	6.5
Implied valuation								
Median			16.2	13.8	12.5	9.0	7.5	6.5
Discount			0%	0%	0%	0%	0%	0%
Multiple weight				50%			50%	
Year weight			33%	33%	33%	33%	33%	33%
Equity value per share (PLN)			24.1					
Per-share present value of tax shield (PLN)			2.4					
Equity value per share (PLN)			**26.6**					

Peer Group

AFG ARBONIA FORSTER HOLDING AG is an established international construction products and technology group operating through five core business divisions: Heating Technology and Sanitary Equipment, Kitchens and Refrigeration, Windows and Doors, Steel Technology, and Surface Technology.

CANFOR CORPORATION is a global leader in sustainable wood building solutions based in Canada. Its products include lumber, pulp, and various types of paper.

CENTURY PLYBOARDS INDIA LTD is a producer and exporter of plywood, laminates, and veneers. Its sales range includes products for commercial and marine applications, window frames, and decorative plywood.

DECEUNINCK NV produces PVC and related products that are sold to the building and construction industry in Europe, Asia, and the United States. The Company's products include window and door frames, decorative boards for interior walls and ceilings, shutters, and smart systems for ventilation equipment. Deceuninck also recycles plastics.

DURATEX SA manufactures reconstituted wooden boards geared to both furniture manufacturers and housing segments. The Company is also in the market of metal fittings such as taps, faucets, flushing valves and shower heads, as well as manufactures ceramic ware such as toilets, washers and sinks.

FORTE SA is a Polish furniture producer and retailer with an international reach, selling a major part of its products in Germany, the Netherlands, Belgium, the Czech Republic, Slovakia, and Ukraine.

GREENPLY INDUSTRIES LTD is India's largest provider of interior design solutions including plywood and block board, flush doors, decorative veneers, and medium-density fiberboard.

INTERFOR CORPORATION harvests timber and manufactures and markets lumber products, logs, and wood chips. The Company has logging operations and sawmills in Western Canada.

INWIDO AB supplies wood-based window and door solutions. The Company manufactures environmentally-friendly products for consumers, manufacturers of prefabricated homes, and building companies. Inwido operates throughout Europe and exports to countries worldwide.

LOUISIANA-PACIFIC manufactures wooden framings, panels, and siding for residential and commercial applications.

NOBIA AB develops, manufactures, and markets kitchen interiors. The Company sells its products mainly through its own specialist kitchen stores and through franchised showrooms. Nobia produces in Sweden, Norway, Denmark, Finland, the United Kingdom, and Germany, and sells throughout Europe.

PAGED S.A. sells timber and wood-based products, including plywood and furniture, through a network of ten warehouses located across Poland.

PFLEIDERER GRAJEWO is a top-3 producer of wood-based panels in Europe, offering fiberboard, MDF, OSB, and MFP, as well as added-value items used in interior decoration. The Company's core markets are Poland and Germany. Its main customers hail from the furniture industry and the sector of building materials.

RAYONIER INC is a global timber company making pulp, lumber, and other wood-based products including MDF.

UZIN UTZ AG develops and manufactures a variety of adhesives, spackle, grout and insulation materials for the building of residential and commercial housing. The Company's products are used to affix tile and wood flooring, as well as wall coverings for bathrooms and kitchens. Uzin sells to specialty and do-it-yourself stores in Germany and other European countries.

VANACHAI GROUP PUB CO LTD produces MDF and particleboard for the South-East Asian market.

VILMORIN & CIE produces and sells fruit and garden plant seeds, bulbs, flowers, and animal nutrition products.

WEST FRASER TIMBER CO LTD produces lumber, plywood, MDF, and other types of wood panels, pulp, newsprint, and wood chips. It is based in the British Colombia, Alberta, and the US South.

DCF Valuation

DCF Model Assumptions:

- Risk-free rate: 3.5% (10Y Treasury bond yield).
- FCF growth rate after FY2026: 2%.
- Beta = 1.0.
- Future cash flows are discounted to their present value as of the end of calendar 2016, and they are adjusted for net debt as of the end of fiscal 2015/2016.
- We assume Stelmet will sell three investment properties for PLN 20.5m in the next three years.
- Exchange rates as of 31 September 2016 are EUR/PLN at 4130 and GBP/PLN at 5.0, resulting in upward value adjustments to Stelmet's foreign-currency debt in Q4 2015/2016 amounting to PLN 12.7m.
- We anticipate that Stelmet will recognize UK plant restructuring costs of £1.2m under other operating activity in 2015/16 and 2016/17.
- We expect Stelmet to recognize SSE tax credits via the MrGarden facility in a total amount of PLN 112.5m in the forecast period.
- We assume that Stelmet will sell about one-fourth of the energy produced by its 1.8 MWh heat generator to external customers.

Annual sales revenue projection

(PLN m)	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
Timber garden structures	293.4	319.4	484.0	472.7	491.5	530.5	571.0	615.0
Pellets	54.3	60.0	49.0	59.4	58.8	59.8	61.5	63.0
By-products	26.0	35.2	36.0	20.9	45.1	49.8	55.8	62.3
Heat energy	1.2	0.0	0.0	0.0	0.6	0.6	0.6	0.6
Other	3.2	3.4	4.0	3.0	3.0	3.0	3.0	3.0
Total	**378.0**	**418.0**	**573.0**	**556.0**	**599.0**	**643.7**	**691.9**	**743.9**

Garden structure revenue projection by geographic market

(PLN m)	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
Poland	16.4	16.9	18.5	16.6	16.3	16.4	16.8	17.1
UK	10.6	8.0	207.0	199.4	199.9	225.1	238.4	247.7
France	151.2	164.1	115.4	114.8	113.5	113.4	113.8	115.9
Germany	52.7	77.9	100.7	98.7	121.5	126.2	130.3	135.4
Other	65.2	52.5	42.4	43.2	40.4	49.3	71.8	99.0
Total	**293.4**	**319.4**	**484.0**	**472.7**	**491.5**	**530.5**	**571.0**	**615.0**

Garden structure sales volume projection by geographic market

(1000 cubic meters)	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
Poland	11.2	12.9	13.7	13.0	13.0	13.1	13.3	13.4
UK	5.8	4.3	66.0	68.6	76.9	86.9	91.2	94.0
France	84.9	88.9	63.2	61.9	63.2	63.8	64.4	65.1
Germany	37.0	50.9	64.4	61.2	77.7	81.6	84.8	87.4
Other	26.7	30.2	23.1	22.9	21.9	26.7	38.5	52.6
Total	**165.6**	**187.2**	**230.4**	**227.7**	**252.6**	**272.1**	**292.2**	**312.4**

Projection of average sales prices for garden structures

(PLN/m^3)	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
Poland	1464.3	1310.1	1350.4	1274.8	1249.2	1251.3	1262.0	1272.9
UK	1827.6	1860.5	3136.4	2904.7	2600.1	2591.5	2613.5	2636.1
France	1780.9	1845.9	1825.9	1853.6	1796.7	1777.8	1765.3	1780.5
Germany	1424.3	1530.5	1563.7	1612.9	1563.3	1546.8	1536.0	1549.2
Other	2441.9	1738.4	1835.5	1885.4	1847.6	1850.7	1866.4	1882.5
Average	**1771.6**	**1706.2**	**2100.7**	**2075.9**	**1945.6**	**1950.0**	**1953.9**	**1968.5**

Average sales price projection in local currencies, garden structures

	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
UK (GBP/m^3)	367.8	364.7	558.1	522.6	520.0	518.3	522.7	527.2
France (EUR/m^3)	426.4	441.9	437.7	427.6	414.9	418.3	425.4	429.0
Germany (EUR/m^3)	341.0	366.4	374.8	372.1	361.0	364.0	370.1	373.3

Projection of Stelmet's market share in timber garden structures

	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
Poland	4.5%	4.0%	3.9%	3.9%	3.9%	4.0%
UK	8.5%	8.2%	9.6%	11.0%	11.6%	11.9%
France	8.5%	8.1%	7.9%	8.0%	8.1%	8.2%
Germany	5.5%	5.1%	6.3%	6.6%	6.9%	7.1%

Projection of garden structure capacity utilization rates

	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
CUR	82.8%	93.6%	75.8%	91.1%	63.2%	68.0%	73.1%	78.1%

Pellet sales and price projection

	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
Revenue (PLN m)	54.3	60.0	48.5	59.4	58.8	59.8	61.5	63.0
Volume (1000 tons)	86.2	80.5	74.3	93.0	94.9	96.8	98.7	100.2
Timber purchases (1000 m^3)	215.5	201.3	185.8	232.5	237.2	241.9	246.7	250.4
Avg. price (PLN 1000/t)	699.0	745.3	652.8	639.2	620.0	617.9	623.2	628.6
CUR (%)	78.4%	73.2%	67.5%	84.5%	86.2%	88.0%	89.7%	91.1%

By-product sales and price projection

	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
Revenue (PLN m)	26.0	35.2	35.9	20.9	45.1	49.8	55.8	62.3
Avg. price (PLN/m^3)	309.3	176.3	171.4	184.1	180.6	178.2	182.5	187.0

Projection of production costs per cubic meter of timber input

(PLN)	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
Revenue	877.7	767.7	1,058.4	1,172.9	874.7	876.4	884.7	896.6
D&A	40.0	32.8	38.8	42.9	54.8	50.9	47.4	45.8
Labor costs	131.0	120.6	202.6	240.0	150.8	144.8	144.7	144.9
Electricity	16.2	16.2	25.0	22.4	16.8	16.7	16.7	16.7
Other materials and utilities	104.1	90.2	236.8	230.0	100.0	101.0	102.0	103.0
Timber costs	239.1	254.5	294.2	263.0	257.9	254.6	260.7	267.1
Costs of services	116.4	104.2	143.8	174.3	143.5	146.1	148.0	149.5
Taxes and charges	10.7	8.2	8.8	10.0	7.8	7.3	6.8	6.5
Other costs	26.8	22.4	39.2	40.0	40.0	40.0	40.0	40.0

Projection of timber demand

	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
Total demand (1000 m^3)	430.7	544.5	541.4	474.1	684.7	734.4	782.0	829.6
of which:								
Garden structures (1000 m^3)	165.6	187.2	189.5	165.9	252.6	272.1	292.2	312.4
Pellets (1000 m^3)	215.5	201.3	185.8	232.5	237.2	241.9	246.7	250.4
Other (1000 m^3)	84.1	199.6	209.5	113.6	249.7	279.3	305.6	333.1
Avg. purchase price (PLN/m^3)	234.5	257.8	282.2	263.0	257.9	254.6	260.7	267.1
Sourcing method								
RFQ (%)	59.3%	53.5%	41.7%	70.8%	63.1%	69.1%	69.3%	69.4%
Auction (%)	40.7%	46.5%	58.3%	29.2%	36.9%	30.9%	30.7%	30.6%
Prices depending on source								
RFQ (PLN/m^3)	184.5	196.8	203.2	220.2	207.0	211.1	216.4	221.8
Auction (PLN/m^3)	307.4	328.0	338.7	367.0	345.0	351.9	360.7	369.7
RFQ price as a pct. of auction price	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%

Headcount and payroll projection

	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
Poland	933	1,184	1,134	1,209	1,419	1,499	1,541	1,580
International	5	5	212	274	100	60	60	60
Avg. monthly salary + insurance (PLN)			6,790	6,393	5,664	5,682	5,890	6,106
Poland			4,800	4,850	5,093	5,347	5,561	5,783
UK			17,433	13,200	13,770	14,045	14,326	14,612

Capital Investment & Divestments

(PLN m)	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
MrGarden facility		35.0	131.6	83.4	0.0	0.0	0.0
Grange Fencing acquisition		70.7	0.0	0.0	0.0	0.0	0.0
Storage yards in Zielona Góra		0.0	4.8	0.0	0.0	0.0	0.0
Storage yards in Jeleniów, heat recovery unit in Zielona Góra, and others	23.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	-8.6	9.4	0.0	0.0	0.0	0.0	0.0
Maintenance	8.7	10.3	10.0	10.2	20.6	20.6	29.7
Property divestments	0.0	0.0	0.0	-6.8	-6.8	-6.8	0.0
Total	23.2	125.4	146.4	86.7	13.8	13.7	29.7

Exchange rate projection

	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P
EUR/PLN	4.18	4.18	4.17	4.33	4.33	4.25	4.15	4.15
USD/PLN	3.18	3.08	3.64	3.90	4.11	4.05	3.70	3.70
GBP/PLN	4.97	5.10	5.62	5.56	5.00	5.00	5.00	5.00

DCF Model

(PLN m)	16/17P	17/18P	18/19P	19/20P	20/21P	21/22P	22/23P	23/24P	24/25P	25/26P	+
Revenue	599.0	643.7	691.9	743.9	796.2	849.6	904.2	926.0	953.6	970.0	987.1
change	7.7%	7.5%	7.5%	7.5%	7.0%	6.7%	6.4%	2.4%	3.0%	1.7%	1.8%
EBITDA	105.2	121.9	129.7	140.1	149.7	159.0	168.0	165.3	167.7	168.1	168.0
EBITDA margin	17.6%	18.9%	18.7%	18.8%	18.8%	18.7%	18.6%	17.9%	17.6%	17.3%	17.0%
D&A	37.5	37.4	37.1	38.0	39.5	41.4	42.6	44.4	45.2	45.1	46.1
EBIT	67.7	84.5	92.6	102.1	110.2	117.6	125.5	120.9	122.5	123.1	121.9
EBIT margin	11.3%	13.1%	13.4%	13.7%	13.8%	13.8%	13.9%	13.1%	12.8%	12.7%	12.4%
Tax on EBIT	6.5	7.5	7.4	7.6	8.6	9.4	10.3	8.8	8.5	10.1	22.4
NOPLAT	61.2	77.0	85.2	94.5	101.6	108.2	115.1	112.0	114.0	113.0	99.5
CAPEX	-86.7	-13.8	-13.7	-29.7	-32.3	-35.6	-39.3	-42.6	-44.4	-45.2	-46.1
Working capital	-9.4	-9.8	-10.6	-11.4	-11.5	-11.7	-12.0	-4.8	-6.0	-3.6	-3.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
FCF	2.6	90.8	98.0	91.5	97.4	102.3	106.4	109.2	108.7	109.3	96.8
WACC	7.8%	8.1%	8.3%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Discount factor	0.95	0.87	0.80	0.74	0.68	0.63	0.58	0.53	0.49	0.45	0.42
PV FCF	2.4	79.2	78.7	67.4	66.1	64.0	61.3	58.0	53.2	49.3	40.3

WACC	7.8%	8.1%	8.3%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Cost of debt	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Risk-free rate	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Risk premium	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Effective tax rate	10.2%	9.3%	8.3%	7.7%	8.0%	8.2%	8.4%	7.5%	7.1%	8.3%	19.0%
Net debt / EV	17.1%	10.1%	4.7%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast period	2.0%
Terminal value (PLN m)	1,488.8
Present value of terminal value	672.1
Present value of FCF in the forecast period	579.7
Enterprise value	1,251.8
Net debt	230.3
IPO proceeds	44.8
Minority interests	0.8
Equity value (PLN m)	1,065.5
Number of shares (millions)	29.4
Equity value per share (PLN)	36.3
9M cost of equity	6.3%
Target price	**38.6**
EV/EBITDA ('16/17) at target price	12.6
P/E ('16/17) at target price	18.6
TV / EV	53.7%

Sensitivity Analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	5.0%
WACC +1.0 p.p.	28.5	30.3	32.5	35.5	45.4
WACC +0.5 p.p.	30.5	32.6	35.3	38.9	51.5
WACC	32.9	35.3	38.6	43.0	59.4
WACC -0.5 p.p.	35.5	38.4	42.3	47.9	69.9
WACC -1.0 p.p.	38.4	41.9	46.8	53.8	84.6

Income Statement

(PLN m)	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P	20/21P
Revenue	378.0	418.0	572.8	556.0	599.0	643.7	691.9	743.9	796.2
change	-	10.6%	37.0%	-2.9%	7.7%	7.5%	7.5%	7.5%	7.0%
Timber garden structures and fencing	293.4	319.4	484.0	472.7	491.5	530.5	571.0	615.0	659.0
Pellets	54.3	60.0	49.0	59.4	58.8	59.8	61.5	63.0	64.5
By-products	26.0	35.2	36.0	20.9	45.1	49.8	55.8	62.3	69.1
Heat energy	1.2	0.0	0.0	0.0	0.6	0.6	0.6	0.6	0.6
Other	3.2	3.4	4.0	3.0	3.0	3.0	3.0	3.0	3.0
COGS	248.3	268.0	405.3	364.1	400.4	423.8	455.9	489.9	525.5
D&A	17.2	17.8	21.0	20.4	37.5	37.4	37.1	38.0	39.5
Payroll	56.4	65.7	109.7	113.8	103.2	106.3	113.1	120.2	127.5
Materials and utilities	51.8	58.0	141.7	119.7	80.0	86.4	92.8	99.4	106.0
Timber costs	103.0	138.6	159.3	124.7	176.6	187.0	203.8	221.6	240.1
Services	50.1	56.7	77.8	82.6	98.2	107.3	115.7	124.0	132.4
Taxes and charges	4.6	4.5	4.8	4.7	5.3	5.3	5.3	5.4	5.4
Other costs	11.5	12.2	21.2	19.0	27.4	29.4	31.3	33.2	35.1
Miscellaneous	-20.3	11.2	16.9	0.0	0.0	0.0	0.0	0.0	0.0
Other operating gains / losses	1.1	2.5	4.4	0.9	-3.0	0.0	0.0	0.0	0.0
EBIT	64.1	78.4	58.6	72.1	67.7	84.5	92.6	102.1	110.2
change	-	22.3%	-25.3%	23.1%	-6.1%	24.8%	9.7%	10.3%	7.9%
EBIT margin	16.9%	18.7%	10.2%	13.0%	11.3%	13.1%	13.4%	13.7%	13.8%
Financing gains / losses	-5.7	-0.8	1.9	7.2	-3.9	-3.6	-3.2	-3.0	-2.8
Interest income	0.1	0.0	0.2	0.1	0.1	0.5	0.8	1.0	1.2
Interest expenses	4.1	3.1	6.6	3.6	4.0	4.0	4.0	4.0	4.0
Pre-tax income	59.7	77.6	61.1	79.3	63.8	80.9	89.4	99.2	107.4
Tax	2.3	0.1	-3.6	17.3	6.5	7.5	7.4	7.6	8.6
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	57.4	77.5	64.7	62.0	57.3	73.4	82.0	91.6	98.8
change	-	34.9%	-16.5%	-4.1%	-7.6%	28.1%	11.7%	11.7%	7.9%
margin	15.2%	18.5%	11.3%	11.2%	9.6%	11.4%	11.8%	12.3%	12.4%

D&A	17.2	17.9	20.1	20.4	37.5	37.4	37.1	38.0	39.5
EBITDA	81.3	96.3	78.7	92.4	105.2	121.9	129.7	140.1	149.7
change	-	18.5%	-18.3%	17.5%	13.8%	15.8%	6.4%	8.0%	6.8%
EBITDA margin	21.5%	23.0%	13.7%	16.6%	17.6%	18.9%	18.7%	18.8%	18.8%

Shares at year-end (millions)	27.9	27.9	27.9	27.9	29.4	29.4	29.4	29.4	29.4
EPS	2.1	2.8	2.3	2.2	2.0	2.5	2.8	3.1	3.4
CEPS	2.7	3.4	3.0	3.0	3.2	3.8	4.1	4.4	4.7

ROAE	27.7%	30.4%	19.5%	16.7%	12.1%	13.4%	13.8%	14.4%	14.8%
ROAA	13.8%	16.5%	10.4%	8.7%	7.0%	8.1%	8.6%	9.1%	9.4%

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Balance Sheet

(PLN m)	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P	20/21P
ASSETS	417.2	468.4	620.5	713.1	822.4	903.3	956.6	1,007.6	1,051.1
Fixed assets	271.3	281.7	364.5	489.2	539.6	517.2	495.2	488.3	482.7
Intangible assets	2.5	2.1	3.6	16.1	24.3	25.3	26.3	29.1	32.3
Property, plant and equipment	239.9	250.0	289.5	401.9	444.1	420.8	397.7	388.0	379.3
Goodwill	1.9	1.9	28.5	28.5	28.5	28.5	28.5	28.5	28.5
Long-term receivables	3.5	3.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Long-term investment	23.6	24.4	20.9	20.9	20.9	20.9	20.9	20.9	20.9
Long-term prepayments	0.0	0.0	21.8	21.8	21.8	21.8	21.8	21.8	21.8
Current assets	145.9	186.7	256.0	224.0	282.9	386.1	461.4	519.4	568.4
Inventory	33.3	46.8	86.2	83.7	90.2	96.9	104.2	112.0	119.9
Current receivables	73.0	87.6	132.0	126.2	136.0	146.1	157.0	168.9	180.7
Current investment	1.3	0.6	3.7	0.0	0.0	0.0	0.0	0.0	0.0
Cash	36.2	48.9	29.4	5.8	48.1	134.1	190.8	228.7	257.6
Current prepayments	2.0	2.8	4.7	4.6	5.0	5.3	5.7	6.2	6.6

(PLN m)	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P	20/21P
EQUITY AND LIABILITIES	417.2	468.4	620.5	713.1	822.4	903.3	956.6	1,007.6	1,051.1
Equity	207.1	254.8	331.6	371.3	473.4	546.8	592.1	634.5	669.2
Share capital	4.2	0.1	27.9	27.9	27.9	27.9	27.9	27.9	27.9
Supplementary capital	0.0	0.0	14.4	14.4	59.3	59.3	59.3	59.3	59.3
Other reserve capital	126.3	158.9	206.2	206.2	206.2	206.2	206.2	206.2	206.2
Retained earnings	76.5	95.8	82.8	136.9	194.1	267.5	312.8	355.2	389.9
Minority interests	1.6	1.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Long-term liabilities	116.7	71.5	151.8	151.8	151.8	151.8	151.8	151.8	151.8
Debt	116.6	69.2	149.9	149.9	149.9	149.9	149.9	149.9	149.9
Trade creditors	0.0	2.3	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Current liabilities	64.1	104.5	72.2	126.7	129.8	133.1	136.6	140.4	144.2
Trade creditors	21.0	60.6	41.7	40.5	43.6	46.8	50.4	54.1	58.0
Debt	43.1	43.9	30.5	86.2	86.2	86.2	86.2	86.2	86.2
Provisions for accounts payable	6.8	8.7	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Other	20.9	27.3	53.8	52.2	56.2	60.4	65.0	69.8	74.8
Debt	159.7	113.1	180.4	236.1	236.1	236.1	236.1	236.1	236.1
Net debt	123.5	64.2	151.0	230.3	188.0	102.0	45.3	7.4	-21.5
(Net debt / Equity)	59.6%	25.2%	45.5%	62.0%	39.7%	18.7%	7.6%	1.2%	-3.2%
(Net debt / EBITDA)	1.5	0.7	1.9	2.5	1.8	0.8	0.3	0.1	-0.1
BVPS	7.4	9.1	11.9	13.3	16.1	18.6	20.2	21.6	22.8

Cash flow

(PLN m)	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P	20/21P
Cash flow from operating activities	82.7	85.0	67.3	78.6	88.1	103.3	110.4	119.7	128.1
Net income	57.4	77.5	64.7	62.0	57.3	73.4	82.0	91.6	98.8
D&A	17.2	17.9	20.1	20.4	37.5	37.4	37.1	38.0	39.5
Working capital	-9.1	-20.7	-8.9	5.9	-9.4	-9.8	-10.6	-11.4	-11.5
Other	17.1	10.4	-8.6	-9.7	2.7	2.3	1.9	1.5	1.2
Cash flow from investing activities	-7.5	-22.1	-124.0	-146.4	-86.7	-13.8	-13.7	-29.7	-32.3
CAPEX	-7.5	-23.2	-125.4	-146.4	-86.7	-13.8	-13.7	-29.7	-32.3
Equity investment	0.1	1.1	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	-56.7	-50.3	37.3	44.2	40.9	-3.6	-39.9	-52.2	-66.9
Share issue	0.0	0.0	0.0	0.0	44.8	0.0	0.0	0.0	0.0
Debt	-52.7	-39.2	73.3	55.7	0.0	0.0	0.0	0.0	0.0
Dividend/buyback	-2.0	-10.0	-29.8	-8.0	0.0	0.0	-36.7	-49.2	-64.1
Other	-1.9	-1.1	-6.3	-3.5	-3.9	-3.6	-3.2	-3.0	-2.8
Change in cash	18.5	12.6	-19.5	-23.6	42.3	86.0	56.8	37.9	28.9
Cash at period-end	36.2	48.9	29.4	5.8	48.1	134.1	190.8	228.7	257.6
DPS (PLN)	0.07	0.36	1.07	0.29	0.00	0.00	1.25	1.68	2.18
FCF	62.4	52.4	-52.5	-63.0	2.6	90.8	98.0	91.5	97.4
(CAPEX/Sales)	-2.0%	-5.5%	-21.9%	-26.3%	-14.5%	-2.1%	-2.0%	-4.0%	-4.1%

Market multiples

	12/13	13/14	14/15	15/16P	16/17P	17/18P	18/19P	19/20P	20/21P
P/E	15.1	11.2	13.4	13.9	15.9	12.4	11.1	9.9	9.2
P/CE	11.6	9.1	10.2	10.5	9.6	8.2	7.6	7.0	6.6
P/BV	4.2	3.4	2.6	2.3	1.9	1.7	1.5	1.4	1.4
P/S	2.3	2.1	1.5	1.6	1.5	1.4	1.3	1.2	1.1
FCF/EV	6.3%	5.6%	-5.2%	-5.8%	0.2%	9.0%	10.3%	10.0%	11.0%
EV/EBITDA	12.2	9.7	12.9	11.9	10.4	8.3	7.4	6.6	5.9
EV/EBIT	15.5	11.9	17.4	15.2	16.2	12.0	10.3	9.0	8.1
EV/S	2.6	2.2	1.8	2.0	1.8	1.6	1.4	1.2	1.1
CFO/EBITDA	102%	88%	86%	85%	84%	85%	85%	85%	86%
Working capital / Sales	23%	18%	31%	30%	30%	30%	30%	30%	30%
Dividend Yield	0.2%	1.2%	3.4%	0.9%	0.0%	0.0%	4.0%	5.4%	7.0%
Price (PLN)	31.00	31.00	31.00	31.00	31.00	31.00	31.00	31.00	31.00
Shares at eop (million)	27.9	27.9	27.9	27.9	29.4	29.4	29.4	29.4	29.4
MC (PLN m)	864.8	864.8	864.8	864.8	910.3	910.3	910.3	910.3	910.3
Minority interests (PLN m)	1.6	1.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8
EV (PLN m)	989.9	930.6	1,016.5	1,095.9	1,099.1	1,013.1	956.3	918.5	889.6

List of abbreviations and ratios contained in the report:
EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from –5% to +5%
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The production of this recommendation was completed on January 12, 2017, 8:38 AM.
This recommendation was first disseminated on January 12, 2017, 8:38 AM.

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Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.
Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.
Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.
NAV - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank S.A. did not issue any recommendations for Stelmet S.A. in the last twelve months.

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