

Tuesday, October 16, 2018 | special comment

## TXM – Suspending Coverage

Rating: suspended

**TXM PW; TXM.WA | Retail, Poland**

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TXM's CEO since September 2017, Marcin Gregorowicz, resigned for personal reasons effective October 15th, said the Company in a market filing this morning. The resignation comes as TXM enters a critical stage in its turnaround effort, putting the whole process into question. In August, TXM raised close to PLN 32 million of fresh capital via an equity and debt issue, money which was supposed to go toward working capital and improving in-store inventories. In light of Mr. Gregorowicz's unexpected resignation, we feel we can no longer assume with confidence that these measures are going to work, or that they will be completed within the original time frame, with implications for our earnings outlook and valuation. Consequently, we suspend coverage of TXM until we get clarity about further course of action from the Company's remaining directors.



**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%  
**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
**SELL** – we expect that an investment will bear a loss greater than 15%  
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**DCF** – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

**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 issued the following investment recommendations for TXM in the 12 months prior to this publication**

**TXM**

Rating	suspended	buy	buy	buy	buy	buy
Rating date	2018-10-16	2018-07-04	2018-05-09	2018-02-02	2017-12-01	2017-11-03
Target price (PLN)	-	3,48	5,44	5,41	5,74	5,77
Price on rating day	0,59	1,28	2,10	2,36	2,02	1,99

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