



Dom Maklerski BDM S.A.

## ENTER AIR

### ANALYTICAL REPORT - SUMMARY

Due to the seasonal nature of the charter business, both the last and the first quarter of the year have a significant negative impact on the carrier's annual performance. However, due to the observed strong demand for Enter Air services and the resulting increase in the number of flights, both in Q4'22 and in estimated by us Q1'23 show significantly better financial results compared to the corresponding periods in previous years. Additionally, the high season looks exceptionally promising. Orders for the company's services significantly exceed its current transport capacity. Therefore, a significant fleet expansion to 32 aircraft (compared to 27 in 2022) is planned ahead of the high season. We estimate that the increase in the number of flight operations by Enter Air this year could reach approximately +25% y/y, which should result in a significant growth in financial results during this period. For the entire year 2023, we anticipate revenues at the level of 2.5 billion PLN, 273.0 million PLN gross profit, 439.0 million PLN EBITDA and 182.4 million PLN net profit. After updating the model, we set the target price at 52.3 PLN, which implies maintaining the Accumulate recommendation.

Due to the seasonal nature of this business, both the last and the first quarter of the year have a significant negative impact on the carrier's annual performance. Therefore, we viewed positively the results achieved by the company in Q4'22, which exceeded our expectations and showed the best profitability in several years. During this period, the company recorded a revenue growth of 56.6% to 431.9 million PLN. Several factors contributed to such a significant increase in turnover, including an increase in the number of flights (approximately +12% y/y partly due to the lifting restrictions related to the Covid-19 pandemic), higher aviation fuel prices and the weakening of the PLN currency. The company's gross profit reached 5.6 million PLN (compared to -37.2 million PLN in Q4'21) and IFRS 16 EBITDA reached 45.4 million PLN (compared to -25.1 million PLN in Q4'21). The company's financial balance amounted to -98.0 million PLN (including 107.3 million PLN in exchange rate differences). At the net profit level, the company reported 67.9 million PLN (compared to -96.0 million PLN in Q4'21).

As we mentioned earlier, due to the seasonal nature, the low season is usually the weakest performing period of the year for the company. During this time, ENT utilizes it for preparations for the high season (fleet review, etc.) and investments (such as acquiring additional aircraft, which involves prepayments). Despite the cyclical nature, we expect that Q1'23 brought a significant improvement in demand for the company's services (including the effect of a strong consumer demand supported by Ukrainians, weak condition of competitors and decreasing attractiveness of local offers due to rising prices), which translated into a substantial year-on-year growth (approximately +20%) in the number of flights during this period. Taking into account factors such as the decrease in aviation fuel prices and depreciation of currencies against PLN, we estimate that Enter Air generated 308.7 million PLN in revenue (+43.5% y/y) in the mentioned period. According to our calculations, the gross profit in the past quarter amounted to -2.3 million PLN, and IFRS 16 EBITDA reached 40.9 million PLN (+125.7% y/y). Due to the positive impact of exchange rate differences (approximately 60.5 million PLN), we estimate that the company had a net profit of 22.5 million PLN in Q1'23 (compared to a loss of 68.7 million PLN in Q1'22). After adjusting of the impact of exchange differences, we forecast a loss of 27.4 million PLN (compared to a loss of 39.6 million PLN in Q1'22).

The outlook for the upcoming quarters of 2023 looks very promising. Orders for the company's services significantly exceed its current transport capabilities. Therefore, significant fleet expansion (+5 compared to 2022) is planned before the high season, bringing the total number of aircraft to 32 (including 4 new 'Max' planes and utilizing 3 aircraft through wet lease arrangements). We estimate that the growth in the Enter Air number of flight operations in this year could reach approximately +25% y/y, which should result in a significant increase in performance during this period. For the entire year 2023, we anticipate revenues at the level of 2.5 billion PLN, 273.0 million PLN gross profit, 439.0 million PLN EBITDA and 182.4 million PLN net profit.

When it comes to Poland market, the significant increase in interest in the carrier's offer can be attributed, among other factors, to strong consumer demand supported by Ukrainians and the decreased attractiveness of local offers due to rising prices. As for international markets, high inflation and Enter's attractive prices allow the company to capture a portion of orders from its competitors. A potential risk for the company is the resolution of the conflict in Ukraine, as the return of Ukrainian citizens to their homeland may lead to a decline in domestic market demand.

	2020	2021	2022F	2023F	2024F	2025F	2026F
Revenues [mln PLN]	470,5	1 120,3	2 255,8	2 488,0	2 093,0	2 187,9	2 307,4
EBITDA MSSSF16[mln PLN]	23,9	208,8	442,7	439,0	443,8	471,1	494,3
EBIT MSSSF16 [mln PLN]	-150,5	-14,1	290,3	221,5	214,4	232,9	210,3
Gross income [mln PLN]	-188,0	-141,1	77,1	225,1	152,8	171,2	147,1
Net income [mln PLN]	-154,1	-117,1	72,3	182,4	123,8	138,7	119,1
P/BV	3,9	9,1	5,0	2,4	1,7	1,5	1,3
P/E	-	-	11,2	4,4	6,5	5,8	6,8
EV/EBITDA MSSSF16	85,9	10,5	4,5	4,1	3,7	3,8	3,4
EV/EBIT MSSSF16	-	-	6,8	8,1	7,8	7,7	8,0
DPS	0,0	0,0	0,0	0,0	0,0	4,3	1,2
DY	0,0%	0,0%	0,0%	0,0%	0,0%	9,4%	2,6%

This report has been prepared in compliance with Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 (on market abuse), Commission Delegated Regulation (EU) 2016/958 and Commission Delegated Regulation (EU) 2017/565. Detailed contents of legal notes is located on the last page of this report. The report has been prepared and made available for distribution by BDM. GPW shall be a copyright holder to this report from the date of its publication. The report can be published and made available without limitation by GPW through any mass communication media as decided by GPW.

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The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme

## ACCUMULATE

(PREVIOUS: ACCUMULATE)

**TARGET PRICE 52,3 PLN**

23 MAY 2023, 11:55 CEST

Target price [PLN]	52,3
Price upside	13%
Cost of capital	8,8%
Price [PLN]	46,2
Market cap [mln PLN]	810,2
Shares mln. szt.]	17,5
Max. price 6M [PLN]	47,5
Min. price 6m [PLN]	22,2
Rate of return 3M	41,2%
Rate of return 6M	108,0%
Rate of return 9M	106,2%
Shareholders (% of votes):	
ENT Investments Ltd	51,5%
NN PTE	10,7%
Generali OFE	9,7%
Investors TFI	5,1%
Others	23,0%

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**Valuation summary**

	Share	Valuation
DCF valuation	70%	45,6
Peer valuation	30%	67,9
<b>Target price [PLN]</b>		<b>52,3</b>

Source: BDM S.A.

**DCF valuation**

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Revenues [mln PLN]	2 488,0	2 093,0	2 187,9	2 307,4	2 396,1	2 516,4	2 679,5	2 848,6	2 979,1	3 111,5
EBIT [mln PLN]	221,5	214,4	232,9	210,3	222,6	238,6	260,7	236,0	257,6	273,3
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT [mln PLN]	42,1	40,7	44,3	40,0	42,3	45,3	49,5	44,8	48,9	51,9
NOPLAT [mln PLN]	179,4	173,7	188,7	170,4	180,3	193,2	211,1	191,2	208,6	221,3
Amortization [mln PLN]	217,6	229,3	238,2	284,0	290,1	297,1	305,4	362,4	367,9	377,7
CAPEX [mln PLN]	-197,9	-236,5	-442,5	-260,6	-271,3	-283,7	-474,6	-318,5	-337,9	-357,9
Working capital movement [mln PLN]	1,0	1,2	0,5	0,7	0,5	0,7	0,9	0,9	0,7	0,7
Purchase of investmen [mln PLN]	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
FCF [mln PLN]	200,0	167,7	-15,2	194,4	199,6	207,4	42,9	236,0	239,4	241,9
DFCF [mln PLN]	195,8	150,3	-12,4	145,5	135,9	128,0	24,0	119,1	108,8	98,8
Total DFCF [mln PLN]	1 093,9									
Terminal value [mln PLN]	2 041,3									
Discounted terminal value [mln PLN]	834,1									
Enterprise value [mln PLN]	1 927,9									
Net debt 2022 [mln PLN]	1 169,5									
Shares of Chair Airlines [mln PLN]	41,4									
<b>Equity value [mln PLN]</b>	<b>799,8</b>									
Number of shares [mln]	17,5									
<b>Value per share [PLN]</b>	<b>45,6</b>									

Terminal growth rate: 1,0%

**WACC calculation**

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Risk-free rate	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%
Risk premium	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%
Beta	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2
Credit premium	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%
Cost of equity	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%
Contribution of equity	29,8%	34,1%	34,4%	38,0%	41,7%	45,8%	47,4%	50,6%	53,3%	56,5%
Cost of debt after tax	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%
Contribution of debt	70,2%	65,9%	65,6%	62,0%	58,3%	54,2%	52,6%	49,4%	46,7%	43,5%
<b>WACC</b>	<b>8,8%</b>	<b>9,2%</b>	<b>9,2%</b>	<b>9,6%</b>	<b>9,9%</b>	<b>10,3%</b>	<b>10,4%</b>	<b>10,7%</b>	<b>11,0%</b>	<b>11,3%</b>

Source: BDM S.A.

**Sensitivity analysis**

beta	Terminal growth rate				Risk premium	Terminal growth rate				Risk premium	Beta		
	0,5%	1,0%	1,5%	0,5%		1,0%	1,5%	1,1	1,2		1,3		
	1,1	46,5	49,2	52,2		5,5%	49,6	52,5	55,7		5,5%	54,3	52,5
	1,2	43,2	45,6	48,3	6,5%	43,2	45,6	48,3	6,5%	47,3	45,6	44,0	
	1,3	40,0	42,2	44,7	7,5%	37,5	39,5	41,8	7,5%	41,3	39,5	38,0	

Source: BDM S.A.

**Peer valuation**

	P/E			EV/EBITDA		
	2023P	2024P	2025P	2023P	2024P	2025P
Ryanair	13,1	11,9	9,0	60,6	7,5	6,7
EasyJet	13,1	10,3	7,9	7,3	3,7	3,3
Wizz Air	-	10,2	5,5	-	36,0	5,9
TUI	4,1	3,8	2,9	4,5	4,5	3,9
Rainbow	7,7	5,2	4,5	5,2	3,0	2,5
<b>Mediana</b>	<b>10,4</b>	<b>10,2</b>	<b>5,5</b>	<b>6,3</b>	<b>4,5</b>	<b>3,9</b>
Enter Air*	4,4	6,5	5,8	6,8	6,2	5,5
Premium/discount	-57,2%	-35,8%	5,8%	8,8%	37,9%	40,2%
<b>Valuation [PLN/share]</b>	<b>78,4</b>	<b>72,0</b>	<b>43,7</b>	<b>100,2</b>	<b>64,4</b>	<b>48,5</b>
Year's contribution	33%	33%	33%	33%	33%	33%
<b>Average valuation [PLN/share]</b>		<b>64,7</b>			<b>71,0</b>	
Multiple's contribution		50%			50%	
<b>Value per share [PLN]</b>		<b>67,9</b>				

**Main risks:** 1) COVID-19 and its consequences 2) Macroeconomic environment 3) Customer concentration 4) Market competition 5) Aircraft crash 6) Suspension of Boeing 737 MAX 8 7) Terrorist attacks and military conflicts 8) Natural disasters and epidemics 9) Changes in fuel prices 10) Seasonality of results 11) Interest rate risk

Source: BDM S.A., Bloomberg; \*adj. of the impact of exchange differences from the balance sheet valuation

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**Ratings and price targets history:**

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
<b>Accumulate</b>	<b>52,3</b>	<b>Accumulate</b>	<b>24,0</b>	<b>23.05.2023*</b>	<b>11:55 CEST</b>	<b>46,2</b>	<b>65 734</b>
Accumulate	24,0	Accumulate	25,3	26.10.2022*	11:10 CET	21,5	48 263
Accumulate	25,3	Buy	41,6	11.07.2022*	08:00 CET	22,9	54 611
Buy**	41,6	Hold	41,8	07.10.2021*	07:00 CEST	32,5	71 789
Hold**	41,8	Buy	28,3	13.05.2021*	07:00 CEST	41,2	62 214
Buy**	28,3	Accumulate	37,1	22.10.2020*	07:00 CEST	20,2	47 912
Accumulate**	37,1	Buy	52,2	12.06.2020*	08:00 CEST	33,6	51 487
Buy**	52,2	Buy	48,4	11.12.2019*	10:40 CEST	44,4	55 530
Buy**	48,4	Accumulate	41,0	09.10.2019*	14:35 CEST	37,5	56 233
Accumulate**	41,0	---	---	26.07.2019*	13:57 CEST	36,2	60 151

\* The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme. \*\* the author of reports on Enter Air in the years 2019-2021 was Adrian Górniak

**Explanations of terminology:**

EBIT - earnings before interest and tax  
 EBITDA — earnings before interest, taxes, depreciation, and amortization  
 Net debt – interest bearing debt minus cash and equivalents  
 WACC - weighted average cost of capital  
 CAGR - cumulative average annual growth  
 EPS - earnings per share  
 DPS - dividend per share  
 CEPS - net profit plus depreciation per share  
 EV – market capitalization plus interest bearing debt minus cash and equivalents  
 EV/S – market capitalization / sales  
 EV/EBITDA – EV / sales  
 P/EBIT – market capitalization / EBIT  
 MC/S – market capitalization / sales  
 P/E – market capitalization / net profit  
 P/BV – market capitalization / book value  
 P/CE - market capitalization / net profit plus depreciation  
 ROE – net profit / equity  
 ROA - net income / assets  
 Gross margin - gross profit on sales / sales  
 EBITDA margin – EBITDA / sales  
 EBIT margin – EBIT / sales  
 Net margin – net profit / sales

**Explanation of ratings:**

Buy – we believe that the security will reach the target price in the recommended period, which significantly exceeds the current market price (at least + 15%);  
 Accumulate – we believe that the security will reach the target price in the recommended period, which exceeds the current market price (in the range of +5 to + 14.99%);  
 Hold – we believe that a security in the recommended period will fluctuate around the target price, which is close to the current market price (in the range from -4.99% to + 4.99%);  
 Reduce – we believe that the security will reach the target price in the recommended period, which is lower than the market price (range of decline from 5% to 14.99%);  
 Sell – we believe that a security in the recommended period will reach the target price, which is significantly lower than the market price (suggested erosion of the value exceeds 15%).  
 Target price – the theoretical price which, in our opinion, should reach a security in the recommended period; This price is the result of the company's value (eg based on DCF, comparative and other valuations), market conditions and the industry as well as other factors subjectively considered by the analyst.  
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DCF – the most popular and the most effective of the valuation methods - it is based on the discounting of future cash flows generated by the company. The disadvantage is the high sensitivity to changes in the basic financial parameters forecast in the model (interest rates, exchange rates, profits, residual value).  
 DDM – the method is based on discounting future cash flows from dividends. The advantage of the valuation is the inclusion of future financial results and cash flows from dividends. The main disadvantages are the high sensitivity to changes in the basic financial parameters forecasted in the model (capital cost, profits, residual value) and the risk of changing the dividend payment policy.  
 Comparative – the method is based on current and forecasted market multipliers of companies from the industry or related industries, which better than DCF shows the current market situation. The main disadvantages are the difficulty in choosing the right companies for comparison, the risk of ineffective valuation of companies compared at a given moment, as well as high volatility (along with price fluctuations).

Distribution of BDM's recommendations in 2Q'23*:		, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
numbers	%	numbers	%
Buy	7 58%	0	0%
Accumulate	2 17%	0	0%
Hold	3 25%	0	0%
Reduce	0 0%	0	0%
Sell	0 0%	0	0%

\* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included at <https://www.bdm.pl/analizy-i-informacje/analizy/historia-rekomendacji>

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The report constitutes an investment research within the meaning of art. 36 §1 of Commission Delegated Regulation (EU) 2017/565.

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BDM is not obliged to take any actions which could cause financial instruments that are the subject of the valuation contained in this document to be valued by the market in accordance with the valuation contained in this document.

The investor should assume that BDM employees or proxies or shareholders may hold long or short positions in the issuer’s shares or other financial instruments related to the issuer’s shares; this particularly concerns the situation of holding not more than 5% of the capital, and they may also carry out transactions on them as proxies.

Each of the above-mentioned persons could carry out transaction relating to the financial instruments concerned prior to this publication. At the same time, however, the instruments concerned are entered in the restrictive list for employees of the Analysis Department immediately at the start of work on the report.

We have not identified significant conflicts of interest between BDM and persons associated with BDM and the financial instrument issuer. If a conflict of interest arises BDM shall manage it by applying the principles defined in the “Policy of management of conflicts of interest at the BDM S.A.”. We point out that as for 23.05.2023:

- BDM states and assures that BDM is not involved financially in financial instruments of the Issuer.
- BDM is not a holder of net long or short positions exceeding the threshold of 0,5 % of the total issued share capital of the issuer,
- The person that participated in preparing recommendation is not a holder of net long or short positions exceeding the threshold of 0,5 % of the total issued share capital of the issuer,
- The issuer does not hold shares exceeding 5 % of the BDM issued share capital,
- BDM is not a market maker or liquidity provider in the financial instruments of the issuer,
- BDM has not been lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of financial instruments of the issuer;
- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25<sup>th</sup> July 2005,
- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to section A and B od Annex I to the Directive 2014/65/EU of the European Parliament and of the Council (hereinafter the Directive 2014/65/EU),
- BDM is no a party to an agreement with the issuer relating to the production of the recommendation,
- There is other significant financial interest that BDM or its related affiliates have in relation to the issuer of financial instruments\*
- There are no significant connections between BDM or its related affiliates and the issuer of financial instruments,
- The person affiliated with BDM who was involved in the preparation of recommendations did not receive or purchase the shares of the issuer, to whom the recommendation relates directly or indirectly, prior to public offering of such shares,
- The person affiliated with BDM who was involved in the preparation of recommendations declares that they respect internal regulations and are subject to organizational and technical solutions and information barriers established by BDM to eliminate any conflicts of interest concerning recommendations and to avoid them,
- The person affiliated with BDM who was involved in the preparation of recommendations was not rewarded in any form by the issuer, to whom the recommendation relates directly or indirectly, or was not directly connected with any possible transactions concerning services defined in art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25<sup>th</sup> July 2005.

\*BDM is a party to the “ANALYTICAL REPORT PREPARATION SERVICES AGREEMENT” concluded with the WSE.

According to the best knowledge of the party recommending upon the publication of the report there are no other connections between BDM and the company described in this report that the party preparing this report would know of. However, the investor should be aware that the list disclosing conflicts of interest is long and that in the future there may occur situations leading to conflicts of interest which have not been identified or disclosed at the moment of publication of the report concerned. Especially, the investor should assume that BDM may submit an offer for services to a company or other companies mentioned in this report.

BDM is subject to supervision by the Polish Financial Supervision Commission.

**This document is a summary of a full version of the report prepared in Polish. In case of any disputes the Polish version shall prevail.**