

Tempting 2020E perspective

Upgrade to Buy. 12M TP set at PLN40.1

With this report we are upgrading our recommendation for PKP Cargo to a Buy, decreasing 12M TP to PLN40.1/sh. 1H19 brought sharp fall of transport volume (-9% y/y) which made us further reduce our both FY19E operational (transport y/y volume reduced to ca. 115mnt on a group level implying -6% y/y contraction) and EBITDA estimates to PLN1,046mn (roughly flat y/y when adjusted for IFRS16). We associate PKP Cargo's disappointing ytd performance with the challenging business environment resulting in particular from limited demand for aggregates carriage volume. Looking forward, however, we expect outlays for the domestic infrastructure modernisation to remain high which should translate into higher revenues in 2020-23E period. FCF-wise, we reckon the 2019E capex (net of EU subsidies) may total PLN881mn, implying cash generation close to nil in 2019E. In a longer perspective, we expect the fading investments (PLN694mn on average in 2020-25E) combined with top-line recovery may result in FCF rebound in coming years. Summing up, we perceive the recent share price decline (-22% in July) as good buying opportunity. Among key risks, we point consequently at (1) potential intensification of wage pressure and (2) jammed infrastructure.

Deep demand contraction in 1H19. The domestic railway cargo market contracted by 4% in terms of volume in 1H19. The detailed statistic regarding the y/y carriage dynamic of given cargo groups will be disclosed on September 12th, but we expect continuation of the trends observed in 1Q19 (coal and aggregates standing negatively out of the crowd with -4.3% / -6.4% y/y momentum respectively). This, in our view, translated into visible market underperformance of the PKP Cargo in 1H19 that saw a 9% volume (or 10% carriage turnover) y/y decrease (excluding AWT). Looking forward, we do not expect a rapid market rebound, though, anticipate solid volumes delivery in a longer perspective (by 2023E).

FY19 EBITDA guidance at risk. PKP Cargo notified it estimates 1H19P EBITDA at PLN450mn (or PLN382mn adjusted for IFRS 16, down ca. 10% y/y). The reported data imply ca. 39% advancement of the current FY19E EBITDA guidance. Having said this, we stick to our view that delivery of the PLN1,153mn EBITDA as extremely challenging and await it downward revision at the occasion of 3Q19 financial statements release.

Limited potential for FCF generation in the short run. In our opinion MB might tie the planned FY19E capex to the anticipated EBITDA delivery. In turn, we see FCF generation potential close to nil this year which may undermine the ability for regular dividend payments in the future (already reflected in our model assumptions).

Risks and opportunities. Although we forecast the PKP Cargo's unit revenues to reach a climax this year (as its contract base was rolled in a great extent by the end of 2018), the continuation of the modernisation of domestic road and railway infrastructure should translate into solid demand for aggregates transport volumes (potentially 110mn tones by end of 2023 based on PKP Cargo estimates) in the mid-run. Should the lower temperature over the heating season increase the demand for thermal coal carriage, PKP Cargo might enjoy high utilisation of its rolling stock. Among key risks, we point stubbornly at (1) continuing pressure on wages and (2) inefficient infrastructure (inflated capital outlays).

Valuation and recommendation. The average DCF and comparative valuation implies a 12M TP of PLN 40.1/share (38% upside). We upgrade our recommendation to Buy.

Financial summary

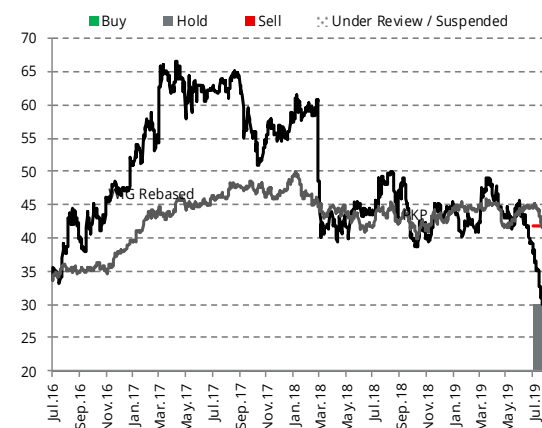
PLNmnn	2016	2017	2018	2019E	2020E	2021E
Revenues	4,411	4,739	5,237	5,128	5,419	5,317
EBITDA	490	702	907	1,046	1,099	1,070
EBITDA adj.*	553	702	907	928	981	952
EBIT	-132	155	278	356	387	346
Net profit	-134	82	184	237	258	226
P/E (x)	n.a.	43.7	13.3	5.2	4.8	5.5
EV/EBITDA (x)	5.7	5.0	3.2	2.9	2.7	2.6
DY	0.0%	0.0%	0.0%	5.1%	0.0%	0.0%

Source: Company, Santander Brokerage Poland, *excluding IFRS16 impact and one-offs (2016-18)

Recommendation	Buy (Prev. Hold)
12M Target Price	PLN40.1
Price (PLN, 16 Aug 2019)	29.15
Market cap. (PLNmnn)	1,306
Free float (%)	67
Number of shares (mn)	44.8

What has changed:

- Lowered FY19E carriage volume assumptions translating into higher predicted railway cargo demand in 2020-23E perspective;
- Slight reduction of unit revenues y/y dynamic in FY19E;
- Aggregates and building materials transport volumes decreased to 112mnt in 2019-23E perspective (115mnt previously);



The chart measures performance against the WIG index.

Main shareholders	% of votes
PKP S.A.	33.01
NN pension fund	17.31
Aviva pension fund	9.21

Source: gpw.pl

Company description

PKP Cargo Group is Poland's largest railway freight service provider. The company delivers logistics solutions and conducts operations in Poland and abroad.

Analyst

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PKP Cargo at a glance

	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E
MODELLING ASSUMPTIONS									
Carriage volume (mln t)	119	122	115	119	116	114	111	112	113
<i>Solid fuels</i>	58	57	54	54	53	52	52	51	50
<i>Solid fuels (hard coal)</i>	51.8	51.2	49.0	48.1	47.7	47.0	46.2	45.5	44.7
<i>Aggregates</i>	22.2	26.0	22.3	25.2	23.8	21.5	18.9	18.8	18.8
<i>Metals and ores</i>	13	13	11	12	12	10	9	9	9
<i>Chemical products</i>	7	7	7	7	7	7	7	7	7
<i>Liquid fuels</i>	5	4	4	4	4	4	4	4	4
<i>Timber and agri produce</i>	4.5	4.0	4.0	4.0	3.9	4.0	4.1	4.1	4.2
<i>Intermodal transport</i>	8	9	10	11	11	13	14	15	16
<i>Other</i>	3	3	3	3	3	3	3	3	3
Carriage turnover (bn tkm)	31	31	29	31	30	30	29	30	30
<i>Solid fuels</i>	12	11	10	10	10	10	10	10	10
<i>Solid fuels (hard coal)</i>	10	9	9	9	9	9	9	9	8
<i>Aggregates</i>	6	7	6	7	6	6	5	5	5
<i>Metals and ores</i>	4	4	3	4	3	3	3	3	3
<i>Chemical products</i>	2	2	2	2	2	2	2	2	2
<i>Liquid fuels</i>	1	1	1	1	1	1	1	1	1
<i>Timber and agri produce</i>	2	1	1	1	1	1	1	2	2
<i>Intermodal transport</i>	3	4	4	4	5	5	6	6	6
<i>Other</i>	1.0	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Average distance (km)	260	258	252	256	259	263	264	265	267
No. of employees (k)	23.3	23.6	23.6	23.4	23.0	22.6	22.2	21.7	21.2
Capex (PLNm)	562.0	894.1	880.9	855.0	646.3	689.4	595.6	623.9	755.3
P&L ACCOUNT ITEMS (PLNm)									
Revenues	4,739	5,237	5,128	5,419	5,317	5,236	5,032	5,060	5,116
EBITDA	702	907	1,046	1,099	1,070	1,015	877	898	946
EBIT	155	278	356	387	346	291	155	179	223
Net profit	82	184	237	258	226	183	74	95	139
BALANCE SHEET ITEMS (PLNm)									
Cash & equivalents	517	447	269	326	440	486	488	479	373
Total assets	6,642	6,806	7,630	8,028	8,172	8,285	8,233	8,249	8,308
Total bank debt	1,701	1,427	2,148	2,234	2,165	2,100	2,038	1,979	1,924
Total equity	3,335	3,484	3,654	3,911	4,137	4,320	4,346	4,419	4,532
Net debt/cash	921	776	1,675	1,704	1,522	1,411	1,347	1,297	1,347
CF STATEMENT ITEMS (PLNm)									
Net operating CF	547	1,052	931	973	955	916	818	810	854
CF investing	-561	-875	-963	-1,002	-773	-805	-705	-738	-878
CF financing	-225	-247	-146	86	-69	-65	-111	-80	-83
FCF (after dividends)	-239	-69	-178	57	113	46	2	-9	-106
PERFORMANCE & RETURN									
Op. Profit YoY	-217.4%	79.1%	28.4%	8.6%	-10.6%	-16.0%	-46.7%	15.6%	24.3%
EPS YoY	-161.1%	125.1%	28.9%	8.8%	-12.4%	-19.0%	-59.3%	27.7%	46.0%
Reported ROE	2.5%	5.4%	7.0%	7.1%	5.9%	4.6%	2.0%	2.4%	3.3%
LEVERAGE AND SOLVENCY									
Net debt/EBITDA (x)	1.3	0.9	1.6	1.6	1.4	1.4	1.5	1.4	1.4
Net debt/ND + Equity	21.6%	18.2%	31.4%	30.3%	26.9%	24.6%	23.7%	22.7%	22.9%
VALUATION MULTIPLES									
P/E (x)	22.1	8.1	5.3	4.9	5.5	6.8	15.2	12.3	8.7
EV/EBITDA (x)	4.0	3.0	3.9	3.7	3.6	3.7	4.3	4.1	3.9
Dividend yield	0.0	0.0	5.1	0.0	0.0	0.0	3.7	1.6	2.0
PER SHARE DATA (PLN)									
Reported EPS	1.82	4.11	5.29	5.76	5.04	4.08	1.66	2.12	3.10
Adjusted EPS	1.33	3.61	5.56	6.03	5.31	4.35	1.93	2.39	3.37
Dividend/share	0.00	0.00	1.50	0.00	0.00	0.00	1.09	0.48	0.60
BVPS	74.46	77.78	81.58	87.34	92.38	96.46	97.04	98.68	101.18

Source: Santander Brokerage Poland, Company, *Includes gas sales and purchases on the Polish Power Exchange

Valuation

PKP Cargo: DCF valuation

Fig. 1. PKP Cargo: WACC calculation

Risk-free rate (10-yr Polish government bonds)	3.0%
Unlevered beta	1.1
Levered beta	1.5
Equity risk premium	5.0%
Cost of equity	10.3%
Risk-free rate	3.0%
Debt risk premium	1.5%
Tax rate	19%
After tax cost of debt	3.6%
%D	29%
%E	71%
WACC	8.4%

Source: Company data, Santander Brokerage Poland

Fig. 2. PKP Cargo: Forecast changes

PLNm	2019E			2020E			2021E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	5,128	5,320	-4%	5,419	5,384	1%	5,317	5,199	2%
EBITDA	1,046	1,072	-2%	1,099	1,068	3%	1,070	977	10%
EBITDA adj.*	928	954	-3%	981	950	3%	952	859	11%
EBIT	356	368	-3%	387	343	13%	346	244	42%
Net profit	237	245	-3%	258	221	17%	226	143	58%

Source: Santander Brokerage Poland, *adj. For IFRS16 impact

Fig. 3. PKP Cargo: DCF valuation

	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Net sales	5,128	5,419	5,317	5,236	5,032	5,060	5,116	5,150	5,192	5,233
EBIT	356	387	346	291	155	179	223	247	294	346
Cash taxes on EBIT	55	55	30	44	9	35	43	48	57	67
NOPAT	301	333	316	247	146	144	180	199	237	279
Depreciation	689	712	724	724	722	719	723	733	736	734
Change in operating WC	-9	1	-6	-9	-22	4	7	4	8	9
Capital expenditure	881	855	646	689	596	624	755	761	618	653
Net investment	183	144	-84	-44	-149	-91	40	32	-110	-72
Free cash flow**	118	188	400	291	294	235	140	168	347	352
PV FCF	1,629									
Terminal growth	1.0%									
Terminal Value (TV)	3,702									
PV TV	1,656									
Total EV	3,285									
Net debt at (YE18)***	1,569									
Minorities	0									
Provisions*	591									
Equity value	1,125									
Month	8									
Current Equity Value	1,202									
Number of shares (mn)	44.8									
Value per share (PLN)****	25.3									
12M Target Price (PLN)	27.9									

Source: Santander Brokerage Poland, *attributable chiefly to post-employment benefits, **increased for a cumulative net loss utilisation, ***adj. for operational leases, ****adjusted for DPS PLN1.5

PKP Cargo: Comparative valuation

Fig. 4. PKP Cargo: Comparable valuation

	P/E (x)			EV/EBITDA (x)		
	2019E	2020E	2021E	2019E	2020E	2021E
DM peers	103.3	98.5	77.5	199.0	188.8	178.2
EM peers	43.6	44.7	39.4	79.8	81.1	74.5

Source: Santander Brokerage Poland

Fig. 5. PKP Cargo: Comparable valuation – segment average

	Weight	P/E (x) 2019-21E	EV/EBITDA (x) 2019-21E	Average 2018-21E
DM peers	20%	93.10	188.63	140.87
EM peers	80%	42.56	78.46	60.51
Weighted average	100%	52.67	100.49	76.58

Source: Santander Brokerage Poland

Fig. 6. PKP Cargo: per share valuation (PLN)

	New	Previous	Change
DCF valuation	27.9	31.4	-11%
Comparable valuation (based on 2019-21E)	76.6	72.7	5%
Weighted average (DCF: 75%; CV: 25%)	40.1	41.7	-4%

Source: Santander Brokerage Poland

Based on our DCF-model derived valuation pointing at PLN27.9 per share (a 75% weight) and peers valuation indicating PLN76.6 value per share (a 25% weight), we set a 12M TP at PLN40.1.

Financial summary

Fig. 7. PKP Cargo: Income statement forecasts

PLNm	2015	2016	2017	2018	2019E	2020E	2021E
Operating revenue	4554	4411	4739	5237	5128	5419	5317
Operating expenses	4498	4543	4584	4960	4772	5032	4970
Depreciation	649	622	547	629	689	712	724
Raw materials & supplies	697	675	706	781	775	864	836
External services	1501	1573	1573	1725	1399	1480	1408
Employee benefits	1485	1442	1509	1651	1733	1779	1807
Other operating expenses	166	231	248	174	176	198	195
EBITDA	705	490	702	907	1046	1099	1070
EBITDA adjusted*	637	553	702	907	928	981	952
Operating profit	56	-132	155	278	356	387	346
Operating profit adjusted*	165	-33	128	250	339	370	329
Net financials	-52	-22	-39	-42	-75	-76	-75
Financial revenue	15	39	20	16	14	13	15
Financial expenses	66	61	60	58	88	89	89
Share in the profit of associates	4	3	1	4	4	4	4
One-off items	2	0	0	4	4	4	4
PBT	11	-151	116	244	290	319	280
PBT adjusted*	120	-52	89	216	273	302	263
Income tax	-20	-17	35	60	53	61	54
Minority interest	0	0	0	0	0	0	0
Net profit	30	-134	82	184	237	258	226
Net profit adjusted*	107	-110	59	162	249	270	238

Source: Company, Santander Brokerage Poland, * excluding IFRS16 impact (2019 onward) and one-offs (2015-18)

Fig. 8. PKP Cargo: financials margins / momentum

	2015	2016	2017	2018	2019E	2020E	2021E
EBITDA margin	15.5%	11.1%	14.8%	17.3%	20.4%	20.3%	20.1%
Operating margin	1.2%	-3.0%	3.3%	5.3%	7.0%	7.1%	6.5%
Net profit margin	0.7%	-3.0%	1.7%	3.5%	4.6%	4.8%	4.2%
Sales growth	6.5%	-3.1%	7.4%	10.5%	-2.1%	5.7%	-1.9%
EBITDA growth	39.9%	-30.6%	43.4%	29.2%	15.3%	5.1%	-2.6%
Operating profit growth	-53.8%	-336.2%	-217.4%	79.1%	28.4%	8.6%	-10.6%
Net profit growth	-61.6%	-544.7%	-161.1%	125.1%	28.9%	8.8%	-12.4%

Source: Company, Santander Brokerage Poland

Fig. 9. SANE forecasts vs. consensus

PLNm	2019E			2020E			2021E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	5,128	5,348	-4%	5,419	5,497	-1%	5,317	5,336	0%
EBITDA	1,046	1,032	1%	1,099	1,055	4%	1,070	1,008	6%
EBIT	356	333	7%	387	341	14%	346	288	20%
Net profit	237	230	3%	258	220	17%	226	173	31%

Source: Santander Brokerage Poland

Fig. 10. PKP Cargo: Balance sheet forecasts

PLNm	2015	2016	2017	2018	2019E	2020E	2021E
Current assets	1,089.1	1,547.9	1,694.2	1,619.0	1,368.5	1,476.4	1,572.0
Cash and equivalents	276.2	755.9	516.8	447.3	269.0	326.1	439.6
Other financial assets	4.0	0.9	263.7	203.7	203.7	203.7	203.7
Other non-financial assets	13.3	27.3	35.6	118.7	31.9	33.7	33.1
Inventories	128.5	121.2	148.5	161.6	158.3	167.3	164.1
Trade and other receivables	664.3	639.9	729.5	684.6	702.6	742.4	728.4
Income tax receivables	2.7	2.8	0.1	3.0	3.0	3.1	3.1
Fixed assets	4,979.5	4,942.9	4,947.4	5,187.2	6,261.1	6,552.0	6,600.4
PPE	4,719.7	4,700.6	4,688.0	4,946.8	6,007.2	6,290.0	6,341.2
Intangibles	66.4	55.8	43.9	34.6	55.8	55.8	55.8
Investment in affiliates	39.8	40.8	53.6	47.4	47.4	47.4	47.4
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial assets	9.8	8.6	10.5	7.7	7.7	7.7	7.7
Other non-financial assets	39.0	29.5	17.8	15.1	14.8	15.6	15.3
Long-term deferred charges	104.6	107.6	133.6	135.6	128.2	135.5	132.9
Assets for sale	44.1	0.0	0.0	0.1	0.1	0.1	0.1
Total assets	6,112.7	6,490.8	6,641.6	6,806.3	7,629.7	8,028.5	8,172.4
Current liabilities	1,172.7	1,171.8	1,213.1	1,353.7	1,276.7	1,463.2	1,431.6
Bank debt	253.6	197.8	249.7	248.6	236.2	324.4	308.2
Finance lease	65.4	59.6	48.0	21.9	20.8	69.7	66.3
Accounts payable	729.8	670.0	749.7	910.3	875.8	923.6	912.3
Employee benefits	100.4	99.3	104.0	115.5	115.5	115.5	115.5
Other provisions	17.9	25.0	59.7	56.9	27.9	29.5	29.0
Other current liabilities	2.2	118.9	0.3	0.1	0.1	0.1	0.1
Tax liabilities	3.5	1.4	1.6	0.3	0.3	0.3	0.3
Long-term liabilities	1,586.1	2,076.1	2,093.7	1,969.0	2,699.4	2,653.8	2,603.6
Bank debt	460.6	1,273.6	1,312.6	1,083.2	1,029.1	977.6	928.7
Finance lease	193.5	140.9	91.1	73.3	862.1	862.1	862.1
Accounts payable	26.0	1.8	1.6	112.0	107.8	113.6	112.2
Provisions for employee benefits	603.6	525.6	558.5	591.4	591.4	591.4	591.4
Other provisions	302.4	134.1	129.9	109.0	109.0	109.0	109.0
Equity	3,353.9	3,242.9	3,334.8	3,483.7	3,653.6	3,911.5	4,137.3
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Share premium	619.4	618.7	619.3	628.2	628.2	628.2	628.2
Other	-2.8	11.4	4.9	-44.0	-44.0	-44.0	-44.0
Retained earnings	497.9	373.4	471.3	660.2	830.1	1,088.0	1,313.8
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	6,112.7	6,490.8	6,641.6	6,806.3	7,629.7	8,028.5	8,172.4

Source: Company, Santander Brokerage Poland

Fig. 11. PKP Cargo: Cash flow statement forecasts

PLNm	2015	2016	2017	2018	2019E	2020E	2021E
Cash flow from operations	387.5	305.5	547.0	1051.9	931.0	973.5	954.7
Net profit	30.1	-133.8	81.7	183.9	237.1	257.9	225.8
Provisions	-37.1	-240.4	68.2	20.8	-29.0	1.6	-0.6
Depreciation and amortization	649.0	621.6	546.9	629.4	689.1	712.0	723.9
Changes in WC, o/w	5.9	-52.1	-37.5	302.8	-53.4	4.8	4.5
inventories	-13.2	7.3	-27.3	-13.2	3.4	-9.0	3.2
receivables	-138.2	24.5	-89.7	44.9	-18.0	-39.9	14.1
payables	157.3	-83.9	79.4	271.0	-38.7	53.6	-12.7
Other, net	-260.4	110.1	-112.3	-84.9	87.2	-2.8	1.0
Cash flow from investments	-515.2	-551.7	-561.2	-874.9	-963.2	-1002.1	-772.6
Additions to PPE and intangibles	-1358.8	-547.7	-522.4	-879.0	-970.7	-994.8	-775.1
Change in long-term investments	-4.6	-1.0	-12.8	6.2	0.0	0.0	0.0
Other, net	848.2	-3.0	-26.0	-2.1	7.4	-7.3	2.6
Cash flow from financing	-25.3	725.9	-224.9	-246.6	-146.0	85.7	-68.6
Change in long-term borrowing	251.4	761.7	-12.7	-244.3	-65.3	-51.5	-48.9
Change in short-term borrowing	99.1	-61.6	40.4	-27.2	-13.5	137.2	-19.7
Change in equity and profit distribution	55.5	22.8	10.2	-35.0	0.0	0.0	0.0
Dividends paid	-110.0	0.0	0.0	0.0	-67.2	0.0	0.0
Other, net	-321.3	3.2	-262.8	59.9	0.0	0.0	0.0
Net change in cash and equivalents	-153.0	479.7	-239.1	-69.5	-178.3	57.1	113.5
Beginning cash and equivalents	429.2	276.2	755.9	516.8	447.3	269.0	326.1
Ending cash and equivalents	276.2	755.9	516.8	447.3	269.0	326.1	439.6

Source: Santander Brokerage Poland

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EBIT – earnings before interest and tax

EBITDA – earnings before interest, taxes, depreciation, and amortization
P/E – price-earnings ratio
EV – enterprise value (market capitalisation plus net debt)
PEG - P/E to growth ratio
EPS - earnings per share
CPI – consumer price index
WACC - weighted average cost of capital
CAGR – cumulative average annual growth
P/CE – price to cash earnings (net profit plus depreciation and amortisation) ratio
NOPAT – net operational profit after taxation
FCF - free cash flows
BV – book value
ROE – return on equity
P/BV – price-book value

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The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.

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The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.

Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

The warranted equity method (WEV) is based on the formula $P/BV = (\text{two year forward ROE less sustainable growth rate}) / (\text{Cost of equity less sustainable growth rate})$ which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.

SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.

Liquidation value method – liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

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