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Haitong Bank in a report from July 15 (8:30) downgrades WPL to NEUTRAL (from BUY) and cuts FV to PLN 104.5 (from PLN 137)

#### **Valuation Methodology**

We value Wirtualna Polska using two valuation methods: DCF and peer valuation. The final fair value is an average of those two methods where each method has an equal 50% stake. Under the DCF we derive a fair value of PLN 104.7/sh while using the peer valuation we derive PLN 104.3/sh. Our final value points to PLN 104.5/sh, which gives 4% upside potential.

#### **Risks to Fair Value**

**Macroeconomic situation** – the advertising market is highly correlated to GDP. Correlation analysis of historical data shows that the overall Polish ad market grows when GDP grows at least 3% pa.

**Growth of internet ad market and e-commerce market** – A change in the global economy affecting Polish GDP, the unemployment rate and average salary could also affect the growth rates of the online ad and e-commerce market, which is strongly correlated to general consumption trends.

**Competition** – both online advertising and e-commerce are very competitive markets as the direct competitors of WPL Group are strong global and local brands such as Google, Facebook, Onet.pl, Gazeta.pl Group, Interia Group.

**Unsuccessful acquisitions** – WPL Group's growth is currently boosted by acquisitions. There is a risk that some acquisitions may be unsuccessful in terms of overpayment or wrongly chosen business profile.

**Development of ad blocking applications**, which are usually part of web browser software or anti-virus software. Their further and faster development can negatively affect the online ad market as a marketing tool and result in a decrease in ad budgets of advertisers.

#### **IMPORTANT DISCLOSURES**

Please find updated IMPORTANT DISCLOSURES at: <http://www.haitongib.com/en/what-we-do/research>