

EQUITY NOTE: ZWACK UNICUM

Recommendation: HOLD (unchanged)

Target price (12M): HUF 15,214 (unchanged)

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News:

On 09 June 2020, Zwack Unicum announced that the company had obtained HUF 106m non-refundable subsidy from Hungary's Ministry of Foreign Affairs and Trade. Zwack Unicum received this subvention in frame of the Ministry's program targeted to improve competitiveness amidst the current covid-19 epidemic [and promulgated in Decree 7/2020 (16 April) of the Ministry of Foreign Affairs and Trade].

The decree provides that the subsidy must be spent on fixed assets and Zwack uses the sum to co-fund the purchase of a packaging and palletizing machine, the company informed. The state financial assistance covers 50% of the present investment. Zwack also announced that the investment project will be completed during the first quarter of 2021 but by 30 June 2021 at the latest.

Comment:

The imminent investment will add HUF 212m to PP&E, standing at HUF 3.34bn as of 31 March 2020. The capex of the present project represents 1.1% of the sales revenues we estimate in the current business year, or even less, only 0.9% if we calculate with Zwack's own forecast for FY 2020/2021.

The machine to be purchased will be installed in Zwack's Dunaharaszti plant, where a major modernisation project for bottling began in 2015 and is expected to run until 2020. Although capex is cash-flow negative, there is a good reason to think that higher operative expenditures related to the project will be counterbalanced by productivity improvement and higher revenues/profit.

Another positive element of the project is that, thanks to the state support, Zwack will be able to complete the project at lower cost, as the subsidy covers 50% of the capex.

As capex related to the recently announced project is relatively small compared to yearly revenues – even though there are still some uncertainties regarding the speed of economic recovery in the present epidemic-hit environment – we maintain our earlier valuation with HUF 15,214 12M target price and HOLD recommendation.

Zwack's shares closed at HUF 17,000 in the Budapest Stock Exchange on the day this latest announcement was released.

Notes:

[The initiation report, which contains the assumptions of the models used, is available here.](#)

[The valuation methodology used in this present equity research note to determine our price targets and recommendations is available here. \(Also available in Hungarian\)](#)

This investment recommendation has not used proprietary models.

The risk warning, which includes the adequate explanations of the length of time of the investment to which the recommendation relates as well as a sensitivity analysis of the assumptions, is indicated in the part of this recommendation where the length of time and the risks of the investment are presented.

Any information relating to the date and time for the price mentioned in this recommendation is revealed in the part of the recommendation where the given price is indicated.

OTP Bank Plc's recommendations and price targets history for Zwack Unicum in the past twelve months:

Date	Recommendation	Target Price	Publication
07/08/2019	HOLD	HUF 15,882	Quarterly Earnings Update
08/11/2019	HOLD	HUF 15,685	Quarterly Earnings Update
04/02/2020	HOLD	HUF 15,685	Quarterly Earnings Update
21/05/2020	HOLD	HUF 15,214	Quarterly Earnings Update
05/06/2020	HOLD	HUF 15,214	News Comment
10/06/2020	HOLD	HUF 15,214	News Comment

Period	Recommendation	% of recommendations
Q2 2019	BUY	0
	HOLD	100
	SELL	0
Q3 2019	BUY	0
	HOLD	100
	SELL	0
Q4 2019	BUY	0
	HOLD	100
	SELL	0
Q1 2020	BUY	0
	HOLD	100
	SELL	0

[The list of all recommendations made in the past 12 months is available here.](#)

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